Agenda

• Introduction to MAXIMUS and Higher Education Practice
• Purpose of F&A Rates
• Rate Composition and Calculation
• Proposal Review and Negotiation
• Direct and Indirect Costs of Research
• Space Survey
• How Cost Changes Affect Rate
MAXIMUS Higher Education Practice

• Serves more than 200 colleges and universities in 49 states plus Puerto Rico and the U.S. Virgin Island
  – 90 of top 100 research institutions
  – Ranging from <$1M to >$1B in research

• Headquartered in Northbrook, Illinois
  – Satellite offices in: Colorado Springs, Colorado | Lexington, Kentucky | Columbus, Ohio | Phoenix, Arizona | Charlottesville, Virginia | Bluffton, South Carolina

• MAXIMUS is a leading provider of government services worldwide with more than 30,000 employees and $2.0+ billion annual revenue
F&A Consulting Services

- F&A Cost Rate Proposal Preparation (Long and Short Form)
- Negotiations (DHHS-CAS & ONR/DCAA)
- Space Surveys/Reviews
- Fringe Benefit Rates
- Federal Disclosure Statement (DS-2) and Direct Costing Policy
- Service Centers and/or Recharge Centers Rates and Policies

F&A Software

- Comprehensive Rate Information System (CRIS®)
  - 200+ universities use CRIS
- WebSpace® – Space Utilization Software
  - 60+ universities use WebSpace
Other Services and Products

- Internal Controls Consulting and Effort Reporting Software (ERS)
- Uniform Guidance Diagnostics and Compliance Consulting
- Pre and Post Award Consulting Services and Training
  - Research Operational Reviews – Business Process Review and Improvement – Change Management
  - Policy Review and Development
  - Onsite and Online Training in Grant Management
  - Fringe Benefit Rates
Purpose of F&A Rates

Question

Why do we calculate F&A rates?
Purpose of F&A Rates

Answer

• To identify the portion of F&A costs applicable to major functions of the university
  – Instruction
  – Organized Research
  – Other Sponsored Activities (Public Service)
  – Other Institutional Activities

• To recover F&A expenditures allocable to sponsored activities
Rate Composition and Calculation

- F&A costs are real costs
- F&A rates are based on complex calculations
Rate Composition and Calculation

F&A Components – Facilities

- Building Depreciation
- Equipment Depreciation
- Interest
  - Cost of financing on capital items
- Operations and Maintenance
  - Utilities, Custodial, Environmental Safety
- Library
  - Books, Periodicals, Staff
Rate Composition and Calculation

F&A Components – Administration – 26%

- **General Administration**
  - President, Payroll, HR, Provost
- **Departmental Administration**
  - Dean’s offices, Department support staff and supplies
- **Sponsored Projects Administration**
  - Pre and Post Award, must be separate SPA organization
- **Student Services**
  - Admissions, Registrar, Career Counseling, Student Health, Commencement
- **26% percent maximum**
Rate Composition and Calculation

Calculating Bases for F&A

• Remove costs excluded for MTDC
  – Capital, subcontracts >$25K, participant support, patient care, scholarships, etc.

• Reclassify costs for the F&A Bases
  – Determine Organized Research and OSA base
    – Only Sponsored costs + Cost Sharing
  – Instruction – includes Sponsored Instruction
    – Departmental Research (Unsponsored)
Rate Composition and Calculation

Rate Development Steps

- **Step 1**: Create cost pools
  - Split costs in indirect and direct
  - Determine specific type of pool for indirects

- **Step 2**: Determine allocation basis
  - Associating indirects with each base

- **Step 3**: Calculate the rate
  - Sum indirects allocated to a given base
  - Divide indirects by the base
Simplistic Rate Example

- Organized Research Base: $100 Million
- Facilities costs overall: $240 Million
  - Allocated to Organized Research: $24 Million
  - Facilities rate: $24 M/ $100 M = 24%
- Administrative cost overall: $200 Million
  - Allocated to Organized Research: $30 Million
  - Admin rate: $30 M/ $100 M = 30%.... But 26% cap
- Total rate: 50%
Proposal Review and Negotiation

Question

How are F&A rates proposed?
Proposal Review and Negotiation

Answer

- Two methods of calculating an F&A rate
  - **Long Form** – Required for institutions expending more than $10 million on Federal grants and contracts annually. Calculated rate will likely be higher using this method
  - **Short Form** – Simpler allocation methodologies used by institutions that have smaller research expenditures
Proposal Review and Negotiation

Question

We calculated a rate increase.  
Will our cognizant agency give us an increase?
Proposal Review and Negotiation

Answer

• The government reviews the F&A rates closely.

• Rarely will they negotiate what is proposed
  – Usually more reductions on Long Form than Short Form.
Proposal Review and Negotiation

Government Review

• Review the calculations – poke holes in them
• Review the Space Survey – “issues” always found
• Negotiations usually consider:
  – Your past rate
  – If there are major changes at the university that substantiate a higher rate
  – Rates of other universities in your region
Proposal Review and Negotiation

F&A is important to your university

• Per A-21 and 2 CFR 200 Subpart E, the federal government will pay its fair share of total costs via the F&A rate process.

• Reimbursement of F&A is what allows the university to keep investing in its research resources.

• If sponsors do not pay their fair share of F&A, who will?
Direct and Indirect Costs of Research

Question

How does the rate apply?
Answer

• The rate is applied to the direct cost of a sponsored project, and is the amount of “overhead” which is recovered. Example:
  – $100,000 of salaries, travel, supplies for research
  – 50% Research F&A rate
  – University recovers $50,000 for F&A costs

• When F&A is waived or reduced… a lot of money is lost to the institution for research infrastructure.
Direct and Indirect Costs of Research

Question

Will Researchers get less money to conduct their research now that our F&A rate has increased?
Direct and Indirect Costs of Research

Answer

• Both direct and indirect costs are necessary to conduct research.

• Both are included in the budget, so indirect is not “taking away” from direct.

• New F&A rates only applicable to new awards or segments.
Direct Costs… the only “research” costs?

• Direct costs, per 2 CFR 200.413 are:
  – Costs which can be identified specifically with a cost objective, such as a Federal award
  – Costs which can be directly assigned to such activities relatively easily with a high degree of accuracy.

• Examples:
  – Salaries/Wages of a Principal Investigator and GRA’s
  – Lab supplies
  – Project related travel
  – Equipment directly purchased by the project
Direct and Indirect Costs of Research

Where there is direct… there is indirect

• Per 2 CFR 200.414, Indirect Costs are:
  – Costs which benefit common or joint objectives
  – Costs which cannot be identified to a specific activity
    such as instruction or research project

• By definition, the benefit of Facilities and Administrative
  costs can’t be determined to each sponsored project—
  thus why we need an F&A rate.
Direct and Indirect Costs of Research

Question

Why would an F&A Rate increase?
Direct and Indirect Costs of Research

Answer

• F&A Rates are a ratio between indirect and direct costs
  – e.g. $50 M Overhead/ $100 M Direct Research Costs

• Simply stated, if the F&A rate is 50%:
  – For every $1.00 spent on research
  – 50 cents of cost is incurred by the university on infrastructure to support that rate.

• If your university’s rate is increasing, it means your institution’s investment in research facilities, is increasing faster than growth in the base.
Our university just hired a bunch of administrative staff this year – **will our F&A rate increase?**
Direct and Indirect Costs of Research

Answer

- Unfortunately… probably not
- Administrative component is capped at 26%
- Most universities meet that cap
2 CFR 200 Appendix III, C.8

- Administrative components are restricted to 26% reimbursement.
- Most universities calculate more than 26% in their F&A rate proposals.
- Therefore, more administration helps justify the 26% capped rate, but doesn’t raise the rate.
- There was talk of raising this cap with the Uniform Guidance, but it didn’t happen.
Direct and Indirect Costs of Research

2 CFR 200.413 – Opportunities

• Allowed to identify more admin as direct costs
• Administrative staff may be direct charged if:
  – Services are integral
  – Individuals can be specifically identified with the project
  – Such costs are explicitly included in the budget or have the prior written approval of the Federal awarding agency
  – Not also recovered as indirect costs.
Space Survey

Question

What is a Space Survey?
Space Survey

Answer

• A survey of the university’s space usage, usually focused on research space.

• Goal is to recognize Organized Research space as the areas in which personnel are working on and paid from Organized Research sponsored awards.

• Time consuming – involves conducting training classes, 3 – 5 months (or more) to prepare and complete the survey.
Space Survey

Allocation of Facilities Components

• Facilities components allocate either by:
  – Assignable Square Footage (ASF)
  – Full Time Equivalent (FTE)

• Most Facilities costs allocate on the basis of ASF

• Land Improvements (Building component) and Library allocate based on FTE
Question

Why do we spend so much time on space surveys?
Space Survey

Answer

• The **space survey** is the single most important part of the F&A rate
Space Survey

• The Facilities component is uncapped.
• Therefore, identification of Facilities costs to Research is the only way to raise the rate.
• The main way to identify costs to Organized Research is to conduct a space survey.
• Often the Federal cognizant agency will come on-site and thoroughly review research-intensive space.
Space Survey

Facilities costs reliant on Space Surveys
*Items allocated based on space are denoted in BLUE

- **Building Depreciation**
  - Land improvements
- **Equipment Depreciation**
- **Interest**
  - Cost of financing a structure
- **Operations and Maintenance**
  - Utilities, Custodial, Environmental Safety
- **Library**
  - Books, Periodicals, Staff
Space Survey

A simple F&A- Facilities Component

- Facilities expense per year: $240 Million
- University space profile of 10,000 ASF is:
  - 3,000 ASF Instruction, or 30% Instruction
  - 1,000 ASF Research, or 10% Research
  - 6,000 ASF Other Indirect/Direct, or 60% Other
- Facilities cost for Research:
  - $240 Million x .10 = $24 Million
How Cost Changes Affect Rate

Question

We bought a very expensive piece of research equipment in our base year. Will it increase our rate substantially?
How Cost Changes Affect Rate

Answer

Depends…but unlikely

- Only depreciation is claimed on capital equipment
- Depreciation amount depends on useful life assigned. Scientific: usually 5 to 12 years
- Depending on the space survey of the room the equipment resides in, it may not be 100% OR
- Depending on how large the Research base is, might need millions to move the rate
How Cost Changes Affect Rate

Calculate the impact

• How large is the research base at your institution?
  – Sample base: $100 Million.

• How much would a percentage point be worth?
  – $100 Million / 100 = $1 Million per 1 percentage point

• How is a research asset depreciated?
  – Median useful live for research equipment, 10 years.

• So … How much in total cost do we have to purchase to move the rate a point?
  – $1 Million × 10 years of depreciation = $10 Million
How Cost Changes Affect Rate

Question

A new multi-million dollar research building just went online and was included in our proposal.

Will we get an huge increase in F&A rate?
How Cost Changes Affect Rate

Answer

• Maybe… but the full impact of a new research building usually takes few years.
• Often it can take many months (or years) to move-in, usually significant vacant space the first couple of years.
• Any new PIs hired might be on start-ups/seed money, so that the space is not yet research.
• Increase to the Research base might cancel out some of the gain from the new Facilities costs.
How Cost Changes Affect Rate

What does it take to move the F&A rate?

• Costs to trickle down
  – Building is complete
  – There is equipment in the space
  – The lights are on, gas and water is running

• Space survey to support facilities costs
  – Space must be fully occupied
  – People in the space must be paid on or cost shared to Organized Research funds
How Cost Changes Affect Rate

Timeline of the facility

• When is the facility going online?
• Will there be a full year of depreciation in the rate?
• May have already foregone a year or two of depreciation.
How Cost Changes Affect Rate

Reality of a new facility

- Full occupancy from depreciation date
  - Minimum six months to occupy the space
  - Realistically, a year or two to occupy fully

- Who is in the space? How are they paid?
  - Seed funding?
  - Start up funding?
  - Visiting professors?
  - Unpaid Students?
How Cost Changes Affect Rate

Question

Our research volume went way up. Why did our F&A rate go down?
How Cost Changes Affect Rate

Answer

An increase in the OR at your institution might be a silver lining with a cloud. The F&A rate is a ratio…

So if the denominator rises (the OR Base)

While the overhead doesn’t change much

The rate may decrease
How Cost Changes Affect Rate

F&A Rates

• Numerator = Indirect costs
• Denominator = Direct Costs

• $50 Million/ $100 Million in 2010…. 50%
• $55 Million/ $120 Million in 2014… 45.8% Ouch!

• In this case, **Indirect costs grew 10%**, while the **base grew 20%**.
• We want the F&A costs to grow at pace, or faster, than Organized Research. Not always reality.
How Cost Changes Affect Rate

Reality of Research Growth

• Usually growth of research happens first
  – Grants and contracts can boom quickly

• Lagging behind is the infrastructure to support it
  – At your institution are faculty packed like sardines into research space?
  – Things have to reach this point before new facilities will come on-line
Conclusions

- Indirect/F&A costs are real costs.
- F&A is necessary to support research.
- It is important to recover F&A to continue re-investing in infrastructure.
- Proactive measures to raise the rate don’t really work… key is continuous, steady investment in research infrastructure over time.
Upcoming Webinars

Pooled Fringe Rates – Are They Right for Your Institution
March 5 | 2:00 p.m. ET

Service Centers
June 4 | 2:00 p.m. ET

Information for F&A Short Form Institutions
July 16 | 2:00 p.m. ET

Tips for Becoming a CRIS Power User
August 20 | 2:00 p.m. ET

Alternative Methods for Documenting Compensation – October 2019
Upcoming Workshops and Annual Meeting

F&A Workshop
April 9 to April 11 | Chicago, IL

CRIS University:
Introduction to CRIS Workshop
May 14 to May 16 | Northbrook, IL

32nd Annual MAXIMUM Higher Education Practice Meeting
September 2019 | Location TBD

F&A Long Form Training Workshop – in conjunction with Annual Meeting
Questions