



THE OHIO STATE UNIVERSITY

FISHER COLLEGE OF BUSINESS

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February 29, 2016

To: Bruce McPheron, Interim Executive Vice President and Provost
Geoff Chatas, Senior Vice President and Chief Financial Officer

From: J. Richard Dietrich, Chair
2016 Senate Fiscal Committee

Subject: Earnings Overhead Rate for FY 2017

Attached is the Earnings Overhead Rate recommendation for FY 2017 for your review and approval. The recommendations were discussed by the College Finance Subcommittee on February 2, 2016 and subsequently by the full Senate Fiscal Committee at its February 23, 2016 meeting. The Senate Fiscal Committee unanimously approved the recommendation for the rate for FY 2017.

c: Kris Devine
Brad Harris
Scott Klute
Suzi Ballinger

Faculty Senate Fiscal
February 23, 2016

TOPIC:

Overhead Rates for FY 2017

CONTEXT:

This is the annual calculation of overhead rates charged by the University to non-General Fund (earnings) units for services such as payroll processing, auditing, insurance, campus safety, etc.

CALCULATION SUMMARY:

Calculated and proposed rates for FY2017 are summarized below:

The Ohio State University Earnings Overhead Rates based on FY2015 Actual Costs							
(\$ in millions)	Total Overhead Costs to be Recovered	Adjusted Revenues	Calculated FY2017 Rates	Proposed FY2017 Rates	FY2016 Rates	FY2015 Rates	Notes
Health System	\$ 47.5	\$ 2,011.8	2.4%	Fixed Payment			(A)
Instructional Clinics	1.5	32.0	4.7%	4.7%	4.9%	5.0%	
Regional Auxiliaries	0.2	3.1	6.0%	5.0%	5.0%	5.0%	(B)
All Other Earnings Units	19.3	388.0	5.0%	5.7%	5.7%	5.7%	(C)
Total	<u>\$ 68.5</u>						

(A) - The Health System is charged a fixed dollar amount that is based on actual allocated costs, adjusted for inflation, in order to be compliant with federal Medicare reimbursement policies.

(B) - Due to the relatively small size of the Regional Auxiliaries group, it is subject to relatively large fluctuations in the calculated rates. For FY2017, we are proposing holding this rate flat at 5.0%.

(C) - For FY2017, the proposed rate will remain at 5.7%, with the estimated \$2.7 million in additional overhead collections set aside for strategic initiatives as directed by the Provost and CFO.

NOTES:

- Total overhead costs to be recovered are relatively stable, increasing \$300,000, to \$68.5 million, compared to the prior year. Decreases in Central Support and Insurance costs offset increases in Plant Administration and O&M – Other Services costs.

ADDITIONAL DETAIL:

- **Attachment A** – Notes on Methodology and Overhead Cost Pools
- **Attachment B** – Summary of Allocated Overhead Costs and Adjusted Revenues by Rate Group – FY2013 to FY2015
- **Attachment C** – Comparison of Total Overhead Costs to be Recovered and Actual Overhead Collections – FY2013 to FY2015
- **Attachment D** – Responses to Questions from February 2 CFS Meeting

Attachment A – Notes on Methodology and Overhead Cost Pools

General Notes on Overhead Rate Calculation Methodology:

- An overhead rate is a mechanism for charging earnings operations a proportionate share of the university's central facilities and administrative costs. Allocated overhead costs are divided by adjusted revenues to determine the rates.
- Adjusted revenues are three-year averages for revenues in each rate category. These average revenue figures are used to smooth out the rate impact of year-to-year fluctuations in gross earnings revenues.
- In general, facilities costs are allocated based on assignable square footage (ASF). Administrative costs are allocated based on modified total direct costs (MTDC).
- To maintain consistency with federal cost accounting rules, various unallowable and non-allocable costs have been excluded from the cost pools allocated to earnings operations.

Allocation of Indirect Overhead by Cost Pool and Participating Rate Group

Cost Pools	Basis of Allocation	Participating Rate Groups			
		Earnings	Health System	Instructional Clinics	Regional Campuses, ATI, OARDC
Facilities Support					
Plant Administration	ASF	x	x	x	
Insurance	ASF	x	x	x	x
O&M – Other Services	ASF	x	x	x	
Administrative Support					
Academic Administration	MTDC	x		x	x
Central Support	MTDC	x	x	x	x
Specialized Support					
Health Services Admin.	MTDC	x	x	x	
Student Services	MTDC	x			

Facilities Support Definitions:

- **Plant Administration** includes all expenditures associated with administering OSU operation and maintenance activities, including the University Architect's Office and Physical Facilities Administration.
- **Insurance** includes property insurance paid centrally by the University and auto insurance expenses for the University.
- **O&M – Other Services** includes Roads and Grounds maintenance, solid waste/refuse disposal, University Police and security services, radiation safety and hazardous waste disposal.

Administrative Support Definition:

- **Academic Administration** includes all costs associated with the Office of the Provost and is allocated to all academic-oriented earnings units.
- **Central Support** includes costs for central support functions including the Office of Business & Finance (payroll, purchasing, receiving, mail, accounts payable, accounting,

budget and treasury operations), the Office of the Chief Information Officer, the Office of Human Resources, the Office of the President and the Board of Trustees.

Specialized Support Definitions:

- **Health Services Administration** includes administrative and support service costs for Health Services Administration, including the operations of the Office of the Vice President for Health Affairs.
- **Student Services** includes the operations of the Office of the Vice President for Student Affairs.

Attachment B -- Summary of Allocated Overhead Costs and Adjusted Revenues by Rate Group

The Ohio State University												
Summary of Allocated Overhead Costs and Adjusted Revenues - as of 1/15/2016												
	HEALTH SYSTEMS (9400 & 9450)			INSTRUCTIONAL CLINICS (9560)			REGIONAL_AUX (9550)			EARNINGS (9500, 9510,9520 & 9600)		
	2013	2014	2015	2013	2014	2015	2013	2014	2015	2013	2014	2015
ADJUSTED REVENUE	1,789,196,642	1,888,595,776	2,011,809,837	29,725,602	30,437,123	32,023,655	2,827,469	3,001,226	3,088,576	360,386,216	370,102,311	388,046,557
OVERHEAD TO BE RECOVERED												
Operations & Maintenance (O&M)												
Plant Administration (1030&1035)	1,062,255	1,153,348	1,479,571	128,334	127,610	77,264	-	-	-	3,019,609	2,782,684	3,347,985
Insurance (1000)	493,114	1,169,027	642,710	59,695	129,343	33,563	10,418	7,932	11,872	1,407,106	2,829,458	1,454,343
O&M - Other Services (1150&1045)	1,590,105	1,488,286	2,824,090	198,497	171,300	232,032	-	-	-	4,596,915	3,640,575	6,774,419
Total O&M	3,145,474	3,810,661	4,946,371	386,526	428,253	342,859	10,418	7,932	11,872	9,023,630	9,252,717	11,576,747
Administration & General (A&G)												
Academic Administration (2200)	-	-	-	294,962	289,635	357,155	28,021	29,028	35,195	334,782	325,883	370,994
Central Support (2050, 2100)	42,544,211	41,803,478	38,598,906	753,143	714,185	732,531	127,154	136,954	137,308	8,942,463	7,391,480	6,571,189
Total AGN	42,544,211	41,803,478	38,598,906	1,048,105	1,003,820	1,089,686	155,175	165,982	172,503	9,277,245	7,717,363	6,942,183
College Administration (CA)												
Health Services (2450)	3,706,786	3,294,944	3,998,548	61,862	54,389	73,909	-	-	-	38,602	35,575	46,763
Total CAD	3,706,786	3,294,944	3,998,548	61,862	54,389	73,909	-	-	-	38,602	35,575	46,763
Student Services (7500)	-	-	-	-	-	-	-	-	-	773,883	645,327	711,793
TOTAL OVERHEAD TO BE RECOVERED	49,396,471	48,909,083	47,543,825	1,496,493	1,486,462	1,506,454	165,593	173,914	184,375	19,113,360	17,650,982	19,277,486
OVERHEAD RATES (as calculated)	2.8%	2.6%	2.4%	5.0%	4.9%	4.7%	5.9%	5.8%	6.0%	5.3%	4.8%	5.0%
OVERHEAD RATES (as charged)	Fixed Pyt	Fixed Pyt	Fixed Pyt	5.0%	4.9%	4.7%	5.0%	5.0%	5.0%	5.7%	5.7%	5.7%
				Proposed						Proposed		

Attachment C – Comparison of Total Overhead Costs to be Recovered and Actual Overhead Collections

	FY2013 (based on FY11 actual costs)			FY2014 (based on FY12 actual costs)			FY2015 (based on FY13 actual costs)		
(\$ in millions)	Total Costs to be Recovered	Total Collections	Variance	Total Costs to be Recovered	Total Collections	Variance	Total Costs to be Recovered	Total Collections	Variance
Health System	\$ 41.2	\$ 45.7	\$ 4.5	\$ 45.2	\$ 48.4	\$ 3.2	\$ 49.4	\$ 49.8	\$ 0.4
Other Earnings*	21.4	21.4	-	22.6	21.9	(0.7)	20.8	23.7	2.9
Total	\$ 62.6	\$ 67.1	\$ 4.5	\$ 67.8	\$ 70.3	\$ 2.5	\$ 70.2	\$ 73.5	\$ 3.3

* Includes main Earnings, Instructional Clinics and Regional Auxiliaries

Attachment D – Responses to Questions from February 2 CFS Meeting

1. Why is the calculated overhead rate for the Health System lower than the calculated rate for the main Earnings group?

The difference in calculated overhead rates for the Health System (2.4%) and the main Earnings group (5.0%) is primarily due to the relationship between allocated facilities costs and revenues for the two groups. For the Health System, allocated facilities costs are 0.2% of adjusted revenues vs. 3.0% of adjusted revenues for the main Earnings group. This accounts for virtually all of the difference in calculated rates. This difference in revenues, relative to facilities costs, is particularly evident when it is expressed in terms of revenue per square foot of space. Health System generates approximately \$923 per square foot vs. \$78 per square foot for the main Earnings group. The comparison between the two rate groups is summarized below:

The Ohio State University			
Analysis of Differences in Calculated Overhead Rates			
		Health System	Earnings
Adjusted Revenues		\$2,011,809,837	\$ 388,046,557
Total Allocated Facilities Costs		\$ 4,946,371	\$ 11,576,747
Allocated Facilities Costs as % of Revenue		0.2%	3.0%
Assignable Square Feet (ASF)		2,179,900	4,975,718
Adjusted Revenue \$ per ASF		\$ 923	\$ 78

2. The approved main Earnings rate for FY2015 was 5.7%, compared with a calculated rate of 5.3%. The additional 0.4% was expected to generate an additional \$1.4 million in overhead recoveries, which was to be used to fund strategic initiatives as decided by the President, Provost and CFO. What did central administration do with these additional recoveries?

For FY2015, there was a total margin of \$2.4 million related to earnings overhead, which was used in the following manner:

- \$750,000 for Compliance
- \$250,000 for Classroom Readiness
- \$1.4 million to meet other marginal commitments

Each year, there are numerous marginal commitments that need to be covered (\$2 million to Provost, \$250,000 to President/Provost Reserve, etc.). The marginal tax of 19% is used to cover these commitments. However, if we don't get enough incremental tuition, fee and subsidy revenue to generate enough funding through the 19% tax to cover these marginal commitments, we have a deficit. That's when we look at other revenue sources (such as Earnings Overhead) for marginal revenue to balance the deficit.