



THE OHIO STATE UNIVERSITY

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To: Brian Turner, Chair, Senate Fiscal Committee

From: Bruce A. McPheron, Executive Vice President and Provost
Mike Papadakis, Senior Vice President and Chief Financial Officer *MP*

Date: March 4, 2019

Subject: Earnings Overhead Rates for FY 2020 Approval

We have discussed the recommended proposal for the Earnings Overhead Rates for FY 2020, and have approved the proposal for implementation in Fiscal Year 2020.

If you have any questions, please contact Scott Klute at klute.6@osu.edu.

cc: Kris Devine
Scott Klute
Tom Ewing
Senate Fiscal Committee



February 15, 2019

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

From: Brian A. Turner, Chair *BT*
2018-2019 Senate Fiscal Committee

Subject: Earnings Overhead Rates for FY2020

Process

The College Finance Subcommittee (CFS) of the Senate Fiscal Committee (SFC) reviewed the proposed Earnings Overhead Rates for FY 2020 at its January 22, 2019, meeting. CFS voted in support of the proposed Earnings Overhead Rates.

The CFS brought their recommendation to the full SFC at its February 12, 2019, meeting where it was discussed and approved unanimously.

Recommendation

1. Senate Fiscal recommends approval of the proposed Earnings Overhead Rate for FY 2020.

This recommendation and the attached report are submitted to you for your review and approval.

Please contact me at turner.409@osu.edu if you have any questions about these recommendations.

Cc: Kris Devine
Scott Klute
Eric Sieber

**Faculty Senate Fiscal
College Finance Subcommittee
January 22, 2019**

TOPIC:

Overhead Rates for FY 2020

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 FY2020 are summarized below:

The Ohio State University Earnings Overhead Rates based on FY 2018 Actual Costs							
(\$ in millions)	Total Overhead Costs to be Recovered	Adjusted Revenues	Calculated FY2020 Rates	Proposed FY2020 Rates	FY2019 Rates	FY2018 Rates	Notes
Health System	\$ 59.2	\$ 2,454.3	2.4%	\$ 61.9	\$ 60.7	\$ 53.4	(A)
Instructional Clinics	1.5	35.4	4.2%	4.4%	4.6%	4.6%	
Regional Auxiliaries	0.3	8.4	3.3%	3.3%	4.4%	5.0%	
All Other Earnings Units	24.8	441.6	5.6%	5.7%	5.8%	5.7%	
Total	<u>\$ 85.8</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 \$2.8 million, to \$85.8 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 – FY2016 to FY2018
- **Attachment C** – Allocations of Central Support Costs – FY2016-FY2018
- **Attachment D** – Total Earnings Overhead Recoveries – FY2014-FY2018

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 1/08/2019												
	HEALTH SYSTEMS (9400 & 9450)			INSTRUCTIONAL CLINICS (9560)			REGIONAL_AUX (9550)			EARNINGS (9500, 9510, 9520 & 9600)		
	2016	2017	2018	2016	2017	2018	2016	2017	2018	2016	2017	2018
ADJUSTED REVENUE	2,155,755,780	2,276,907,726	2,454,267,340	34,224,379	33,050,614	35,370,799	3,140,096	5,482,160	8,362,484	405,656,863	416,149,236	441,624,706
OVERHEAD TO BE RECOVERED												
Operations & Maintenance (O&M)												
Plant Administration (1030&1035)	1,534,596	1,830,365	1,783,419	73,118	86,555	78,609	-	-	-	3,578,446	4,841,097	4,730,432
Insurance (1000)	563,549	638,177	582,323	26,850	30,177	25,668	9,807	21,557	23,571	1,314,082	1,687,886	1,544,654
O&M - Other Services (1150&1045)	2,049,531	3,104,166	3,113,728	207,357	185,441	182,431	-	-	-	7,948,860	8,559,215	9,098,326
Total O&M	4,147,676	5,572,708	5,479,470	307,325	302,173	286,708	9,807	21,557	23,571	12,841,388	15,088,198	15,373,412
Administration & General (A&G)												
Academic Administration (2200)			-	435,926	316,634	328,676	35,406	16,652	14,482	519,015	395,179	410,023
Central Support (2050, 2100)	44,174,237	49,152,776	52,011,076	793,080	847,088	834,738	130,406	204,838	234,228	7,226,694	7,661,425	8,113,622
Total AGN	44,174,237	49,152,776	52,011,076	1,229,006	1,163,722	1,163,414	165,812	221,490	248,710	7,745,709	8,056,604	8,523,645
College Administration (CA)												
Health Services (2450)	2,050,364	2,454,627	1,757,368	36,148	42,222	27,842	-	-	-	25,145	30,922	19,603
Total CAD	2,050,364	2,454,627	1,757,368	36,148	42,222	27,842	-	-	-	25,145	30,922	19,603
Student Services (7500)			-				-			820,244	780,178	843,228
TOTAL OVERHEAD TO BE RECOVERED	50,372,277	57,180,111	59,247,914	1,572,479	1,508,117	1,477,964	175,619	243,047	272,281	21,432,486	23,955,902	24,759,888
OVERHEAD RATES (as calculated)	2.3%	2.5%	2.4%	4.6%	4.6%	4.2%	5.6%	4.4%	3.3%	5.3%	5.8%	5.6%
OVERHEAD RATES (as charged)			Fixed Pymt \$ 61,900,000	4.6%	4.6%	4.4%	5.0%	4.4%	3.3%	5.7%	5.8%	5.7%
			Proposed			Proposed			Proposed			Proposed

Note: Health System fixed payment amount shown above is based upon calculation using FY18 costs. Actual fixed payment to be made is subject to an inflation adjustment assessed by Financial Planning & Analysis.

Attachment C – Allocations of Central Support Costs

Central Support Costs (CPLs 2050 and 2100):	2016	2017	2018	Variance over (under) prior year	Notes on FY2018 Increases
Government Affairs	1,908,554	2,212,484	2,438,957	226,473	
Communications	7,068,566	9,325,143	10,655,683	1,330,540	Salary increases and brand development consulting & media production
Board of Trustees	702,967	783,517	671,621	(111,896)	
Office of the President	2,648,900	2,600,482	2,743,929	143,447	
Legal Affairs Administration	8,720,624	8,518,517	8,917,538	399,021	
Business & Finance	19,451,088	19,933,189	20,325,988	392,799	
Office of the Chief Information Officer (OCIO)	32,313,355	39,507,994	39,134,380	(373,614)	
Academic Affairs Administration	511,591	527,076	2,775,547	2,248,471	Consolidation of AA IT functions into central support org 36021
Human Resources	10,039,931	9,191,964	8,996,682	(195,282)	
General University	2,046,421	3,080,162	944,296	(2,135,866)	Omission of Mershon designated funds deemed to have alternate funding source
Cross Allocations*	4,210,559	4,354,036	6,248,724	1,894,688	
				-	
Total Central Support Costs	89,622,556	100,034,564	103,853,345	3,818,781	

Allocation of Central Support Costs	2016		2017		2018	
	%	Amount	%	Amount	%	Amount
Health System	49.3%	44,174,237	49.1%	49,152,776	50.1%	52,011,076
Other Earnings Operations	9.1%	8,150,180	8.7%	8,713,351	8.8%	9,182,588
Other University Functions	41.6%	37,298,139	42.2%	42,168,437	41.1%	42,659,681
Total		89,622,556		100,034,564		103,853,345

* Includes allocations from other indirect cost pools

Attachment D – Total Earnings Overhead Recoveries

The Ohio State University						
Earnings Overhead Recoveries - FY2014 - FY2018						
(\$ in millions)	2014	2015	2016	2017	2018	
Health System	\$ 48.4	\$ 49.8	\$ 48.9	\$ 48.9	\$ 53.4	
Other Earnings Operations	21.9	23.7	24.4	26.5	28.3	
Total	\$ 70.3	\$ 73.5	\$ 73.3	\$ 75.4	\$ 81.7	