

Facilities Services – Full Cost Recovery

A few Facilities Services employees have attended the APPA Institute taking the Planning, Design, and Construction tract. As part of that curriculum, there is a session on full cost recovery of construction services usually taught by Don Guckert. The information presented in that session has been summarized and presented in the attached Facilities Manager article “The Charge of the Rate Brigade: A Rate Template for In-house Construction Labor” by Don Guckert and Jeri Ripley King. One research finding presented in both the APPA session and the article is that **the majority of universities do not fully recover the cost of all overhead elements in providing construction services to their campuses.** While this is usually unintentional, it still results in a form of subsidizing other departments.

In the spring of 2002, Facilities Services performed an assessment on their charge-back procedures and rates for work performed on campus. It was determined that this condition of subsidizing other departments from the M&O budget did exist. This was occurring in two primary ways. They were:

1. The charge-back rate of 25.77% being applied to the employee direct labor rate was not sufficient to recover all of the indirect/overhead costs of providing the services
2. Various support services (that were not strict M&O activities) being provided to the campus were not being recharged at all. Neither direct costs, nor indirect/overhead costs were being recovered

In order to address the subsidizing issues, Facilities Services recalculated a new overhead rate designed to adequately recover all costs of providing services and reviewed the types of services being provided for their adherence to an M&O definition. These efforts are summarized below.

Overhead Rate Recalculation

After reviewing the direct labor and indirect/overhead cost elements for the various work units within Facilities Services, new overhead rates were calculated in 2002. Table 1 provides a description of the direct charge and overhead elements for labor.

Table 1: Direct Labor and Overhead Rate Calculations			
	Description	Direct Wage Rate	Overhead Rate
Direct Labor		Salary/1950 hrs	
Overhead Elements			
Employee	leave, breaks, etc		23% of direct wage rate
Work Unit	supervision, operational expenses, etc		38% employee rate
Department	Directors office, work orders, accounting, etc		8% of work unit rate
Total		direct wage rate	83% of direct wage rate (1)

(1) Overhead rate of 83% is current year rate.

The total overhead rate of 83% falls within the “rule of thumb” of being twice the direct wage. In addition, the overhead rate recalculation process was reviewed by Internal Auditing in 2002.

Categorizing Maintenance and Operations (M&O) Activities

The budget of concern was, of course, the M&O budget of Facilities Services. This budget is supposed to fund M&O activities for E&G facilities on campus. These activities are not re-charged to the customer. Subsidizing issues arise however, when the service being performed cannot be defined as an M&O type activity or it is not for E&G facilities. To address the subsidizing issues, these activities should be identified and their costs re-charged to the customer with the overhead rate that allows for full cost recovery. Table 2 shows the categorizing methodology for determining activities to be re-charged:

	Table 2: Chargeable Work by Service and Facility Type	
	M&O Services	Non-M&O Services
E&G Facilities	FSD Budget – No Charge to Customer	Additional Services - Charged to Customer
Non-E&G Facilities	Work for Others - Charged to Customer	Work for Others - Charged to Customer

Summary

An assessment of Facilities Services charge-back procedures in 2002 revealed subsidizing issues within the department. The overhead rate was recalculated to a full cost recovery level and the services being provided were evaluated for their adherence to M&O. After being reviewed with various customers across the campus in 2002, these new overhead rates and work classifications were implemented in FY 2002/03. Facilities Services believes the subsidizing issues of the past have been adequately addressed by these changes. As a result, the issues of employee productivity, effective management, and departmental cost controls are no longer masked and can be continuously evaluated for improvement.

The Guckert/King article summarizes the entire issue of full cost recovery. The information contained within and previously presented through the APPA Institute serves as the basis for the initial assessments of and subsequent modifications to the charge-back procedures for Facilities Services.

DG/JW
8/04