PI Article: Indirect Costs in Day-to-Day Life

When Georgia Tech invoices a sponsor, the standard invoice template shows expenditures associated with specific "object classes" such as Salaries and Wages, Fringe Benefits, Tuition Remission, Materials and Supplies, etc. But there is also an object class called Indirect Costs, and it is the line item which reflects the overhead (also known as F&A – Facilities and Administration) costs allocated to each specific award. These costs are incurred by the institution to support research activity, and they are applied to each award by multiplying each eligible direct cost dollar by the appropriate F&A Rate.

F&A Rates, and indirect costs in general, are often scrutinized and misunderstood as being excessive, unnecessary, and even profitable. Ironically, the rates used by institutions of higher education are actually reviewed and negotiated with the Federal Government to ensure that recovery does not exceed cost. And in fact, it often falls short of cost due to factors such as the administrative (A) cap and cost sharing. But maybe the most interesting aspect of the discussion is that bringing these costs to the forefront actually creates more doubt and scrutiny.

As consumers in the marketplace, we are always paying indirect costs with every purchase that we make. Here are some examples of the indirect costs we pay with our day-to-day purchases:

- Grocery stores: salaries (and fringe benefits) of staff in the stores who stack the shelves, clean the floors, and check you out at the counters. Utilities costs, such as electricity, water, and gas. Taxes paid by the store for occupying the land the store sits on.
- Airline tickets: salaries (and fringe benefits) for airline management, IT, and HR employees, rental costs for offices, customer service costs, advertising costs, insurance costs for aircraft and cargo, regulatory costs for licensing, safety inspections, environmental compliance.
- Restaurant costs: rental/lease costs for the space occupied, repair and maintenance costs, cleaning services, utilities like electricity and water, insurance costs, costs for permits and licenses, property taxes.

So the big question is why are university overhead costs so heavily questioned and doubted, while the costs for things noted above are not? The answer lies in the presentation. For universities, overhead rates are published and called out not only in proposals to sponsors but in invoices sent to sponsors. Paying at the counter in grocery stores, you only see a receipt with each individual food item shown along with sales tax. Buying an airline ticket, you only see the costs of the ticket and taxes and fee amounts on top. Buying dinner at a restaurant shows the individual food items along with tax and tip. In none of these instances is an indirect cost rate shown, nor is there a line item for its application specifically called out in the bill.

So the $50 price tag on a steak at a nice restaurant does not just represent the cost of the meat and the salaries/fringe of the kitchen staff who prepare it for consumption….it reflects overhead costs incurred by that restaurant as well. Those costs are just embedded (and therefore, unquestioned) in that $50.

If you have any questions on the contents of this article, please contact Josh Rosenberg at josh.rosenberg@business.gatech.edu.