



TO: Richard Dietrich, Chair, Senate Fiscal Committee

FROM: Bruce A. McPheron, Executive Vice President and Provost
Geoff Chatas, Senior Vice President for Business and Finance/CFO

SUBJECT: Earnings Overhead Rates for FY 2018 Approval

Date: April 3, 2017

After discussing the recommended proposal for the Earnings Overhead Rates for FY 2018, we have approved the proposal for implementation in Fiscal Year 2018. If you have any questions, please contact Scott Klute at klute.6@osu.edu.

cc: Kris Devine
Brad Harris
Scott Klute
Tom Ewing
Senate Fiscal Committee



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March 2, 2017

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

From: J. Richard Dietrich, Chair 
2016-2017 Senate Fiscal Committee

Subject: Earnings Overhead Rates for FY 2018

Attached is the Earnings Overhead Rate recommendation for FY 2018 for your review and approval. The recommendation was discussed by the College Finance Subcommittee on January 17 and subsequently by Senate Fiscal Committee on February 21, 2017. The Senate Fiscal Committee approved the recommendation for the FY 2018 earnings overhead rate on February 21, 2017.

Please contact me if you have any questions about this recommendation.

c: Kris Devine
Tom Ewing
Brad Harris
Scott Klute

**Faculty Senate Fiscal Committee
February 21, 2017**

TOPIC:

Overhead Rates for FY 2018

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 FY2018 are summarized below:

The Ohio State University Earnings Overhead Rates based on FY2016 Actual Costs							
(\$ in millions)	Total Overhead Costs to be Recovered	Adjusted Revenues	Calculated FY2018 Rates	Proposed FY2018 Rates	FY2017 Rates	FY2016 Rates	Notes
Health System	\$ 50.4	\$ 2,155.8	2.3%	\$ 53.4	Fixed Payment		(A)
Instructional Clinics	1.6	34.2	4.6%	4.6%	4.7%	4.9%	
Regional Auxiliaries	0.2	3.1	5.6%	5.0%	5.0%	5.0%	(B)
All Other Earnings Units	21.4	405.7	5.3%	5.7%	5.7%	5.7%	(C)
Total	\$ 73.6						

(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 FY2018, we are proposing holding this rate flat at 5.0%.

(C) - For FY2018, the proposed rate will remain at 5.7%, with the estimated \$1.6 million in additional overhead collections set aside for strategic initiatives as directed by the Provost and CFO.

NOTES:

- Total overhead costs to be recovered increased \$5 million, to \$73.6 million, compared to the prior year. Increases in allocations of central support costs account for the bulk of the increase (see Attachment C).

ADDITIONAL DETAIL:

- **Attachment A** – Notes on Methodology and Overhead Cost Pools
- **Attachment B** – Summary of Allocated Overhead Costs and Adjusted Revenues by Rate Group – FY2014 to FY2016
- **Attachment C** – Allocations of Central Support Costs – FY2014-FY2016
- **Attachment D** – Total Earnings Overhead Recoveries – FY2012-FY2016

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 1/11/2017												
	HEALTH SYSTEMS (9400 & 9450)			INSTRUCTIONAL CLINICS (9560)			REGIONAL_AUX (9550)			EARNINGS (9500, 9510, 9520 & 9600)		
	2014	2015	2016	2014	2015	2016	2014	2015	2016	2014	2015	2016
ADJUSTED REVENUE	1,888,595,776	2,011,809,837	2,155,755,780	30,437,123	32,023,655	34,224,379	3,001,226	3,088,576	3,140,096	370,102,311	388,046,557	405,656,863
OVERHEAD TO BE RECOVERED												
Operations & Maintenance (O&M)												
Plant Administration (1030&1035)	1,153,348	1,479,571	1,534,596	127,610	77,264	73,118	-	-	-	2,782,684	3,347,985	3,578,446
Insurance (1000)	1,169,027	642,710	563,549	129,343	33,563	26,850	7,932	11,872	9,807	2,829,458	1,454,343	1,314,082
O&M - Other Services (1150&1045)	1,488,286	2,824,090	2,049,531	171,300	232,032	207,357	-	-	-	3,640,575	6,774,419	7,948,860
Total O&M	3,810,661	4,946,371	4,147,676	428,253	342,859	307,325	7,932	11,872	9,807	9,252,717	11,576,747	12,841,388
Administration & General (A&G)												
Academic Administration (2200)	-	-	-	289,635	357,155	435,926	29,028	35,195	35,406	325,883	370,994	519,015
Central Support (2050, 2100)	41,803,478	38,598,906	44,174,237	714,185	732,531	793,080	136,954	137,308	130,406	7,391,480	6,571,189	7,226,694
Total AGN	41,803,478	38,598,906	44,174,237	1,003,820	1,089,686	1,229,006	165,982	172,503	165,812	7,717,363	6,942,183	7,745,709
College Administration (CA)												
Health Services (2450)	3,294,944	3,998,548	2,050,364	54,389	73,909	36,148	-	-	-	35,575	46,763	25,145
Total CAD	3,294,944	3,998,548	2,050,364	54,389	73,909	36,148	-	-	-	35,575	46,763	25,145
Student Services (7500)												
-	-	-	-	-	-	-	-	-	-	645,327	711,793	820,244
TOTAL OVERHEAD TO BE RECOVERED	48,909,083	47,543,825	50,372,277	1,486,462	1,506,454	1,572,479	173,914	184,375	175,619	17,650,982	19,277,486	21,432,486
OVERHEAD RATES (as calculated)	2.6%	2.4%	2.3%	4.9%	4.7%	4.6%	5.8%	6.0%	5.6%	4.8%	5.0%	5.3%
OVERHEAD RATES (as charged)	Fixed Pyt	Fixed Pyt	\$ 53,439,949	4.9%	4.7%	4.6%	5.0%	5.0%	5.0%	5.7%	5.7%	5.7%
			Proposed			Proposed			Proposed			Proposed

Attachment C – Allocations of Central Support Costs

Central Support Costs (CPLs 2050 and 2100):	2014	2015	2016	Notes on FY2016 Changes		
Government Affairs	1,868,459	1,723,141	1,908,554			
Communications	5,983,768	6,495,350	7,068,566			
Board of Trustees	743,498	961,726	702,967			
Office of the President	2,725,132	2,179,801	2,648,900			
Legal Affairs Administration	7,751,902	8,037,248	8,720,624	Increases in staffing/salary costs		
Business & Finance	27,897,843	26,603,854	19,451,088	Reflects removal of Investments Office and certain Financial Services Administration functions.		
Office of the Chief Information Officer (OCIO)	27,858,451	20,079,468	32,313,355	Revised cost pool mapping to include additional IT security, HR/Finance application, HelpDesk and Office of the Chief Information Officer.		
Academic Affairs Administration	481,343	461,020	511,591			
Human Resources	8,685,894	8,984,690	10,039,931	Additional HR consulting and service delivery costs		
General University	5,376,632	3,270,124	2,046,421			
Cross Allocations*	4,428,037	4,018,630	4,210,559			
Total Central Support Costs	93,800,959	82,815,052	89,622,556			
	2014		2015		2016	
Allocation of Central Support Costs	%	Amount	%	Amount	%	Amount
Health System	44.6%	41,803,478	46.6%	38,598,906	49.3%	44,174,237
Other Earnings Operations	8.8%	8,242,619	9.0%	7,441,028	9.1%	8,150,180
Other University Functions	46.6%	43,754,862	44.4%	36,775,118	41.6%	37,298,139
Total		93,800,959		82,815,052		89,622,556
* Includes allocations from other indirect cost pools						

Attachment D – Total Earnings Overhead Recoveries

The Ohio State University						
Earnings Overhead Recoveries - FY2012-FY2016						
(\$ in millions)	2012	2013	2014	2015	2016	
Health System	\$ 43.0	\$ 45.7	\$ 48.4	\$ 49.8	\$ 48.9	
Other Earnings Operations	22.6	21.4	21.9	23.7	24.4	
Total	\$ 65.6	\$ 67.1	\$ 70.3	\$ 73.5	\$ 73.3	