F&A Cost Rates and Reimbursement Pressures Under COVID-19:

Maintaining a Fair and Reliable System

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INTRODUCTION

The COVID-19 pandemic has been devastating and the worldwide effects continue to this day. Loss of life, public health concerns, and economic and social disruptions are among the major challenges facing our nation, and the world. Research institutions have been at the forefront in addressing many of these challenges, doing breakthrough research to develop COVID-19 vaccines, while ensuring workplace safety and good health practices. Since the beginning of the COVID-19 pandemic, the Council on Government Relations (COGR) has provided information and resources to our membership and written to and advocated for policies and practices recognizing the pivotal role research institutions are playing in the nation’s recovery.

This paper focuses on current and prospective issues related to Facilities and Administrative (F&A) cost rates and corresponding F&A cost reimbursement. Like so many other facets of the research enterprise, processes relevant to F&A have been disrupted by the COVID-19 pandemic. While F&A cost reimbursement has held relatively steady throughout the pandemic, the process of developing an F&A cost rate proposal has been impacted. Even as the vaccine seems to provide a path towards operational and economic recovery, both current and prospective issues identified in this paper are critical and must be addressed through the longstanding Federal Government–Research Institution Partnership. Through this partnership, all aspects of the F&A cost reimbursement process can remain fair to all stakeholders. The foundation of a reliable F&A cost reimbursement process is the development of an F&A cost rate proposal. While the F&A cost rate setting process efficiently meets the needs of both the federal government and research institutions, it is one of the more arcane activities that takes place at a research institution. However, it is a critical activity that requires the diverse skills of project management, cost analysis, campus-wide communication, and technical expertise in the federal rules that govern F&A cost rate development.
This paper covers the following material:

**Chapter 1, A Brief F&A Cost Overview**, provides a summary of the F&A cost reimbursement process. For more detail on F&A costs, the April 2019 COGR paper, *Excellence in Research: The Funding Model, F&A Reimbursement, and Why the System Works* is a helpful resource.

**Chapter 2, F&A Cost Reimbursement Challenges for Base Years FY21 and FY22**, addresses the immediate issue confronting some research institutions—how to develop an F&A cost rate proposal based on institutional data that has been substantially impacted by the COVID-19 pandemic. This chapter addresses the current issues associated with completing an F&A cost rate proposal and, when appropriate, provides guidance both at a detailed and a strategic level.

**Chapter 3, Prospective Considerations**, looks beyond FY21 and FY22 and focuses on potential structural changes to the F&A infrastructure at research institutions. The goal of this chapter is two-fold: 1) to raise these prospective issues for senior leadership to consider as they plan and budget for future research operations, and 2) to emphasize these prospective issues for those individuals responsible for developing and negotiating F&A cost rates, as some of these issues may be relevant when negotiating cost rates for FY23, FY24, and beyond.

**Chapter 4, Final Thoughts**, includes key takeaways from the paper.

Three Appendices are included—Appendix A, Space Utilization Metrics and Space Sharing; Appendix B, Core Facilities and Other Service Centers; and Appendix C, Fringe Benefit Rate Considerations. These appendices address issues that are interrelated with the F&A cost reimbursement process and that have been impacted by the COVID-19 pandemic.

The primary audiences for this paper include those individuals at research institutions responsible for developing F&A cost rate proposals and senior leadership responsible for the strategic decision-making that impacts F&A cost rates. In addition, the longstanding Federal Government – Research Institution Partnership remains crucial to the ongoing success of the U.S. research enterprise. As such, COGR invites our partners from the cognizant agencies for indirect costs (Department of Health and Human Services, Cost Allocation Service (DHHS/CAS), and the Office of Naval Research (ONR)), federal funding agencies, and all other interested stakeholders to engage in addressing the issues described in this paper.

A special “Thank You” goes to the COGR Workgroup who researched and wrote this paper. The Contributors are shown on the following page.

For additional information, please contact David Kennedy at dkenney@cogr.edu and Toni Russo at trusso@cogr.edu
CONTRIBUTORS

Cathy Snyder, Director, Research Finance – Data and Cost Analysis, Vanderbilt University (Workgroup & Chapter Lead, COGR Board & Costing and Financial Compliance Committee Member)

Sarah Axelrod, Assistant Vice President of Sponsored Programs, Harvard University (Chapter Lead, COGR Board & Costing and Financial Compliance Committee Member)

Andrew Chase, Vice President, Research Management and Finance, Mass General Brigham

Vivian Holmes, Assistant Dean, Research Administration, Boston University School of Public Health (COGR Costing and Financial Compliance Committee Member)

Cynthia Hope, Director, Academic Government & Not-For-Profit Contracting, Georgia Institute of Technology, (Lead Editor, COGR Costing and Financial Compliance Committee Member)

Michael Legrand, Director, Costing Policy & Analysis, University of California, Davis (COGR Costing and Financial Compliance Committee Member)

Gerald Mauck, Executive Director, Research and Sponsored Programs, University of Denver, (COGR Costing and Financial Compliance Committee Member)

Jennifer Mitchell, Senior Director, Research Financial Operations, Northwestern University

Lynn McGinley, Vice President of Finance – Institutional Support, University of Texas Medical Branch (COGR Board & Costing and Financial Compliance Committee Member)

David Schultz, Assistant Vice President, Research Administration and Finance, Rensselaer Polytechnic Institute

Jeffrey Silber, Senior Director, Sponsored Financial Services, Cornell University (COGR Board & Costing and Financial Compliance Committee Member)

David Kennedy, Vice President and Director for Costing and Financial Compliance, COGR

Toni Russo, Administrative Officer & Policy Analyst, COGR
Chapter 1: A Brief F&A Overview

Research universities and nonprofit research institutions receive sponsored awards from federal agencies, private industry, state and local governments, and nonprofit foundations to conduct important cutting-edge research. These awards are typically in the form of grants, contracts, and/or cooperative agreements. Awards are generally received after a thorough proposal and review process based on scientific merit and comprised of “direct” and “facilities and administrative” (F&A) costs, both of which are necessary expenditures incurred by the institution to conduct research. These categories, direct costs and F&A costs, contain unique types of costs—none of which are duplicated across the categories.

Direct Costs

Direct research costs are what people generally think of when it comes to federal support of research projects. These costs normally include laboratory supplies, specific research equipment, salary support for researchers and lab personnel, and travel for conducting research or disseminating research results. This is the core of university research, and it is also where the bulk of the federal investment is spent.

Facilities and Administrative (F&A) Costs

To perform research on behalf of federal agencies, research institutions incur a variety of other significant costs for research projects that they otherwise would not incur. These infrastructure and operational costs are F&A costs and a proportionate share is allocated to externally-funded research through the F&A cost rate. Such shared costs include the maintenance of sophisticated, high-tech labs specifically designed for cutting-edge research, utilities such as electricity and heat, telecommunications, hazardous waste disposal, and the infrastructure necessary to comply with various federal, state, and local rules and regulations.

Adapted from the Association of American Universities (AAU) and the Association of Public and Land-Grant Universities (APLU). “Understanding the Costs of Federally Sponsored Research at Universities,” October 2013

The Office of Management and Budget (OMB) sets forth rules that must be adhered to when conducting federally supported research. Not only does OMB prescribe what types of costs are allowable and unallowable, it also prescribes rules for consistency, reasonableness, allocability of
costs between direct and F&A cost categories, and the development of F&A cost rates. The OMB rules are defined in 2 CFR Part 200.¹

Direct costs can be specifically identified to a research project and must generally align with the proposal budget as well as comply with the terms and conditions set forth by the awarding agency. F&A cost rates are calculated by the institution according to rules defined by OMB and based on audited institutional financial data. An F&A cost rate proposal is submitted to the institution’s cognizant agency for indirect costs, where it is thoroughly reviewed and/or audited.² Cost rates are negotiated between the institution and the federal cognizant agency before a rate agreement is finalized. Cost rates are applied to a portion of the direct costs (i.e., modified total direct costs, MTDC) on each award to ensure an equitable allocation of F&A costs to the specific award.³

As stated in the Introduction, it is the reliability of this F&A cost reimbursement process—which both the federal government and research institutions can trust—that will help to minimize disruptions to the research enterprise caused by the COVID-19 pandemic.

Chapter 2, F&A Challenges for Base Years FY21 and FY22, describes the immediate challenges in detail, and Chapter 3, Prospective Considerations, looks beyond FY21 and FY22 (to FY23, FY24, and beyond) and focuses on the potentially permanent structural changes to the F&A infrastructure at research institutions. The significance of the immediate challenges combined with prospective changes indicates that the Federal Government–Research Institution Partnership will need to be resilient and focused on a reliable F&A cost reimbursement system to avoid irreversible harm to the U.S. research enterprise.

¹ The rules specific to F&A cost reimbursement for colleges and universities are contained in Appendix III and the rules for nonprofit research institutions are contained in Appendix IV. The rules for F&A cost reimbursement for hospitals were not updated. Instead, hospitals continue to follow the guidelines specified in 45 CFR Appendix E to Part 74 (also see Appendix IX of the Uniform Guidance), Principles for Determining Costs Applicable to Research and Development under Grants and Contracts with Hospitals.

² The two primary cognizant agencies for indirect cost that review and audit F&A cost rate proposals are the Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) and the Office of Naval Research (ONR). Both will be referenced throughout the paper.

³ Further detailed information on F&A can be found in the April 2019 COGR paper, Excellence in Research: The Funding Model, F&A Reimbursement, and Why the System Works.
Chapter 2: F&A Challenges for Base Years
FY21 and FY22

The F&A cost reimbursement process assumes that the base year is a representative year for the institution submitting an F&A cost rate proposal to its cognizant agency. Fiscal year 2021, and likely 2022, however, will not be typical nor representative for any organization. Some institutions will have the option to request an extension while others may need to establish a provisional F&A cost rate and delay submission of an F&A cost rate proposal. Additionally, it is possible the stance of the two cognizant agencies, Department of Health and Human Services, Cost Allocation Services (DHHS-CAS) and the Office of Naval Research (ONR) may be different. With these dynamics in play, it is likely that research institutions will need to reach out to their cognizant agencies to explore options and alternatives—and a mutually successful outcome will be dependent on a trusting relationship between the institution and its cognizant agency.

Trial Run to Assess COVID-19 Impact

Completion of a trial run may be the most important step in assessing the COVID-19 impact. A trial run using a subset of data (e.g., first six months of FY21) will allow research institutions to assess the impact of COVID-19 on a FY21 or FY22 base year. This will confirm changes that were assumed or may identify other significant differences from prior years.

Trial runs can provide insights into the F&A cost rate impact related to COVID-19, as well as to other methodology changes that are being considered. Analyzing the output creates a roadmap of areas to investigate and then make data-driven decisions. Ultimately, the trial run may inform whether a full cost rate proposal should be developed and/or how to approach the cognizant agency to establish fair and equitable F&A cost rates.

Changes from the historical, foundational elements of the F&A cost rate proposal (e.g., cost pools, research base, allocations, etc.) are expected and will be one reflection of how COVID-19 impacted operations at the institution—this includes where the institution has grown in research-related areas, salary shifts between research and non-research activities, and shifts between space usage of buildings. Furthermore, institutions need to have confidence in their space and capital

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4 We focus on an FY21 base year calculation in this section, though it is very possible (even likely) many of the issues addressed will be applicable to an FY22 calculation, as well. These discussions also could apply to an FY20 base year calculation, though many institutions that were scheduled to complete an FY20 base year calculation received a waiver from their cognizant agency.
equipment data. An institutional space inventory for academic and capital planning purposes is not the same as a comprehensive space survey for F&A cost rate purposes. A biennial capital equipment inventory is required by 2 CFR 200.313(d)(2); however, more frequent routine inventories or audits can ensure the accuracy of the information provided. As the COVID-19 pandemic has created significant challenges in so many areas, effective outreach and reimagining working relationships within the campus community are key to ensuring data integrity.

Consideration of a Cost Rate Extension

On March 19, 2020, the Office of Management and Budget (OMB) issued memo M-20-17 granting, among other things, the ability to extend current F&A cost rates for an additional year without submitting a proposal, as well as flexibility in the timing of the submission of proposals to finalize current or negotiate future years. This memo was rescinded on June 18, 2020, and replaced with M-20-26. M-20-26 eliminated the language allowing extensions, but both DHHS/CAS and ONR have publicly stated they understand the current challenges and should be committed to working with institutions to arrive at fair and equitable solutions.

The decision to move forward with an FY21 or FY22 base year, or postpone the proposal altogether, will be impacted by several factors. Many institutions with an FY20 base year decided that the shutdown during the final three months of that fiscal year posed too great a challenge and therefore pushed their base year to FY21, not anticipating the eventual length of the pandemic. However, FY21 may be even less representative and more challenging.

Per the Chart on the next page, institutions that are eligible to request an extension of up to four years, as prescribed by 2 CFR 200.414(g), can consider this approach. However, the cognizant agency may request data on the current, and potentially estimates of the future research, base, space, and/or F&A costs. As the future remains uncertain, budget forecasts are an ever-moving target and what used to be a yearly exercise is now performed quarterly, or even monthly, making projections more difficult than ever. It is prudent, therefore, to perform the trial run F&A cost rate calculation before making a decision to request extension of the institution’s current cost rates.  

Per the Chart on the next page, “Pre-determined F&A cost rates” normally are more desirable—these cost rates are established for a period of time (e.g., three years) and typically are not subject to adjustment. “Provisional F&A cost rates,” on the other hand, are subject to retroactive adjustments if the “final/actual” calculated F&A cost rate for the negotiation period differs. Consequently, the risk of provisional F&A cost rates is if the “final/actual” is less than provisional F&A cost rate—i.e., institutions may be required to refund the difference to the federal government.
<table>
<thead>
<tr>
<th>Option</th>
<th>Outcome</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Up to Four-Year Extension (Pre-determined F&amp;A cost rate)</td>
<td>• Maintain current rate</td>
<td>• Available to those who submitted and negotiated a formal F&amp;A cost rate proposal during the most recent rate cycle • Not ideal if rate could increase • May need to submit documentation</td>
</tr>
<tr>
<td>2. Provisional F&amp;A cost rate</td>
<td>• May be required to take a reduced rate</td>
<td>• Will result in unknown reimbursement until rate proposal is submitted and negotiated • Retroactive reductions are an administrative burden</td>
</tr>
<tr>
<td></td>
<td>• May result in retroactive rate decrease</td>
<td></td>
</tr>
<tr>
<td>3. Submit Proposal (Pre-determined F&amp;A cost rate)</td>
<td>• Continues the regular cycle</td>
<td>• In some situations, it is the only option • A good option if trial run indicates increasing cost rates</td>
</tr>
<tr>
<td>4. Rate Reduction (Pre-determined F&amp;A cost rate)</td>
<td>• Avoids a full proposal but continues prospective cost rates</td>
<td>• Avoids provisional cost rates • Requires reaching agreement with cognizant agency • Could result in an unnecessary loss of cost reimbursement</td>
</tr>
</tbody>
</table>

COVID-19 and the F&A Cost Rate Calculation

If the conclusion is that the institution will complete and submit an F&A cost rate proposal, it is likely the cost rate calculation process will be unlike any previous cost rate calculation. Necessary strategic decisions will require analysis of an agreement on the assumptions to use in anticipating the future financial and operational situation at the institution. Assumptions will include whether specific changes are temporary or will be on-going. Examples include whether administrative staff will return to campus full time, impacts on space use and corresponding costs, and whether certain research activities will be moved off-campus permanently.

Some of the key areas to address in creating a model will be space, research base, costs, and allocation statistics. There will be impacts on all of these during pandemic operations. Some changes may result in a cost rate increase and others in a decrease. Looking at the net change will be an important factor in determining institutional options, prospects for establishing a fair and equitable F&A cost rate, and how, if submitting a proposal, to structure the calculation.

Campus shutdowns of labs and research support services varied in length but for many institutions, dry lab research and administrative functions quickly shifted to remote operations and for some, this is the on-going situation. At the same time, the shift to remote work increased the ability to
conduct training and campus outreach by video conference, resulting in increased attendance compared to previous on-campus training and allowing institutions to access the appropriate space experts to virtually conduct the space survey. Employee workhours may also be more flexible, which allows on-campus activities, like the capital equipment inventory, to be conducted in shifts.

For institutions that hire external consultants for all, or portions, of their F&A cost rate proposal, there is no longer the need, or ability, to bring them on-site during the proposal process. This may prove to be a time and cost savings, as travel costs are minimized and consultants no longer have to include time for travel in their billable work hours.

In the sections that follow, we address specific elements of the F&A cost rate calculation that may require special attention.

**Cost Issues: Increased Costs Under COVID-19**

Increased costs related to the pandemic include personal protective equipment (PPE), cleaning, ramp down and ramp up expenses, testing/monitoring for COVID-19, and IT infrastructure. In addition, utility costs within research buildings and labs could increase due to the addition of shift work in order to minimize the number of people in the lab. One challenge is determining in each situation whether these costs can be directly charged to sponsored projects, as they are not “incurred for the same purpose in like circumstances” as similar F&A costs (2 CFR 200.403(d)).

PPE necessary for the performance of a specific project should be an allowable direct cost to the grant or contract—however, institutions should review agency guidance to confirm allowability. Furthermore, institutions should expect additional PPE costs for maintenance, custodial, and other staff, which will result in increases to the administrative and O&M cost pools.

There are considerable additional costs related to custodial services. Frequent cleaning and related supplies are required to maintain the research areas, but also are required in administrative, student service, housing/athletic, and other institutional activity areas. Certain highly sensitive equipment may require specialized cleaning protocols, which given the situation may be appropriately direct charged. Otherwise, the costs are included in the operations and maintenance (O&M) cost pool and allocated to benefiting activities based on space usage.

Also, there are additional costs when institutions ramp down or ramp up in response to changes in conditions, including government pandemic response directives. These could include expenses relating to space reallocations required for social distancing requirements. These costs may be

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6 For example, on September 11, 2020, NIH released NOT-OD-20-164 Charging Personal Protective Equipment to NIH Grants and Cooperative Agreements as Direct Costs on the criteria that support direct charges for Personal Protective Equipment (PPE) to NIH grants.
facility costs, allocable to activities through the F&A cost rate proposal space allocation process or directly chargeable, when the purpose or circumstances differ from normal F&A costs.

The pandemic has required investments in COVID-19 testing as well as monitoring activities such as contact tracing. Examples of these investments include the costs of a Saliva, Perception, Ingestion, and Tongues (SPIT) Lab or a water testing program. If applicable to a specific award, these costs may be allowable as direct charges. If these costs are not allowable as a direct charge to the award, they should be included in the O&M facilities cost pool. If there are capital expenditures related to these costs, the depreciation (building or equipment) would be included in the appropriate F&A cost pool.

The pandemic has created the need for increased investment in IT infrastructure. This includes supporting research as well as on-line academic and administrative activities. While IT costs often are treated as administrative costs, these one-time, incremental costs may be more appropriately classified as facility infrastructure improvements and treated, therefore, as O&M costs, with appropriate allocations to benefitting functions. To the extent that these costs are capitalized, the depreciation expense may be categorized as O&M as well. As there are some restrictions on the classification of costs as facilities versus administration, we recommend that institutions exercise thoughtfulness and transparency when determining an appropriate treatment based on the specific circumstances.

**Cost Issues: Decreased Costs Under COVID-19**

In response to the pandemic, many institutions have implemented furlough programs, hiring freezes, salary reductions, and/or other labor and non-labor (e.g., travel, conferences, certain types of supply costs, etc.) related cost-cutting measures. This should result in decreases to both the F&A cost pools and the direct cost bases, which could increase or decrease the calculated F&A cost rate if the decreases are not proportionate. A decrease in costs disproportionately impacting administrative cost pools may, however, have no impact on the cost rates of institutions that are above the 26 percent administrative cap.

Due to remote learning and work, utility costs will likely be lower for many buildings across campus, particularly those used for administration, housing, and athletics. The impact of changes to these types of non-research buildings may have little impact on the F&A cost rate. However, to ensure the most appropriate allocation of utility costs to research buildings, institutions should consider allocating utility costs according to actual use by building, since research buildings may be less affected than these other types of buildings. This approach more fairly allocates utility costs to the buildings consuming the utilities. Furthermore, it is likely the same would be applicable to custodial and maintenance services—consequently, identifying these costs to buildings based on actual services rendered is fair and appropriate.
Cost saving measures may also reduce library expenses. But, as the faculty/student/staff/outside user ratios also are affected, institutions should look at the expenses and ratios closely in order to fairly allocate library costs to research, as it is likely that research operations have been less affected than other activities using library resources.\(^7\)

**Research Base and Other Base Impacts**

The cost issues identified in the previous section will impact the MTDC bases as well. While some incremental costs may be absorbed by shifting the direct cost budget on sponsored awards (e.g., PPE), other shifts in costs may either increase or reduce direct expenditures in various bases. As described above, labor and non-labor budget/cost cuts, as well as the limitations on the ability to perform research, will greatly impact the research base and all other bases.\(^8\) Furthermore, rules around foreign students—their admittance into the U.S. and restrictions on doing work while residing outside of the U.S.—impacts charging compensation for these individuals to awards. At the same time, federal agencies and some private sponsors have introduced new award programs related to COVID-19 research. These new programs may result in increases to the MTDC base. And in some cases, non-federal sponsors may have implemented different requirements and expectations around their programs, which could necessitate special attention. The impacts of all these factors may result in shifts in the various bases; the net change resulting in increases in some cases and decreases in others.

Finally, the pandemic has affected institutions’ ability to support sponsored research. Institutional funds that were budgeted to support the institution’s research enterprise may be redirected to fund lab closings, reopenings, and social distancing requirements. While some awards will simply be completed over a longer period, in other cases institutional funds may be used to support research if the work is completed beyond the no-cost extension period.

**Higher Education Emergency Relief Fund (HEERF)**

Three COVID-19 relief bills were signed into law between March of 2020 and March of 2021. The primary relief provision for higher education was through the Higher Education Emergency

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\(^7\) While not necessarily a cost issue, a unique challenge during remote work and education is the implementation of a “library study” designed to measure library use. Surveys of on-site activities (people count and purpose) may not be representative of typical access to the resources. The study can be modified to query on-line only; however, the increased number of people working and attending school from home can also have an impact on who is accessing the library materials and for what purpose.

\(^8\) COVID-19’s impact on research has been reported in a number of COGR surveys over the past year. See https://www.cogr.edu/cogr-2020-covid-19-research-impact-study
Relief Fund (HEERF). The statutory timing required for expending the HEERF suggests institutions will incur HEERF expenditures in FY20, 21, and 22; it will be important for institutions to have a good accounting of when these expenditures were incurred. In addition, the same considerations are applicable if the institution received funds under other relief programs.

The portion of HEERF expenditures made on student grants are an MTDC exclusion and will not impact the F&A cost rate calculation. The portions made for allowable institutional uses may have to be incorporated in the F&A cost rate calculation. The CARES Act was the most restrictive on allowable uses for the institutional portion, while the CRRSA and ARP Acts provided expansions of allowable uses. According to the Department of Education, Office of Inspector General, the most common use of the institutional portion of HEERF funds has been: campus safety, distance learning, tuition reimbursement, and technology hardware. If these costs are treated as MTDC exclusions (or Other Institutional Activity, or similar) for F&A calculation purposes, the impact on the calculated F&A cost rate should be minimal.

**Space**

Categorization of space use may be challenging. However, institutions understand their space and should leverage this expertise to conduct the space survey in a manner that results in representative information about how the space has been used. For example, in the past, visiting professors and student thesis work in the lab may have been a regular occurrence. Under COVID-19, this may no longer be the case. Furthermore, many researchers have been working, at least to some extent, remotely—though their assigned lab space may still be legitimately categorized as research space. And, when on-campus, physical distance requirements may have impacted space utilization, although this may have been offset by staggered shifts.

Space reviews by the cognizant agencies are standard protocol and historically have had a significant impact on F&A cost rate negotiations. Both DHHS-CAS and ONR have initiated virtual site visits when reviewing F&A cost rate proposals during the pandemic. It appears that this trend will continue as it allows for a more comprehensive space review while saving travel expenses. Scheduling interviews with PIs, department chairs and others in various selected departments can be more flexible and is no longer tied to the length of time of the site-visit.

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9 The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law by President Trump on March 27, 2020; the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act was signed into law by President Trump on December 27, 2020; and the American Rescue Plan (ARP) was signed into law by President Biden on March 11, 2021. Each provided significant funding for research institutions: the CARES Act directed $14 billion to HEERF, the CRRSA Act directed $23 billion to HEERF, and the ARP directed $40 billion to HEERF. The Department of Education is responsible for administering HEERF, and for each of the three tranches, there are statutory requirements as to the portion to be directed to students (generally speaking, at least 50 percent) and the portion to be directed to allowable institutional uses.

While there has been limited specific guidance from the cognizant agencies, they understand the challenges associated with the space survey process. If institutions are thorough in their approach to the space survey and are clear in their rationale for how the space survey is conducted, a fair and equitable outcome of the space review should be expected.

**Projections**

Producing projections for future years require assumptions and estimates, often making them a significant challenge. It remains unclear how long institutions will continue to experience the impacts of the pandemic, as the timeline for full vaccine availability, effects of new strains, and the length of travel restrictions reducing the number of foreign students and postdocs remain uncertain. Further, many institutions have enacted budget saving activities, postponing large capital projects and deferring campus maintenance. Building occupancy and use will continue to be evaluated and many funding agencies, including states, may be slow to issue awards due to the current financial uncertainty. Including projections as an addendum to the base year calculation is standard procedure, but in the context of so much uncertainty, institutions will need to rethink their approach to projections and leverage creative ways to address impacts of the pandemic when negotiating F&A cost rates for FY23, FY24, FY25, and beyond (see Chapter 3).

Future institutional planning for “new normal” operations will be a hot topic of discussion. Work with your budget, capital planning, facilities, finance, academic, and other central offices on the assumptions to use in your projections. While the sponsored research team will be equipped to estimate research volume, issues such as capital projects, space allocations, staffing assumptions, faculty recruitment, and departmental budgets will be determined by these other departments. Given the uncertainty of so many types of costs, it might be prudent to internally create a range of assumptions, and thereby a range of calculated F&A cost rates, prior to completing the projections that will be submitted to your cognizant agency.

**Documentation and the DS-2**

Thorough documentation of the F&A cost rate proposal is an important component of the proposal submission. Under current circumstances, thorough and succinct documentation (e.g., in a cover letter to the cognizant agency) may be more important than ever. Also note, most institutions are required to submit their DS-2 or DS-2 revisions, as required under 2 CFR 200.419, with the F&A cost rate proposal. Again, given the current situation, changes to the DS-2 will require a thoughtful approach as it may not be clear whether changes to certain elements of the proposal (as well as institutional cost accounting policy changes) will be permanent. Engaging with the cognizant agency before submitting the DS-2 or revisions to it may be worthwhile in order to understand expectations.
Chapter 3: Prospective Considerations

Research output loss and financial implications to institutions are real and significant—this was demonstrated in the Research Impact Metric (RIM) model presented in COGR’s Research Impact Under COVID-19: Financial Crisis and the “Pandemic Normal” (August 2020 release and January 2021 addendum).¹¹ To-date, F&A reimbursements have not been severely impacted, and as noted earlier, a reliable F&A reimbursement process—which both the federal government and research institutions can trust—will help to minimize disruptions to the research enterprise caused by the COVID-19 pandemic.

There are many unknowns as to whether research operational changes made during the COVID-19 pandemic will be temporary or permanent. In order to ensure a reliable F&A reimbursement process, healthy communication about prospective considerations and a spirit of collaboration between research institutions and the cognizant agencies are required.

A reality of the COVID-19 pandemic is the new way the “typical” research lab now operates. For example, many institutions have accomplished social distancing by minimizing the number of people in a lab, allowing remote work where feasible, and/or repurposing space assignments to provide safe workspaces. These changes may prove to be temporary, in which case they are more relevant to the discussions in Chapter 2. However, there are still too many unknowns to be certain whether a given change is temporary or permanent, and if permanent, how it could influence various parts of the F&A process. From an F&A cost rate perspective, there could be impacts that put both upward pressure and downward pressure on the F&A cost rates.

Financial Pressures on Academic Research Institutions

In the COVID-19 environment, most academic research institutions have experienced financial pressures in core business areas that directly or indirectly support research. While research institutions continually look for ways to reduce costs and improve efficiencies, decreases in tuition revenue, clinical revenue, auxiliary operations, private sector funding, and state government support are adding pressures to budgets and forcing most academic research organizations to look even more closely at ways to increase efficiencies. Furthermore, changes in the use of research and administrative space during COVID-19 have provided the opportunity to review space needs, rethink standard expectations, and begin modeling a post-COVID-19 plan for use of research and administrative space that better optimizes its use.

¹¹ The August 2020 paper and the January 2021 Addendum included case studies that demonstrated: 1) research output losses between 20 and 40 percent, 2) financial disinvestment impact in the hundreds of millions of dollars at individual institutions, and 3) potential impact approaching tens of billions of dollars across the entire U.S. research enterprise.
As institutional leadership begins making decisions to optimize space or review leased space, it is important for cost experts to inform the space strategy with their understanding of different reports and data points and how different approaches will impact the F&A cost rate. While impacts to F&A cost rates may not drive decisions on space assignments, it is necessary for institutions to understand all ramifications of any changes made. The impact of the pandemic on research space utilization is still in question as there are multiple determining factors and many unknowns, including the extent to which campus and lab safety precautions will continue after the vaccine is widely distributed—both for research space, as well as for administrative space and how they could impact future F&A calculations and F&A reimbursements.

Changes to the Use of Space by Administrative Support Functions

Utilization of administrative space at most institutions has fallen with state mandates and social distancing requirements. Most administrative teams have not only had to adjust to the need to work remotely but have made the transition to a predominately remote work environment very successfully. Many institutions are looking at the current capacity in administrative space and realizing that, going forward, there will be more available capacity in the existing footprint. Options to backfill this potential new-found capacity will vary by institution and could include exiting expiring leases, accepting new grants and research programs, or expanding animal facilities or other support functions without having to build or lease new space.

It is important from an F&A perspective to determine the impact of any footprint reductions on allocated administrative groups including direct research support teams (e.g., sponsored projects administration, research finance, and grants compliance) who have adopted remote work and will be included in any space consolidation efforts. Additionally, as institutions review the administrative space footprint, buildings which might have historically been fully allocated to administration may in the future accommodate new programs, requiring changes to cost allocation calculations and space tracking methodologies. Under this scenario, research space as a percentage of campus-wide space may increase and put upward pressure on the F&A cost rate.

If there is a permanent reduction in the administrative space footprint, the impact on the F&A cost rate calculation and on F&A reimbursements may be minor as administrative space costs represent a small portion of the total administrative costs allocable to research. Further, for research institutions subject to, and over, the 26 percent administrative cap, the impact would be unlikely to move them below the cap. As institutions consider the possibility of permanent changes in the administrative space footprint, the exact impact to F&A reimbursements is difficult to predict. However, it is fair to suggest the impact is likely to be insignificant.
Impact of COVID-19 Changes to the Use of Research Space

Research institutions have experienced significant disruptions to research operations during the COVID-19 pandemic. Labs were rapidly shut down, remained closed for several weeks or months, and then were limited to phased reopening based on the infection control procedures mandated by their states and institutions. Even the subset of labs that remained open throughout the pandemic had to adjust to social distancing protocols limiting the number of occupants.

Investigators and their teams adjusted and adapted to be productive in their research endeavors. FTE density has been managed differently from pre-COVID-19 norms. Many activities that were traditionally done on-site have been successfully accomplished remotely. This has affected how some research labs have been used. Computational and other types of “dry” research activities that are more conducive to work in off-site locations saw a greater share of their research activities transition from their designated on-site research space to remote locations. Even those core activities of “wet” research that must be performed in on-site research space have been subjected to different approaches to managing the use of space. Scheduling routine late night and weekend shifts, once primarily required for access to specialized equipment, has been used for assigning bench space in order to maintain infection control spacing ratios.

What can be agreed on is that space designated as research space prior to the COVID-19 pandemic, remains active and available research space. What is less certain is how this space can be reimagined for use in the next five years and beyond.12

Potential Impact to Costs and Cost Rate Structure Considerations

It is possible that changes implemented due to the COVID-19 pandemic will persist and result in more permanent changes to costs. Those items resulting in a cost reduction are certainly more likely to persist. However, some changes will cause costs to increase or to shift, resulting in a change in the composition of various pools. Institutions should be aware of these changes in costs and account for them in ways that allow for fair recovery through the F&A cost rates.

Permanent Increases in Facilities Costs

It may be some time before certain changes put in place to protect against the spread of COVID-19 are no longer necessary. Prolific use of hand sanitizer stations may become as common as stocking restrooms with soap. Other protective expenses such as masks and gloves likely will continue for some time. Prior to COVID-19, air handling systems may have been set to run fans or exchange with external air less frequently to save energy. Increased use of filtration systems

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12 See Appendix A: Space Utilization Metrics and Space Sharing for a more detailed discussion on space modeling and related space considerations.
may also cause less energy efficiency. It is unknown whether energy efficiency will eventually outweigh the benefit of increased safety to building occupants. Industry standards could permanently change as well, particularly in healthcare settings. As described in Chapter 2, new investments in IT infrastructure will be needed to support remote work and online teaching. Costing personnel should work closely with their facilities departments to understand the extent to which these measures will continue and the effect this will have on operations and maintenance costs.

**Interest Rates**

Interest costs meeting allowability requirements found in 2 CFR 200.449 and Appendix III of the Uniform Guidance are included in an institution’s F&A cost reimbursement rates. While the pandemic has affected the economy; to-date, interest rates have remained stable. However, if interest rates experience volatility, this will have an impact on F&A costs. Those responsible for preparing F&A proposals should work closely with those responsible for capital debt decisions so the resulting changes in F&A cost rates can be anticipated.

**Library Costs**

Library costs were shifting from on-site costs to virtual prior to the pandemic. The pandemic may permanently shift library user behavior to virtual, as users have largely only had that option for months. Institutions will continue to review on-line subscription costs incurred in departments as opposed to the institution’s library. The library should be responsible for these costs, to limit possible duplication of costs and ensure access by the entire university community. In a post-COVID-19 world, research institutions will pay close attention to the evolving role of the library and its support of research. Further, as regulatory pressures increase (see subsequent section, Emerging Issues: Regulatory Creep and NIH Data Sharing), this could result in upward pressures on the F&A cost rate.

**Telecommuting**

One of the most common assumptions about what will continue is increased telecommuting. Institutions may attempt to save costs by reducing leased facilities, moth-balling existing owned facilities, or repurposing existing facilities. This could result in a permanent reduction in the facilities cost pools. To the extent that the space reduced is largely administrative, while the total costs in the facilities pools may decrease, the percentage allocated to non-administrative cost objectives, like research, could increase.

There also will be costs that increase because of telecommuting. Each institution will decide to what level it will support an employee’s home office. Will the employee be provided or reimbursed for office furniture, improved computing devices and accessories, or home internet service? Will the employee still be assigned a campus workspace or be asked to use hotel space when coming to
campus? To ensure the appropriate recovery of these costs, the institution should be sure to have strong institutional policies and standards.

As more individuals need to connect to the campus’ network remotely, network infrastructure and security costs will increase. These represent new and incremental costs caused by the COVID-19 pandemic. A strong argument can be made that these network infrastructure and security costs are allowable as O&M cost under the definitions in Appendix III of the Uniform Guidance as both security costs and utilities.

**On, Off, and Vicinity F&A Cost Rates**

Definitions of on- and off-campus differ by institution and are defined within the institution’s F&A cost rate agreement. These definitions should be reviewed to ensure this distinction is clear in this new environment. Any necessary changes to the definitions should follow institutional policy and be discussed with the cognizant agency prior to implementation. Consideration should also be given to whether any remote work is temporary or permanent.

Some institutions have negotiated a “Vicinity F&A cost rate.” This often provides a middle ground between on- and off-campus. These cost rates generally have consisted of the administrative components and the library component (and in some cases, the equipment component). This methodology is used in recognition that many activities occurring close to campus utilize the library’s resources. With the increase in telecommuting and virtual library access, expanded use of vicinity cost rates can be considered. Not only should more institutions consider negotiating vicinity cost rates, but institutions should consider reviewing the costs included in the vicinity cost rates to recover costs benefitting remote workers. For example, activity not occurring on-campus may heavily utilize the network security and infrastructure O&M costs described previously.

As institutions negotiate F&A cost rates applicable to a post-pandemic normal, special attention should be given to how off-campus should be defined (see Chart on next page), as well as the considerations raised above. The institution is the expert on what is most appropriate under the post-pandemic normal—and when negotiating the F&A cost rates, the institution should leverage its expertise.
Sample of Off-Campus Definitions

<table>
<thead>
<tr>
<th>Structure Options</th>
<th>Example of Language in F&amp;A Cost Rate Agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Award is split between on and off components</td>
<td>“Actual Costs will be apportioned between on-campus and off-campus components.”</td>
</tr>
<tr>
<td>Entire award is considered either on or off based on where the majority of work is being performed</td>
<td>“The University uses the cost rate applicable to the location where the preponderance of the time and effort will be expended. Accordingly, each contract or grant is classified as either on-campus or off-campus.”</td>
</tr>
<tr>
<td>Unique definition for the Institution</td>
<td>The above options are most common, but additional definitions (unique to the institution) could be agreed upon between the institution and the cognizant agency.</td>
</tr>
</tbody>
</table>

Emerging Issues: Regulatory Creep

Regulatory creep is a decades old issue where new regulations issued by funding and oversight agencies (at times driven by statutory requirements and at other times issued by agency proclamation) add more and more administrative burden to research institutions. Sometimes a new regulation is difficult to quantify in terms of institutional cost burden, mostly because when a given new regulation is “minor” in scope, its incremental nature “hides” the burden impact. However, when enough of these incremental burdens accumulate, the regulatory creep in the administrative burden becomes more noticeable and detrimental to the productivity of research.

Other examples of new regulations are more significant from the outset and consequently, create immediate and quantifiable administrative burden. In the past year, three examples are noteworthy:

- NIH Data Sharing and Management\textsuperscript{13} – To be implemented in January 2023; this will require faculty and investigators to deposit their research data in “to-be-determined” research repositories.

- DOD Cybersecurity Maturity Model Certification (CMMC) – Currently being implemented by DOD; this will require institutions to implement one of five levels of

\textsuperscript{13} See COGR’s webpage on NIH’s Final Policy on Data Management and Sharing: https://www.cogr.edu/nih-data-sharing-and-management
cybersecurity management and demonstrate compliance for all types (including fundamental) of DOD research.

- Research and Foreign Security – New requirements from Congress and a variety of agencies have already resulted in significant new expectations around reporting of other support and related commitments, and these continue to evolve and increase.

In each case above, research institutions, especially those subject to the 26 percent administrative cap, should pay close attention to the actual costs incurred for these new regulatory requirements and further determine the most appropriate mechanism to recover these costs.
Chapter 4: Final Thoughts

Current and prospective issues related to F&A cost rates and resulting reimbursement are subject to ongoing change. Although many of the issues and discussions included in this paper are subject to significant uncertainty, key takeaways still can be identified and serve as a starting point for ensuring that the F&A cost reimbursement process remains fair and equitable for both research institutions and the federal government.

- **Institutions must be savvy in understanding the impacts of COVID-19 on FY21 or FY22 F&A cost rate calculations.** In fact, completion of an F&A cost rate proposal trial run may be the most important step in assessing how these impacts will affect an institution’s F&A cost rates. Ultimately, the trial run may inform whether a full F&A cost rate proposal should be developed and/or how best to approach the cognizant agency concerning a process to establish fair and equitable F&A cost rates. More complete and tested information leads to better strategic decisions.

- **Separate the issues specific to an FY21 or FY22 cost rate calculation from prospective considerations, to the extent possible, during negotiations.** An FY21 or FY22 calculation is a “point-in-time” metric used to determine F&A cost rates for FY23, FY24, FY25, and beyond. Prospective considerations are complicated by the many unknowns. When engaging in F&A cost rate negotiations, the experts at the institution are the most knowledgeable about the prospective considerations and this expertise should be leveraged when engaging with F&A cost rate negotiators from the cognizant agency.

- **Be aware of faculty considerations.** Institutions may feel pressure to more widely use lower, off-campus F&A cost rates; however, doing so may not be appropriate when lab space remains functional and assigned to a PI. Unless a PI has officially relinquished research space and the research is being conducted in a remote location, use of the full on-campus F&A cost rate is likely most appropriate.

- **Continue advocacy for a fair and equitable F&A reimbursement process.** A reliable system, which both the federal government and research institutions can trust, will help minimize disruptions to the research enterprise caused by the COVID-19 pandemic. Research institutions should do the hard work necessary to understand all factors that drive and could potentially impact F&A cost reimbursement—e.g., cost structure, space usage, technology infrastructure, library costs, interest rates, new compliance regulations, and other factors—and formulate transparent and equitable institutional policies to ensure that F&A cost reimbursement appropriately supports the costs of the institution’s research enterprise.
• *Maintain and nurture good relationships with your cognizant agency (DHHS-CAS, ONR).* As institutions move forward with strategic decisions on potential F&A cost rate extensions, use of provisional F&A cost rates, or other related decisions, it is imperative to be in regular communication with your cognizant agency. These agencies understand that the way we do research has changed, but the experts at our institutions can describe the specific ways it has changed and the resulting impact on F&A costs at their particular institution. Unilateral decisions are never appropriate, and we expect the cognizant agencies will continue to be partners who have our same interest in achieving a healthy and robust U.S. research enterprise.

These key takeaways are not a complete list of issues to consider—however, they are an important start and can be updated as research institutions, the cognizant agencies, and the funding agencies work together to ensure that current and prospective issues are regularly addressed in a robust and collaborative format. Such collaboration is the hallmark of the longstanding Federal Government–Research Institution Partnership, which ensures the U.S. research enterprise thrives, and the nation and the entire global community benefit.
Appendix A: Space Utilization Metrics and Space Sharing

Space Utilization Metrics

As pandemic-related occupancy restrictions are lifted, it is anticipated that utilization of research space will increase. However, the utilization of research space will likely be more variable, with more flexibility for remote activities than prior to the pandemic. A key consideration is whether the institution has appropriate research space metrics to support its space utilization strategy. Standard density calculations based on the assignment of grants to space, such as modified total direct costs (MTDC) per net assignable square foot (NASF) or F&A cost reimbursement per NASF, may need to be supplemented. Periodic space walk-throughs and full time equivalent (FTE) metrics, generated from payroll/salary expenses charged to grants assigned to the research space may no longer be enough to assess the efficient use of space as they do not fully account for the time spent working remotely.

If remote work continues, institutions should assess whether the traditional methods of determining space utilization are sufficient. If not, additional data sources, such as security badge swipes or required online daily symptomatic attestations, may be available to provide a more comprehensive picture of research space utilization. These additional data sources should only be used, however, if they accurately reflect space usage in a remote work environment.

If the reorganization of the research space is temporary (e.g., less than one year), generally it is reasonable to functionalize the space based on its intended usage going forward. However, if the reorganization of research space is permanent, space functionalization should reflect this change and the associated facilities costs will be allocated to appropriate activities for calculation of F&A cost rates.

Space Sharing

Lessons learned during the pandemic may result in more widespread use of space sharing in the post-pandemic world. Some models to consider include:

- Standard Model. No sharing: space assigned to individual PI/grants.
- Sharing of Locations between departments/programs across multiple PIs. Space is assigned to individual PI/Grants, but may be shared with other PIs during collaborations.
- Space shared because of time constraints or social distancing requirements. Space is still assigned to individual PI/grants, but access requires scheduling to manage usage or FTE density.
- Hoteling of Dry Research space. High degree of flexibility for use of space that is based on how and when it is needed with daily, weekly, and monthly options for different types of needs such as private workspace or collaborative space.
Hotel of Wet Research Space. Requires reservation of lab benches for a specified period of time.

Enhanced utilization metrics may point to opportunities to improve space use within a given footprint. Any approach will need to consider long-entrenched cultural factors in academic research where ownership and decision-making authority over the research space is viewed very differently by investigators, Department Chairs, Deans, and institutional business officials. As space is at a premium on campuses, it is important to confirm the definition of space sharing with the stakeholders.

Some institutions are exploring space sharing where an individual is not assigned a workspace but instead signs up for specific space when they come to the office (i.e., “hoteling”) or they may simply show up and find a location to work for the day in a truly “open” space concept. These models have been adopted by some organizations, primarily for administrative groups, but could apply to groups in “dry” research space, particularly as enabled by greater remote work. Even “wet” research space could be shared through hoteling and scheduling if/when appropriate.

When institutions consider implementing remote work and space sharing on a more permanent basis, questions around preponderance of effort and managing and allocating shared space will arise. Preponderance of effort is used by some institutions to determine whether a project will be considered totally on-campus or off-campus, based on where the majority of the work is performed. Other institutions will split the project between what is on-campus and what is off-campus and charge more than one F&A cost rate. Either way, having a clear definition of where the effort is performed is necessary. The following questions should be considered:

- Does the standard definition of “preponderance of effort” need to be modified to clarify how remote work, and space sharing are factored into the determination?
- How does the concept of preponderance of effort as used to assign F&A cost rates to grants apply with some of these more flexible work location models?
- How much discretion does a PI have to allow or encourage remote work if it changes the “preponderance of effort” and therefore the applicable F&A cost rate?
- Should access to research labs and facilities be considered, in addition to preponderance of effort?
- Will more detailed utilization metrics be expected by the cognizant agencies to validate preponderance of effort and on-site F&A cost rate assumptions?

Questions to consider when managing and allocating shared space include:

- In space sharing arrangements, does the institution have a methodology to allocate proportionate lease/building space costs for shared space to the grants?
In those unique situations when multiple institutions are sharing space, what is the approach for managing shared space when the institutions have unique F&A cost rates? How are the space costs recovered for the owner of the space when the activity is not in their base? Should grants in this space sharing situation be charged lease/building costs?

Is the institution’s research space system designed to allocate space across departments or institutions? For example, if one department owns the space and shares with another, who is responsible for completing the space survey?

Is it possible to have a daily or weekly use charge for shared space and still be able to cover the cost of the research facility?

Space Utilization Metrics and Space Sharing were important topics of discussion prior to the COVID-19 pandemic. Lessons learned during the pandemic further spotlighted institutional considerations around space. While some of the analysis of the issues above should be considered preliminary, institutions will be well-served to pay close attention to space use developments in the post-pandemic world.
Appendix B: Core Facilities and Other Service Centers

Core facilities are defined as “centralized shared research resources that provide access to instruments, technologies, services, as well as expert consultation and other services to scientific and clinical investigators” (see National Institutes of Health, NOT-OD-13-053). Examples of core facilities include (but are not limited to) genomic sequencers and clean rooms. While 2 CFR Part 200 (Uniform Guidance) does not specifically mention core facilities, it provides some guidance on specialized service facilities (SSFs) in 2 CFR 200.468. SSFs are typically highly complex and have a higher threshold of annual revenue. Per the Uniform Guidance, examples of specialized service facilities include telecommunication centers, wind tunnels, and reactors. Both core facilities and SSFs can be classified under the umbrella of service centers.

In general, service centers recover their costs by providing services in exchange for user fees. Rate setting is designed to recover the aggregate costs of the services with a goal of breaking even over time. However, the costs included in the rates for core facilities versus SSFs differ, which impacts the treatment of F&A cost reimbursement and functionalization of space (see Chart below). In both cases it is important that costs are only recovered once, either through the core facility billing rates or through the institution’s F&A cost rates.

<table>
<thead>
<tr>
<th>Type of Cost</th>
<th>Core Facility</th>
<th>Specialized Service Facility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Costs</td>
<td>Included in billing rates.</td>
<td>Included in billing rates.</td>
</tr>
<tr>
<td>Facility Specific F&amp;A Costs</td>
<td>Typically, only equipment depreciation may be included in billing rates.</td>
<td>Typically, F&amp;A costs specific to the facility are fully loaded into billing rates.</td>
</tr>
<tr>
<td>Institutional F&amp;A Costs (i.e. Negotiated F&amp;A Cost Rate)</td>
<td>Excludes any equipment depreciation or other F&amp;A costs included in the core facility’s billing rates.</td>
<td>Excludes all F&amp;A costs specific to the facility and the space is coded as Specialized Service Facility or Other Institutional Activities.</td>
</tr>
</tbody>
</table>
In addition to the above service centers, institutions may operate animal research facilities. These facilities represent a unique type of SSF. The NIH has outlined guidance for these types of facilities in the Cost Analysis and Rate Setting Manual for Animal Facilities (CARS). From a costing standpoint, the primary distinction between animal research facilities and other SSFs is that certain types of associated space, such as procedure rooms, may be recovered in the F&A cost rate rather than through user fees.

In 2020, many service centers incurred deficits due to the COVID-19 pandemic. Extended shutdowns or reduced operations resulted in decreases in revenue while fixed costs and labor costs remained steady. Institutions now need to address these deficits while also planning for the potential for long-term or permanent changes in future operations.

Federal policy allows for upward rate adjustments in future years to compensate for past under-recovery of costs. For example, institutions may strategize to carry forward the deficits over the next few years (e.g., three to five years) to lessen the immediate impact of the rate increases. The goal remains the same: break-even over time. When such a strategy is utilized, the entity should establish a clearly defined procedure to govern deficit recovery through prospective rate setting.

However, rate increases may not always be in the best interest of the core facility resulting in an institutional decision to fund the deficit in another way, such as a subsidy or other means of support. Funding provided to the core facility to cover a deficit would not impact future billing rates.

Ongoing operations may also continue to function at less than full capacity to accommodate ongoing physical distancing requirements or other continuing resource limitations. If the same rates are used as the rates that were set when at full capacity, a deficit could occur if usage has diminished since those rates were set, but costs remain the same. Rates should be reviewed and evaluated periodically as capacity and/or use changes to ensure established rates are in line with the actual operating levels of the facility.

Future planning may need to take into account more than just rate adjustments. Institutions may also need to consider a change in the overall composition of the research infrastructure. For instance, the COVID-19 pandemic may have established a long-term shift to remote work for many employees, which could make it important to identify opportunities for new core facilities, such as equipment sharing, whereby researchers and technicians living in the vicinity can utilize the new core facility for their research activities.
Appendix C: Fringe Benefit Rate Considerations

Institutions seeking to negotiate fringe benefit (FB) rates have to be aware of changes that may impact the calculated rates, whether as a result of the pandemic, changes due to regulatory or legislative shifts, or just an accumulation of adjustments made since the last proposal. While the federal cost of FBs does not approach that of F&A, and rates are much more likely to be fixed with carry-forward rather than predetermined, these rates may still draw significant scrutiny from an institution’s cognizant agency during the review or audit process.

COVID-19 Related Modifications

Many institutions modified their leave policies to allow for salary continuation when campuses were closed. Like most leaves, these costs could be directly charged, incorporated into an FB rate, or otherwise funded, as long as the methodology was consistently applied across funding sources (or at least did not disproportionately burden federal funding sources).

Many, if not most, campuses broadened the opportunity for employees to work remotely during the pandemic. Some are considering continuing this option or have chosen to do so already. Remote workers incur different costs, which may affect F&A cost or FB rates. For example, remote work shifts some costs from the campus to the home office, which may or may not reduce the institution’s expenses. This shift may also affect campus head counts for various F&A cost and FB allocations. Additionally, remote work may add costs related to the requirements of other jurisdictions that will need to be considered in FB rate development. For example, a Chicago institution that has workers in the New York City area may need to pay the Metropolitan Commuter Transportation Mobility Tax, or there may be unemployment taxes in jurisdictions other than one’s own. Careful coordination with tax and benefit advisers will be important to identify and project an estimate of these costs if they are material.

Regulation-Driven Updates

Recent revisions to the Uniform Guidance did not significantly impact 2 CFR 200.431, Compensation-fringe benefits. One change may affect state-funded entities that must implement GASB 68, but the federal intent of this change was to align the new GASB statement with the Uniform Guidance, allowing institutions to claim pension costs that are both actual and funded.

Institutions may need, however, to incorporate the impact of other legislation into their FB rates. For example, New York State implemented Paid Family Leave starting in 2018 and Paid Sick Leave in 2021. Similar legislation has been passed in recent years in at least ten states across the country. Depending on how your institution manages leave costs, you may want to consider incorporating funding of such programs into the next FB rate proposal. Whether charged directly,
through a benefit rate, or otherwise funded, rate proposal time should also serve as a reminder to document such changes in the institution’s Disclosure Statement (DS-2).

**Temporary (or Permanent) Changes that may affect FB Proposals**

Some institutions temporarily reduced pension contributions due to the financial impact of the pandemic. This may have resulted in a significant positive carry-forward in a benefit pool. In some cases, institutions received approval to reduce their rates to reflect this temporary change and, instead, a mismatch in timing could result in a negative carry-forward. Regardless of the impact on the carry-forward, the most accurate information regarding future plans must be incorporated into the FB proposal.

The COVID pandemic may have affected an institution’s health insurance component of the benefit pool as well. During the pandemic people may not have sought health care due to closed providers or fear of exposure. While this may have reduced costs in the short run, it may result in medical conditions not being caught in the early stages and lead to greater costs in the long run. COVID-19 testing and treatment costs may also increase health care costs for an unknown length of time. Careful scrutiny should be given to the projection of healthcare costs in future years, especially as these are often the largest portion of an FB rate.

Federal changes permitting expanded time for spending [Internal Revenue Code Section 125](https://www.irs.gov/individuals/cafeteria-plans) (Cafeteria Plans) Medical Reimbursement Accounts will undoubtedly result in fewer forfeitures. Some institutions may normally use these forfeitures to partially offset the costs of administering this benefit and the reduction, therefore, will increase FB rates.

Some institutions incorporate sabbaticals into the FB rate, and some of these institutions may have allowed faculty members to defer their sabbaticals. This results in a short-term reduction of the cost, but higher costs in the out years.

**Other Considerations**

- FY20 and FY21 are unlikely to be typical, and careful analysis of expense history over multiple years will be important to produce a sound rate projection.
- Salary bases may have been skewed by wage and hiring freezes, furloughs, or layoffs.
- Deferral of the employer share of the Social Security Tax, as permitted under the CARES Act, ends in FY21/FY22. The cost should have been booked as a current expense, with a corresponding liability, and with proper accounting, should not affect the FB pool.
- Institutions that received the Employee Retention Credit may have applied this against the FB pool. If so, it will be important to reverse this credit to develop a sound projection.
- The CARES Act provided support to states that may reduce unemployment costs. However, these credits may lag behind the expense, skewing the calculated FB rates.
ADDITIONAL RESOURCES

Research Impact Under COVID-19: January 2021 Addendum:  

https://www.cogr.edu/cogr-2020-covid-19-research-impact-study

https://www.cogr.edu/sites/default/files/Research_COVID_August2020_COGR_FINAL.pdf

Institutional and Agency Responses to COVID-19 and Additional Resources (2020)  

COGR’s Webpage on F&A and the Cost of Research:

   Excellence in Research PPT Presentation (Resource for Institutions)  
https://www.cogr.edu/sites/default/files/FA%20Slide%20Deck%20Nov2019_v3graphicsforwebsite_0.pdf

   F&A “Explainer” Video (May 24, 2019)  
https://www.youtube.com/watch?v=V_gHzUE8qM

   Excellent in Research: The Funding Model, Reimbursement, and Why the System Works (April 12, 2019)  
https://www.cogr.edu/excellence-research-funding-model-fa-reimbursement-and-why-system-works-0

   F&A Primer (March 2017)  
https://www.cogr.edu/sites/default/files/1FA_2017_PRIMER.pdf

   F&A Document Archives & Resource Library:  
https://www.cogr.edu/fa-document-archives-resource-library

COGR List of Regulatory Changes Since 1991 (Updated April 2021)  
https://www.cogr.edu/cogr-list-regulatory-changes-1991-0