Facilities and Administrative Cost Reimbursement Rates

January 2002

Research Notes

University of South Carolina Research Foundation

New Facilities and Administrative (Indirect) Cost Reimbursement Rates

The USC Research Foundation (USCRF) recently concluded negotiations with the Federal Government to establish Facilities and Administration (F&A) Cost Rates on behalf of USC. Rates remain unchanged from the last negotiated rates for awards received before June 30, 2002 while rates change significantly for awards received July 1, 2002 and after. Changes brought on by these new rates impact all USC units, the Columbia Campus, School of Medicine, and the Senior and Regional Campuses.

For awards with project periods beginning on or before June 30, 2002, the rates are shown in Tables I and II. Highlights:

- The On-Campus rates include the School of Medicine and are based on Modified Total Direct Costs (MTDC) consisting of total direct costs except for capital expenditures [equipment, alterations and renovations, buildings], patient care costs, rental / maintenance of off-site facilities, student tuition, and student support costs (e.g., stipends, scholarships), and the portion of each sub-award in excess of $25,000.
- The Off-Campus rates apply to all activities performed in facilities not owned by the institution and to which rent is directly allocated to the project. If more than 50% of a project is performed off-campus, the off-campus rate will apply.
- The Senior and Regional Campus rates are applicable to all programs conducted on those campuses and are based on direct salaries, wages, and fringe benefits. Off-campus rates will apply for all activities performed in facilities not owned by the institution and to which rent is directly allocated to the project. If more than 50% of a project is performed off-campus, the off-campus rate will apply to the entire project.

Effective Period
July 1, 1999-June 30, 2002

Table I
Columbia Campus

	On-Campus Rate	Off-Campus Rate
Research	44.5%	25.0%
Other Sponsored Programs	25.0%	21.5%
Instruction	44.5%	25.0%

Table II
Senior and Regional Campuses

	On-Campus Rate	Off-Campus Rate
Aiken	42.0%	12.0%
Spartanburg	46.0%	16.0%
Beaufort	49.0%	18.0%
Lancaster	31.0%	16.0%
Salkehatchie	55.0%	26.0%
Sumter	48.0%	17.0%
Union	48.0%	22.0%

Special points of interest:

- New F&A Rates negotiated and effective July 1, 2002.
- School of Medicine is considered separate from the Columbia campus.
- Senior and Regional Campus rates are now calculated on the Modified Total Direct Costs rather than Salaries and Wages.
- What these rates mean to USC and the economic impact.

Inside this issue:

New Facilities and Administrative Rates Continued...

For awards beginning July 1, 2002 through June 30, 2004, there were significant changes in both the negotiated rates and their bases. (See Tables III and IV) Highlights::

- School of Medicine is considered separate from the Columbia campus and applies its own rate which differs from that of the Columbia campus.
- Regional Campuses. The rates for these campuses were brought into line with the Columbia campus and will now be calculated on the Modified Total Direct Costs (MTDC) basis rather that the Salaries and Wages basis.
- On-campus rates. These rates are based on Modified Total Direct Costs (MTDC) consisting of total direct costs except for capital expenditures [equipment-*items with an acquisition cost of $5,000 and up*, alterations and renovations, buildings], patient care costs, rental / maintenance of off-site facilities, student tuition, and student support costs (e.g., stipends, scholarships), and the portion of each sub-award in excess of $25,000.
- Off-Campus rates. These apply to all activities performed in facilities not owned by the institution and to which rent is directly allocated to the project. If more than 50% of a project is performed off-campus, the off-campus rate will apply.
- Multi-year awards. An award with a performance period that spans more than one fiscal year, is subject to different rates within the rate agreement. In such cases, the rate applicable to each period within the rate agreement is the rate that applies to the corresponding period in the sponsored project. This could result in an award being subject to as many as three different rates. An award date that extends beyond the date of the rate agreement will have the rate in effect at the end of the rate agreement extended through the life of the sponsored award.

These rates are applicable for sponsored projects conducted at all University of South Carolina Campuses as well as related off-campus work when applicable.

Table III

On-Campus Rate	Columbia		School of Medicine		Senior and Regional Campuses	
	FY03	FY04	FY03	FY04	FY03	FY04
Research	45.0%	45.5%	39.0%	39.0%	45.0%	45.5%
Training and Service	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Instruction	45.0%	45.5%	45.0%	45.5%	45.0%	45.5%

Table IV

Off-Campus Rate	Columbia		School of Medicine		Senior and Regional Campuses	
	FY03	FY04	FY03	FY04	FY03	FY04
Research	25.0%	25.0%	24.5%	24.5%	23.5%	23.5%
Training and Service	24.0%	24.0%	24.0%	24.0%	24.0%	24.0%

Why Should My Grant Pay Indirect Costs?

It is not uncommon for faculty members to feel that when they successfully compete for a grant, the F&A cost is something that they are donating to the institution. From the institution's point of view, the faculty member's proposal really addresses the direct cost elements only and additional funds are required fully to pay for the project. The reimbursement of indirect costs is based on a calculation that represents “institution expenses” associated with the administration of the project including facilities. Ultimately this is a matter between the institution and the sponsor. From the sponsor's and the institution's point of view, the indirect cost component is distinct from the direct cost award, and in the best of circumstances it simply reimburses the institution for portion of the real cost to the University of a specific project.

These contrasting perceptions can be a cause for misunderstanding. The faculty member feels that she or he is contributing significant indirect funds to the University, whereas the administration maintains that the University is simply being appropriately reimbursed for the indirect costs of the project. All too frequently, the recovered indirect costs do not fully cover the actual F&A costs of such research. In many instances the cost of the space alone, if calculated at market rates, would be comparable to the indirect cost amount generated by the grant.

History of Indirect Costs at USC

In July 1978 State Law granted authority for Universities to retain the indirect costs reimbursements they received on research grants and contracts. Later in 1978, the University's President mandated that the reimbursements be allocated to central administration and the academic deans according to this policy which is quoted from his letter: "Half of the funds will be used in meeting the operating costs of the Office of Research, the Contract and Grant Accounting Office, to augment the faculty research fund and to provide a small initiation fund for departments not now engaged in sponsored research. The remaining half of the funds will be returned to the Office of the Deans from whose Colleges the research projects generating the funds originated."

From 1978 until 1995, reimbursements were placed into a single account from which allocations were made 50% to the College Deans generating the related direct costs, and 50% to the Vice President for Business and Finance to cover central administration efforts to enhance the research mission. The process was the same, but the proportions were 80:20 for the senior and regional campuses with the smaller portion flowing to central administration.

After 1995, the process changed so that the Vice President for Research was responsible for establishing a budget for the portion of indirect cost reimbursements returned to central administration. This change put the responsibility for determining the optimal use for the funds into the hands of the Vice President for Research and the Academic Deans.

In 1997 the South Carolina Research Institute (SCRI), originally the USC Research Foundation, and began managing research contracts on behalf of USC. The reimbursement proportions remained the same at 50:50 or 80:20 while contract and fiscal management of the reimbursements within its purview became the responsibility of the Research Institute.

During a time of rapid growth in the research enterprise, important changes occurred from 1996 through 2001 . The total amount of indirect cost reimbursements available for research enhancement rose rapidly from approximately $8 million in 1995 to $13 million in 2000. At the same time, sponsored programs awards increased from around $75 million to over $120 million. The University found itself at a developmental crossroads while searching for a new Vice President for Research who would be charged with identifying areas to concentrate efforts to expand the research enterprise.

In April 2001, under the guidance of a new Vice President and Executive Director and while recognizing the University's opportunity for growth, the SCRI assumed new management and reclaimed its former name. Beginning July 2001, the Executive Director, with concurrence of the President and Provost, directed the renamed USC Research Foundation to begin managing all sponsored programs. The Foundation responded and now, with a few exceptions, manages all new sponsored program accounts.

On January 10, 2002 the University's Strategic Directions and Initiatives Committee responded to the need to finance additional research space by identifying indirect costs reimbursements as a predictable cashflow that could potentially be used to pay bonds used to finance construction of research facilities. The committee issued a specific recommendation to: "Direct 14% of all indirect cost recovery from sponsored programs to a fund to underwrite institutional bonds to build new research facilities. Using the current indirect cost distribution, 7% from the University share and 7% percent from the academic unit share would be redirected to this purpose." If implemented, the Committee's recommendation will mark a very important change in the strategic application of indirect cost reimbursements.

Great Universities have used there Indirect Costs to significantly enhance their research enterprise—by building state of the art facilities, purchasing quality instrumentation and possessing strong administrative support.

The total amount of indirect cost reimbursements available for research enhancement very quickly grew from about $8 million in 1995 to $13 million in 2000.

What Do These Rates Include?

Higher education institutions that perform teaching, research and public service may share some common resources such as building and central management. The Indirect Rate Cost are developed from actual costs incurred within the University for its facilities and its administration (F&A). Indirect Costs for building depreciation, equipment depreciation, libraries, and operations and maintenance are categorized as facilities, while costs for general, departmental, and sponsored project administrations are categorized as administrative. The institution submits a research Indirect Rate Cost Reimbursement Rate proposal to the Federal government and then negotiates a multi-year rate to be applied to grants and contracts. Once the portion of these costs attributable to the research enterprise is calculated, it is converted to an F&A rate by dividing it by the modified total direct costs attributable to research, that is [salaries and wages, fringe benefits, materials and supplies, services, travel, etc.] minus [equipment, alternations and renovations, patient care costs, rental/maintenance of off-sites facilities, student tuition, and student support costs and the portion of each subcontract in excess of $25,000, and patient care costs]. The rate is usually reviewed every three years by the Department of Health and Human Services.

F&A Rate Items

- Building Depreciation
- Equipment Depreciation
- Interest on Debt
- Libraries
- Operations and Maintenance
- Administrative Offices

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For more information on Indirect Costs, please visit our website: www.spar.sc.edu

USC Research Foundation is an element in the University' s strategy for research growth, supporting faculty efforts, and helping the University faculty with their scholarship goals.

Facilities and Administration Costs are real costs incurred and paid by the University for everything from buildings and utilities to computer services to academic support. The actual costs are surprising and indicative of the true costs of excellence. For fiscal year 2000, actual F&A costs attributable to sponsored programs were over $39 million. That same year, sponsor reimbursements for F&A costs were only $13.5 million. The difference bolsters the University's very strong commitment to providing the institutional resources necessary to support its research enterprise. Fortunately, USC has a longstanding policy that strategically uses F&A reimbursements to support its research effort. Ultimately, 97% of every sponsored project dollar received, including F&A reimbursements, is funneled back into research enhancement via the Deans and the Vice President for Research.

Using the Indirect Rate...example

Three-Year Research Grant On-Campus – Columbia				
Budget	Year 1 07/01/02-06/30/03	Year 2 07/01/03-06/30/04	Year 3 07/01/04-06/30/05	Total
Personnel	116,913	124,032	127,370	368,315
Fringe Benefits	18,113	19,448	17,814	55,375
Travel	10,000	5,000	7,500	22,500
Equipment	5,000	10,000	0	15,000
Supplies	2,589	7,500	8,800	18,889
Contractual	0	0	0	0
Total Direct	152,615	165,980	161,484	480,079
Indirect Costs	66,427	70,971	73,475	210,873
Indirect Rates	45.0%	45.5%	45.5%	
Total Costs	219,042	236,951	234,959	690,952

This is an example of a Columbia Research grant for a three-year period. Beginning July 1, 2002 and ending June 30, 2005, the first two-years include equipment which must be excluded from the indirect rate costs. Notice that under the new indirect cost rate agreement a project period that spans over more than one fiscal year is subject to different rates.

Please note that this is one example used to explain the process in a picture-type format. If you have questions of how to calculate the indirect cost rate for your proposal, contact the Office of Sponsored Programs and Research at 777-7093.