(ii) Required Disclosure Statements shall be filed with the cognizant Federal agency responsible for indirect cost rate negotiations within three months after the end of the fiscal year in which the educational institution meets the criteria in (i), except for educational institutions that establish a specific due date in accordance with paragraph (iii), or that are required to file a Disclosure Statement earlier under the terms and conditions of a CAS-covered contract.

(iii) Prior to December 31, 1995, those educational institutions meeting the criteria of (i) for the most recently completed fiscal year occurring during 1994, the cognizant Federal agency and the educational institution should establish, in writing, a specific due date for the first time submission of the required Disclosure Statement, as follows:

(a) Educational institutions listed as number 1–20 in Exhibit A of this Circular, or unlisted educational institutions that received more than $50 million under sponsored agreements during a fiscal year ending in calendar year 1994, shall file the required Disclosure Statement no later than June 30, 1996.

(b) Educational institutions listed as numbers 21–50 in Exhibit A of this Circular, or unlisted educational institutions that receive more than $25 but less than $50 million under sponsored agreements during a fiscal year ending in calendar year 1994, shall file the required Disclosure Statement no later than December 31, 1996.

(c) Educational institutions listed as numbers 51–99 in Exhibit A of this Circular shall file the required Disclosure Statement no later than June 30, 1997.

(iv) Amendments and revisions. Educational institutions are responsible for maintaining accurate Disclosure Statements and complying with disclosed practices. Educational institutions must amend required Disclosure Statements when disclosed practices are changed to comply with a new or modified Standard, or when practices are changed with or without agreement of the cognizant Federal agency. Amendments and revisions to Disclosure Statements may be submitted at any time and may be proposed by either the institution or the cognizant Federal agency. Resubmission of complete, updated Disclosure Statements is discouraged except when extensive changes require it to assist the review process.

(2) *Cost Accounting Standards (CAS).* An educational institution's cost accounting practices used to estimate, accumulate and report costs for sponsored agreements shall conform with the CAS specified in Part 9905 (48 CFR Part 9905), except for contracts incorporating the full CAS coverage specified in Part 9904 (48 CFR Part 9904). Those CAS in Part 9904 are not incorporated in this Circular. The applicability of the CAS under Circular A–21 will not be effective on the effective date specified in 9905.506–63 (January 9, 1995).

b. Cost and Funding Adjustments. Cost, price, and funding adjustments shall be made by the cognizant Federal agency if an institution fails to comply with an applicable CAS or fails to consistently follow its established or disclosed cost accounting practices when:

(1) Estimating costs in contract proposals and the resultant contract provides funds materially in excess of the amounts that would have been provided had the estimated costs been based on compliant cost accounting practices. In such cases, the contract prices or cost allowances shall be appropriately adjusted.

(2) Accumulating and reporting costs under a sponsored agreement. In such cases, the institution shall correct the noncompliance by changing to a compliant cost accounting practice and by adjusting the accumulated and reported costs to reflect a compliant practice.

c. *Overpayments.* Excess amounts paid in the aggregate by the Federal Government under sponsored agreements due to a noncompliant cost accounting practice used to estimate, accumulate, or report costs shall be credited or refunded, as deemed appropriate by the cognizant Federal agency. Interest applicable to the excess amounts paid in the aggregate during the period of noncompliance shall also be determined and collected in accordance with applicable Federal agency regulations.

d. *Compliant cost accounting practice changes.* Changes from one compliant cost accounting practice to another compliant practice that are approved by the cognizant Federal agency may require cost or funding adjustments if deemed appropriate by the cognizant Federal agency.

e. *Responsibilities.* The cognizant Federal agency shall:

(1) Determine cost or funding adjustments for all sponsored agreements in the aggregate on behalf of the Federal Government. Actions of the cognizant Federal agency official in making cost or funding adjustment determinations shall be coordinated with all affected Federal agencies to the extent necessary.

(2) Prescribe regulations and establish internal procedures to promptly determine on behalf of the Federal Government that a Disclosure Statement adequately discloses the educational institution's cost accounting practices and that the disclosed practices are compliant with applicable Cost Accounting Standards and the requirements of this Circular. The determination of adequacy and compliance shall be distributed to all affected agencies.

Amend Section J, paragraph 16.a.(1), ''General Provisions for Selected Items of Cost,'' to read as follows:

''Equipment'' means an article of nonexpendable, tangible personal property having a useful life of more than one year and an acquisition cost which exceeds the lesser of (a) the capitalization level established by the organization for financial statement purposes, or (b) $5000.

[FR Doc. 95–2872 Filed 2–3–95; 8:45 am]

BILLING CODE 3110–01–P

OFFICE OF MANAGEMENT AND BUDGET

Cost Principles for Educational Institutions

AGENCY: Office of Management and Budget.

ACTION: Proposed revisions to OMB Circular A–21 and proposed rescission of OMB Circular A–88.

SUMMARY: This Notice offers interested parties an opportunity to comment on proposed revisions to Office of Management and Budget (OMB) Circular A–21, ''Cost Principles for Educational Institutions'' and OMB's proposal to rescind OMB Circular A–88, ''Indirect Cost Rates, Audit, and Audit Followup at Educational Institutions.''

This proposed revision, together with a separate proposed revision published in this issue of the **Federal Register**, fulfills the Administration's commitment in the fiscal year 1995 budget to ''conduct a comprehensive review with the goal of improving the incentives that govern overhead reimbursement for a wide range of federal research grantees and contractors.'' It also reflects the Administration's policies regarding Circular A–21 as described in the fiscal year 1996 budget, transmitted to Congress on February 6, 1995. Of the 14 policies in this Notice, eight are proposed as revisions to Circular A–21 itself in this Notice, and the other six revisions, as described below, require

further development prior to proposed implementation.

In brief, the proposed revisions:

(1) clarify that, when an institution transitions from a use allowance methodology to a depreciation methodology, only the depreciation incurred from the time of the transition—calculated as if the asset had been depreciated over its entire life—may be allocated to federally-sponsored research;

(2) limit the use of special studies by prohibiting them for determining and allocating utility, library and student services costs;

(3) require all Federal funding agencies to use rates in effect at the time of initial award throughout the life of the sponsored agreement;

(4) eliminate the allowability of dependent tuition benefits;

(5) establish criteria for appropriate reimbursement of interest costs;

(6) rescind Circular A–88 and establish cost negotiation cognizance for educational institutions and cognizant agency responsibilities through Circular A–21;

(7) establish an interagency group of Federal officials responsible for coordinating policy development for sponsored agreements; and

(8) modify the terminology used in Circular A–21 to describe more accurately the various cost components of sponsored agreements.

In addition, this Notice announces OMB's decision to develop other revisions to Circular A–21. These include:

(1) establishing a process for assessing reasonable costs for research facility construction and renovation that may be allocated to facility cost pools and charged against sponsored agreements;

(2) developing a standard methodology for uniform treatment of specialized services, including computational centers and biohazards;

(3) developing standard benchmarks for utility costs over the next year, to be followed potentially by similar efforts for library and student services costs thereafter;

(4) developing and testing a model for charging space costs directly to research grants;

(5) examining and potentially revising the useful life schedule for equipment; and

(6) examining methods for explaining variations in facilities and administrative costs rates.

DATES: Comments should be received on or before April 7, 1995. Late-filed comments will be considered to the extent practicable.

ADDRESSES: Interested parties are invited to comment on all of these proposed changes. Comments should be submitted to the Office of Management and Budget, Office of Federal Financial Management, Room 6025, New Executive Office Building, Washington, DC 20503. Brief comments (3 pages or less) may be sent via facsimile (fax: 202–395–3952).

FOR FURTHER INFORMATION CONTACT: Norwood Jackson, Office of Federal Financial Management, Office of Management and Budget, telephone (202) 395–3993.

SUPPLEMENTARY INFORMATION: In the fiscal year 1995 President's budget, the Administration committed to a comprehensive review of the costs of federally-sponsored research, with the goal of making the reimbursement system more defensible, equitable and understandable by reducing unexplainable variations in facilities and administrative rates; improving incentives for efficiency; and fostering consistency in the Federal Government's approach to administering support for sponsored research. The revisions proposed in this Notice are the result of this review.

In the spirit of other reinvention efforts, the review process guided by the Office of Management and Budget (OMB) and the Office of Science and Technology Policy (OSTP) was inclusive and open. OMB and OSTP solicited views, recommendations, and proposals from many parties, including Federal science funding agencies; the grantee community, including both university administrators and bench scientists; and Congressional staff and agencies.

Based on their input, the Administration decided that the review should focus on facilities costs, since the two other groups of research costs (direct costs and administration costs) have reasonably efficient mechanisms built into their funding policies. Direct costs, which support researchers, laboratory equipment, and supplies associated with a specific project, are subject to peer review and scientists have an opportunity to exert direct control over these costs. Administrative costs, which support the salaries of university research managers, support staff and other shared costs related to research, were capped at 26 percent of modified total direct costs by a 1991 revision to Circular A–21, ''Cost Principles for Educational Institutions.'' In contrast, facilities costs are not limited or peer reviewed. They account for almost all of the growth in research overhead rates over the last decade and explain much of the variation in rates among schools. Most of the specific changes proposed in this Notice address the facilities component of research costs.

The two sections below describe the eight revisions OMB proposes to make to Circular A–21 at this time, as well as a separate set of revisions that require further work before they can be proposed for implementation. OMB intends to propose these additional revisions for comment within one year of publication of this Notice. Finally, OMB intends to publish a recompilation of the entire Circular A–21 in the **Federal Register** by March 31, 1995, reflecting all final revisions through that date, and also to make the recompilation available electronically on the Internet.

PROPOSED REVISIONS TO OMB CIRCULAR A–21: The following explains the eight specific changes proposed to Circular A–21.

(1) Clarify the policy governing the transition from use allowance to depreciation and examine useful life schedules for equipment. Circular A–21 would be amended to clarify that an institution may recoup only the remaining depreciation expense representing the remaining useful life of an asset when the institution shifts from the use allowance methodology to depreciation. Because current language in Circular A–21 addressing the transition issue is not sufficiently precise, cognizant agencies have interpreted it differently. This revision is expected to have little impact because the vast majority of institutions now allocate costs consistent with the clarified policy.

This revision also clarifies that institutions must use either use allowance or depreciation, but not both, in allocating the costs of any class of assets to sponsored research. As in the past, Circular A–21 does not require institutions to shift from use allowance to depreciation. Institutions may continue to do so at their discretion.

(2) Limit use of special cost analysis studies. Circular A–21 would be amended so that the results of special studies for utility, library and student services costs could not be used to determine and allocate the costs of such services to sponsored research. The methodology for such studies is not specified in Circular A–21 and is a source of disagreement between cognizant agencies and institutions. The provision in Circular A–21 allowing special studies may have been appropriate at one time but now promotes disparity in rates and recovery. In conjunction with limiting

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

should be uniform across institutions. The new methodology should promote greater uniformity of cost allocation among institutions while stabilizing the impact on project costs. This methodology will be proposed in a future revision to Circular A–21.

(3) Develop standard benchmarks for utility costs. In conjunction with the proposed revision in this Notice to eliminate special studies for utility costs, OMB plans to develop a benchmark ratio, based on determinants of the ratio of utility usage to research space, to standardize the allocation of such costs to sponsored research. These benchmarks will be proposed in a future revision to Circular A–21. After benchmarks for utility costs have been developed and implemented, OMB will also consider employing similar processes and models to develop benchmarks for libraries and student services.

(4) Develop and test a model for charging space costs directly to research grants. Over the last several years, policymakers, scientists and negotiators have discussed the idea of identifying project-specific space costs and charging those costs directly to grants. Direct charging would strengthen the incentive for colleges and universities to allocate space efficiently. Charging space directly to sponsored agreements would also help clarify the true costs of research and subject these costs to peer review and program oversight on a project-by-project basis.

The idea of charging space directly has not been adopted because some perceive it as too complicated from a technical perspective. The Federal Demonstration Project (FDP), which was established to test ways to improve flexibility and reduce the administrative costs associated with grantmaking, is well-suited to test the idea of direct charging space to grants. Further, the National Performance Review recommended using the FDP as a model program to reduce overhead on research grants. OMB has requested the FDP to develop a model for and to test direct charging of space.

(5) Examine and potentially revise the useful life schedule for equipment. OMB intends to review the current useful life schedules for equipment to ensure cost recovery policies keep pace with the changing nature of scientific equipment. Useful life schedules will be updated in future proposed revisions of Circular A–21, as appropriate.

(6) Examine methods for explaining variations in facilities and administrative costs rates. OMB will review ways of collecting data to explain rate variation, to include establishing a uniform chart of accounts. OMB solicits comments on methods that will provide appropriate data in a cost-effective manner.

John B. Arthur,

Associate Director for Administration.

The following are proposed revisions to sections A, E, G, and J of Circular A–21:

(1) Amend Section A by: (a) deleting paragraph 2.f, (b) changing the number of the current paragraph 3 to 4, and (c) adding a new paragraph 3 as follows:

3. Cognizant agency assignments and responsibilities.

a. Cognizant agency assignments. Cost negotiation cognizance is assigned to the Department of Health and Human Services (DHHS) or the Department of Defense, Office of Naval Research (ONR), based on which of these two Departments provides more Federal funding through sponsored agreements to an educational institution (including its component parts) for the most recent three years available using data published by the National Science Foundation in its annual report entitled ''Selected Data on Federal Support to Universities and Colleges.'' Cognizant assignments as of December 31, 1994, will continue in effect through educational institution years ending during 1997, except for those institutions with cognizant agencies other than DHHS or ONR. Cognizance for these institutions will transfer to DHHS or ONR not later than the end of the period covered by the current negotiated indirect cost agreement. Once cognizance is established, it will continue for a five-year period.

b. Acceptance of rates. The negotiated rates will be accepted by all Federal agencies. This does not preclude agencies from paying a lower rate pursuant to a class of sponsored agreements or a single sponsored agreement.

c. Correcting deficiencies. The cognizant agency will negotiate changes needed to correct systems deficiencies relating to accountability for sponsored agreements. The cognizant agency will seek the views of other affected agencies before entering into negotiations and invite their participation.

d. Resolving questioned costs. The cognizant agency will conduct any necessary negotiations with the institution regarding amounts questioned by audit that are due the government related to costs covered by a negotiated agreement. Prior to reaching final agreement with an institution, the cognizant agency will seek the views of other agencies concerned.

e. Reimbursement. Reimbursement to cognizant agencies for work performed under this Circular may be made by reimbursement billing under the Economy Act, 31 U.S.C. 1535.

f. Procedure for establishing facilities and administrative cost rates. The cognizant agency will arrange with the institution to provide copies of facilities and administrative cost proposals to all interested agencies. Agencies wanting such copies should notify the cognizant agency. Facilities and administrative cost rates will be established by one of the following methods:

(1) Formal negotiation. The cognizant agency will advise all interested agencies of its intention to negotiate, and schedule a pre-negotiation conference, if necessary. The cognizant agency will then arrange a negotiation conference with the institution. If an agency does not wish to be represented in these meetings, the cognizant agency will represent that agency.

(2) Other than formal negotiation. This will include cases where the institution and cognizant agency determine that agreement can be reached without a formal negotiation conference; for example, through correspondence or use of the simplified method described in this Circular.

g. Formalizing determinations and agreements. The cognizant agency will formalize all determinations or agreements reached with the institution and provide copies to other agencies having an interest.

h. Disputes and disagreements. Where the cognizant agency is unable to reach agreement with an institution with regard to facilities and administrative cost rates or audit resolution, the appeals system of the cognizant agency will be followed for resolution of the disagreement.

(2) Amend Section A., ''Purpose and scope'' by adding a new paragraph A.4. as follows:

4. *Interagency Working Group.* A Federal interagency working group will be responsible for coordination of cost policy development for sponsored agreements. The group will meet at least semi-annually. The Office of Management and Budget (OMB) and the Office of Science and Technology Policy (OSTP) will serve as Co-Chairs. Federal agencies represented will be the Office of Science and Technology Policy of the Executive Office of the President, the Department of Health and Human Services, the Office of Naval Research of the Department of Defense, the National Science Foundation, the Department of Education, the Department of Energy, and such other agencies as OMB designates. The responsibilities of the

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.

[FR Doc. 95–2871 Filed 2–3–95; 8:45 am]

BILLING CODE 3110–01–P