

## UAF Facilities & Administrative (F&A) Rates & Indirect Cost Recovery (ICR) Overview

### January 2025

#### Indirect Cost Recovery as a UAF Revenue Source

In FY24, indirect cost recovery (ICR) from sponsored funding makes up nearly 8% (\$43.7 million) of UAF's total revenue sources. Although ICR is a smaller slice of UAF's total budget picture, it is aligned with federal grant funding; as federal funding increases, ICR also increases. It is important to understand how ICR revenue generation correlates with UAF's facilities and administrative (F&A) rate development.

#### F&A Cost Overview

Other names for F&A include: indirect costs, institutional costs, or overhead costs. These include support services provided by the institution, typically related to sponsored activities, such as: accounting and purchasing, research administration, utilities, space and other administrative costs. F&A costs cannot be direct charged to an award. Federal policy for funding research dictates that full-cost reimbursement will be provided for all direct costs, plus negotiated F&A (indirect) costs. An overview of indirect and direct costs are shown in Table 1.

The F&A rate is a fraction:  $\text{Rate \%} = \frac{\text{Indirect Costs}}{\text{Direct Costs}}$

**Table 1. Indirect vs. Direct Costs**

	What are F&A (or Indirect) Costs?	What are Direct costs?
	Costs incurred for common or joint objectives. Costs which cannot be readily identified with or assigned to a particular project, instructional activity, or other institutional activity.	Costs which can be identified specifically with a particular project, instructional activity or other institutional activity. Costs which can be <i>directly assigned</i> to such activities <i>relatively easily</i> and with a <i>high degree of accuracy</i> .
	Examples of F&A (or Indirect) Costs	Examples of Direct costs
<b>Salaries &amp; Benefits</b>	Clerical and administrative assistants, fiscal technicians and managers, accounting and central support staff, grants & contracts staff.	Faculty, researchers, principal investigators, technicians, post docs, research associates, graduate students.
<b>Travel</b>	Travel not linked to specific sponsored project(s). Includes administrative travel.	Travel must directly benefit the sponsored project and be included in the approved budget (i.e. fieldwork).
<b>Supplies</b>	Pens, pencils, copy paper, postage and printing.	Research and scientific supplies; laboratory notebooks, chemicals, other project-specific supplies.
<b>Equipment</b>	General office equipment such as printers, copiers, computers and fax machines.	Equipment used for scientific, technical and research purposes that costs greater than \$5,000 and has a useful life of at least 1 year.
<b>Facilities</b>	Utilities, building maintenance & repair, grounds maintenance, O&M.	Project-specific space rental for off-campus facilities from a third-party.
<b>Other</b>	Library	Specific publications

## Components of F&A Costs

The facilities or the “F” piece of the F&A rate includes: building and equipment depreciation, interest on debt associated with certain buildings, equipment and capital improvements, operations and maintenance expenses and library expenses. Because the “F” portion of the rate is uncapped, it is in UA’s best interest to ensure accurate and complete costs in these categories as it is the most substantial area to maximize F&A rates.

The administrative or the “A” piece of the F&A rate includes: expenses for general and departmental administration, sponsored project administration, and student administration and services. The administrative portion of the rate is capped by the federal government at 26%.

## F&A Base Year and Projection Years

When the F&A rate calculation is complete for the single fiscal year (also referred to as the “base” year), that rate is used to project into future years. Historically, UA was on a standard three-year cycle; however in recent years it has been extended for periods longer than three years. It is from the combined three to four years of projected F&A rates that a final rate is established and negotiated with the government.

## UA F&A Rates

UAF has five distinct F&A rates: organized research, other sponsored activity, and instruction, as well as two special rates for Poker Flat and the Ship. See Table 2 below for a summary of current F&A rates by university.

**Table 2. UA Current F&A Rates – Effective FY23–FY26**

UA F&A Rate by Activity*	UAF	UAA	UAS
Organized Research (OR)	55.0%	53.1%	59.7%
Other Sponsored Activity (OSA)	38.5%	32.0%	30.6%
Poker Flat	28.6%	N/A	N/A
Ship	32.1%	N/A	N/A
Sponsored Training (Instruction)	50.0%	50.0%	50.0%

*\*Off-campus activities use a rate of 26% across all universities for all rates.*

UAF has negotiated rates with other entities that are lower than the full 55.0% federally-sponsored research rate. Those include:

- State of Alaska: 25% of modified total direct costs (MTDC) for research and 12% for other sponsored activities
- Cooperative Ecosystem Studies Unit (CESU): 17.5% of MTDC (via cooperative agreement – funds are non-competitive)
- Alaska Cooperative Fish and Wildlife Research Unit (ACFWRU): 15.0% of MTDC (via cooperative agreement – funds are non-competitive)
- FY25 Intergovernmental Support Agreement (IGSA): 18.5%

Several sponsors, including federal agencies, have published limitations on the indirect cost rate that can be applied. For the US Department of Education, for example, the rate is 8%. Many private sponsors have policies that allow no indirect cost recovery.

## Myths about F&A Costs and ICR

Different stakeholders may hold differing objectives and beliefs regarding F&A rates and ICR. It is important to understand the facts about each and how they correlate. Table 3 outlines myths and facts about F&A and ICR.

**Table 3. Myths and Facts about F&A Costs and Indirect Cost Recovery (ICR)**

MYTH	FACT
F&A and ICR are the same thing	F&A is always an expense; ICR is always revenue
F&A rates and ICR are subject to the same restrictions and rules	F&A rate development and calculation is audited by the federal government; ICR is redistributed to UAF activities based on internal discretion and strategic decisions – it is not subject to federal regulations
F&A costs are considered “new” revenue received	UAF has already expended F&A (indirect) costs from other (unrestricted) sources upfront
F&A costs are not real costs	F&A costs are actual support costs that UAF incurs (i.e. utilities, heat, electricity, office equipment)
F&A rates are estimated	F&A rates are calculated based on actual expenditures
F&A costs are funded by state general fund (GF) appropriations	The purpose of the state general fund (GF) is to help cover UA's overall operational costs for all activities; F&A costs are costs incurred to help support research efforts and other sponsored project efforts
Applying a waived F&A rate (i.e. lower than negotiated rate) to a project can be recovered on other projects	Waiving indirect costs on a sponsored project results in actual lost revenue for expenses already incurred; it is not able to be made up in other ways
Administrative staff time and miscellaneous charges can be assigned to a project in lieu of overhead	Charging administrative staff time directly to sponsored awards violates federal regulation and can also drive the F&A down

### **INDIRECT COST RECOVERY (ICR) REVENUE**

F&A costs cannot be direct charged to sponsored awards and are therefore recovered in part via an indirect cost recovery (ICR) rate as revenue. Indirect costs recovered via the F&A rate are reimbursement of costs already incurred in relation to research and sponsored awards; these are not sources of “new” revenue.

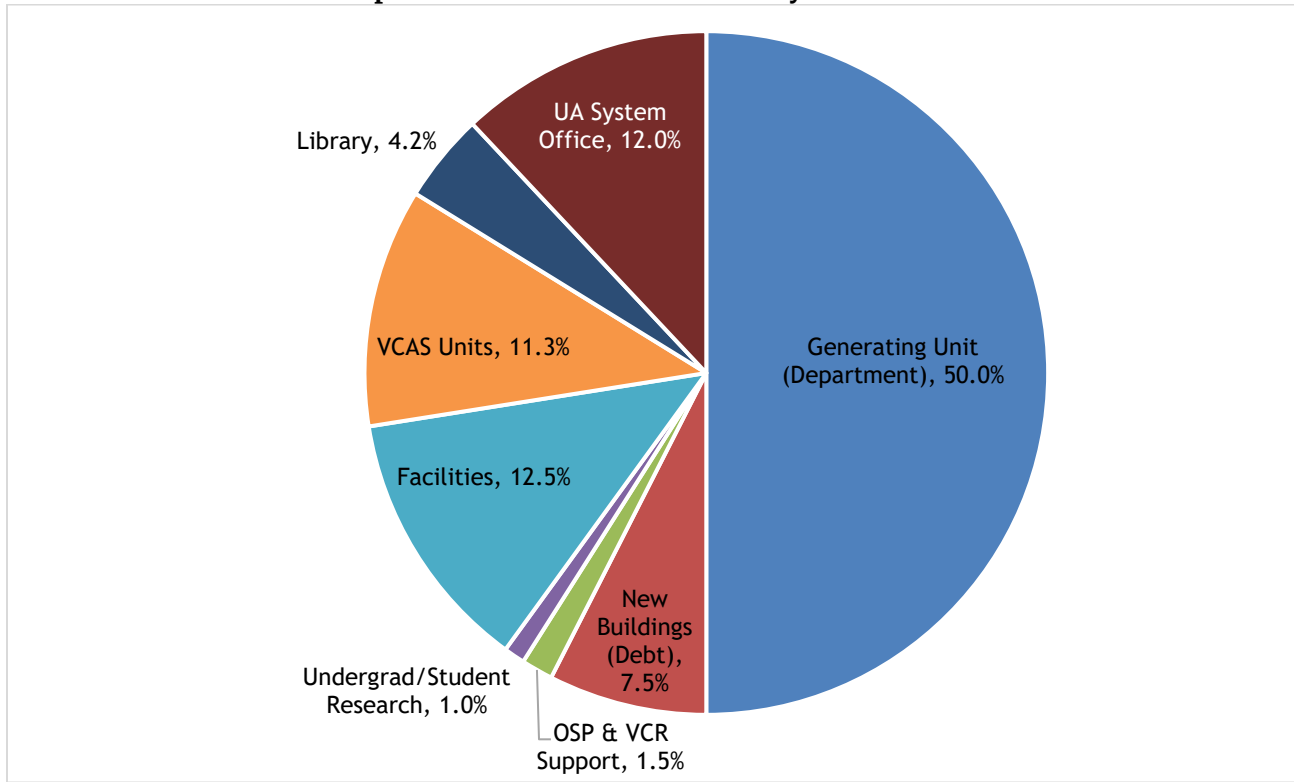
### **ICR Distribution – What does UAF do with the funds that we receive?**

Unlike the F&A rate development and calculation process which is highly prescribed by federal requirements and audited by the government, what the institution decides to do with the revenue (ICR) recovered from F&A costs is an institutional decision not subject to federal or other audit requirements.

Once F&A is recovered as ICR, funds can be expended similar to any other unrestricted revenue source. In many cases, this ICR leverages a reinvestment in research addition to support activities. To maximize reinvestment in research at UAF, ICR revenue is distributed internally based on the needs of the institution. At UAF, 60% is returned for research reinvestment and 40% is focused on research support.

Graph 1 shows the components of UAF’s ICR distribution.

**Graph 1. UAF Indirect Cost Recovery Distribution**



#### UA F&A and ICR Picture

In FY24, UA generated \$57.6 million in indirect cost recovery (ICR) for use across the UA System as unrestricted revenue. Of this, \$43.7 million was retained at UAF. Of this \$43.7 million, \$25.4 million (roughly 60%) went directly back into research and development (R&D) as research reinvestment and was put back into the hands of the UAF researchers. Roughly \$18.3 million covered research support activities and facility costs at UAF. Additionally, \$5.4 million (12%) of the ICR funds generated by UAF were distributed to the UA System. See Table 4 below for a summary by university.

**Table 4. FY24 F&A and ICR by University**

University	F&A Expenditures Incurred	ICR Revenue Generated	ICR Revenue Received by UA System Office (estimate)	ICR Distribution Percent to UA System
UAF	\$ 49,035.2	\$ 43,651.5	\$ 5,383.7	12.0%
UAA	\$ 7,785.9	\$ 6,598.6	\$ 1,187.3	12.8%
UAS	\$ 760.7	\$ 648.3	\$ 112.4	12.8%
<b>Subtotal</b>	<b>\$ 57,581.8</b>	<b>\$ 50,898.4</b>	<b>\$ 6,683.4</b>	
UA System	\$ 0.7	\$ 6,684.1	\$ -	n/a
<b>Grand Total</b>	<b>\$ 57,582.5</b>	<b>\$ 57,582.5</b>	<b>\$ 6,683.4</b>	

For reference, the top programmatic ICR revenue generators at UAF in FY24 were: Geophysical Institute, College of Fisheries and Ocean Sciences, Institute of Arctic Biology, International Arctic Research Center, and the College of Engineering & Mines/Institute of Northern Engineering. Collectively, these units generated 81% of UAF's ICR in FY24.

## Upcoming Timeline

F&A rates are calculated and negotiated with the Office of Naval Research (ONR), UAF's cognizant agency. Current F&A rates are effective through June 30, 2026 (FY26) and new rates will take effect beginning FY27 (July 1, 2026).

The F&A rate calculation process occurs over several months.

- **FY25 (July 1, 2024 to June 30, 2025):** UA's base year. The base year means that all UA expenditures recorded during FY25 are used for the FY27+ F&A calculation.
- **February-May 2025 (FY25):** UA completes the space survey to determine space use. These results are used to inform and calculate FY27+ F&A rates.
- **July 2025 to April 2026 (FY26):** UA uses expenditure data and space survey results to calculate FY27+ F&A rates for each university. UA works with the universities to calculate cost projections for at least three years into the future (FY29).
- **April/May 2026 (FY26):** UA submits the F&A rate proposal to the Office of Naval Research (ONR).
- **May 2026 (FY26):** The Defense Contract Audit Agency (DCAA) begins auditing UA proposed F&A rates; this process can take several months or even up to one year. Provisional (temporary) rates are issued to UA when the audit is not complete. Predetermined (final) rates are negotiated after a successful audit outcome.
- **July 2027 (FY27):** Rate agreements are finalized and executed. Negotiated rates are often effective for a period of at least three years, however, if the universities want to negotiate for a period of longer than three years, these discussions occur in collaboration with the UA System office and ONR.

## Appendix A

### Example of Sponsored Award, MTDC Application, F&A Cost and ICR Application

UAF receives a sponsored research project from National Science Foundation (NSF) with a total budget of \$350,000. Costs budgeted for the project include salaries and benefits for a researcher, travel to national conference to present research findings, contractual services, commodities (i.e. project supplies), participant support costs and equipment. See table below.

#### Sponsored Research Project Budget and MTDC Basis

Sponsored Project Budget	Total Project Budget
Salaries & Benefits	\$ 150,000
Travel	\$ 8,000
Contractual Services	\$ 18,000
Commodities	\$ 5,818
<b>A. MTDC (costs subject to F&amp;A)</b>	<b>\$ 181,818</b>
<b>B. F&amp;A Costs (55%)</b>	<b>\$ 100,000</b>
Equipment	\$ 60,000
Participant Support Costs	\$ 8,182
<b>C. Costs Exempt from F&amp;A</b>	<b>\$ 68,182</b>
<b>D. Total Project Costs (A + B + C)</b>	<b>\$ 350,000</b>

As costs are charged to the project, F&A costs are automatically incurred and UAF bills the agency for total costs, including the F&A costs. When the agency pays the bill and the funds are received by UAF, what happens to the F&A (indirect) portion of those funds? See table below.

When UAF bills the agency and the agency pays, what does UAF do with the \$100,000 in ICR?		
Indirect Cost Recovery - Revenue Distribution Summary		
Account Codes 9810 - Research Investment Components	Percent Distribution	Amount
Generating Unit	50.0%	\$ 50,000
New Buildings (debt)	7.5%	\$ 7,500
OSP & CRS Match	1.5%	\$ 1,500
Undergraduate/Student Research	1.0%	\$ 1,000
<b>Total 9810</b>	<b>60.0%</b>	<b>\$ 60,000</b>
Account Code 9811 - Support Units		
Facilities	12.5%	\$ 12,500
VCAS Units	11.3%	\$ 11,300
Library	4.2%	\$ 4,200
<b>Subtotal Support Units</b>	<b>28.0%</b>	<b>\$ 28,000</b>
UA System Office	12.0%	\$ 12,000
<b>Total 9811</b>	<b>40.0%</b>	<b>\$ 40,000</b>
<b>Grand Total</b>	<b>100.0%</b>	<b>\$ 100,000</b>