

SELECTED AREAS OF COST

Chapter 66 – Special Facilities Operating Costs

Authoritative Sources

[FAR 31.201-4](#) Determining Allocability

This chapter provides guidance on the treatment of the operating costs of certain facilities, which, if not properly accounted for, could fail significantly to measure the benefits accruing to the several cost objectives.

The guidance includes (1) definition of applicable facilities, (2) criteria for determining whether the contractor is using an acceptable basis for charging or distributing costs to work benefited, and (3) criteria for determining billing or costing rates. Allocation of computer operating costs is covered in Chapter 11, Computer Cost Allocation (Algorithm).

In the course of implementing the following guidelines, including the development of any recommendation to change an established and previously acceptable accounting procedure with respect to a particular facility, the principles below are not to be applied so rigidly as to unduly complicate the allocation where substantially the same results are achieved through less precise methods.

This chapter addresses the following topics:

- 66-1 Criteria for “Special Facilities”
- 66-2 Methods for Allocating Costs to Benefiting Work
- 66-3 Treatment of Microelectronic Center (MEC) Costs
- 66-4 Determination of Costing Rates for Special Facilities
- 66-5 Treatment of Manufacturer Discounts to Educational Institutions
- 66-6 Treatment of Grants for Special Facilities

66-1 Criteria for “Special Facilities”

Facilities to which this guidance is applicable cannot be specifically designated by name or type but rather must be determined by whether or not they meet certain basic criteria. The first criterion to be met is that the costs involved in the operation of each facility must be significant in amount with respect to the contractor's overall operations. The second criterion is that the facility benefits only a limited portion of the contractor's total workload. Wind tunnels and space chambers are representative of facilities which, if they meet the criteria above, would be subject to the guidance provided in this section.

66-2 Methods for Allocating Costs to Benefiting Work

There are three basic methods for allocating costs related to facilities which meet the criteria for "Special Facilities" above, although variations may be encountered. If a variation appears to reasonably measure the benefits accruing to the several cost objectives, its use should be satisfactory. The three basic methods are described below.

66-2.1 Method 1 --- Full Costing on Usage Basis

Under the first method, all readily identifiable direct costs are charged to projects, contracts, or other work involved. Additionally, all general operating costs of the facility, such as rentals, depreciation (including obsolescence), amortization, repairs, maintenance, supplies, and general support salaries and wages, are allocated to the using projects, contracts, or other work involved, on a usage or other quantitative basis. Generally, this method yields the most equitable results and should be used if cost and usage data for the facility can be economically accumulated with reasonable accuracy. If it is determined that use of methods 2 or 3 below would yield inequitable cost allocations, cost data which will permit the determination of costs by method 1 should be maintained by the contractor.

66-2.2 Method 2 --- Only Directly Identifiable Costs Allocated on Usage Basis

Under the second method, readily identifiable direct costs are charged to the projects, contracts, or other work involved, as in method 1 above. However, all general operating costs of the facility, such as rentals, depreciation (including obsolescence), amortization, repairs, maintenance, supplies, and general support salaries and wages are included in the distribution through one of the contractor's appropriate categories of indirect expense. Although this method is less precise than method 1, its use is satisfactory if it reasonably measures the benefits accruing to the several cost objectives.

66-2.3 Method 3 --- General Indirect Cost Allocation

Under the third method, all costs associated with the facility, including direct labor and material, are grouped and distributed through one of the contractor's appropriate categories of indirect expense. This method should be used only when the contractor demonstrates that (1) neither method 1 nor 2 above is practical and (2) its use is unlikely to result in any significant failure to measure the benefits accruing to the several cost objectives.

66-3 Treatment of Microelectronic Center (MEC) Costs

On January 8, 1990, the Acting Under Secretary of Defense for Acquisition (USD(A)) issued guidance concerning the treatment of MEC costs. This USD(A) guidance provides that "The costs of developing and deploying new or improved systems, processes, methods, equipment, tools and techniques to produce the next-generation

microelectronics needed for future weapons systems are allowable in accordance with Federal Acquisition Regulation (FAR) 31.205-25, and should be allocated over an appropriate business base in accordance with FAR 31.201-4(c), until such time as the MEC is being substantially utilized for actual production efforts."

The Defense Procurement, Acquisition Policy, and Strategic Sourcing (DPAPSS) generally classifies MECs as special facilities, and therefore CAS 418 is not applicable to MECs. The MEC facility at a specific contractor may not qualify as a "special facility." For example, if the activities performed by the MEC facility are functionally identical to current engineering and manufacturing activities, the facility may not be "special" in nature. CAS 418 noncompliance reports must include an explanation as to why the particular MEC in question does not qualify as a "special facility."

Usually, the number of actual units produced by an MEC facility during the development phase will be small, but will increase gradually as the contractor approaches normal production levels. As a result, if the costs of facilities or equipment incurred at the smaller production level are allocated in total to the units produced, an inordinate amount of costs would be allocated to these units during the development period. Development efforts, when completed, will provide a broader applicability than the utilization in current production represents. Thus, the portion of these costs that represent development efforts should be allocated over a broader business base until the MEC facility approaches anticipated normal and/or substantial production levels, i.e., until the facility achieves self-sufficiency. Any such allocation of development costs should be done on an objective basis.

One of the key factors to consider in reviewing MEC costs is the basis used for distinguishing the production efforts from the development efforts. Whatever basis is used, it should be objective in nature to assure that allocations are based upon benefits received and that a broad business base allocation is applied to the development costs only until such time as the facility becomes self-sufficient. For example, an objective basis could include an allocation of total MEC costs based upon the proportion of production effort to development effort. In other circumstances, it may be possible to identify the specific functions associated with production and those associated with development, with an allocation of costs made accordingly.

66-4 Determination of Costing Rates for Special Facilities

66-4.1 Basic Procedures for Costing Rates

General operating costs of those facilities which meet the criteria in 66-1 and for which method 1 above is considered appropriate should generally be charged to users by means of actual or predetermined billing or costing rates as provided below. This will require maintenance of a time log for each facility to record the hours of time spent by each user. The period covered by the billing or costing rates will not normally exceed 12 months. See CAM Section 8-406 for CAS-covered contractors and FAR 31.203(g) for non-CAS-covered contractors.

When only one rate for the facility is to be applied, it should consist of the actual or estimated applicable costs divided by the actual or estimated number of hours or other units composing the basis.

66-4.2 Treatment of Real and Estimated Cost Differentials

When real cost differentials (such as certain services furnished during prime shifts only or by different facilities) exist and can be readily demonstrated, separate rates for such cost differentials may be used.

In the case of educational institutions, when rental or lease costs are based upon prime-shift usage, second and third shift usage may, with appropriate approval, be charged at reduced rates.

Under certain situations, reasonably estimated differential costs may be used in instances where cost differentials logically exist but cannot be determined precisely by contractor. For example, such differentials would permit priority, interrupt, or short-turnaround time runs at premium rates and/or nonpriority, non-prime-time, or large-volume runs at reduced rates.

Whether a single rate or several rates are used, the rates should be so designed as to recover, or closely approximate total recovery of, costs from all users of the facility. Where differing rates are used, they should be applied to all users on a nondiscriminatory basis. The costing of accommodations sales at reduced rates is not considered appropriate.

66-4.3 Treatment of Under – or Overabsorbed Rates

Any immaterial under- or overabsorption of costs resulting from application of predetermined rates may be charged or credited to an appropriate category of indirect expense. If the under- or overabsorption is material, it should be treated in accordance with the CAS-covered contractor's disclosed practices (see CAM Section 8-418).

66-5 Treatment of Manufacturer Discounts to Educational Institutions

When the manufacturer leases or sells the equipment below commercial prices to an educational institution as an allowance to education, the allowance should be treated as a reduction of the cost of leasing or purchasing.

66-6 Treatment of Grants for Special Facilities

When the contractor (usually a university) has received a grant from the Government to be used in connection with a particular facility, application of the funds provided should be in accordance with the terms of the grant.