WHAT ARE “F&A COSTS”? 

Also known as “indirect costs” or “overhead”, Facilities and Administrative (F&A) costs as defined by the Federal Government are those costs incurred for a common or joint purpose benefitting more than one cost objective. F&A costs are real, quantifiable and audited and represent the research infrastructure costs incurred by universities that are integral to conducting quality research.

F&A is comprised of two components of costs related to research: the cost of facilities and the cost of administration. The government recognizes that F&A costs are complex to calculate or difficult to assign to any one particular sponsored project, but are necessary to support research and other sponsored activities (e.g. training, public service projects).

F&A INCLUDES EXPENSES LIKE:

- Lab infrastructure (fume hoods, lab benches, etc.)
- Utilities (light and heat)
- Telecommunications (telephones, servers, and internet)
- Hazardous waste disposal
- Building depreciation and maintenance
- Library infrastructure (access to journals, research materials)
- Fiscal staff
- Compliance officers (to monitor regulated research on human subjects, animals, toxic substances, etc.)
- Departmental Administration
- Purchasing departments (which help order lab supplies)

Direct costs support research and other sponsored activities that are identifiable with a particular project such as:

- laboratory supplies
- research equipment
- a percentage of salary support for faculty, researchers lab personnel, postdoc, graduate and undergraduate students
- travel to conduct the research and to disseminate the research results.

These activities and the direct costs that result form the core of university research, and represent the majority of the federal government and other sponsors’ investments.
NEGOTIATING THE F&A RATE

The University’s F&A rate is developed in accordance with federal guidelines and requirements. NYU negotiates with the Department of Health and Human Services (DHHS) to arrive at rates for sponsored activities conducted on and off-campus. 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 or 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. This calculated rate becomes the basis for the negotiation with DHHS.

WHAT HAPPENS TO F&A COSTS REIMBURSED TO NYU?

All F&A costs reimbursed by sponsors, including the Federal Government, are returned to the Dean of each School that incurs the costs by conducting sponsored activity.

When the F&A rate applied or recovered is lower on a sponsored project than NYU’s federally-negotiated rate (or the amount to which it is entitled), it results in a reduced revenue stream to the School and an increase in the subsidy the School makes to conduct the research project.

NYU’s policy prohibits waiving any portion of its federally-negotiated rate for federally- or industry-sponsored projects without the prior written approval of the Senior Vice Provost for Research.

FOUNDATION VS. FEDERAL F&A RATES

The rate at which Universities are reimbursed by Foundations can sometimes be lower than the rate negotiated with the federal government because crafting a budget for a proposal to a foundation is very different from creating one for a federal sponsor. Foundation grants allow more flexibility in the range of expenses that can be charged directly to a sponsored project than does the federal government.

For example, with foundation grants, NYU can direct charge administrative salaries, accounting and other expenses (considered to be F&A by the federal government). In many cases, private sponsors prefer to have more allocable expenses charged as direct costs rather than indirect ones.

F&A AND SPONSORED PROJECT BUDGETS

The budget and accompanying justification provide a breakdown of direct costs, including salaries, materials and supplies, equipment, tuition remission for graduate students, travel expenses, etc. as well as a line item for F&A costs.

When the negotiated rate is applied, it is not calculated as a percentage of the total budget. Rather, the government excludes certain categories of costs that must be removed from the assessment of F&A, such as equipment over $3,000; tuition remission, and subcontracts to collaborating institutions for the portion over $25,000. The negotiated F&A rate is then multiplied by the remaining subset of costs which is known as the modified total direct costs (MTDC) base.

NIH data show that F&A costs reimbursed to universities as a percentage of a total award has remained static for over a decade.

WHAT ARE NYU’S ACTUAL 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 allocable costs of conducting the research are recovered. Because of a cap imposed on universities by the federal government in 1991, universities may only recover 26 percent of direct costs. Because the number of regulations with which universities must comply has increased dramatically since that time, the administrative portion of the F&A cost at most universities well exceed the cap. NYU is no exception. The result is that institutional resources must be allocated to ensure compliance with federal government requirements and proper stewardship of taxpayer dollars.