

Today's Briefing: F&A Costs: Fact & Fiction

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What is F&A?

Facilities & Administrative Costs (aka Indirect Costs)

“F” = utilities, operation and maintenance, depreciation, interest on debt, etc.

“A” = general and research administration, purchasing, accounting, legal services, etc.

F&A Fiction

- F&A is *not* the VPR's tax on grants!
- F&A is *not* UK's "profit!"
- Waiving F&A does *not* improve the chance of funding.
- UK does *not* get a check for F&A when a grant is awarded.

F&A Fact

- F&A income is the reimbursement for real expenses *already incurred* by the university in support of sponsored projects.
- By federal rule, F&A costs cannot be charged directly to a specific project but are “pooled” across the entire university.
- F&A income is realized *only* after grant and contract direct costs are spent.

How is the F&A rate determined?

$$\frac{\text{Total "F" + Total "A" Cost Pools}}{\text{Total Modified Direct Costs}} = \text{F\&A Rate}$$

- **A detailed analysis of actual costs is done.**
 In FY07, the calculated rate was ~52%.
- **An F&A cost rate proposal is submitted to Division of Cost Allocation at DHHS.**
- **There is a negotiation.**
- **The negotiated rate (48.5%) is always less than full reimbursement.**

Strategies to Maximize F&A Rate

- **“A” rate for universities is capped at 26%**
- **Have very accurate space survey data**
- **Make capital improvements to research buildings**
- **Build new research buildings and incur debt**
- **Purchase more research equipment**
 - **But don't use federal funds...**
- **Minimize voluntary committed cost sharing**

Impact of Cost Sharing

Example: Faculty member “Y” earns \$100,000 annually. She commits 20% to a federal grant, but charges no salary to the grant. What is the impact?

~\$26,400 is added to the base.

~\$12,800 F&A is unrecovered.

Total salary/benefit cost share: ~\$12 million

Unrecovered F&A on \$12 million = \$5.8 million

Effective F&A Rate

- Some federal agencies do not pay the full rate (e.g., USDA, DoEd, DoD).
- Some types of grants (e.g., construction grants, training grants) do not provide full F&A.
- Most KY agencies provide no F&A.
- Non-profit sponsors provide little F&A.

F&A Shortfall

Actual F&A cost rate: 52%

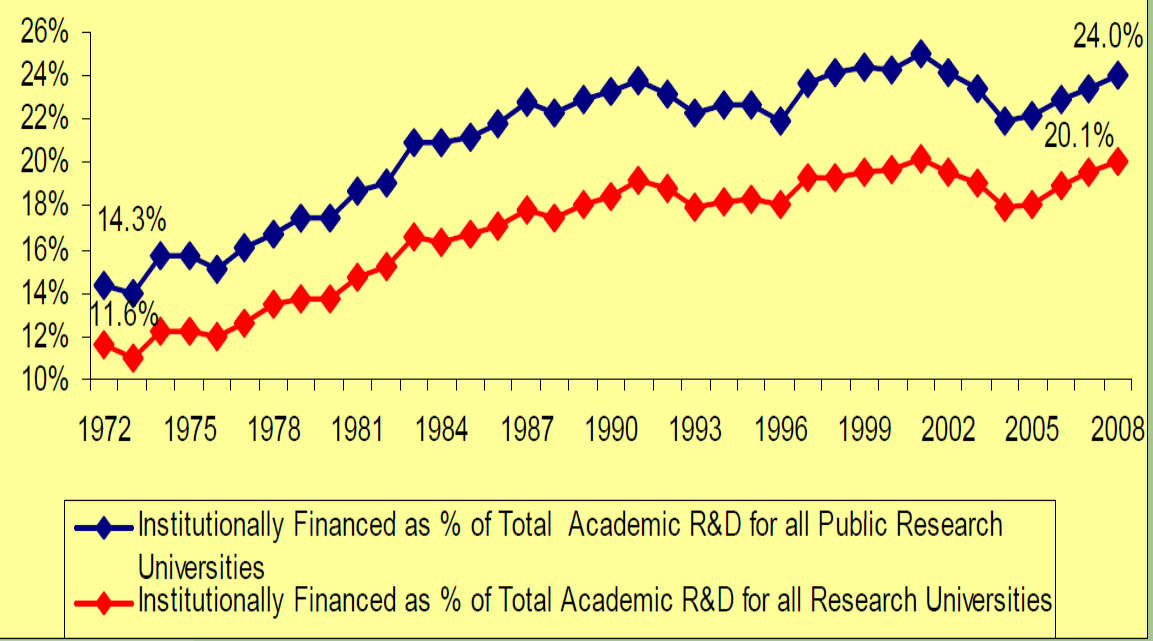
Negotiated F&A rate: 48.5%

Effective F&A rate (FY09): 17.8%

**But the costs are real and incurred!
So who pays?**

Institutional Funds Increasingly Subsidize Research

Institutionally Funded Research Expenditure as a Percent of all University Research and Development Expenditure



The Research Business Model is Not Sustainable

- Increased costs of supporting research (e.g., compliance) requires investing more and more institutional funds
- National effort to ask OMB to provide full reimbursement of F&A.

What would that mean?

The Research Business Model is Not Sustainable

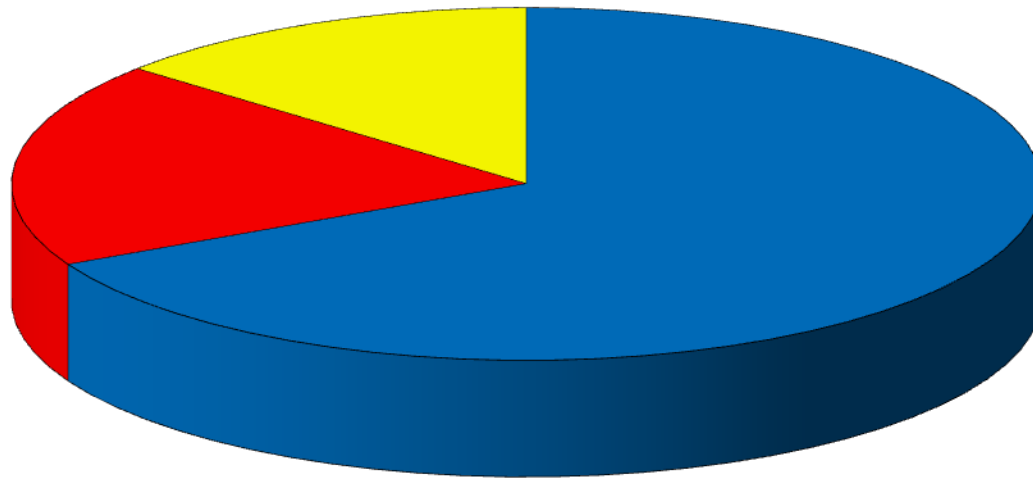
- Lifting the 26% cap would mean more F&A dollars to support the research infrastructure, but fewer dollars for direct costs.
- Fewer grants would be funded.
- The alternative of ever increasing tuition is politically untenable.

FY2009 UKRF Expenditures (\$44 million)

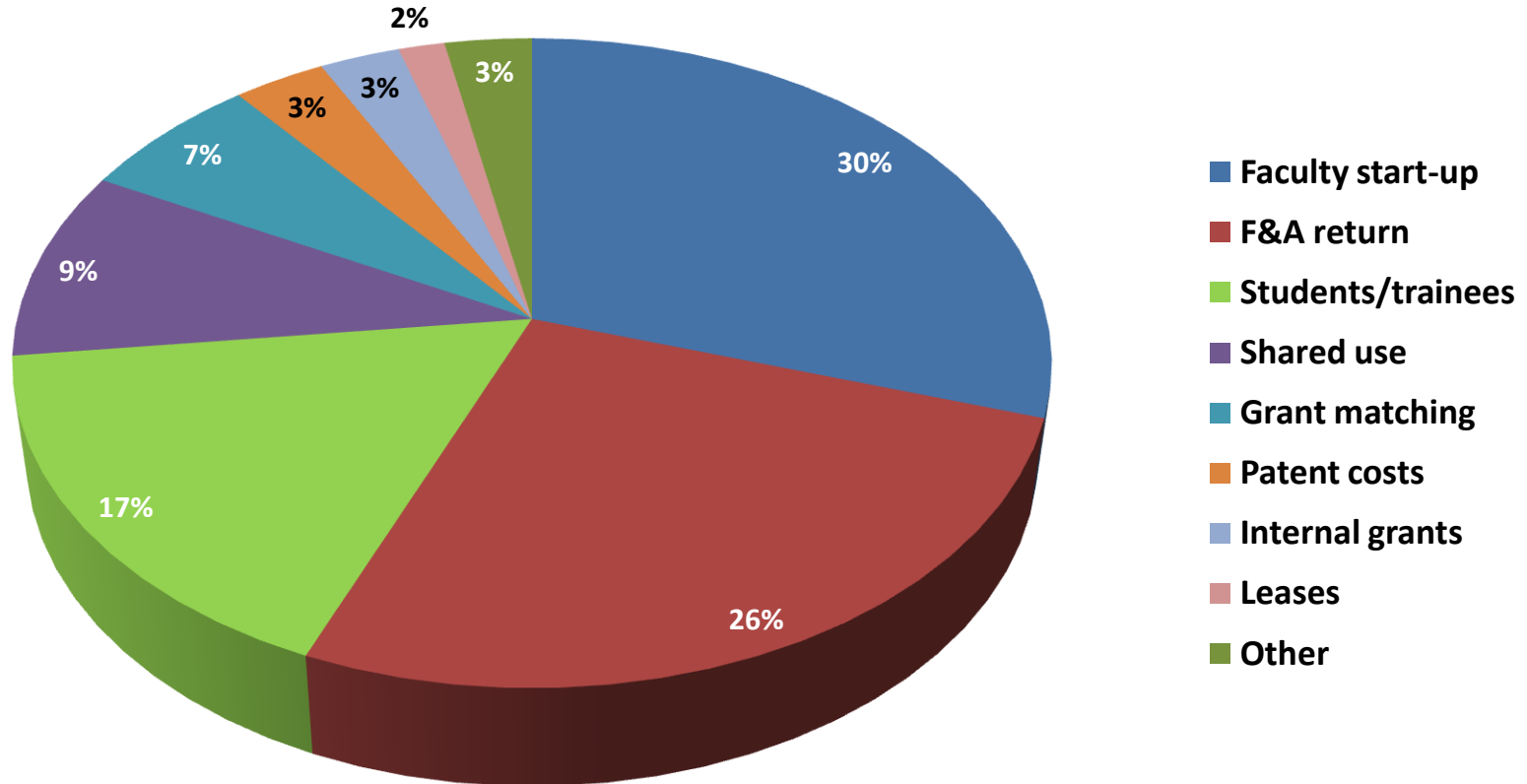
Grant to UK
\$6.0 million
(14%)

Support for Faculty &
Academic Units
\$29.7 million (67%)

Research
Admin
\$8.3 million
(19%)



FY2009 F&A Support to Academic Units

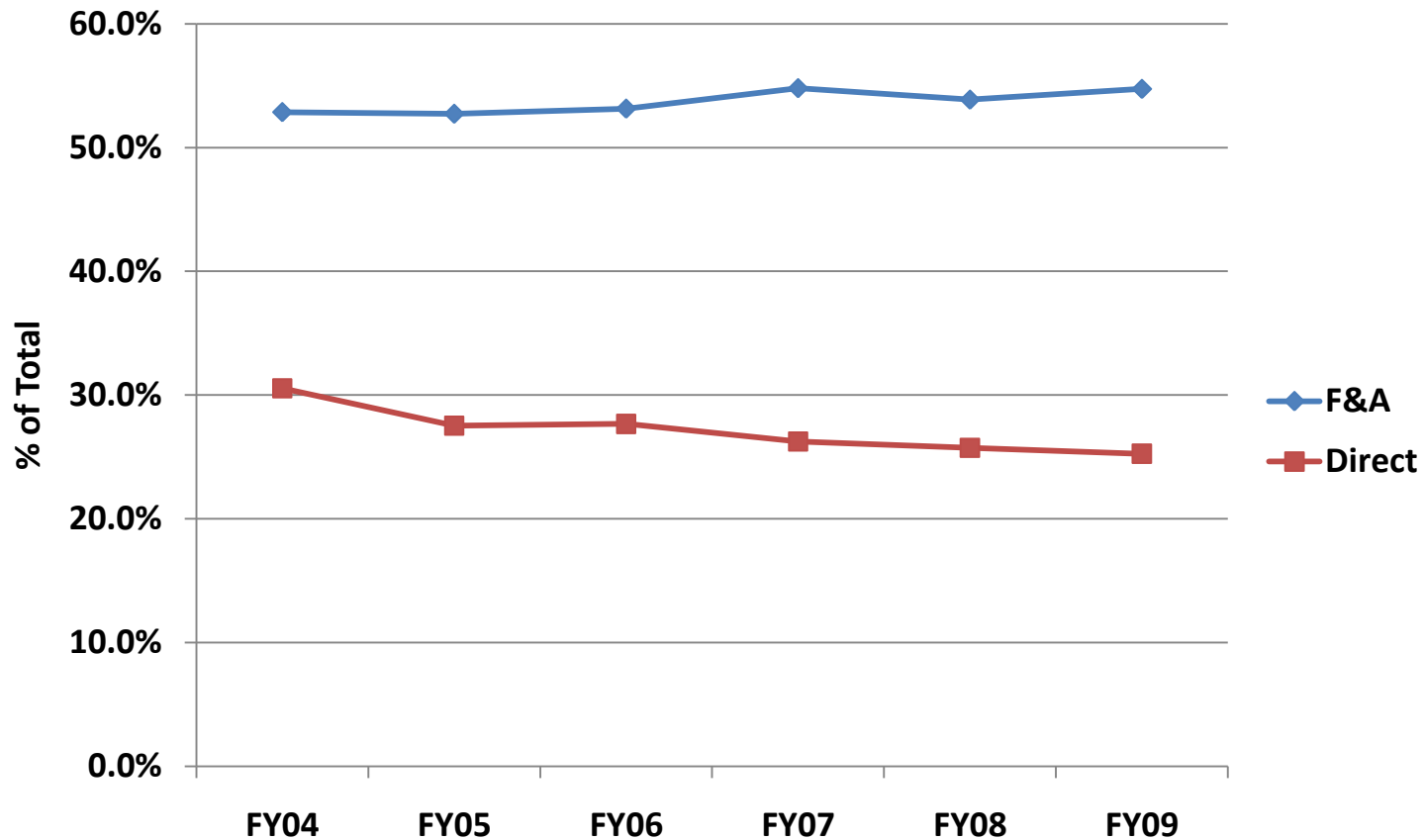


Danger, Will Robinson! Danger!

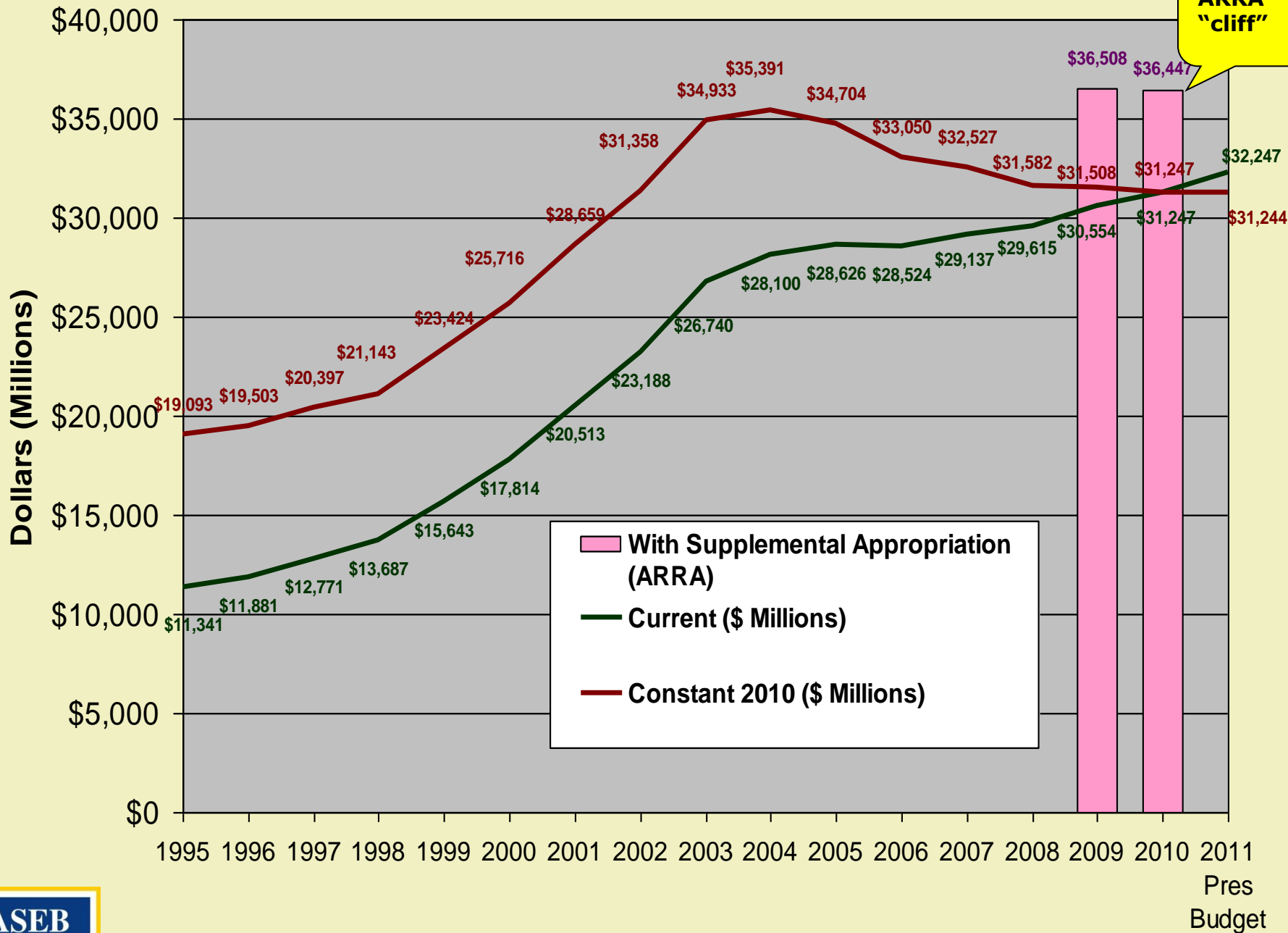


**Ever increasing
F&A revenue at
UK is not a
sure thing!**

NIH Funding at UK



NIH Budget in Current and Constant Dollars



Danger, Will Robinson! Danger!



**UK's current F&A
rate is not a sure
thing!**

FY11 is UK's new "base year."

$$\frac{\text{Total "F" + Total "A" Cost Pools}}{\text{Total Modified Direct Costs}} = \text{F\&A Rate}$$

**UK successfully competed for
ARRA funds with \$110 million
in awards!**

But it all ends up in the base...

QUESTIONS?

