



Facilities and Administrative (F&A) Cost Rates, and Indirect Cost Recovery (ICR)

Berkeley Research Administrators Group
May 24, 2022

Agenda

- Overview
- Federal Rules and Regulations
- Calculating the rate
- F&A at Berkeley
- Wrap Up and Group Discussion
 - *Please save your questions until the group discussion at the end*

Overview

Facilities and Administrative (F&A) costs are things that can't be easily identified to a project, such as facilities and administrative infrastructure.

- The terms “indirect costs,” “facilities and administrative costs,” “F&A costs” and “overhead” are used interchangeably.

The actual collection – or reimbursement – of funds to cover these costs is known as indirect cost recovery (ICR).

F&A costs are usually reimbursed through a rate, expressed as a percentage of direct research costs.

Berkeley's current F&A rate for on-campus research is 60.5%. It was finalized in 2019 based upon FY2015 costs.

- Our current F&A rate of 60.5% equals 38% of *total* costs (total costs are both direct and indirect costs): UC Berkeley would charge a sponsor \$1.61 to conduct \$1 worth of direct research. The \$0.61 for F&A is approximately one third of total costs ($0.61 / 1.61 = 38\%$).

Why Is It Important

- The Facilities & Administrative (F&A) rate is negotiated with the federal government. There is a requirement to negotiate an F&A rate unless the University chooses to use the de minimis 10% F&A rate on federal awards.
- The F&A reimbursement (i.e ICR) is unrestricted funding.
- The recovery of these costs is critical to an institution's ability to continue to engage in high quality research.
- Indirect cost recovery is not revenue though, it is a *partial* reimbursement of expenses in support of research.
 - The funds associated with the F&A rate are in addition to the grant award amount for the direct costs.

Federal Agencies

Rate Agreement Negotiations

- ONR: Office of Naval Research
- DHHS: Department of Health and Human Services
- CAS: Cost Allocation Services, DHHS
homepage: <http://rates.psc.gov/>
- DHHS-CAS Offices: Bethesda, New York, Dallas and San Francisco

Federal Regulations

Uniform Guidance (2 CFR Part 200)

- Replaced OMB Circulars
 - Cost Principles
 - A-21 (Colleges & Universities)
 - A-87 (State, Local, and Indian Tribal Gov't)
 - A-122 (Non-Profit Organizations)
- Administrative Requirements:
 - A-102 (State and Local Gov't)
 - A-110 (Institutions of Higher Education)
- Audit Requirements
 - A-50 – Audit Follow Up
 - A-89 – Catalog of Federal Domestic Assistance
 - A-133 – Audit of States, Local Gov'ts, and Non-Profit Orgs

Uniform Guidance

Educational institutions must follow a special set of federally-defined cost principles:

- U.S. Office of Management and Budget (OMB) Uniform Guidance (now 2 CFR 200), “Uniform Administration Guidance, Cost Principles and Audit Requirements for Federal Awards,” determines costing policy.
- UG provides for standard methods of cost determination, allowability, and allocation, although recent revisions have tended to be detailed and restrictive.
- UG provides for alternative indirect cost allocation methods if they can be shown to be reasonable and equitable.

Rate development – in six steps

All expenditures in an agreed-on base year must be included in the rate calculation. Berkeley's base year is next year, FY2023!

1. *Accumulation of expenditures* – all current expenditures, plus building and equipment depreciation, and interest paid on long term debt, have to be accounted for, the proposal must tie to published UC financial schedules
2. *Exclusions* – (a) unallowable costs, e.g. fundraising (b) MTDC base adjustments, e.g. financial aid, equipment
3. *Classification* – into direct and indirect cost pools
4. *Allocation* – determine the proportion of indirect costs applicable to each direct function
5. *Rate calculation* – divide indirect costs allocated to each function by direct costs in that function
6. *Rate negotiation*

What is the F&A rate?

Simple Definitions

- **FACILITIES & ADMINISTRATIVE (F&A) COSTS (INDIRECT COSTS):**
Costs that cannot be identified to a specific project, program, or activity of an institution.



- **DIRECT COSTS**
Costs that can be identified to a specific project, program, or activity of an institution

What is F&A? – Indirect costs

200.56 Indirect (facilities & administrative (F&A)) costs.

Indirect (F&A) costs means those **costs incurred for a common or joint purpose** benefitting more than one cost objective, and **not readily assignable** to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be **necessary to establish a number of pools of indirect (F&A) costs.**

Indirect (F&A) cost pools must be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

What is F&A? – Direct costs

200.413 Direct costs.

(a) General. Direct costs are those costs that **can be identified specifically with a particular final cost objective**, such as a Federal award, or other internally or externally funded activity, or that can be **directly assigned to such activities relatively easily with a high degree of accuracy**. Costs incurred for the same purpose in like circumstances must be treated consistently as either direct or indirect (F&A) costs. See also §200.405 Allocable costs.

The Cost Rate Calculation

A Facilities & Administrative (F&A) rate is essentially an equation which shows the facilities and administrative costs associated with research (numerator) as a percentage of the direct expenditures on sponsored research grants during the fiscal year (denominator).

The diagram illustrates the F&A Rate calculation as a fraction. The numerator is enclosed in a large right-facing curly bracket and contains two light blue rectangular boxes. The left box is labeled "Facilities cost of organized research activities" and the right box is labeled "Administrative costs of organized research activities". A large dark blue plus sign is positioned between these two boxes. Below the numerator, a horizontal line separates it from the denominator, which is the text "Annual spending on organized research grants". To the right of the denominator, a dark blue equals sign is followed by the text "F&A Rate".

$$\frac{\text{Facilities cost of organized research activities} + \text{Administrative costs of organized research activities}}{\text{Annual spending on organized research grants}} = \text{F\&A Rate}$$

Numerator of the F&A Rate, part I

Facilities Costs (uncapped)

Cost Pools

- Building depreciation (BU)
- Equipment depreciation (EQ)
- Non-capitalized Interest on Capital Expenditures (INT)
- Operation and Maintenance (O&M) of Plant – includes EH&S, police, physical planning, utilities
- Library (LIB)

Numerator of the F&A Rate, part II

Administrative Costs (capped at 26%)

Cost Pools

- General Administration (GA) – campus administrative units, e.g. human resources, accounting
- Department Administration (DA) – Deans' and departmental offices, 3.6% allowance for administrative effort of faculty
- Sponsored Projects Administration (SPA) – sponsored projects office, contract and grant accounting
- Student Services Administration (SSA)

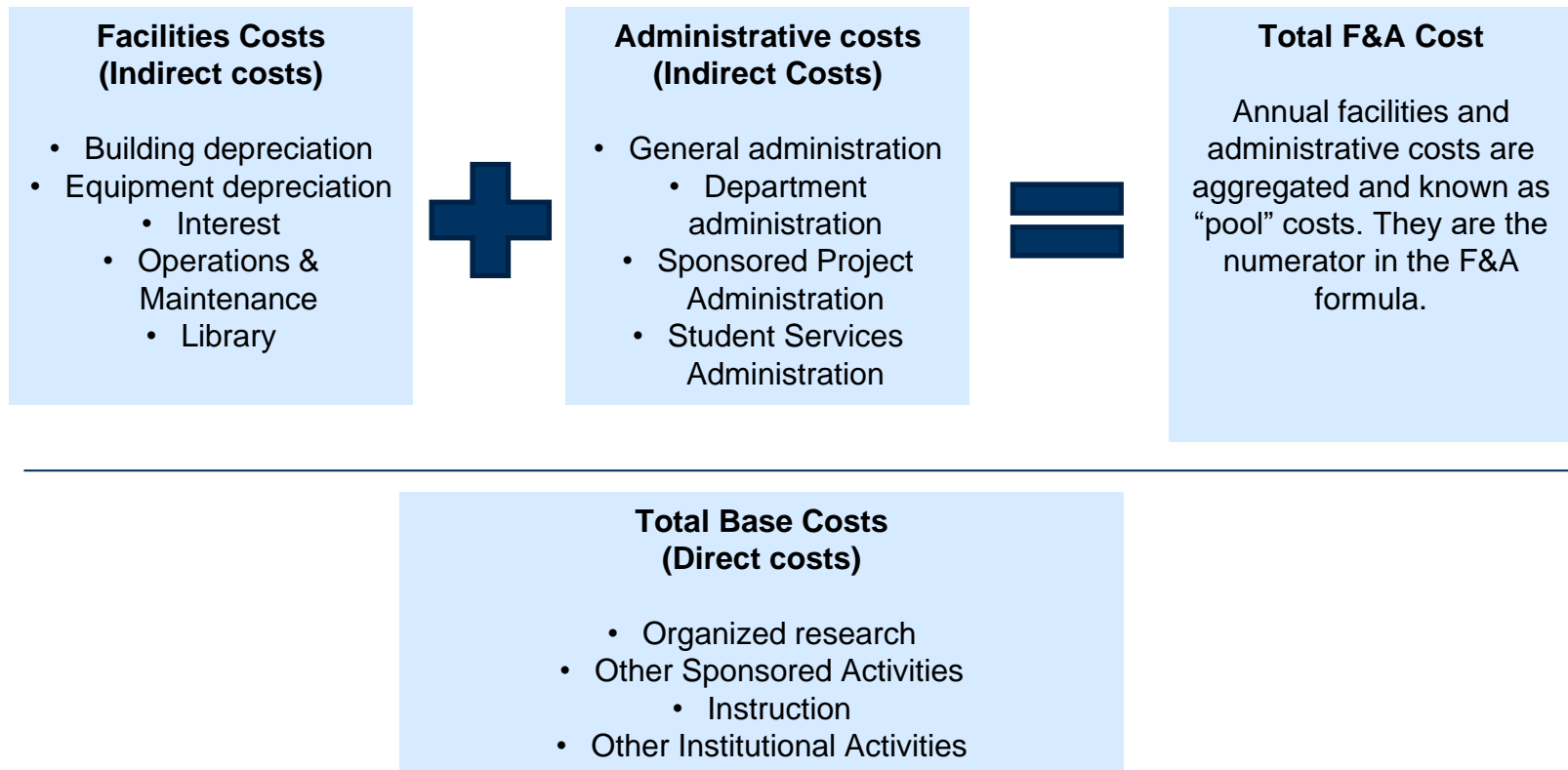
Denominator(s) of the F&A Rate

Direct Cost Bases

- **Instruction and Departmental Research (IDR)**, e.g. instruction (teaching), sponsored instruction (training grants), department research (individual research), faculty activity that is not separately budgeted or accounted for
- **Organized Research (OR)**, e.g. research activity that is separately budgeted and accounted for, grants or contracts
- **Other Sponsored Activities (OSA)**, e.g. public service projects, or conversely sponsored costs that are not instruction or research
- **Other Institutional Activities (OIA)**, e.g. auxiliaries, athletics, service enterprises, unallowable activities

The Cost Rate Calculation with Cost Pools

The F&A rate calculation is just one big equation.



Important Concepts

Allocable Costs

A cost is considered allocable to a cost pool (direct or indirect) if it can be assigned based on a relationship of cause and effect, benefit derived, or logic and reason

Allowable Costs

A cost may be “allocable” but unallowable for purposes of developing the F&A cost rate

Important Concepts

Modified Total Direct Costs (MTDC)

The denominator MTDC is used to compute the F&A rate as well as the base to which the F&A rate is applied

MTDC typically includes:

- Salaries, wages, and benefits
- Materials, supplies, and services
- Travel
- Subcontract expenditures up to \$25,000 each

Important Concepts

MTDC typically excludes:

- Equipment
- Capital expenditures for buildings/improvements
- Patient care charges
- Tuition remission
- Rental of off-site facilities
- Scholarships & Fellowships (financial aid)
- Subcontract expenditures in excess of \$25,000
- Participant support costs (formalized via UG)
- Other items can be excluded if necessary to avoid serious inequity in distribution of F&A costs

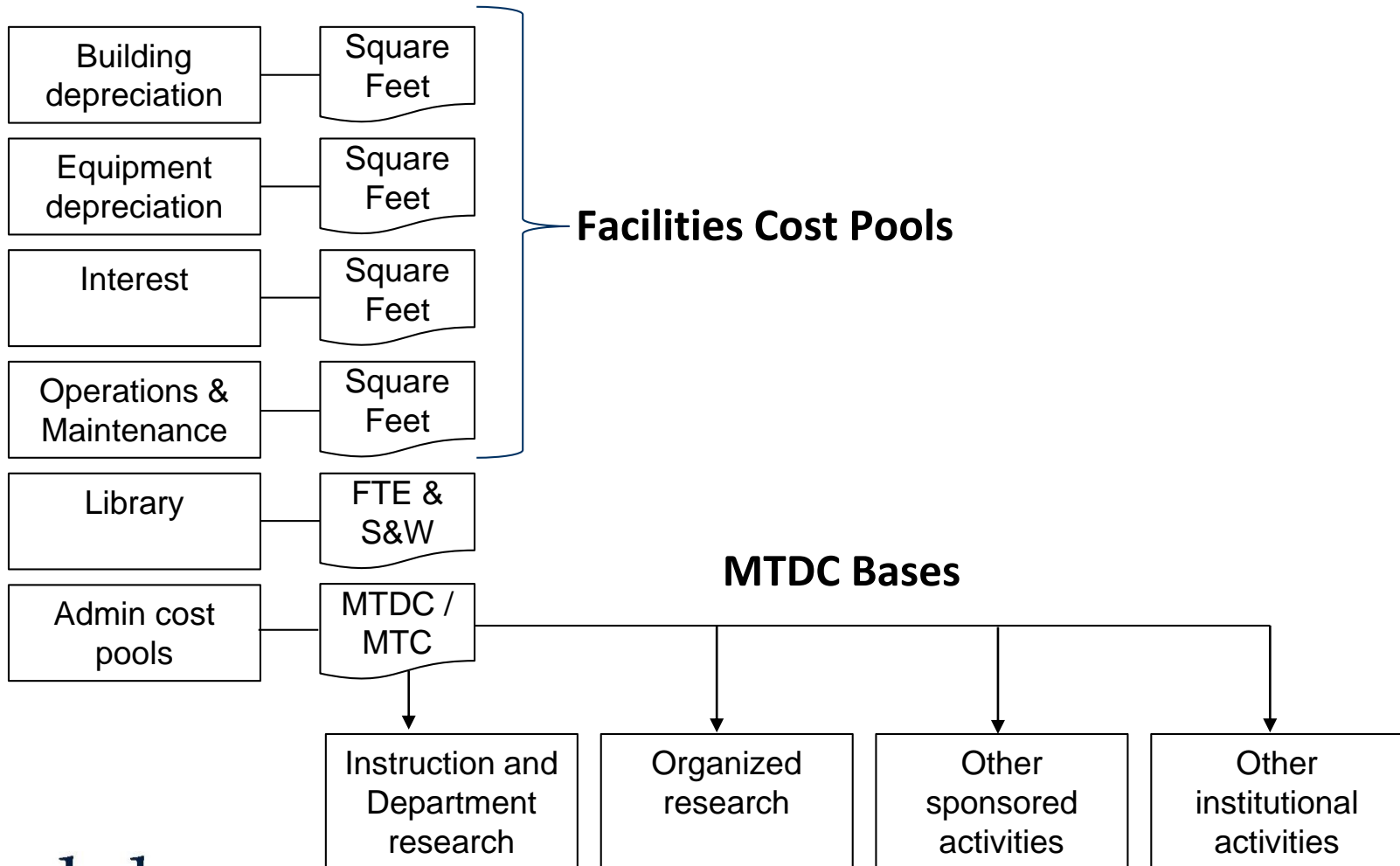
Important Concepts

Allocation Base: refers to the common measurable base used to allocate an F&A cost pool to either a basic direct or some other F&A cost pool

- Net Assignable Square Footage (NASF)
 - depreciation, operations and maintenance, interest cost pools
- Full Time Equivalents (FTE)
 - library, components of departmental administration and capital land improvements cost pools
- Modified Total Costs (MTC)
 - general administration cost pools
- Modified Total Direct Costs (MTDC)
 - administrative cost pools

Important Concepts

Allocation Methods



Video

University of California, San Francisco

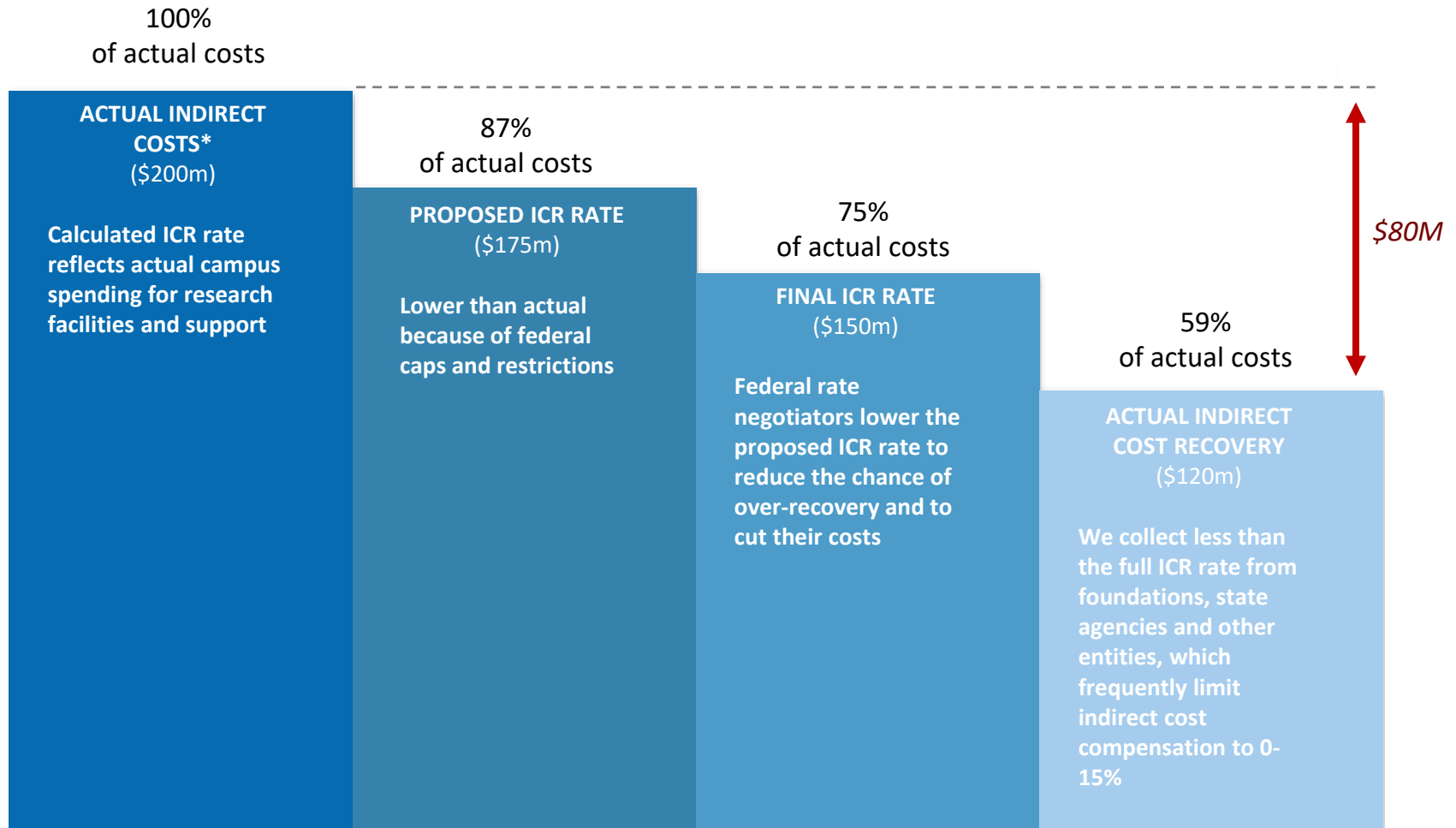
[F&A Funding: The Bedrock of Biomedical Research](#)

- Focus on the concepts, not the numbers!
- Group discussion to follow

F&A rates and ICR at Berkeley

- Berkeley's total current expenditures were over \$2.5 billion in FY2021
- Berkeley's sponsored research direct costs were about \$400 million
 - These are direct expenditures, not awards. Awards include both direct and indirect costs and often include amounts to be spent over multiple years
- Indirect cost recovery from sponsored research was an additional \$130 million
- \$130M / \$400M yields an effective indirect cost rate of about 30%
- \$130M indirect cost recovery is 25% of \$530M total (direct plus indirect) sponsored research revenue

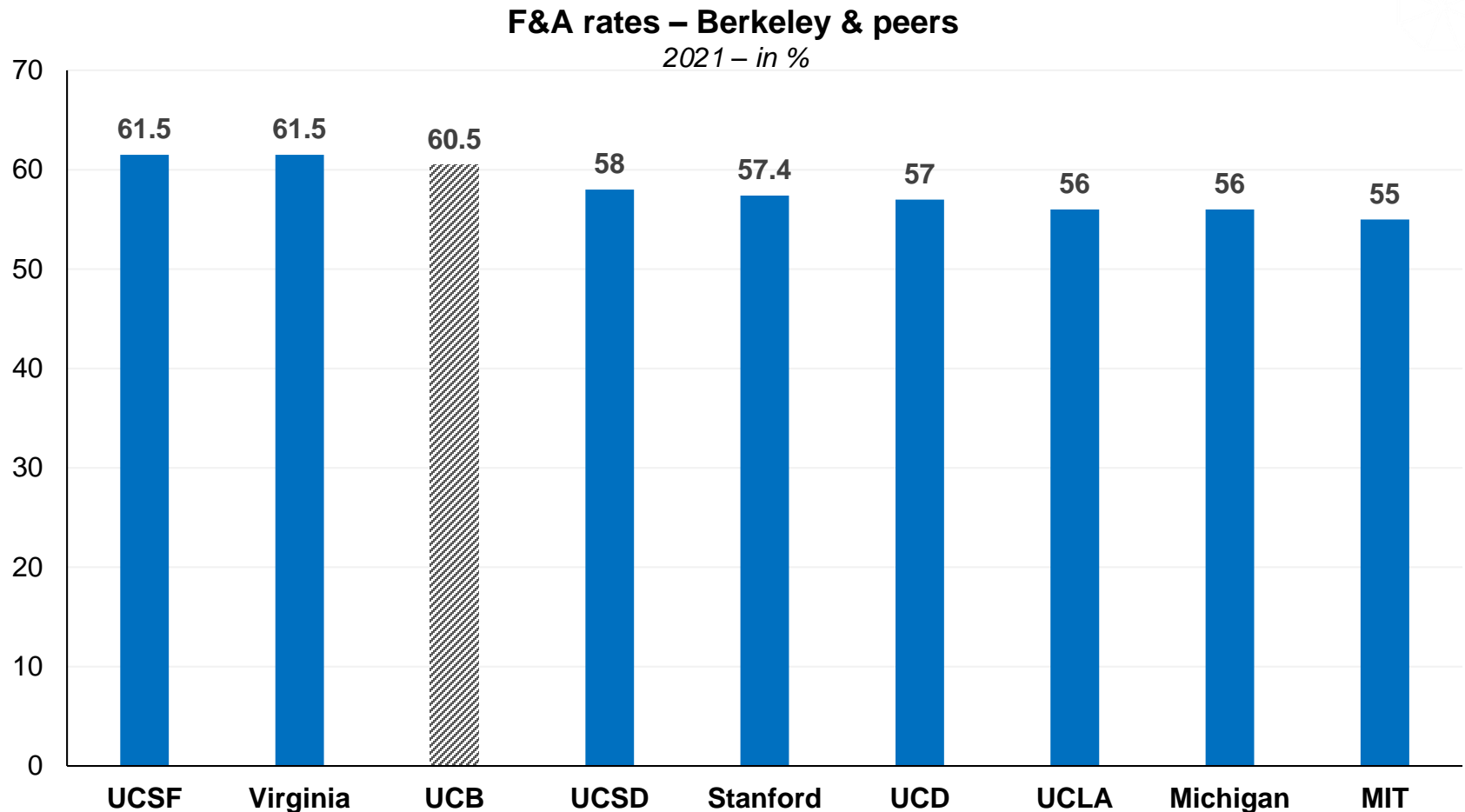
Indirect cost recovery is not revenue. It is a partial reimbursement of expenses in support of research.



*Source: Costs/estimates from UCB's last F&A rate proposal in 2015.

F&A Rates at Berkeley and peers

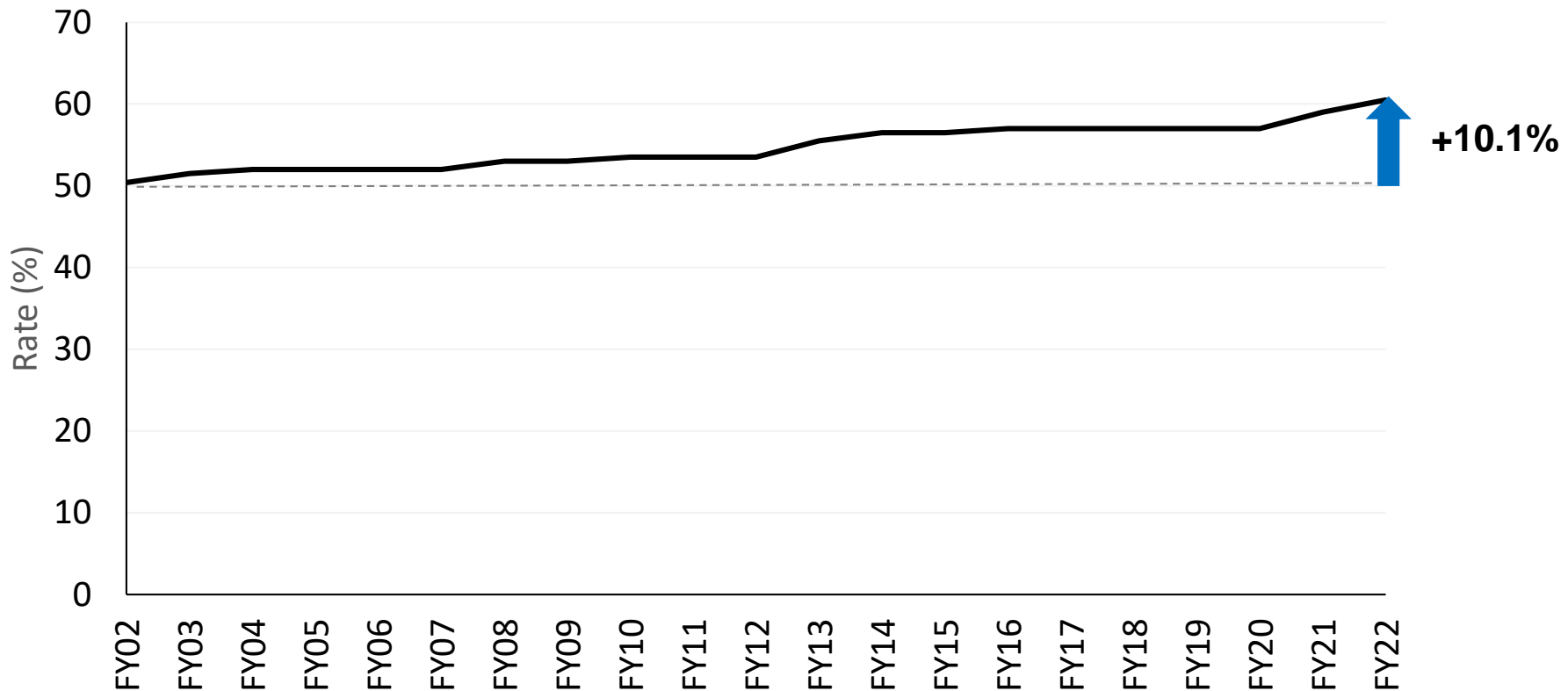
Berkeley's current F&A rate for on-campus research is 60.5% which is listed below along with our other peers for comparison purposes.



Historical F&A Rates at Berkeley

Berkeley's F&A rate was 50.4% in FY02 and has steadily risen to its current rate of 60.5% in FY22.

UPDATE: Berkeley has requested a two-year extension to the current timeline, so instead of submitting a new proposal by 12/31/21 based on a data year of FY2021, it will be due 12/31/23 based on data year FY2023.



F&A rates and ICR at Berkeley

Space Sciences Lab (SSL)

- SSL has had a special lower F&A rate dating from when NASA funded SSL's original building and equipment in the 1960's.
- DHHS CAS has resisted previous campus requests to eliminate the SSL rate without approval from NASA.
- SSL F&A rates:
 - On campus = 34%
 - Off campus = 24%

Options to Optimize an F&A rate

A successful F&A rate is not always the highest rate – it's the one that shrinks the gap between what we spend and what we recover. Thus, a 52% rate can be a very successful rate if true costs are 55%.

- Keep administrative costs very near the cap
- Invest in research facilities, then occupy them entirely with full overhead bearing research awards
- Keep administrative space to a minimum occupying the cheapest space in the most dense form possible
- Keep faculty offices to one per faculty member regardless of multiple appointments
- Place sponsored agreements with less than full F&A rate in rental space
- Preserve campus space for mission critical activities, reduce admin and storage spaces on campus
- Place research in the most expensive spaces including things like the stadium and the art museum

Options to Optimize an F&A rate

F&A recovery feeds into a larger financial ecosystem.

- Direct charge where allowable
- Reduce subsidies
 - Recharge units
 - Cost sharing
 - F&A waivers
- Leverage debt for research facilities because interest is a recoverable indirect cost
- Improve quality of data sets: work orders, financial, space, equipment, utilities, library access

Myths of indirect cost recovery

Myth: overhead recovery funds must be used for the purposes for which they were originally justified.

We can spend overhead reimbursement any way we want:

- Overhead reimbursement funds are not federal funds; they may be spent for any institutional purpose, including costs that might not be allowable using federal funds.
- The overhead rate is based on audited institutional direct and indirect costs in the calculation base year
 - Overhead recovery funds are reimbursed to the institution for costs already incurred and reviewed.
 - Using travel reimbursement as an example, expenses claimed must be justified and may be audited, but the amount reimbursed belongs to the traveler. Similarly, overhead costs paid by the campus are reimbursed to, and belong to, the campus.

Myths of indirect cost recovery

Myth: The overhead from research generates net revenue for the campus.

Research generates *costs*, as well as overhead return which partially recovers/offsets those costs.

- Berkeley's 2015 calculated real overhead rate was higher than the final/approved rate of 60.5%.
- Indirect costs are not fully recovered by the University because the overhead rate is reduced by:
 - Federal rules that require under-allocation of costs to research
 - Federal rate negotiators who use subjective judgement to lower rates
 - Rate caps, e.g. 26% cap on administrative components (Berkeley's calculated administrative rate was well over 36% in 2015) and faculty time (limited to 3.6%)
 - Rate waivers to certain sponsors

Myths of indirect cost recovery

Myth: If we reduce support service levels to PIs we will violate our overhead contract with the federal government.

The University's rate agreement with the government is about costs, not services.

- Our federal rate agreement does not specify, explicitly or implicitly, levels of service to be provided to research projects.
- Our rates are a snapshot of costs in a base year. We negotiate rates that apply for a predetermined length of time and rates don't change, even if costs or service levels change.
 - If building maintenance or janitorial service to a research area decreases (or ends), it's not an indirect cost issue, and doesn't violate our rate agreement. However, our ability to pass along these costs directly to sponsored agreements is limited.
- If an institution receives federal grant or contract funds, it is obligated to do the scope of work proposed, adhere to federal costs principles and to maintain adequate financial management and controls, regardless of the level of overhead received, or even if no overhead is received.

Looking ahead – Opportunities and challenges

Do we wish to favor indirect cost recovery as part of our financial strategy?

If F&A is to be part of our financial strategy going forward, we might want to consider the following opportunities and challenges:

- Limited debt capacity may impact our future F&A rate since debt-financed buildings have historically been one of the main drivers behind past increases in our F&A rate
- Is higher necessarily better when it comes to the F&A rate? For instance, does a higher F&A rate lead to a higher number of waivers granted thereby reducing the amount of F&A effectively collected?
- Are there space-related strategies we can implement to improve and enhance our F&A rate?
 - Improve density of full F&A research activity in the most “expensive” buildings and space,
 - Locate less than full F&A bearing research activity in rental space whereby most facilities-related costs can be directly charged,
 - Convert underutilized space (storage, administrative space, ...) into research space.
- Berkeley’s Financial Sustainability Initiative may include ICR as a topic, however the project scope is still in discussion among campus leaders and hasn’t been finalized

Thank You!

...and Go Bears!

