BACKGROUND

In an environment of constrained research funding, universities face ever increasing pressure to leverage resources and successfully support academic research. Foundations have become eager partners in this endeavor, yet must justify to their donors that their philanthropic support is being deployed wisely. Over the last two years, FasterCures has convened university technology transfer office (TTO) representatives and foundation stakeholders to discuss the challenges and opportunities of philanthropic support of academic research. We began by focusing on developing model language for grant agreements and identifying best practices for engagement. One issue we deliberately chose not to address in these initial discussions concerned the coverage of indirect costs. However, in recent months, we heard from a number of participants that there was a need to confront these concerns. To that end, FasterCures invited a small group of stakeholders to participate in a private session focused on indirect costs, during the 2016 Partnering for Cures conference in New York, NY.

PRIVATE SESSION SUMMARY

Taxonomy – Language Matters

The session began with introductions, and each foundation representative shared his or her organization’s typical indirect cost coverage rate, while university representatives relayed the indirect cost rate at their institution. In this small sample size, there was a substantial gap between what foundations are currently paying and what, for example, the federal government might cover when it funds research at an academic institution. With most universities reporting an indirect cost rate of around 55% from government funders, foundation
reimbursement of these costs was typically below 25% with many in the room noting they pay 0% indirect costs. Academic institutions noted that when foundations pay no or low rates of indirect costs, the institution must recover that funding in other ways – either through fees, endowment funds, unrestricted private donations, or other sources.

One university representative argued that this chasm represented a “completely unsustainable situation,” but foundation representatives highlighted the scarcity of their own resources and the responsibility to donors to dedicate the majority, if not all, of their funds directly to research. There was a call in the room for all sides to “respect each other’s external pressures,” to better identify some common ground and make progress.

This led to early general consensus that the term “Indirect Costs,” is a misnomer. Indeed, many foundations who ask for itemized budgets from their investigators are actually covering the costs of research-related expenses that universities may technically classify as “indirect.” One participant suggested that we should identify a category of “research operating costs” and break this out from facilities and administration, and other indirect costs that are unacceptable to foundations.

There was recognition that this could create additional administrative burdens on the universities, but several institutions in the room expressed a willingness to make that trade-off should it lead to a higher recover of research-related expenses.

The Magnitude of the Problem

One university representative walked through examples within her institution to crystallize some of the challenges. For example, while the university has a multibillion-dollar research budget, it has unrecovered indirect costs that total nearly 10% of that budget. The university works to recover this shortfall through licensing and other revenue generated by intellectual property. However, this participant noted that licensing brings in only one fifth of the unrecovered indirect costs at her institution.

Ultimately, she noted that her institution would forego all income from licensing in order to recover indirect costs because it’s simply not possible to make up the difference under existing licensing agreements.

The foundation representatives in the room were sympathetic to this problem but noted that while institutions have unique pressures, foundations do as well. Recognizing that foundations were not going to have the will or the resources to fund full indirect costs, there was a push to identify common ground and see where progress could be made.

One participant whose foundation pays 0% indirect costs, noted that sometimes her organization will engage with the administrators of the research portfolio and re-categorize certain expenses as direct, because they recognize that these costs must be covered for the research to proceed. She suggested that this working group look to identify what these true “research operation costs” might be such that foundations may more regularly cover these expenses.

Other Anxieties

Universities pointed out that there is a risk that paying a lower rate to foundations or other funders of research, will cause the federal government to question its existing rate. For state universities, there may be increased scrutiny from the state into why tuition and state dollars are being used to subsidize research and cover the gap in indirect cost recoupment.

Foundations also raised concerns about whether indirect cost recovery can be used as a factor to judge fitness of a researcher at an institution. For example, individual researchers might be penalized when indirect cost
recovery is too low by losing research space or missing promotion opportunities. This can put researchers in the position of having to weigh professional challenges against the potential prestige of a foundation research grant.

University representatives noted that their administrative support was built to handle NIH grant agreements. As foundations have put in new and different requirements, that can impose new burdens. One representative pointed out that they are willing to build the support to handle this, but some smaller institutions may be struggling to create this new infrastructure.

The Important and Unique Role of Philanthropy

Participants acknowledged that foundations do provide a different value proposition from NIH or industry funding. “Our business is risk-taking,” one foundation representative noted, and accordingly foundations fund risk-taking, innovative research which may not find support elsewhere. At the same time, given the fiduciary responsibility and commitment to their donors, foundations must be good stewards of their resources and need to think carefully about how they are allocating dollars. Covering expenses unrelated to research is just not an option for many of these funders.

Foundations noted that transparency is needed as non-profit expenditures are more closely scrutinized, including whether donor dollars generate desired results. The concept of a flat-rate for indirect costs, regardless of the level of that rate, was therefore viewed as less preferable to a more transparent list of acceptable (and unacceptable) expenses.

LOOKING AHEAD

This discussion, while tense at times, was also encouraging in that it brought together participants with different perspectives and goals to identify common ground moving forward. It was clear that neither “side” would get exactly what it wanted, but participants are hopeful that open and honest dialogue will enable implementation of more beneficial programs.

At FasterCures, we are committed to working with the Association of University Technology Managers (AUTM), the Health Research Alliance (HRA) and other university and foundation stakeholders to build a constructive path forward. Below are some proposed next steps:

- Share budget templates to help identify what costs can be covered and what is acceptable.
- Develop a post-award reporting template to improve transparency
- Develop a shared list of costs currently identified as “indirect” that may be more accurately classified as “research operating costs.”
- Include the voice of the researcher. Researchers have real and significant pressures that must be taken into consideration in these discussions.

At FasterCures, we are grateful for the thoughtful and insightful contributions from all session participants. We look forward to continuing to work with these and other stakeholders to identify effective paths forward, and put these proposals into action. Stay tuned for more information on this topic as we move into 2017!