



**THE OHIO STATE UNIVERSITY**

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To: James Cogdell, Chair, Senate Fiscal Committee

From: Bruce A. McPheron, Executive Vice President and Provost   
Michael Papadakis, Interim Senior VP & CFO, and University Treasurer 

Date: April 10, 2018

Subject: Earnings Overhead Rates for FY 2019 Approval

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We have discussed the recommended proposal for the Earnings Overhead Rates for FY 2019, and we have approved the proposal for implementation in Fiscal Year 2019.


If you have any questions, please contact Scott Klute at [klute.6@osu.edu](mailto:klute.6@osu.edu).

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



March 8, 2018

To: Bruce McPheron, Executive Vice President and Provost  
Mike Papadakis, Interim Senior Vice President and Chief Financial Officer

From: James W. Cogdell, Chair   
2017-2018 Senate Fiscal Committee

Subject: Earnings Overhead Rates for FY 2019

Process

The College Finance Subcommittee (CFS) of the Senate Fiscal Committee (SFC) reviewed the methodology for setting the Earnings Overhead Rates at its meetings of October 17 and November 14, 2017. They then reviewed the proposed Earnings Overhead Rates during their February 20, 2018, meeting and voted unanimously in support of the proposed Earnings Overhead Rates.

The CFS brought their recommendation to the full SFC at its February 27, 2018, meeting, where it was discussed and approved.

Recommendations

1. Senate Fiscal recommends approval of the proposed Earnings Overhead Rates for FY 2019.

Please contact me at [cogdell.1@osu.edu](mailto:cogdell.1@osu.edu) if you have any questions about these recommendations.

Cc: Kris Devine  
Brad Harris  
Scott Klute

Harald Vaessin  
Tom Ewing

**Faculty Senate Fiscal  
College Finance Subcommittee  
February 20, 2018**

**TOPIC:**

Overhead Rates for FY 2019

**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 FY2019 are summarized below:

The Ohio State University Earnings Overhead Rates based on FY2017 Actual Costs							
(\$ in millions)	Total Overhead Costs to be Recovered	Adjusted Revenues	Calculated FY2019 Rates	Proposed FY2019 Rates	FY2018 Rates	FY2017 Rates	Notes
Health System	\$ 57.2	\$ 2,276.9	2.5%	<b>\$ 60.7</b>	<b>Fixed Payment</b>		(A)
Instructional Clinics	1.5	33.1	4.6%	<b>4.6%</b>	4.6%	4.7%	
Regional Auxiliaries	0.2	5.5	4.4%	<b>4.4%</b>	5.0%	5.0%	
All Other Earnings Units	24.0	416.1	5.8%	<b>5.8%</b>	5.7%	5.7%	
Total	<u>\$ 82.9</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.

**NOTES:**

- Total overhead costs to be recovered increased \$9 million, to \$82.9 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 – FY2015 to FY2017
- **Attachment C** – Allocations of Central Support Costs – FY2015-FY2017
- **Attachment D** – Total Earnings Overhead Recoveries – FY2013-FY2017

## 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
<b>Facilities Support</b>					
Plant Administration	ASF	x	x	x	
Insurance	ASF	x	x	x	x
O&M – Other Services	ASF	x	x	x	
<b>Administrative Support</b>					
Academic Administration	MTDC	x		x	x
Central Support	MTDC	x	x	x	x
<b>Specialized Support</b>					
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 12/5/2017												
	HEALTH SYSTEMS (9400 & 9450)			INSTRUCTIONAL CLINICS (9560)			REGIONAL_AUX (9550)			EARNINGS (9500, 9510,9520 & 9600)		
	2015	2016	2017	2015	2016	2017	2015	2016	2017	2015	2016	2017
<b>ADJUSTED REVENUE</b>	2,011,809,837	2,155,755,780	2,276,907,726	32,023,655	34,224,379	33,050,614	3,088,576	3,140,096	5,482,160	388,046,557	405,656,863	416,149,236
<b>OVERHEAD TO BE RECOVERED</b>												
Operations & Maintenance (O&M)												
Plant Administration (1030&1035)	1,479,571	1,534,596	1,830,365	77,264	73,118	86,555	-	-	-	3,347,985	3,578,446	4,841,097
Insurance (1000)	642,710	563,549	638,177	33,563	26,850	30,177	11,872	9,807	21,557	1,454,343	1,314,082	1,687,886
O&M - Other Services (1150&1045)	2,824,090	2,049,531	3,104,166	232,032	207,357	185,441				6,774,419	7,948,860	8,559,215
<b>Total O&amp;M</b>	<b>4,946,371</b>	<b>4,147,676</b>	<b>5,572,708</b>	<b>342,859</b>	<b>307,325</b>	<b>302,173</b>	<b>11,872</b>	<b>9,807</b>	<b>21,557</b>	<b>11,576,747</b>	<b>12,841,388</b>	<b>15,088,198</b>
Administration & General (A&G)												
Academic Administration (2200)				357,155	435,926	316,634	35,195	35,406	16,652	370,994	519,015	395,179
Central Support (2050, 2100)	38,598,906	44,174,237	49,152,776	732,531	793,080	847,088	137,308	130,406	204,838	6,571,189	7,226,694	7,661,425
<b>Total AGN</b>	<b>38,598,906</b>	<b>44,174,237</b>	<b>49,152,776</b>	<b>1,089,686</b>	<b>1,229,006</b>	<b>1,163,722</b>	<b>172,503</b>	<b>165,812</b>	<b>221,490</b>	<b>6,942,183</b>	<b>7,745,709</b>	<b>8,056,604</b>
College Administration (CA)												
Health Services (2450)	3,998,548	2,050,364	2,454,627	73,909	36,148	42,222	-	-	-	46,763	25,145	30,922
<b>Total CAD</b>	<b>3,998,548</b>	<b>2,050,364</b>	<b>2,454,627</b>	<b>73,909</b>	<b>36,148</b>	<b>42,222</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>46,763</b>	<b>25,145</b>	<b>30,922</b>
Student Services (7500)										711,793	820,244	780,178
<b>TOTAL OVERHEAD TO BE RECOVERED</b>	<b>47,543,825</b>	<b>50,372,277</b>	<b>57,180,111</b>	<b>1,506,454</b>	<b>1,572,479</b>	<b>1,508,117</b>	<b>184,375</b>	<b>175,619</b>	<b>243,047</b>	<b>19,277,486</b>	<b>21,432,486</b>	<b>23,955,902</b>
<b>OVERHEAD RATES (as calculated)</b>	<b>2.4%</b>	<b>2.3%</b>	<b>2.5%</b>	<b>4.7%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>6.0%</b>	<b>5.6%</b>	<b>4.4%</b>	<b>5.0%</b>	<b>5.3%</b>	<b>5.8%</b>
<b>OVERHEAD RATES (as charged)</b>		<b>Fixed Pymt</b>	<b>\$ 60,662,380</b>	<b>4.7%</b>	<b>4.6%</b>	<b>4.6%</b>	<b>5.0%</b>	<b>5.0%</b>	<b>4.4%</b>	<b>5.7%</b>	<b>5.7%</b>	<b>5.8%</b>
			<b>Proposed</b>			<b>Proposed</b>			<b>Proposed</b>			<b>Proposed</b>

### Attachment C – Allocations of Central Support Costs

Central Support Costs (CPLs 2050 and 2100):	2015	2016	2017	Notes on FY2017 Increases
Government Affairs	1,723,141	1,908,554	2,212,484	
Communications	6,495,350	7,068,566	9,325,143	Increases relate to staffing in strategic marketing and branding
Board of Trustees	961,726	702,967	783,517	
Office of the President	2,179,801	2,648,900	2,600,482	
Legal Affairs Administration	8,037,248	8,720,624	8,518,517	
Business & Finance	26,603,854	19,451,088	19,933,189	
Office of the Chief Information Officer (OCIO)	20,079,468	32,313,355	39,507,994	Increases in central OCIO functions
Academic Affairs Administration	461,020	511,591	527,076	
Human Resources	8,984,690	10,039,931	9,191,964	
General University	3,270,124	2,046,421	3,080,162	
Cross Allocations*	4,018,630	4,210,559	4,354,036	
<b>Total Central Support Costs</b>	<b>82,815,052</b>	<b>89,622,556</b>	<b>100,034,564</b>	

Allocation of Central Support Costs	2015		2016		2017	
	%	Amount	%	Amount	%	Amount
Health System	46.6%	38,598,906	49.3%	44,174,237	49.1%	49,152,776
Other Earnings Operations	9.0%	7,441,028	9.1%	8,150,180	9.4%	9,441,816
Other University Functions	44.4%	36,775,118	41.6%	37,298,139	41.4%	41,439,972
<b>Total</b>		<b>82,815,052</b>		<b>89,622,556</b>		<b>100,034,564</b>

\* Includes allocations from other indirect cost pools

**Attachment D – Total Earnings Overhead Recoveries**

<b>The Ohio State University</b>										
<b>Earnings Overhead Recoveries - FY2013-FY2017</b>										
<b>(\$ in millions)</b>	<b>2013</b>		<b>2014</b>		<b>2015</b>		<b>2016</b>		<b>2017</b>	
Health System	\$	45.7	\$	48.4	\$	49.8	\$	48.9	\$	48.9
Other Earnings Operations		21.4		21.9		23.7		24.4		26.5
<b>Total</b>	<b>\$</b>	<b>67.1</b>	<b>\$</b>	<b>70.3</b>	<b>\$</b>	<b>73.5</b>	<b>\$</b>	<b>73.3</b>	<b>\$</b>	<b>75.4</b>