



Charging For-Profit Sponsors the Full, Uncapped Facilities and Administrative (F&A) Rate at UW–Madison

Executive Summary

The University of Wisconsin–Madison is a premier research institution that collaborates with a variety of external entities, including for-profit companies, on sponsored projects. To ensure the sustainability of UW–Madison’s research enterprise and recover the real costs of conducting research, UW-Madison will move to begin applying the full, uncapped Facilities & Administrative (F&A) rate on all proposals, awards, and agreements with for-profit entity sponsors. As of the last rate agreement, this F&A rate is 64%.

Any proposal with a federal agency sponsor and any proposal that originates with a federal agency and flows to UW-Madison through a for-profit sponsor will still use the negotiated F&A rate. Unlike federal, state, or not-for-profit sponsors, for-profit organizations derive direct commercial benefits from university research and should therefore contribute fully to the infrastructure that supports their projects. Charging the full, calculated F&A rate ensures:

- Full Cost Recovery – Covering UW–Madison’s real institutional expenses for research.
- Equity Across Sponsorships – Aligning costs with the funding entity’s mission and focus.
- Compliance with Institutional and Federal Policies – Ensuring proper stewardship of university resources and adherence to cost principles.
- Long-Term Sustainability – Protecting UW–Madison’s financial capacity to support research excellence.

To maintain fairness, financial sustainability, and compliance, UW–Madison should require for-profit sponsors to pay the full uncapped F&A rate on all agreements.

It is recognized that the on-going national debate on F&A costs could reshape how these costs are calculated and/or reimbursed, and that any decisions about the federal approach will have knock-on effects for other sponsoring entities.

Implementation Plan

UW-Madison will implement this effective **October 1, 2025**. The uncapped rate will only be applied to new proposals being submitted to for-profit sponsors on or after October 1st. Any ongoing project will keep the current rate applied to that project.

The Office of the Vice Chancellor for Research (OVCR), which includes RSP, will ensure communication and preparations are in place prior to October. Following the Dean's Council, updates will be given to the Associate Deans for Research and College/School research administrators in June and July.

In July, RSP will issue a formal notice announcing the policy change. In addition, RSP will ensure that all systems (i.e. RAMP), webpages, and budgeting tools, are updated to incorporate the new rate.

Supporting Rationale

1. Full Cost Recovery for UW–Madison Research

UW–Madison incurs substantial indirect costs to support research activities, including:

- Facilities Costs – Lab space, utilities, equipment maintenance, and depreciation.
- Administrative Support – Grant management, purchasing, compliance, and HR support.
- Regulatory and Compliance Costs – Institutional Review Board (IRB), Export Control, Environmental Health & Safety, and other mandated oversight.

For-profit sponsors benefit from UW–Madison's world-class research environment, faculty expertise, and state-of-the-art facilities. They should contribute fully to the costs of this infrastructure rather than shifting financial burdens to the university, taxpayers, or other sponsors.

Over the last three fiscal years, on average, UW-Madison would have recovered an additional \$1.8 million in indirect costs.

2. Ensuring Equity in Cost Sharing

Different types of sponsors contribute to UW–Madison's research in different ways:

- Federal sponsors follow federally negotiated F&A rates that UW–Madison is required to accept.
- Not-for-profit sponsors may have mission-driven funding constraints and sometimes negotiate reduced F&A rates.
- For-profit sponsors, unlike other funding sources, operate in a commercial environment where R&D is a standard business expense and should therefore pay the full cost of conducting research.

If for-profit entities are charged reduced or capped F&A rates, they receive an unfair financial advantage at the university's and the taxpayers' expense. Ensuring they pay the full F&A rate promotes equity and prevents inappropriate subsidization of private industry with public or institutional resources.

3. Compliance with UW–Madison and Federal Policies

UW–Madison’s federally negotiated F&A rate is established in accordance with 2 CFR 200 (Uniform Guidance) and approved by the Department of Health & Human Services (DHHS). Consistent application of the full F&A rate to for-profit sponsors is necessary to:

- Ensure compliance with federal cost principles and avoid audit risks.
- Maintain transparency in cost recovery and prevent misallocation of resources.
- Protect the integrity of UW–Madison’s research enterprise by demonstrating responsible financial stewardship.

Allowing for-profit sponsors to pay less than the full rate could raise concerns about inappropriate cost-sharing practices and financial sustainability.

4. Long-Term Sustainability and Strategic Growth

UW–Madison must ensure that external sponsorships do not create financial shortfalls that weaken its ability to support future research. Undercharging for-profit entities could lead to:

- Budgetary gaps due to unrecovered infrastructure and administrative costs.
- Reduced investment in faculty, research facilities, and student training programs.
- Increased scrutiny from federal sponsors if university resources appear to be subsidizing private sector research.

Applying the full, uncapped F&A rate to for-profit sponsors ensures that UW–Madison remains financially sustainable, competitive, and capable of supporting cutting-edge research well into the future.

Conclusion

For-profit entities directly benefit from UW–Madison’s research expertise, facilities, and infrastructure. As commercial organizations with the financial ability to pay full research costs, they should not be subsidized through reduced F&A rates. Charging the full, uncapped F&A rate aligns with federal guidelines, institutional policies, and principles of fairness and sustainability. To protect UW–Madison’s research enterprise, leadership should enforce this policy consistently across all agreements with for-profit entities.