Where F&A Rates Come From

Because the University of Minnesota is a major recipient of federal funding, it follows the principles and guidelines outlined by the Office of Management and Budget (Uniform Guidance, 2 CFR §200).

Research F&A costs are the sum of all indirect costs incurred in support of research activities within a fiscal year. These costs are assigned to one of several pools within facilities and administrative categories.

Once these costs are allocated in accordance with federally mandated allocation methods, they are divided by the modified total direct costs of organized research to come up with the actual F&A rate. This calculated rate becomes the starting point for the rate negotiation process between the University and the Department of Health and Human Services, Cost Allocation Services, which negotiates on behalf of all federal agencies.

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F&A Questions

- Applying F&A rates to sponsored research proposals and awards:
  Contact the assigned grant administrator in Sponsored Projects Administration

- How F&A rates are developed:
  David Hagen, Director, Office of Cost Analysis
  612-626-9895 or hagen027@umn.edu

Contact Us

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Sponsored Projects Administration
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612-625-3394
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Facilities & Administrative Costs
What Faculty and Staff Need to Know

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Understanding F&A Costs

Indirect costs, otherwise known as facilities and administrative (F&A) costs, cover both facilities costs and administrative costs that are incurred by the University of Minnesota when conducting sponsored research projects.

At the U of M, F&A revenue is returned to colleges (or equivalent resource responsibility center (RRC)), to pay for infrastructure costs such as the construction and maintenance of buildings and shared research facilities, utilities, libraries and shared central and departmental staff. F&A recovery is critical to the University’s research operations but does not cover all the costs of research incurred by the institution.

Current F&A Rate

The F&A rate is established through a negotiation process with the federal government. The most recently negotiated F&A rate includes “stepped rates,” meaning that the F&A rate will increase over the four-year agreement.

<table>
<thead>
<tr>
<th>Fiscal Year(s)</th>
<th>On-Campus Rate</th>
<th>Off-Campus Rate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016-2017</td>
<td>52.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>2018</td>
<td>53.0%</td>
<td>26.0%</td>
</tr>
<tr>
<td>2019</td>
<td>54.0%</td>
<td>26.0%</td>
</tr>
</tbody>
</table>

The U of M will retain its current on-campus rate of 52.0% through the end of fiscal year 2017. Beginning with fiscal year 2018, the F&A rate will increase to 53.0% then will increase to 54.0% beginning fiscal year 2019. The off-campus rate will remain at 26.0% through fiscal year 2019.

For information about how to implement these stepped rates in new and renewal proposals, please visit the Sponsored Projects Administration website at ospa.umn.edu.

* For all activities performed in facilities not owned by the institution and to which rent is directly allocated to the project, the off-campus rate will apply. If more than 50% of a project is performed off-campus, the off-campus rate will apply to the entire project.

What are direct costs?

The federal government defines direct costs as “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, that can be directly assigned to such activities relatively easily with a high degree of accuracy.” (Uniform Guidance, 2 CFR $200.413)

One example of a direct cost is the portion of salary and fringe benefits for a faculty member performing an experiment or preparing a survey instrument for a sponsored research project.

What are indirect (F&A) costs?

The federal government defines indirect or F&A costs as “those costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved.” (Uniform Guidance, 2 CFR $200.56)

Examples include libraries, capital improvements, utilities, custodial services, general and departmental administration.

What happens to the money the U of M collects?

Under the U’s Full Cost Model, 100% of indirect cost recovery (ICR) revenue is returned to the college that generated it. The subsequent distribution of the revenue within the college is determined by the college’s leadership.

When a reduced F&A rate is applied to a sponsored project, it results in a reduced F&A revenue stream to the college, even though the college is still responsible for covering its full share of related F&A costs.

What are the U of M’s actual F&A costs?

The F&A cost component of a sponsored research project is intended to reimburse the University for costs incurred to support research. Unfortunately, even when the full federally-negotiated rate is applied to a project, not all of the F&A costs are recovered.

The most recent official cost analysis using fiscal year 2014 data calculated the U’s actual on-campus F&A rate to be 61.55%.

This means that for every dollar spent on direct costs of on-campus research (such as salaries and wages, fringe benefits, materials and supplies and travel), the U of M spends an additional 62 cents to support this research. (Off-campus F&A rates are slightly lower. See chart on previous page.)

Does the U of M recover all of its F&A costs?

Although the actual F&A costs that support sponsored research are 61.55%, the U’s average recovery is closer to 40% because:

- Within the pool of federally sponsored projects there are exceptions to the negotiated rates for specific programs or additional agency restrictions.
- Federal guidelines limit recovery of administrative costs to 26.0% of direct costs rather than our actual calculated rate of 31.52%.
- Research sponsored by foundations, nonprofit agencies, or state and local governments is sometimes accepted at lower rates.

Because of the mix of sponsors in the University’s portfolio, the monies recovered for F&A costs are usually less than the actual costs.

How do the U of M’s F&A rates compare to those of other institutions?

The U’s federally-negotiated F&A rates for research are slightly lower than the average among the schools included in the Committee on Institutional Cooperation (the expanded Big Ten).

The brackets above indicate the grouping of indirect costs into the Administrative and Facilities components of the F&A rate.

F&A Costs – FY 2014 Actual Compared to Negotiated Costs