

November 19, 2018

To: UAF Vice Chancellors
From: Kari Burrell, Vice Chancellor for Administrative Services *Kari Burrell*
Subject: Information Regarding the Transition to New FY19-22 F&A Rates

Please feel free to distribute this memo as appropriate to update units and individuals regarding the reasons and process for, and status of, pending updates to UAF's F&A rates.

What are Facilities & Administrative Costs (F&A)?

F&A costs are actual costs that UAF incurs to support sponsored research, education, or outreach projects. Facilities and administrative costs generally cannot be attributed to specific projects or activities, and therefore are called "indirect" or "overhead" costs. UAF principal investigators are required, with some exceptions, to add indirect costs, expressed as "the F&A rate," to proposals for funding. This is standard practice among universities.

How are F&A rates calculated?

Federal regulation (2 CFR 200) governs the establishment of university F&A rates. Universities are required to document actual costs incurred during a "base year," develop calculated rates by dividing facilities and administrative costs by direct costs, including grant and contract expenses, and to submit periodically for federal review and revision. The UA Statewide Cost Analysis Office is responsible for completing and submitting these complex calculations on behalf of UAF, UAA and UAS to the Office of Naval Research (ONR), which is the federal agency responsible for UA overhead analyses.

Why are UAF's F&A rates being reassessed?

Nationally, university rates are updated on average every four years. The UA rates were last approved in 2013 for FY 14. The rates were approved for three years, but upon UA's request, were extended for an additional two years through the end of FY 18. The UA rates are due for reassessment.

What are the new rates?

The new rates have not yet been finalized. UA Statewide completed analysis of UAF's FY 17 actual costs to calculate updated rates for submission to ONR in June 2018. The new UAF rates were calculated as:

- Organized Research: 63.9%
- Organized Research, DOD contracts: 74.0%
- Sponsored Instruction/Training: 50.0%
- Other Sponsored Activity: 38.2%
- Poker Flat: 28.1%
- Sikuliaq: 32.1%

However, these new rates have not yet been approved by ONR, and UA is operating under ONR-approved provisional rates in the meantime. The provisional rates currently in effect are the lesser of the 2013 rates or the calculated new rates. ONR uses Defense Contract Audit Agency (DCAA) to audit all of the university calculations prior to considering the proposed new rates; the audit is detailed and still in process. After ONR receives DCAA's audit findings, it will negotiate final rates with UA Statewide. It is expected that the new rates will be approved for a four year period, FYs 19-22.

Why are some of the proposed new rates increasing?

The F&A cost rates calculated for UAF organized research have increased substantially from FY14. Two of the biggest factors contributing to this increase are: (1) facility costs increased substantially due to new costs for the new Engineering Learning and Innovation Facility (ELIF) and Combined Heat and Power Plant buildings; and (2) grant and contract activity, the denominator in the F&A rate calculation ratio, has declined slightly. Both of these factors relate to declining state support for the university. UAF is not the only public university experiencing declining state support; it is a trend that is playing out nationally. University F&A rates are a subject of concern in Congress, but reflect actual costs that states are decreasingly able to subsidize.

Will the new rate agreement apply to both Federal and Non-Federal projects?

Yes, once finalized, the new rates will apply to all extramurally sponsored projects. It is generally UAF's policy to include full F&A costs on all extramurally funded projects unless a sponsored agency limits or forbids the reimbursement of F&A based on federal/state/local law, administrative regulations, or within a published sponsor policy. However, UAF will continue to have a process in place to consider requests for waivers from application of full F&A rates on projects.

Does UAF plan to amend the current ICR distribution formula?

A change in UAF's approved F&A rates does not mean a change in internal distribution of indirect cost recovery (ICR) receipts. Although federal regulation specifies how F&A rates are calculated, once revenues are received, universities have discretion as to how to allocate internally. Although much of the calculated rate increase is due to new facility costs, some is also because there are fixed costs in the units that cannot easily be reduced even as the base of active researchers has declined some. There have not been any discussions to-date at UAF regarding modifying how ICR is distributed.