Facilities & Administrative (F&A) Costs

UNLV's facilities & administrative (F&A) rate is set by the federal government as the amount of indirect cost recovery associated with supporting our research infrastructure. As a result, UNLV's policy is to apply the full applicable F&A rate to all sponsored projects in accordance with federal guidelines. The full policy can be found at http://research.unlv.edu/policies/ ("Facilities and Administrative Costs on Federally Funded Projects").

F & A Costs?

F&A constitutes facilities (F) and administrative (A) costs to the university in order to support its research mission. These are real costs incurred by schools/centers and the institution in support of sponsored activities that cannot be directly identified with (and therefore charged to) a specific grant or contract. The costs result from shared services such as research-specific physical plant operation, maintenance, and utility costs; departmental, unit/school, and sponsored projects' administrative expenses; federal compliance requirements; depreciation of buildings and equipment; and libraries. These are real and significant costs that are part of the university budget and must, therefore, be recovered from grants and contracts.

The F&A costs recovered on grants allow the institution to build, maintain, and operate facilities that are dedicated to research and research support. It is the obligation of all researchers who use institutional facilities to bring in grant funding that supports their activities, along with the attendant F&A costs. F&A dollars received are not extra dollars but are part of the budget that is fully used to sustain the research enterprise. Without them, research laboratories and facilities cannot be built and maintained, nor could the infrastructure needed to apply for and administer grant funding.

F&A costs are periodically reviewed and negotiated with our cognizant federal audit agency, the Department of Health and Human Services/Division of Cost Accounting (DHHS/DCA). The process involves an extensive proposal compiled by the university and submitted to the DCA. After careful analysis of our research funding and space utilization for research (see more details below), the DCA assigns UNLV an F&A rate that will be used for the subsequent several-year cycle. The exact same process is conducted at all other research universities in the country. Therefore, our F&A rate is based on a rigorous analysis from a federal-oversight body that determines the funds needed by the university to most effectively support federally funded research at UNLV.

Types of Rate Categories

There are three main types of F&A rates for the various types of projects that we undertake. The definitions below are taken directly from the federal circular OMB A-21:

- **Organized research** means all research and development activities of an institution that are separately budgeted and accounted for. Sponsored research means all research and development activities that are sponsored by federal and nonfederal agencies and organizations. This also includes activities involving the training of individuals in research techniques, commonly called research training, where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function.
- **Instruction** means the teaching and training activities of an institution. Except for research training, this term includes all teaching and training activities, whether they are offered for credits toward a degree or certificate or on a noncredit basis, and whether they are offered through regular academic departments or separate divisions, such as extended education, summer school, or extension activities.

Other sponsored activities means programs and projects financed by federal and nonfederal agencies and organizations that involve the performance of work other than instruction and organized research. Examples of such programs and projects are health service projects and community service programs.

Costs Covered
F&A covers the costs of research that cannot be billed as direct costs to individual projects but nevertheless exist. Here is an alphabetical list of the goods and services offered at UNLV that are used by researchers but are not covered by direct costs in grants and are, therefore, directly covered by the F&A generated by our grants and contracts:

- Animal care and use.
- Central research administration.
- College/department research administration and support.
- Communications costs.
- Computing (IT) support.
- Economic development/outreach.
- Environmental health and safety.
- Equipment maintenance and support.
- Facilities and space usage.
- Faculty startup packages.
- Graduate student admissions and services.
- Human subject reviews (IRBs).
- Internal grants and awards programs.
- Library collections and services.
- Research integrity (compliance) office.
- Risk management (safety committees).
- Sponsored programs administration.
- Stockrooms.
- Technology transfer.
- Utilities costs of research facilities.

Collected F&A
Although the cost components mentioned above help explain the need for F&A funding, some of the actual monies collected can be used to directly support research programs at UNLV. UNLV allocates 40 percent of the funds back to the colleges, departments, and researchers (this 40 percent is well above the national average), with the remaining 60 percent allocated to the vice president for research, the president, the provost, and libraries. The breakdown and uses are as follows:

Vice president for research and graduate studies	48%	Research administration Research compliance Sponsored programs Human subjects (IRBs) Animal care and use Graduate admissions Graduate services Faculty startups Discretionary support
College, department, and PI	40%	College research administration Faculty startups Discretionary support Faculty return
President	4%	Awards programs Major initiatives
Provost	4%	Faculty startups IT support
Libraries	4%	Library collections

There is no campuswide allocation model for the 40 percent F&A return that goes to the deans. In most colleges, there is an allocation split between the college, the department, and the PI, which enables the PI to have a direct, discretionary account to support additional research costs, such as bridge support between grants, computers, software, professional travel, personal journal subscriptions, etc. PIs should inquire from the dean what the F&A distribution policy is within the PI's college.

When F&A Must Be Used

- All federal research and service grants and contracts that do not have a policy restricting the allowed rate.
- All projects with commercial companies.
- All subcontracts from other institutions that are funded by federal or commercial grants or contracts that do not have a policy restricting the allowed rate.

The only situation where our federal F&A rate is not used is with sponsors that have a policy restricting the allowed federally based rate (i.e., have their own established rate). This policy must be consistent across all research universities. In such cases, the policy needs to be officially negotiated and filed with UNLV's Office of Sponsored Programs.

Full/Partial F&A Waiver

F&A waivers result in an underrecovery of indirect costs. Since F&A represents real costs, any unrecovered indirect costs must be covered by other sources. Some examples include operating budgets, tuition, and endowments. Tuition must be used to support instructional programs. Endowment income is for the most part restricted by the donors to purposes other than sponsored project support. Therefore, underrecovery results in significant impact on our operating budgets and our ability to provide funds to support research. Accordingly, UNLV must recover indirect costs whenever possible since researchers require administrative support for their activities.

On- and Off-Campus Rates for Sponsored Programs

During our F&A negotiations with the federal government, a distinction is made between those projects that are conducted on campus and those that are conducted off campus. While most projects should be considered on-campus, the determining factor for off-campus projects is whether or not university facilities are utilized. To help in determining the appropriate categorization, we have defined on and off campus as follows:

<u>On-campus F&A rate</u>: The on-campus F&A rate will be applied to any sponsored project that requires utilization of space owned or leased by the university, university equipment, and university support infrastructure (i.e., both F and A components of the F&A rate apply). The on-campus rate, therefore, applies to most sponsored projects.

<u>Off-campus F&A rate</u>: Off-campus rates imply that there are no facilities costs associated with the project, only administrative costs. Projects are reviewed in their totality, with the following criteria evaluated to determine if the off-campus rate applies:

(1) The nature of the work and requirements of the award require that it be performed off campus (convenience or telecommuting are not justification).
(2) Buildings and administrative work areas will be leased or purchased through the sponsored project for at least 50 percent of the project term.
(3) The off-campus portion of the work must be continuous and occur over at least 50 percent of the project period of performance or will entail more than 50 percent of total salary costs paid directly by UNLV to project staff that <u>do not reside</u> on UNLV campuses.

<u>Note: Efforts undertaken by subcontractors are not a factor in the determination of whether an on- or off-campus rate should apply</u>.

In addition, because the university must maintain consistent procedures in applying the appropriate rates, split rates for the same project are strongly discouraged. However, if the principal investigator(s) can provide appropriate justification for splitting a budget to use both the on- and off-campus rates and the charges can be clearly separated into on- and off-campus categories, then exceptions may be made.

How F&A Rates Are Established
F&A rates are negotiated in a set multiyear cycle with DHHS/DCA. Some of the factors involved in the negotiation are listed below. However, specific questions should be addressed to the controller's office:

- Total anticipated costs for all indirect services and facilities are computed.
- Modified direct costs (direct costs less equipment, major alterations, etc.) are estimated for three basic functions of university activity — organized research, departmental research/instruction, and other sponsored activities.
- Total direct costs, with and without space costs, are distributed among the three basic functions (listed above) based on applicability of function, percentage of direct costs in each function, and functional purpose of space.
- The ratios of indirect costs to modified total direct costs result in two indirect cost rates for each of the three functions — "on campus" (includes facilities costs) and "off campus" (excludes facilities costs).
- The indirect cost rates may be further adjusted to account for previous years' over- or underrecovery of indirect costs.

The ratio of indirect costs to modified total direct costs is the indirect cost (F&A) rate:

Indirect cost rate = (indirect costs)/(modified total direct costs) x 100

How are F&A costs calculated for a project budget?

- Determine whether the project is organized research, instruction, or other.
- Determine whether the project is "on" or "off" campus.
- Determine if the project should use a TDC (total direct costs) or MTDC (modified total direct costs) indirect cost base. (Always use TDC for off-campus commercially funded projects.)
- If MTDC based, calculate modified total direct costs.

Modified total direct costs are total direct costs minus the following:

- Equipment — items having a useful life of more than one year and an acquisition cost of $5,000 or more per unit.
- Alterations/renovations of more than $5,000.
- Patient care costs.
- The portion of subcontractor budgets in excess of $25,000 for each subcontract.
- Scholarship, fellowship, and tuition payments.
- Space rental for off-site facilities.

The calculated MTDC should then be multiplied by the appropriate F&A rate to calculate the correct indirect cost to include in the proposal budget.

FAQ About F&A Costs

Why are F&A costs so high?

All of the indirect costs taken together are a significant portion of the university's expenses and are set by the federal government because they are required to adequately support research at UNLV. Without F&A funds, research programs at UNLV would be forced to make many painful cuts, which would reduce the ability to conduct research and attract future funding.

Recovery of F&A costs isn't as high as it may seem. Instead of the 44 percent F&A rate set by the federal government, UNLV collects only about 20 percent in reality. This is because F&A costs for many educational projects and some federal and state grants are capped at a lower rate than the negotiated 44 percent, and most grants from private foundations do not allow full F&A costs. Compared with the rates of other research universities, UNLV's F&A rate is in the bottom half to third (i.e., most universities have higher F&A rates).

Why should my grant pay F&A?

Most sponsors already anticipate facilities and administration costs when they award a sum of money for a research grant. Therefore, F&A is not actually taking away from direct costs that could otherwise be covered. This is a long-held fallacy among principal investigators that is not shared by their funding agencies. Occasionally, private companies request that F&A costs not be charged to contracts that they wish to fund, but this cannot be agreed to by the university because these contracts require the same university support and services as do federal grants. In fact, agreement to waive F&A for private contracts would require support for those projects from F&A generated by federal grants. This would be a violation of the terms of our F&A agreement and would expose the university to potential audit findings from the federal government.

Even researchers who obtain very small grants or use very little space and equipment incur F&A costs. In fact, small grants almost always require a greater percentage of the award than larger grants to support dedicated services to those grants.

Although actual F&A costs incurred vary from researcher to researcher, it is important to charge an average. The costs of calculating and charging individual itemized F&A would far exceed the savings that could be generated for any one researcher and would in itself, therefore, drive up F&A costs.

How is F&A applied to a research grant?

F&A costs do not pay for 100 percent of all indirect costs but just that portion the auditors agree may be allocated to research activities. This percentage is applied not to the entire grant award but to the modified total direct cost.

What are reasons for an F&A rate reduction?

- The agency in question has a set F&A rate ceiling.
- It is classified as off-campus research.

What are not reasons for an F&A rate reduction?

- The funding is too small to also pay F&A. PIs should always negotiate a funding amount that allows the work to be done plus full reimbursement for F&A costs.
- The company does not cover F&A. (Not true. All companies recognize overhead costs.)
- “I need to get a foot in the door with the sponsor and then will pay the full F&A rate later with a larger proposal.” This, in reality, does not work and leaves the university accepting a substandard F&A recovery rate from the funding source in question.

Institutional fairness is the primary reason not to internally negotiate F&A reductions that are not based on the clear guidelines listed above. Any negotiated F&A rate reduction would require that the university supply that PI with required services that are paid for by other researchers who are paying the full F&A rate. Since the federal government negotiates the lowest rate possible, extensive granting of F&A waivers would result in fewer dollars for research support to all campus researchers, a result that is unfair to those who pay the full F&A rate. Because of this, the university has a firm policy of not granting F&A waivers except in clearly defined circumstances that are justified by our F&A policy.