Considerations for a Base Year Extension

Should you request an extension?

As we continue to move through the uncertainty of the COVID-19 pandemic, institutions are faced with increasing cost-cutting demands to rapidly adapt to the impacts created by the virus. Many institutions are coming to terms with the prospect that this public health crisis has not only impacted spring and summer programs but potentially the fall semester as well. This possibility presents a critical impact on all institutions, particularly tuition-focused residential programs.

In response to the current situation, OMB released memo M-20-17 on March 9, which gives institutions the option to defer their FY20 base year to FY21. At first glance, this appears as a gift to institutions with a 2020 base year by allowing the deferral of the cost associated with the processes to develop and negotiate F&A cost rates. While many institutions will be well served with a postponement, some may benefit immensely from proceeding with a 2020 base year. In this first review of the impacts of COVID-19 on the F&A aspects of an institution's research enterprise, we will examine the mechanics, tradeoffs, and considerations for deferring a base year.

For the most basic of mechanics, should an institution with a cognizant agency of DHHS-CAS elect to defer as allowed by memo M-20-17, they must inform the agency of the intent to extend the base year to 2021 by June 30, 2020. In the intervening time, institutions would benefit from analysis to understand the impact of extending before jumping on the opportunity.

For institutions that have opted to extend, an organization should ask the following questions of their current situation:

1. Do you expect to have a higher rate?
2. Is your organization planning to go-live with a new accounting system in FY 2021?
3. Do you usually perform a space survey?
4. Have you taken cost-cutting measures that will impact your fringe rates?

While these questions certainly do not cover all considerations, organizations can answer these questions before determining if they should proceed with their FY20 base year or send a notification to their cognizant agency of intent to extend.

Higher Rate?

New System?

Space Survey?

Cost-cutting measures?

Asking the Right Questions

Expecting a Higher Rate

Given the significant risk factor applied to tuition-based revenue streams, institutions that expect a higher rate may want to push on for a 2020 base year as planned, so the higher rate can be applied to awards sooner, which will drive revenue. Additionally, as many institutions are expected to delay until 2021, this could lead to a faster review period accelerating the ability to apply the new rate sooner. Furthermore, there may be a stimulus program related to research, which would increase the amount of awards to which the increased rate will apply. This increase would allow institutions to increase further indirect cost recovery along with the increase in the rate. If a stimulus program occurs, it is possible that the increase in research activity would put downward pressure on an F&A rate calculated using FY 2021 data.

Considering Implementations and Upgrades

With respect to system implementations, a best practice is to avoid developing an F&A rate proposal in a year the organization is also going live with a new accounting system. Given the fact that many system implementations and significant upgrades require some degree of mid-stream adjustment, combined with the importance of the accuracy of the data as well as the data demands associated with conducting the development of a proposal, avoiding the simultaneous development of a proposal and the new system can be critical. If an institution has a system go-live date planned for 2021, it may be worth considering keeping a 2020 base year to reduce the detrimental impact of data inaccuracies and the audit challenges that may arise from those issues.

Performing Space Studies

Institutions that conduct a space survey may want to consider modeling the effect of calculating the F&A proposal using salaries and wages to allocate indirect costs. For smaller institutions, this methodology can lead to higher rates. To determine the potential impact of using this methodology, we recommend using the last proposal's data and allocating the costs using the salaries and wages methodology. Institutions that do not typically conduct a space survey can still submit an FY20 as usual, as there is no need to be on-site to perform a space survey.

Managing the Impact of Cost-cutting Measures

Many institutions are looking for a variety of ways to cut costs to meet targets with the precipitous drop in revenue. Each institution should, at the very least, analyze the impacts of these cuts on cost recovery.

A critical area to review is the impact of fringe costs related to COVID-19.

Many institutions are halting matching contributions to 403B plans and, per the CARES act, deferring the 2020 FICA payment to 2021 and 2022. These cost-cutting measures will impact fringe rates and possibly F&A rates as well.

The Bottom Line

While the ability to extend base years may seem like a gift provided to reallocate the budget for proposal development for some, this potentially leads to lower rates for others that will be applied to a likely increased research base. These are only some of the factors to consider when electing to extend or not. There are also other costing implications to consider across the organization when taking cost-cutting measures. Overall, consider providing your costing teams the bandwidth to consider all the factors that will impact their indirect and fringe recovery, or work with partners to determine other creative strategies for maximizing the short- and long-term financial health of the institution.