

further development prior to proposed implementation.

In brief, the proposed revisions:

(1) clarify that, when an institution transitions from a use allowance methodology to a depreciation methodology, only the depreciation incurred from the time of the transition—calculated as if the asset had been depreciated over its entire life—may be allocated to federally-sponsored research;

(2) limit the use of special studies by prohibiting them for determining and allocating utility, library and student services costs;

(3) require all Federal funding agencies to use rates in effect at the time of initial award throughout the life of the sponsored agreement;

(4) eliminate the allowability of dependent tuition benefits;

(5) establish criteria for appropriate reimbursement of interest costs;

(6) rescind Circular A-88 and establish cost negotiation cognizance for educational institutions and cognizant agency responsibilities through Circular A-21;

(7) establish an interagency group of Federal officials responsible for coordinating policy development for sponsored agreements; and

(8) modify the terminology used in Circular A-21 to describe more accurately the various cost components of sponsored agreements.

In addition, this Notice announces OMB's decision to develop other revisions to Circular A-21. These include:

(1) establishing a process for assessing reasonable costs for research facility construction and renovation that may be allocated to facility cost pools and charged against sponsored agreements;

(2) developing a standard methodology for uniform treatment of specialized services, including computational centers and biohazards;

(3) developing standard benchmarks for utility costs over the next year, to be followed potentially by similar efforts for library and student services costs thereafter;

(4) developing and testing a model for charging space costs directly to research grants;

(5) examining and potentially revising the useful life schedule for equipment; and

(6) examining methods for explaining variations in facilities and administrative costs rates.

DATES: Comments should be received on or before April 7, 1995. Late-filed comments will be considered to the extent practicable.

ADDRESSES: Interested parties are invited to comment on all of these proposed changes. Comments should be submitted to the Office of Management and Budget, Office of Federal Financial Management, Room 6025, New Executive Office Building, Washington, DC 20503. Brief comments (3 pages or less) may be sent via facsimile (fax: 202-395-3952).

FOR FURTHER INFORMATION CONTACT: Norwood Jackson, Office of Federal Financial Management, Office of Management and Budget, telephone (202) 395-3993.

SUPPLEMENTARY INFORMATION: In the fiscal year 1995 President's budget, the Administration committed to a comprehensive review of the costs of federally-sponsored research, with the goal of making the reimbursement system more defensible, equitable and understandable by reducing unexplainable variations in facilities and administrative rates; improving incentives for efficiency; and fostering consistency in the Federal Government's approach to administering support for sponsored research. The revisions proposed in this Notice are the result of this review.

In the spirit of other reinvention efforts, the review process guided by the Office of Management and Budget (OMB) and the Office of Science and Technology Policy (OSTP) was inclusive and open. OMB and OSTP solicited views, recommendations, and proposals from many parties, including Federal science funding agencies; the grantee community, including both university administrators and bench scientists; and Congressional staff and agencies.

Based on their input, the Administration decided that the review should focus on facilities costs, since the two other groups of research costs (direct costs and administration costs) have reasonably efficient mechanisms built into their funding policies. Direct costs, which support researchers, laboratory equipment, and supplies associated with a specific project, are subject to peer review and scientists have an opportunity to exert direct control over these costs. Administrative costs, which support the salaries of university research managers, support staff and other shared costs related to research, were capped at 26 percent of modified total direct costs by a 1991 revision to Circular A-21, "Cost Principles for Educational Institutions." In contrast, facilities costs are not limited or peer reviewed. They account for almost all of the growth in research overhead rates over the last decade and

explain much of the variation in rates among schools. Most of the specific changes proposed in this Notice address the facilities component of research costs.

The two sections below describe the eight revisions OMB proposes to make to Circular A-21 at this time, as well as a separate set of revisions that require further work before they can be proposed for implementation. OMB intends to propose these additional revisions for comment within one year of publication of this Notice. Finally, OMB intends to publish a recompilation of the entire Circular A-21 in the **Federal Register** by March 31, 1995, reflecting all final revisions through that date, and also to make the recompilation available electronically on the Internet.

PROPOSED REVISIONS TO OMB CIRCULAR A-21: The following explains the eight specific changes proposed to Circular A-21.

(1) Clarify the policy governing the transition from use allowance to depreciation and examine useful life schedules for equipment. Circular A-21 would be amended to clarify that an institution may recoup only the remaining depreciation expense representing the remaining useful life of an asset when the institution shifts from the use allowance methodology to depreciation. Because current language in Circular A-21 addressing the transition issue is not sufficiently precise, cognizant agencies have interpreted it differently. This revision is expected to have little impact because the vast majority of institutions now allocate costs consistent with the clarified policy.

This revision also clarifies that institutions must use either use allowance or depreciation, but not both, in allocating the costs of any class of assets to sponsored research. As in the past, Circular A-21 does not require institutions to shift from use allowance to depreciation. Institutions may continue to do so at their discretion.

(2) Limit use of special cost analysis studies. Circular A-21 would be amended so that the results of special studies for utility, library and student services costs could not be used to determine and allocate the costs of such services to sponsored research. The methodology for such studies is not specified in Circular A-21 and is a source of disagreement between cognizant agencies and institutions. The provision in Circular A-21 allowing special studies may have been appropriate at one time but now promotes disparity in rates and recovery. In conjunction with limiting