

Evaluation of Cost Allocation Methods CFI-Funded Construction/Renovation which is Part of a Larger Undertaking

In instances where CFI-funded construction/renovation is part of a larger undertaking, Institutions are often faced with the difficult task of evaluating whether the cost allocation method proposed for the allocation of the overall construction/renovation cost to the CFI-funded space is appropriate.

This is especially difficult given that the cost breakdown structure and particularities of the construction/renovation may vary from one project to the next. Because of this, there is no universal cost allocation method that can be used for every project. Institutions must make use of judgment in establishing the most appropriate method for the project at hand.

The following provides a framework for evaluating whether the cost allocation method contemplated for a given project is appropriate. It is a simple framework and may not be all-encompassing. It does however provide a starting point for Institutions in their evaluation.

It is the responsibility of the Institution to develop an appropriate cost allocation method for each project where the CFI-funded construction/renovation is part of a larger undertaking. The cost allocation method used by an institution will be reviewed by the CFI upon audit of a project and adjustments may be required if the method used is not appropriate. Therefore, as this may present a risk for institutions, we strongly encourage institutions to consult with experts from their Physical Plant department (or equivalent) to ensure that the proposed cost allocation method for a given project is appropriate.

Framework

An acceptable cost allocation method should normally take into account the following:

1. Have as its main objective the establishment of the full cost of the CFI-funded space: How much did the CFI-funded construction/renovation cost? Therefore, it must be specific to the CFI-funded space. The method must take into consideration the nature of the space that is funded by the CFI (e.g. lab space may be more costly to build than office space).¹

¹ An exception to this requirement is provided when using the [Simplified Method](#). This method is acceptable to the CFI only if the average cost of the CFI-funded space is representative of, or higher than, the average cost of the overall undertaking. Institutions should refer to the documentation on the [Simplified Method](#) included in the [Frequently Asked Questions](#) in the Finance section of the CFI website.

2. Consider all applicable cost elements. Therefore, the method would normally include the cost of the net floor area funded by the CFI, an allocation of a portion of the common elements and structural areas costs (where applicable)², and an allocation of a portion of the soft costs. Costs related to modifications of the space immediately **adjacent** to the net floor area that is eligible for funding (if any) can also be considered if these modifications are essential, and a direct result of the construction/renovation of the eligible net floor area.
3. Exclude non-eligible costs (e.g. land, administrative costs, cost of moving existing tenants, art collections, etc.).
4. Segregate any equipment costs that may be included as part of the construction costs if they are presented separately to the CFI for funding under the equipment category. This is needed to avoid reporting these costs twice to the CFI.
5. Allocate a portion of the common elements and structural areas costs based on the amount of net space occupied by the CFI-funded space within the entire undertaking, not its dollar value. Common areas such as lobbies, washrooms, janitor rooms, elevator space, etc. are much more a function of the amount of space occupied than the nature/cost of this space. Unless it can be demonstrated that another method would be more appropriate for a specific project, the allocation of a portion of the common elements and structural areas costs should therefore be a function of the amount of space occupied. It would normally be acceptable to use the overall gross/net ratio of the entire undertaking to allocate a portion of the common elements and structural areas costs to the CFI-funded space as long as this ratio has been adjusted to exclude non-essential areas (see below).
6. Consider only the common elements and structural areas that are **essential** for the net floor area of the entire undertaking to function within the building when allocating a portion of the costs of common elements and structural areas costs to the CFI-funded space. Examples of non-essential areas are parking, lounges, vending areas, food services, health and fitness centers, areas in excess of building codes, etc.³

² In the case of renovations, the institution must assess whether it is appropriate to report a portion of the common elements and structural areas costs. If the common areas and structural areas renovated do not benefit the CFI-funded space, then it would not be appropriate to report a portion of these costs. In addition, if the cost allocation method is developed after the application stage, common elements should only be considered if funding has been requested for these elements in the initial application to the CFI.

³ The type of space that is considered as common elements may vary depending on the classification method used by the institution (FICM, BOMA, etc.).

7. Allocate a portion of the soft costs⁴ based on the dollar value of the CFI-funded space in comparison to the overall cost of the entire undertaking.⁵ As the nature of the space usually has an impact on the level of effort leading to the determination of most soft costs, this allocation should then be a function of the cost of the CFI-funded space.⁶
8. Provide for special conditions. If special conditions are required only for the CFI-funded space, then the entire additional costs associated to this special condition can be allocated to the CFI-funded space. On the other hand, if special conditions are only required by the other types of space (not funded by the CFI) in the entire undertaking and for which it would be inappropriate for the CFI to assume a portion of the costs, then none of the related additional costs should be attributed to the CFI-funded space.⁷
9. Appropriately prorate to reflect the research use of the CFI-funded space (if less than 100 percent for research purposes).

⁴ Soft costs are expense items that are not considered direct construction costs. However, these costs are necessary to prepare and complete the non-construction needs of the project. Soft costs include such items as architecture, design, engineering, permits, inspections, etc. Institutions may wish to refer to the [Costing Attribution Guidelines](#) prepared by Hanscomb (Appendix C) included in the [Frequently Asked Questions](#) in the Finance section of the CFI website for additional examples of soft costs.

⁵ The ratio can be determined by taking the dollar value of the CFI-funded space (including the allocation for a portion of the common elements) divided by the overall construction/renovation cost (prior to taking into account the soft costs).

⁶ The CFI will also accept an allocation of soft costs based on the amount of net space occupied by the CFI-funded space within the entire undertaking if the average cost of the CFI-funded space is representative of, or higher than, the average cost of the overall undertaking. In these instances, this basis of allocation would yield a conservative amount.

⁷ An exception to this requirement is provided when using the [Simplified Method](#). This method is acceptable to the CFI only if the average cost of the CFI-funded space is representative of, or higher than, the average cost of the overall undertaking. Institutions should refer to the documentation on the [Simplified Method](#) included in the [Frequently Asked Questions](#) in the Finance section of the CFI website.