The UNC System’s overhead receipts have increased by $100 million since FY 2001-02; funds support indirect research costs.

Executive Summary

Over two-thirds of the research conducted by University of North Carolina (UNC) campuses is federally-sponsored, and the UNC System recovers a portion of the actual cost of conducting this research via Facilities and Administrative Receipts (“F&A Receipts” or “Overhead Receipts”). These funds reimburse the university for indirect costs that are associated with research activities, but which are not easily billed to individual, specific projects.

In the past decade, the UNC System earned a cumulative total of $1.7 billion in overhead receipts. The annual earnings increased over that period from $123.6 million in FY 2001-02 to $224.8 million in FY 2010-11. During this time, the two research campuses (UNC-Chapel Hill and North Carolina State University) earned the majority of the System’s F&A receipts. The UNC System has spent the funds on personnel; capital, repairs and renovations; and other operating costs.

Background

The University of North Carolina (UNC) System receives over $1 billion annually in externally-sponsored grants, contracts and program awards. These external funds represent a significant portion of the System’s total funding; in comparison, its State appropriation totaled $2.6 billion for FY 2011-12. Federal regulations usually permit federal grants and contracts to pay for indirect costs associated with activities funded by federal grants or contracts. Consequently, the UNC system receives millions annually in federal indirect cost reimbursements, also called “overhead receipts” or “facilities and administrative receipts.” Following current practice of both the federal government and UNC, this brief uses the term “facilities and administrative (F&A) receipts.”

Legislative History

The General Assembly’s budgetary treatment of UNC’s F&A receipts has varied in recent decades. At times, the legislature has required the UNC System to transfer a portion of the receipts to the General Fund. Figure 1 summarizes the history of these legislative requirements.

Figure 1: Required Overhead Receipt Transfer to General Fund, FY 1960-61 to Present

<table>
<thead>
<tr>
<th>Fiscal Period</th>
<th>%</th>
<th>Authorization</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 1992</td>
<td>50%</td>
<td>S.L. 1991-689, Sec. 351</td>
</tr>
<tr>
<td>FY 1993</td>
<td>20%</td>
<td>S.L. 1989-936, Sec. 2(b)</td>
</tr>
<tr>
<td>FY 1994</td>
<td>15%</td>
<td>S.L. 1989-936, Sec. 2(b)</td>
</tr>
<tr>
<td>FY 1995 – FY 1997</td>
<td>10%</td>
<td>S.L. 1989-936, Sec. 2(b)</td>
</tr>
<tr>
<td>FY 1998 – Present</td>
<td>0%</td>
<td>S.L. 1997-443, Sec. 10.18;</td>
</tr>
<tr>
<td></td>
<td></td>
<td>S.L. 1999-237, Sec. 10.13</td>
</tr>
</tbody>
</table>

*Via Committee Report

The State’s rationale for implementing the transfer requirement was not recorded. However, the 1975 Advisory Budget Commission policy statement on F&A receipts notes that the amount transferred to the UNC System’s General Fund budget codes was intended:

for general support of the operating budgets of the institutions...and shall be considered general compensation and reimbursement for expenditures under such budgets in connection
with the programs and work related to the contracts and grants from which the overhead allowance receipts are originally derived.

That is, the transfers were meant to offset expenses paid by the General Fund, for which the campuses also received F&A reimbursements.

As shown in Figure 1, the legislature currently does not require the UNC System to transfer F&A receipts to the General Fund or to use the funds to offset General Fund appropriations. The General Assembly indirectly eliminated this requirement in S.L. 1997-443, Sec. 10.18, when it appropriated $7.7 million in expansion funds to offset the previously-required transfer. Subsequently, the General Assembly officially eliminated the practice via S.L. 1999-237, Sec. 10.13, which reads, “Effective July 1, 1999, all overhead receipts earned by constituent institutions of The University of North Carolina shall be retained at the campus earning the receipts.”

In 2001, S.L. 2001-424, Sec. 31.14, required the UNC Board of Governors to report annually to the General Assembly regarding F&A receipts, but did not reinstate previously-mandated transfers to the General Fund. The reports submitted by UNC allow the General Assembly to monitor the increase in F&A receipts over time and to track how the UNC System spends these receipts; further details on both topics are found in the subsequent sections.

**F&A Receipts Earned by the UNC System**

Over the last decade, the UNC System reported earning a cumulative total of $1.7 billion in F&A receipts. The University of North Carolina-Chapel Hill earned the vast majority of these receipts, or 70% of the total. Of the remainder, North Carolina State University (NCSU) earned just under 18%, and the remaining 12% were earned by the System’s other schools, except for the University of North Carolina School of the Arts.

Figure 2 shows the F&A receipts earned Systemwide since FY 2001-02. Although the total amount of receipts has increased, the share earned by campus has remained stable over this period, with NC State and UNC-Chapel Hill together earning an average of 88% of all F&A receipts.

The distribution of earnings remained consistent during the decade, although total receipts nearly doubled from $123.6 million in FY 2001-02 to $224.8 million in FY 2010-11.

Nearly one-third of the past decade’s growth occurred in FY 2009-10 and FY 2010-11 and is attributable to the federal American Recovery and Reinvestment Act of 2009 (ARRA). Among its other provisions, ARRA temporarily made available additional federal research funds. UNC’s F&A receipts increased by $39 million since FY 2008-09, and all but $2.5 million of that growth was associated with ARRA-funded grants. It is expected that the UNC System’s F&A receipts will decrease somewhat once the ARRA program ends.

**How the UNC System Spends F&A Receipts**

Most expenditures funded with F&A receipts are related to personnel, fixed charges, or capital. Across the System, the portion spent per category varies by campus; the UNC Board of Governors permits each constituent institution to self-determine how it spends F&A receipts (UNC Board of Governors Policy Manual, policy 500.5). Figure 3 shows the allocation of expenditures systemwide over the past decade.

**Personnel Services**

The annual UNC reports to the legislature reveal that campuses spend the majority of their F&A receipts to support grant-related administrative functions, which frequently show up as personnel-related expenditures.
Examples of these internal support functions include finance and accounting and public safety related to research laboratory security.

**Figure 3: UNC Expenditures Funded with F&A Receipts FY 2001-02 to FY 2010-11**

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel Services</td>
<td>7%</td>
</tr>
<tr>
<td>Supplies, Utilities, Fixed Charges</td>
<td>23%</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>35%</td>
</tr>
<tr>
<td>Capital/Etc.</td>
<td>35%</td>
</tr>
</tbody>
</table>

**Supplies, Utilities and Fixed Charges**
The second-largest category of expenditures comprises supplies, utilities, other fixed charges (i.e., regularly-occurring expenses) and current services. Examples of these expenses include the cost of hazardous materials disposal, utilities for buildings that house research activities, maintenance contracts, leases and rent.

**Capital Improvements and Renovations**
Expenditures on capital improvements and renovations accounted for 23% of total expenditures over the decade. In FY 2010-11, these expenditures totaled $64.8 million, and over 93% of those expenditures took place at UNC-Chapel Hill (76% of the total) or North Carolina State University (17%). Both campuses used F&A funds as “obligated resources” to match funds they received from the 2000 Higher Education Bond Program, authorized in S.L. 2000-3.

**Other Expenses**
The “Other Expenses” category represents approximately 7% of total annual expenditures from F&A receipts. This category includes equipment (both computer and non-computer types), educational awards, such as faculty research awards, and library materials. UNC-Chapel Hill annually allocates a portion of its F&A receipts to its libraries, noting that “the university must provide access to the latest research materials in order for its faculty and students to conduct the research needed to receive grant awards.” (UNC “Report on Facilities and Administrative Receipts,” March 2012)

**Conclusion**
The UNC System’s numerous externally-sponsored research projects bring the System over $200 million annually in F&A receipts to support internal and overhead costs. For at least 40 years, the legislature required UNC to transfer a portion of this revenue to the General Fund to recognize a return on State taxpayer dollars previously invested in the System. However, the General Assembly eliminated the transfer in FY 1997-98 and has since permitted UNC to retain all F&A receipts to spend as the System deems appropriate. Over the last decade, the largest financial beneficiaries of this policy change have been the predominant research campuses of UNC-Chapel Hill and NC State University.

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