¶1730.5 *COVID-19 and the Impact on University Service Centers*

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Prior to early Spring 2020, dealing with change was an accepted way of life in the working world. No one could have imagined the extent that human beings would be required to deal with change as a result of the COVID-19 public health pandemic. As the financial impact to University research approaches the tens of billions of dollars and the global leadership position of the United States in this field is threatened, navigating change during COVID-19 has become a new phenomenon all its own. While the broader impact on science is not possible to calculate at this point and is not likely to be understood for years, it is imperative that institutions commit to flexibility in developing, implementing, and monitoring new methods to provide a suitable and sustainable environment that ensures research activities will continue.

In this article, we explore the impact that the COVID-19 pandemic has had on University service centers. We begin by explaining what we mean when we use the term "service center" in this article. We then list some of the key issues that service centers must follow to be in compliance with federal guidance and regulations. With this background, we delve into some of the effects that the pandemic has had on University service centers.

What is a Service Center?

One of the key tools within the research enterprise is the service center, sometimes called, recharge center, or core facility. A service center is essentially a "non-profit business" within the University that provides goods or services for a fee that is based on approved charge rates. Customers are typically other units within the University. Fees can be charged occasionally to outside entities. *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Title 2 of the Code of Federal Regulations Part 200, in 2 CFR 200.468, defines specialized service facilities which are a specific type of service center. As described in the Cost Accounting Standards Board Disclosure Statement Instructions for the DS-2, Part III, item 3.2.0, "Service centers are departments or functional units which perform specific technical or administrative services primarily for the benefit of other units within a reporting unit. Service Centers include 'recharge centers' and the 'specialized service facilities' defined in Section J of Circular A-21. [Now 2 CFR 200.468]." From the *Summary Report on Audits of Recharge Centers at 12 Universities - HHS Office of Inspector General, January 1994*: "Recharge centers at universities, also known as specialized service centers, operate as in-house enterprises that provide goods or services to individual users or other operating units. These centers function as non-profit businesses, funding operations through fees from users." Other examples of classifying service centers are specialized service centers, internal service providers and auxiliaries.

Key Compliance Issues of Service Centers

Charges from a service center will typically be posted to a sponsored project, therefore administrators must be aware of critical compliance issues. These include the following:

- Rates for the service center can include salaries and wages plus fringe benefits costs, materials, supplies, equipment maintenance expense, etc., but should recover no more than the cost of the good or service.
- Surpluses must and deficits may be incorporated into subsequent rates.
- The service center must breakeven over time and the rates should be reviewed and adjusted at least every two years.
- The rates must not discriminate between users, especially those paying with federal funds. In practice, this means that the federal rate must be the lowest rate.
- Charges must be based on actual usage. A "Flat User Fee" unrelated to actual usage is not allowed.
- An official published price list should be maintained.
- Equipment depreciation expense may be included in service center rates. That is to say that the actual total acquisition cost of a depreciable asset is not allowable, instead the cost must be spread out over the useful life of the asset.
- Depreciation expense included in service center rates should be excluded from the F&A Calculation. From the *Summary Report on Audits of Recharge Centers at 12 Universities (A-09-92-04020)*, "The recovery of duplicate costs is not consistent with the cost principles: Our review found that two of the universities included … depreciation on equipment in their recharge center operating accounts and indirect cost rate proposal."
- Service center subsidies must not be included in the F&A rate. Also, from, *Summary Report on Audits of Recharge Centers at 12 Universities (A-09-92-04020)*, "included recharge costs in the calculation of the indirect cost rates."

COVID-19 Reduced Research Volume at Universities

On March 6, 2020, the University of Washington sent students, faculty, and staff home due to the spreading threat of COVID-19. Around the country more universities followed suit in the ensuing weeks. University research labs were shut down or restricted to only essential workers. The service centers that supported those research labs shut down as well. In many service centers, there is now a low volume of work due to the restrictions put in place to confine the virus. The volume of research has been greatly reduced given University closures and limited research allowed on campus.

Certainly, there were areas of research that continued and even expanded as research into ways to combat, test for, and understand the novel Coronavirus that causes COVID-19 were pursued. Yet, aside from these areas of research, most other areas of research contracted drastically because of the University shutdowns and restrictions. Some continue to experience lower volumes of usage.

With the reduced demand, service centers struggled to approach break even. While there is no compliance issue with falling short of break even, the resulting deficit in the service center operating fund impacts the calculation of the rates. Normally, service centers increase prospective rates by adding the year-end deficit amount into the calculation of future rates. Incorporating deficits caused by COVID-19 into the rates could be a compliance issue as well as an operational issue.

There may be a compliance issue if the deficit is expected to be a one-time or short-term event. It may not be appropriate to charge future users for an event that happened in the past and is not expected to recur or continue. Rates should recover no more than the cost of the good or service. Raising the rates in the midst of the pandemic in response to the lower usage, would seem to be the only compliant way to justify higher rates.

The operational issue is whether users will be willing or able to pay the higher rates. In our work with service centers, we are often told that the center would lose users if they increased their rates. Budgets for research awards are set during the proposal stage and cannot easily absorb an increase in expense due to higher service center rates.

Raising service center rates may also be constrained by the systems and processes of the University. Most Universities are set up to review and approve rates on either an annual or biennial bases and cannot easily accommodate a mid-year rate approval request. Many Universities do not have systems that can provide the accounting data necessary to re-calculate rates mid-year. The pivot to remote work by most staff may have exacerbated the issue of obtaining accounting data that normally would have been accessed from workstations located on campus on the campus internet system.

If rates cannot be raised, then perhaps subsidies are the solution. Many, probably most, service centers are subsidized by their Universities. This subsidy can be in the form of staff salaries and wages paid on University funds, year-end deficits forgiven and thus absorbed by University funds, or budget/funding transfers to cover expenses incurred by the service center. On the other hand, some Universities require service centers to be self-supporting and do not allow subsidies per University policy. Perhaps a once-in-a-hundred-years pandemic could be used as a reason for an exception to the policy and allow one-time subsidies.

We know of at least one University's policy that limits the amount of non-university usage for their service centers. This commendable policy prevents the perception of a for-profit enterprise operating within the University. However, with the revenue/recovery shortfalls resulting from the pandemic, perhaps COVID-19 is a reason to allow an exception to the policy limiting non-university usage.

For service centers that experienced a drastic reduction in usage during the pandemic, the solutions seem to be subsidies from the University, rate increases, or outside usage increases. With research volumes currently improving at most Universities, the shortfalls may have been a temporary and exceptional event worthy of extraordinary handling.

Physical Distancing Limited Room Occupancy

As COVID-19 started spreading faster and wide, the number of persons allowed in indoor and outdoor spaces were limited. Six feet of distance between all persons was recommended or mandated depending on the locale. Through the summer and fall of 2020 more research labs and service centers re-opened or began to experience a return of demand (if they had not closed). Physical distancing limited the number of people within each research lab and service center facility. The imposition of physical distancing requirements often reduced the output of the service centers.

In response, some labs and service centers decided to operate for longer time periods each day, expanding access to more than one shift per day. With fewer staff being able to work at the same time, in some cases, a service center may take more time and staff to produce the same output as they had before COVID-19 restrictions. Some labs and centers were able to expand their physical footprint to include vacant or temporarily vacant spaced.

Whether adding shift work or expanding their footprint, the physical distancing requirements due to COVID-19 have impacted service centers with either increased expenses, reduced revenues/recoveries or both.

Expenses Increased at Service Centers

The safety requirements imposed in response to COVID-19 resulted in both one-time and on-going expense increases. The physical distancing measures may have resulted in one-time expenses such as new signage, re-arranging of physical spaces, addition of safety barriers, new locks, and other physical changes to service center spaces. There are on-going increased expenses due to the extra cleaning and personal protective equipment (PPE) required in order to keep service center staff safe. As mentioned in the section above, adding shift work may result in additional labor costs for service center staff.

These expenses may have been, or are planned to be, covered using Higher Education Emergency Relief Fund (HEERF) or other federal funding sources. If federal funding is used to pay for expenditures or to cover lost revenue, then these cost impacts must not be included in the calculation of service center rates.

For additional expenses not funded from federal funds, service center rates may be increased, but only if the expenses are projected to continue. The institution may choose to subsidize the service center to cover additional expenses. We know of one University that decided to forgo charging monthly equipment depreciation expense to service centers for the period the centers were shut down. While we do not know of a University that has imposed surcharges during the pandemic, we do know that other types of businesses have done so. A cost-based surcharge would seem compliant to us.

Other Impacts Universities Experienced

The time needed to do the extra cleaning between users reduces the available usage time on instruments, thus lower revenue/recovery.

At the beginning of the pandemic, one University experienced trouble getting external users to pay and as a result required pre-payment to solve this problem.

One University, that we know of, under Office of Naval Research (ONR) rate cognizance has a one-year break-even standard. In their case a request for two-year break even could provide some relief.

Strategic Decision Making – What Stays and What Goes

The difficulties for service centers caused by COVID-19 remind us that the continued operation of service centers should be a strategic decision. From a central oversight perspective, we recommend, as a best practice, that the continued operation of any service center be subject to annual or biennial review, at the time of rate review. The decision to approve continued operation of a service center mirrors the criteria for allowing the establishment of a service center.

- Projected demand – by Principal Investigator, Department, grant
- Administrative support requirement
- Source of subsidy and willingness to continue the subsidy
- Inside or outside competition
- Is this service unique or substantially superior to other suppliers?
- Are services provided on an ongoing basis?
- It must support the University mission(s)

Service center managers may need to take on a more strategic decision-making posture in order to survive in the near term. This may require that the purchasing of any new, novel equipment is delayed. There may need to be layoffs or furloughs. Some more positive approaches would be to initiate targeted fundraising to support graduate students or to purchase new equipment.

Service center managers should also find out if there is duplication of services on campus. If so, the centers could consider consolidating with other service centers doing similar work which will eliminate some administrative costs. Also, they could consider having service center managers oversee multiple service centers.

Conclusion

University service centers have been and continue to be impacted by the COVID-19 pandemic. There has been reduced demand for service center products, increased expenses, and physical constraints that have made it difficult or impossible for some service centers to achieve break-even in fiscal year 2020 and into 2021. Service center managers are challenged by the decision to increase rates, request subsidies, request policy exceptions, lay off or furlough workers, increase operational hours, delay purchasing vital equipment or shutting down their center. University management must make tough decisions on allowing policy exceptions, providing subsidies, implementing layoffs or furloughs, merging service centers or dissolving service centers.

The COVID-19 pandemic has created the need for changes that could have never been envisioned only a short time ago. University management and service center managers have been and will be required to come up with novel ways in which to provide the services that are necessary to keep the United States as the global leader in the research enterprise.

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