

December 21, 2016

MEMORANDUM

To: Vice Presidents, Deans, Directors, and Department Heads

From: Jamie Moffitt, Vice President for Finance and Administration and CFO

Subject: FY2018 and FY2019 Overhead Rates for Designated Operations, Auxiliary Operations, Service Centers, ASUO, and Continuing Education for Credit Funds

Based on an updated analysis of cost pools, the university will be implementing changes to the administrative overhead rates for FY2018 and FY2019 for auxiliary operations, service centers, ASUO, designated operations and continuing education for credit funds. The new overhead rates for FY2018 and FY2019 are listed below.

Background on Overhead Rates

Auxiliary operations, service centers, designated operations, and Academic Extension (Continuing Education for Credit) are expected to price products and services appropriately to cover all costs, including the cost of using central services such as general counsel's office, human resources, the financial system, central communications, etc. Rather than individually charge for each of these services, the university looks at the cost of providing these central services to campus and establishes cost pools for these functions which are allocated out as overhead rates to affected departments/funds.

There are two separate cost pools for these functions:

1. Administrative cost pool – charged to all units. See overhead website <http://ba.uoregon.edu/content/department-assessments> for detailed information about how the administrative rate cost pool was calculated.
2. Facilities cost pool – only charged to units that do not pay their own facilities costs – e.g., debt, leases, maintenance and repairs, and custodial services (click here for details of costs within the facilities cost pool) <http://ba.uoregon.edu/content/department-assessments>

All auxiliary operations, designated operations, services centers, and continuing education for credit funds are subject to the same overhead rates with the following exceptions:

1. Research Service Centers that provide services to internal researchers are exempt from paying overhead rates on expenses related to these services. This helps to keep costs down for university researchers.
2. Research Service Centers that provide services to external entities are charged the maximum allowable rates. This is generally done on a percentage of revenue basis.

3. ASUO – ASUO is charged only the administrative rate on ASUO expenditures. Transfers from ASUO to auxiliary units are not charged overhead. The auxiliary unit pays overhead when it spends the funds.

4. Overhead rate exemptions – Certain units have historically been exempt from overhead charges. A list of current exemptions can be found at: <http://ba.uoregon.edu/content/department-assessments>. **All current exemptions will expire on June 30th, 2017.** Units may submit a request for an exemption that begins July 2017. Requests for exemption, with justification, **MUST** be filed with Budget and Resource Planning no later than [January 31, 2017](http://ba.uoregon.edu/content/department-assessments). Units should not assume that historical exemptions will be extended.

Additionally, the university has established a structured rate schedule for all units which recognizes that larger departments generally have increased levels of self-funded administrative support (e.g., HR, IT, media, purchasing, contracts, etc.) within their organizations, as well as economies of scale. See details: <http://ba.uoregon.edu/content/department-assessments>

New Overhead Rates for FY18 and FY19

In FY2016 we established a task force with representation from Budget and Resource Planning, College of Education, Business Affairs, Lundquist College of Business, Campus Planning and Facilities Management, Athletics, and Research & Innovation to review the central cost pools and make recommendations for changes to the overhead rates going forward. The central cost pools needed to be reviewed both due to the passage of time and that new units had been added to the university (e.g., ombuds program, internal audit, university board secretary) since the last analysis.

Review of the central cost pools showed that costs had increased to a point where it was appropriate to raise the rates charged. See analysis: <http://ba.uoregon.edu/content/department-assessments> However, the goal was to raise rates in a gradual manner so that units could adjust to higher charges.

Based on this analysis, the University is implementing the following overhead rate schedule for the next several years:

	FY16	FY17	FY18	FY19	FY20
Maximum Rate – Admin & Facility	10%	10%	10.5%	11%	TBD
Maximum Rate – Admin Rate Only	5.40%	5.40%	5.70%	6.00%	TBD
Facility Rate Only	4.60%	4.60%	4.80%	5.00%	TBD
Research Service Centers – Overhead Rate for Internal Customers	0%	0%	0%	0%	TBD
Research Service Centers – Rate charged to External Customers - REVENUE	10.20%	10.20%	10.80%	10.80%	TBD

Administrative Overhead - Structured Rate Schedule

The following structured rate schedule will be applied to all units for the administrative overhead rate based upon their expenditure base:

Structured Rate Schedule				
Expenditure Base - Up to	Overhead total	FY17	FY18	FY19
\$ 5,000,000	\$ 285,000	5.40%	5.70%	6.00%
\$ 10,000,000	\$ 550,000	5.00%	5.30%	5.60%
\$ 20,000,000	\$ 1,030,000	4.50%	4.80%	5.10%
\$ 30,000,000	\$ 1,460,000	4.00%	4.30%	4.50%
Above \$30,000,000		3.50%	3.80%	4.00%

Units that have historically had expenditures above \$5 million include: Athletics, Health Center, and Housing.

FY 2015 - Large Units	FY15 Expenditure Base	FY18 Structured Rate	FY18 Effective Rate
Intercollegiate Athletics Rev/Exp	\$ 53,712,187	2,361,063	4.4%
Residence Hall Operations	\$ 34,161,667	1,709,760	5.0%
Health Services	\$ 14,806,971	804,769	5.4%
Total		4,875,593	

Following is a detailed example of how the accounting would work for a unit with \$14 million of expenditures:

Expenditures	Admin Overhead Charged
First \$5 million	\$285,000
Next \$5 million	\$265,000
Next \$4 million	\$192,000
Total	\$742,000
Total Effective Rate	5.3%

Additional Information

For additional information regarding overhead rates, please see the Overhead Rate website <http://ba.uoregon.edu/content/departments-assessments> or contact Stuart Laing at slaing@uoregon.edu