group will be to recommend changes to OMB Circular A–21 and other OMB circulars based upon recommendations of Federal agencies and non-Federal organizations. The group will also recommend pilot projects designed to test ways to streamline the operations of sponsored agreements, reduce costs, or improve program delivery.

(3) Amend Section E, paragraph 2.d by adding a new subparagraph (5):

(5) Notwithstanding subparagraph (3), a cost analysis study or base other than that in section F shall not be used to distribute utility, library and student services costs.

(4) Amend Section G by inserting a new paragraph 7 and renumbering all

subsequent paragraphs:

- 7. Fixed rates for the life of the sponsored agreement. Federal funding agencies shall use the rates for facilities and administrative costs in effect at the time of the initial award throughout the life of the sponsored agreement. If negotiated rate agreements do not extend through the life of the sponsored agreement at the time of the initial award, then the negotiated rate for the last year of the sponsored agreement shall be extended through the end of the life of the sponsored agreement. Award levels for sponsored agreements may not be adjusted in future years as a result of changes in negotiated rates.
- (5) Replace Section J 12, paragraph b. (3), as follows:
- (3) Where the depreciation method is introduced for application to assets for which use allowance was previously charged, depreciation on each asset will be computed as if the asset had been depreciated over its entire life (i.e., from the date the asset as acquired and ready for use to the date the asset is expected to be disposed of or otherwise withdrawn from use). The aggregate amount of use allowances and depreciation applicable to the asset (including imputed depreciation applicable to the period prior to the charging of use allowances as well as depreciation after the conversion) may be less than but in no case may exceed the total acquisition cost of the asset.

And add a new subparagraph J 12 c. (4):

- (4) Notwithstanding c.(3), once an institution converts from one cost recovery methodology to another, acquisition costs not recovered may not be used in the calculation of the use allowance in c.(3).
- (6) Amend Section J, paragraph 22.e. to read as follows:
- e. Interest on debt issued to acquire capital assets used in support of sponsored agreements is unallowable unless:
- (1) The educational institution performs a lease/purchase analysis in accordance with the provisions of OMB Circular A-110, "Uniform Administrative Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations," and sections 5a, 8(c)(2), and 13 of OMB Circular A-94, "Guidelines and Discount Rates for Benefit-Cost Analysis of Federal Programs," which shows that purchasing through debt financing is less costly to the Federal Government than leasing. Discount rates used should be equal to the grantee's borrowing rates. The financial analysis must include a comparison of the present value of the projected total cash flows of both alternatives over the period the asset is expected to be used by the educational institution in carrying out federally-sponsored activities. The cash flows associated with purchasing the asset must include the purchase price, anticipated operating and maintenance costs (including property taxes, if applicable) not included in the debt financing, less any estimated asset salvage value at the end of the defined period. Projected rental costs should be based on the anticipated cost of renting comparable facilities or equipment at fair market rates over the defined period, and any expected maintenance costs and property taxes to be borne by the educational institution directly or as part of the lease arrangement.
- (2) Financing is provided at an interest rate no higher than the fair market rate available to the educational institution from an unrelated third party.
- (3) Investment earnings, including interest, on bond or loan principal,

- pending payment of the construction or acquisition costs, are used to offset allowable interest cost. Arbitrage earnings reportable to the Internal Revenue Service are not required to be offset against allowable interest costs.
- (4) Educational institutions are also subject to the following conditions:
- (a) Interest on debt issued to finance or refinance assets acquired before July 1, 1982, is not allowable.
- (b) Federal cognizant agencies shall require educational institutions to compute interest on the excess of the Federal Government's depreciation and interest reimbursement payments over the educational institution's principal and interest payments, and that the educational institution treat the computed interest as a reduction in the interest expense to be reimbursed by the Federal Government. This provision is not applicable in instances where the educational institution makes an initial equity contribution of 25 percent or more to purchase the asset.
- (c) Substantial relocation of federally-sponsored activities from a facility financed by indebtedness, the cost of which was funded in whole or part through Federal reimbursements, to another facility prior to the expiration of a period of 20 years requires Federal cognizant agency approval. The extent of the relocation, the amount of the Federal participation in the financing, and the depreciation charged to date may require negotiation of space charges for Federal programs.
- (7) Amend Section J by adding a new paragraph 51:
- 51. Tuition benefits for family members. For educational institution's fiscal years beginning after September 30, 1997, charges for tuition benefits for any person other than the employee are no longer allowable.
- (8) Amend the entire Circular by changing all references to "indirect costs" to "facilities and administrative costs."

Circular A–88 is proposed to be rescinded in its entirety.

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