

special studies, OMB proposes to develop and implement standard benchmarks for equitable allocation of utility, library and student services costs (see proposal #3 under "Other Issues for Public Comment" below).

(3) Require Federal funding agencies to use rates in effect at the time of initial award throughout the life of the sponsored agreement. Circular A-21 would be amended to require Federal science funding agencies to calculate outyear grant commitments using negotiated predetermined rates or other available negotiated rates at the time of the award. Funding agencies may not adjust future award levels for changes in negotiated rates taking effect after the initial award. This proposed change allows peer reviewers and funding agencies to know with certainty the total cost of an entire sponsored agreement throughout the decisionmaking process, and eliminates another point of inconsistency in Federal grant policies.

(4) Eliminate the allowability of dependent tuition benefit. To make Circular A-21 consistent with the Federal Acquisition Regulation, this Notice proposes to prohibit the allocation of dependent tuition benefits to sponsored agreements.

(5) Establish criteria for appropriate reimbursement of interest costs. The proposed revision would provide that interest on buildings and equipment would be allowable under certain circumstances which include a favorable lease/purchase analysis, a limit on the interest rate, and an offset of investment earnings against interest cost. The revision will serve to provide more consistency on interest allowability across OMB's three cost circulars: Circular A-122 for non-profit institutions, Circular A-87 for State and local governments, and Circular A-21 for educational institutions.

(6) Rescind Circular A-88 and establish cost negotiation cognizance for educational institutions and cognizant agency responsibilities through Circular A-21. This proposed revision rescinds Circular A-88. Cost negotiation cognizance would be assigned to the Department of Health and Human Services or the Office of Naval Research of the Department of Defense based on funding levels for sponsored agreements from these Departments. The Department providing the most funding would assume cognizance. Because of this change in approach, a listing of cognizant agency assignments is no longer necessary.

(7) Establish an interagency group of Federal officials to coordinate policy development for sponsored agreements. This proposed change would establish

an interagency working group co-chaired by OMB and the Office of Science and Technology Policy (OSTP), comprised of officials responsible for policy development for sponsored agreements. This group would be charged with recommending changes to Circular A-21 and other OMB cost principles circulars based on recommendations of Federal agencies and non-Federal organizations. This group would recommend pilot projects designed to test ways to streamline the operations of sponsored agreements, reduce costs, or improve program delivery.

(8) Modify terminology used to describe research cost components. Circular A-21 would be amended to change terminology from "indirect costs" to "facilities costs and administrative costs." The terms used currently to describe costs are perceived as insufficiently descriptive.

OTHER ISSUES FOR PUBLIC COMMENT: In addition to the specific revisions described above, OMB is also considering the following issues for possible future implementation through Circular A-21. Public comment is solicited on these issues. Should OMB decide to revise Circular A-21 to address these issues, specific changes will be proposed for comment at that time.

(1) Assessing reasonable costs for research facility construction and renovation that may be allocated to facility cost pools and charged against sponsored agreements or allocated directly. Circular A-21 requires that costs allocated to sponsored research be reasonable, and sets as a standard for reasonableness the "prudent person" test, i.e., whether a "prudent person" would have incurred the costs under similar circumstances. The rise in facilities costs over the past ten years and the significant variation in facilities rates among institutions have caused some to question how well and how consistently the "prudent person" test has been applied to facilities costs.

A committee of Federal officials from relevant agencies would be formed to develop benchmarks for the reasonable costs of construction of various types of space, adjusted for variable costs (e.g., energy, type of research) in each region of the U.S. The committee would seek input from the university community, private sector, and others. Benchmarks for renovation would be set at the same level as those for new construction. Benchmarks would be set at or slightly below a given standard to encourage efficiencies and would be indexed to inflation using a rate appropriate for

construction. Benchmarks for each region of the country and by type of research facility would be published in the **Federal Register** for comment by January 2, 1996.

Cognizant agencies and institutions would use these benchmarks to determine the facility costs that may be charged to sponsored agreements. If proposed facility costs fall below the relevant benchmark, the depreciation or use allowance and interest costs of the building could be allocated to sponsored agreements in accordance with Circular A-21. If the proposed costs exceed the benchmarks, only the amounts provided by the benchmarks could be allocated without prior approval by the panel described below.

Review of costs above the benchmarks would be carried out by a panel of Federal officials. The review would consider special circumstances related to individual projects. If a university fails to obtain approval for reimbursement of the full allocated share of the facility costs, it could either accept the benchmark rate, or submit a revised justification.

The goals of the new process are to make as objective as possible the assessment and allocation of costs to sponsored research, to assure equitable results, and to encourage efficient construction and renovation of research facilities. Benchmarks will reflect only what the government will pay for space, and in no way will limit what universities may spend on infrastructure. The review process will be proposed in a future revision to Circular A-21.

(2) Develop a standard methodology for uniform treatment of specialized services. Circular A-21 requires that costs associated with the use of specialized service facilities (e.g., animal care, computational centers, and biohazards) be charged as direct costs. This requirement was intended to avoid assessing facility charges to investigators who do not use specialized services. To comply with this provision, some institutions have developed usage rates that reflect the full costs of the facility; as a result, charges for services such as animal per diem have increased as the total costs of operating the facility have been added to the daily costs of caring for each animal. Colleges and universities have not allocated the costs of specialized services uniformly to cost pools.

OMB intends to identify the operating expenses of special facilities that should be allocated to the direct costs and those to be included in a facility-specific rate or the general facilities cost pool. The costs associated with each category