

# Understanding “Indirect Costs, Overhead Costs, or Facility & Administrative Costs” and Their Implications for Pesticide Safety Education Programs (PSEPs)

National Stakeholder Team for PSEP—January 2013

Over the years, PSEPs have struggled with declining federal government support. This has been recently compounded with how their sponsoring universities treat these funds. Since the fall of 2011, many universities began deducting infrastructure expenses from PSEP grants. This expense or charge is referred to by various terms, but for purposes of this discussion, FAC (Facilities and Administrative Costs) will be used to describe this practice.

## What’s FAC?

Essentially the FAC are those expenses the university incurs to simply turn the power on, write pay-checks, administer audits, comply with accounting principles, pay for the telephones, and cover many other miscellaneous expenses. Thus, most grants that a university receives are subjected to a FAC charge. In the case of a PSEP, if a university applies a FAC expense, these funds are deducted first by the central university administration, and then the balance is passed on to the actual PSEP, or incurred with each expense.

## From Where Does the Concept of FAC Come?

Prior to the 1930’s, university operating expenses were derived primarily from philanthropic organizations, tuition, state appropriations, income from land grants, and/or appropriations from USDA. With the advent of WWII, the federal government turned to universities to conduct research for the war effort. However, the demands placed on them were so great that they often refused grants because they could not afford to administer them. Thus the War Department came to recognize FAC principles and soon included them in their funding schemes. By the 1950’s this became the norm for other research, especially private-medical foundations and the National Institute of Health. Today they are an integral part of virtually every public or private research institution in the country.

## How Much Are FAC?

They are extremely variable and depend on the institution, the location, the type of work being sponsored, and the amount the sponsoring agency allows. [North Dakota State University](#) and [Cornell University](#) FAC can be found at these links. At Cornell, the highest current rate is 60%. Of course, each university and even colleges and departments within universities can have variable interpretations of how to categorize FAC. Examples of common rate categories include: Full Negotiated Rate, On-Campus Expense Rate, Off-Campus Expense Rate, Research Rate, and Extension/Outreach Rate. Some institutions have the latitude to waive/reduce the FAC and others may be bound by state law to strictly adhere to current negotiated rates.

## Can Sponsoring Institutions Limit or Disallow the Charging of FAC?

Yes, but from a practical perspective, it is very difficult. The federal government has generally embraced the principle of FAC and private agencies have followed this model. EPA (since their creation in the 1970’s) has accepted FAC as a matter of policy. The National Institute of Health has more latitude because their policies and statutes were evolving with the concept of FAC. USDA has the greatest latitude for determining allowable rates because they operated in an era before FAC was instituted. However, they are often bound by a myriad of federal statutes. You can see the full range of [USDA’s FAC rates](#) at the following link.

## THE CURRENT STATE - What Happened in 2011 to Change the FAC Policy for PSEP?

Until 2011, PSEP funds allocated by EPA through USDA were considered Smith-Lever distributions by policy. These distributions do not allow FAC by law. (The Smith-Lever law was instituted in 1914, well before the time of FAC principles.) However, a review by USDA legal counsel in the summer of 2010 determined that PSEP funds could not be treated as Smith-Lever because they were not congressionally appropriated under Smith-Lever. Rather, they were covered under a separate EPA congressional appropriation. Thus FAC expenses could now be applied to PSEP funds at the discretion of the sponsoring university. ***So, just as federal support for PSEPs was declining precipitously, the net funds reaching a PSEP were being further and dramatically reduced by a relatively new university FAC charge.***