

Date: April 18, 2006
To: Faculty and Administrators
From: Andrew D. Hamilton
Provost of the University
Re: New Facilities and Administrative Rate Agreement with DHHS

Yale receives substantial federal funding for the conduct of research; in 2004-2005 the University was awarded over \$415 million to support the direct and indirect costs of a multitude of research projects across the campus. In order to remain eligible for federal research funding, the University is required periodically to enter into negotiations with a designated federal agency (in Yale's case the Department of Health and Human Services) to review the indirect costs associated with our research activities and to determine the appropriate level of contribution by the federal funding agencies to those indirect costs. I am writing to share the results of the most recent round of negotiations, which has just been completed.

Indirect costs (also known as "facility and administrative" or "F&A" costs") include the expenses of building and operating facilities to support research, costs to administer federally-mandated compliance programs, and costs to provide administrative support for researchers. The federal F&A recovery rate is calculated by comparing the University's federally allowable F&A costs to the total funds it receives in direct support of research.

As you know, the University has invested substantially in research infrastructure over recent years through the extensive renovation of existing laboratory space and the addition of new research facilities, such as the Anlyan Center, the Class of '54 Chemistry Research Building and the Malone Biomedical Engineering Building. Continued investment is planned for the near future. The new F&A rate negotiated by the University and DHHS reflects these investments as well as the additional operating and utilities costs associated with incremental space. The rate also incorporates a projection for the growth of direct research funding that is aligned with federal agency forecasts, which, in aggregate, are not as favorable as they have been in the recent past. The new Yale F&A rates are in the same range as comparable rates at Harvard, MIT, and Johns Hopkins.

The specific F&A rates that will be charged on new federal awards over the next three years are shown below:

	<u>% of Modified Total Direct Costs</u>		
	<u>On Campus</u>	<u>Off Campus</u>	<u>DOD Contracts</u>
FY06	63.5%	26.0%	66.5%
FY07	65.0%	26.0%	68.0%
FY08	65.0%	26.0%	68.0%
FY09	65.5%	26.0%	68.5%

Federal policy requires that existing awards continue to charge the rate in effect at the beginning of the award, so many awards will continue at the current 63.5% until the next competitive review.

In the recent negotiations, the University and DHHS also agreed that federally funded research that takes place in local leased space will qualify for the full F&A recovery rate rather than the Modified On-campus rate that was used in prior years. As most of the awards that have been subject to the Modified On-campus rate are granted to the School of Medicine, the Dean's office will work with individual investigators to ensure a smooth transition.

Finally, the University has agreed to increase its equipment capitalization level to \$5,000, a change that will align Yale's level with that used in most other universities. As of July 1, 2006, equipment costing between \$2,000 and \$5,000 will no longer be capitalized, but will be treated as an expense subject to the F&A recovery rate. Again, my office and the YSM Dean's office will be working with individual investigators to implement this change.

Please do not hesitate to contact Suzanne Polmar (suzanne.polmar@yale.edu, or 432-2460) or Penrhyn Cook (penny.cook@yale.edu, or 785-6475) if you need clarification or assistance in implementing these changes in F&A recovery rates and practices.