

FIRST / Nonprofit Funder – Research Institution (NFRI) Webinar

Indirect Costs (aka F&A): Everything you need to know

Please remember to dial in:

U.S. & Canada: 866.740.1260

Access Code: 9915000

We will get started in a few minutes.

Today's Speakers:

Heather Snyder (Moderator)
Senior Director, Medical & Scientific Relations
Alzheimer's Association

David Kennedy
VP & Director, Costing Policies
Council on Governmental Relations (COGR)

Jim Luther
Associate VP Finance & Compliance Officer
Duke University

Impetus for this Webinar

- Survey by the FIRST Group
- Initial NFRI Meeting – May, 2018
 - 3 Breakout sessions:
 - IP/Tech Transfer
 - Streamline Reporting Requirements
 - IDC/F&A policies**
 - Led to 3 workstreams including:
 - Research Project Support Costs** (*DRAFT*)
- HRA Members Meeting – Sept 13, 2018
 - FIRST Group Update – lunch Thursday
- Second NFRI Meeting – November, 2018



INDIRECT COSTS (AKA F&A)

Everything you need to know

Thursday, September 6, 2018 | 01:30 EDT | Host: Health Research Alliance



WELCOME!



David Kennedy

VP & Director, Costing Policies
Council on Governmental Relations (COGR)



Jim Luther

Associate VP Finance & Compliance Officer
Duke University

Feel free to ask the presenters your burning questions to better understand the nuances of this issue, as we all strive to accelerate research progress.

WHY ARE WE HERE?

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To explore research costs, including how facilities and administrative costs (F&A or “indirect costs”) and “direct” costs are defined and calculated, and how these costs are used to support research.

To help funders understand what research infrastructure and operating expenses (including project-specific expenses) are supported by F&A costs, and what contributions research institutions make in support of sponsored research.

AGENDA

1

Contextual Overview

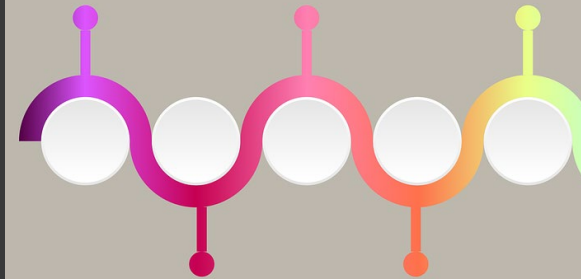
- a) National Issues
- b) University Perspective



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F&A Costs Process & Key Terms

- a) University issues related to F&A Costs
- b) Regulations that drive a research institution's perspective on F&A Costs
- c) The process by which an institution calculates and negotiates its F&A rate

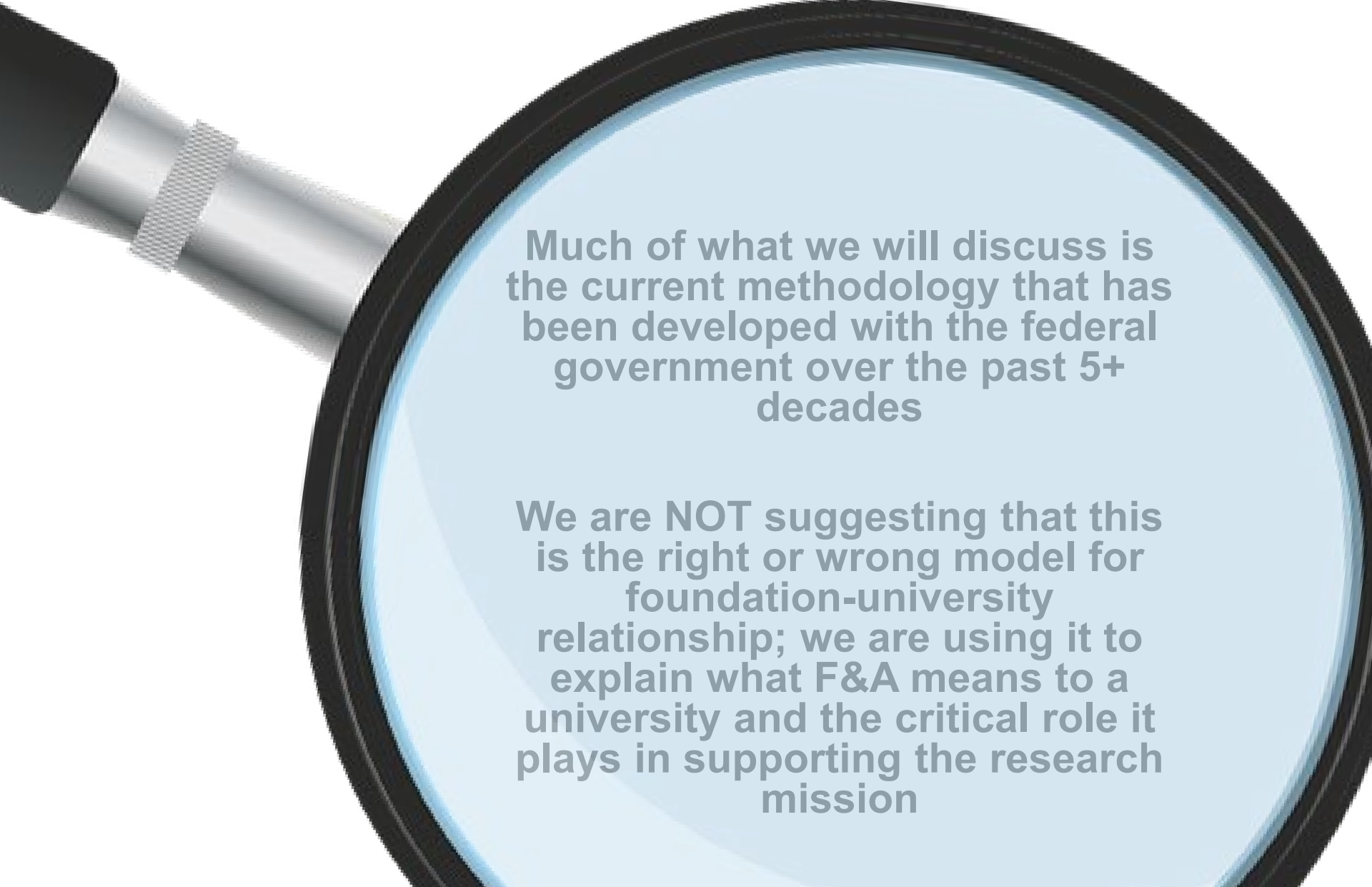


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The Partnership: Funders, Foundations and Research Institutions



STATEMENT OF CLARIFICATION



Much of what we will discuss is the current methodology that has been developed with the federal government over the past 5+ decades

We are NOT suggesting that this is the right or wrong model for foundation-university relationship; we are using it to explain what F&A means to a university and the critical role it plays in supporting the research mission

THE PARTNERSHIP



1

CONTEXTUAL OVERVIEW



Core Concepts: Direct and Facilities and Administrative Costs

- **Direct Costs:** Costs which can be identified specifically with a particular sponsored project or that can be directly assigned to such activities relatively easily with a high degree of accuracy
- **Facilities & Administrative:** Costs incurred for common or joint objectives and therefore **cannot be identified readily and specifically with a sponsored project**

F&A costs can become “direct” costs in “Unlike Circumstances”

- For example, a tablet PC purchased to support a clinical trial that includes interviewing subjects at multiple locations

F&A COST REIMBURSEMENT LEVELS IN JEOPARDY



Health and Human Services Secretary Tom Price at today's House of Representatives hearing. MICHAEL REYNOLDS/EPA/NEWSCOM

Last year's FY18 proposed budget from the White House **reduced the F&A rate to 10%**, a cut of approximately two thirds

Trump wants 2018 NIH cut to come from overhead payments

THE WHITE HOUSE AND OMB CONTINUE TO LINK IDC POLICY, THE RPB, AND REGULATORY REFORM



Statement of Administration
Policy (SAP) on Senate budget

F&A still seems to be front and center!

Indirect Cost Policy

The administration expressed their disappointment that language was again included in the bill that prohibits changes to the method used by NIH to pay grantee institutions for facilities and administrative costs (F&A or Indirect Costs). The administration continues to link this prohibition to OMB/NIH efforts to “develop strategies to make Government programs more effective and efficient”.

21st Century Cures Act Research Policy Board (RPB)

More disappointment from OMB because the bill does not authorize the use of NIH funds to establish the RPB (one of the major functions of the RPB is to investigate regulatory burden). In their comments on the RPB issue, the OMB continues to link the establishment of the RPB to the indirect cost policy and that these two issues make it “difficult to address regulatory burden in a meaningful way”.

F&A COSTS – THE MYTHS:



MYTH #1

F&A costs aren't real costs of research



MYTH #4

Foundations are subsidized by federal sponsors and don't pay their fair share



MYTH #6

Universities hire people and construct buildings so they can get more F&A.

MYTH #2

There is no reason for F&A rates to differ between institutions



MYTH #3

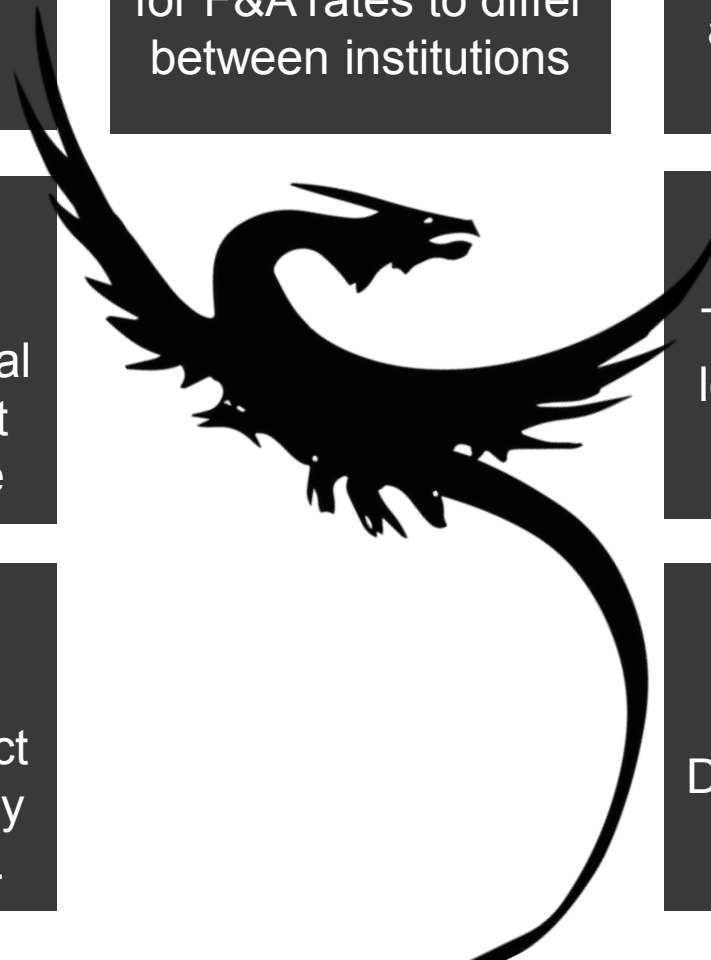
Institutions don't need F&A and can absorb a significant reduction

MYTH #5

The F&A rate can be lowered if regulatory burden is reduced

MYTH #7

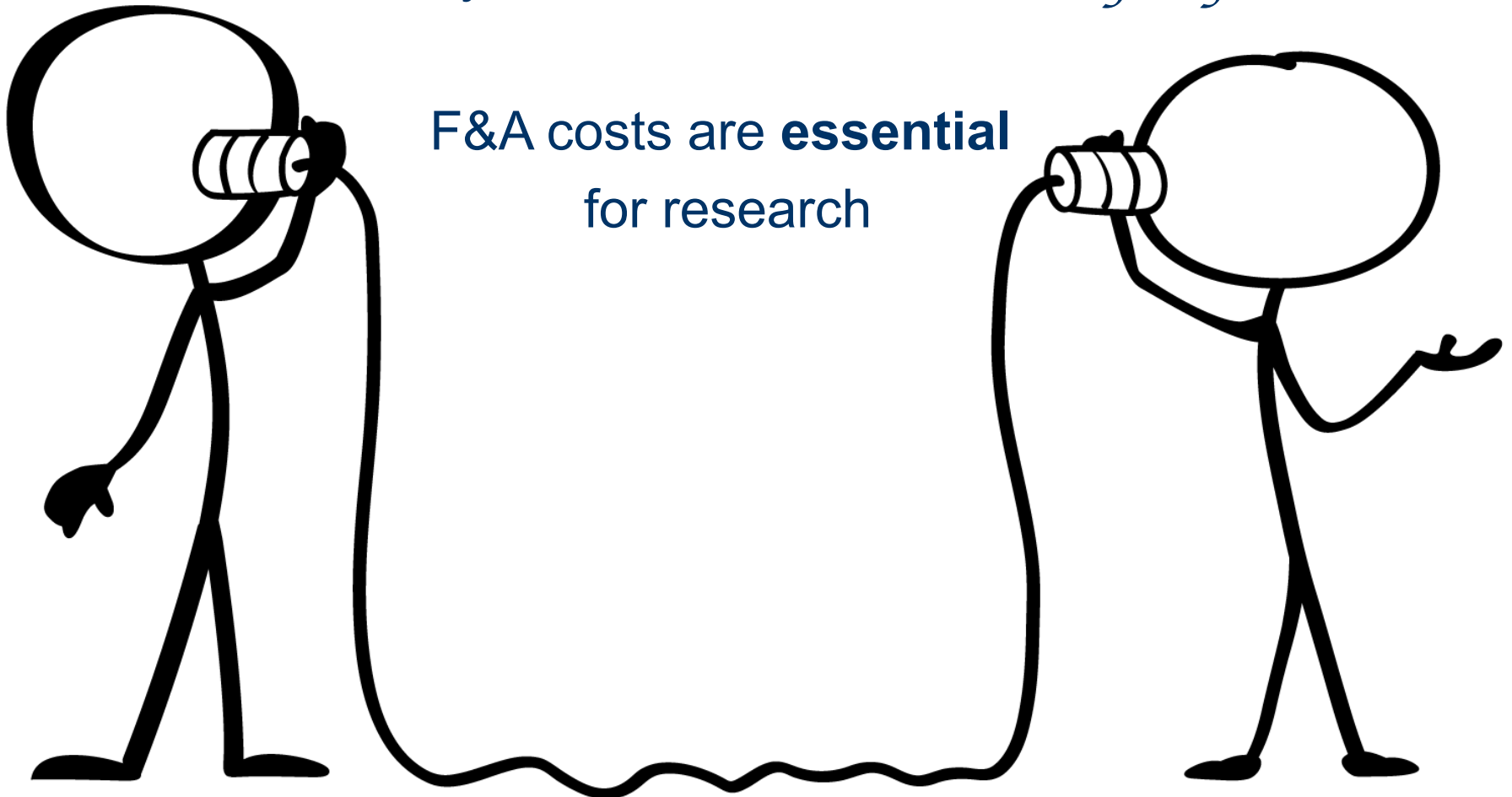
Universities (like Duke) get 59 cents of every dollar...



COMMUNICATING ABOUT F&A

F&A recovery is *reimbursement*, not *profit*

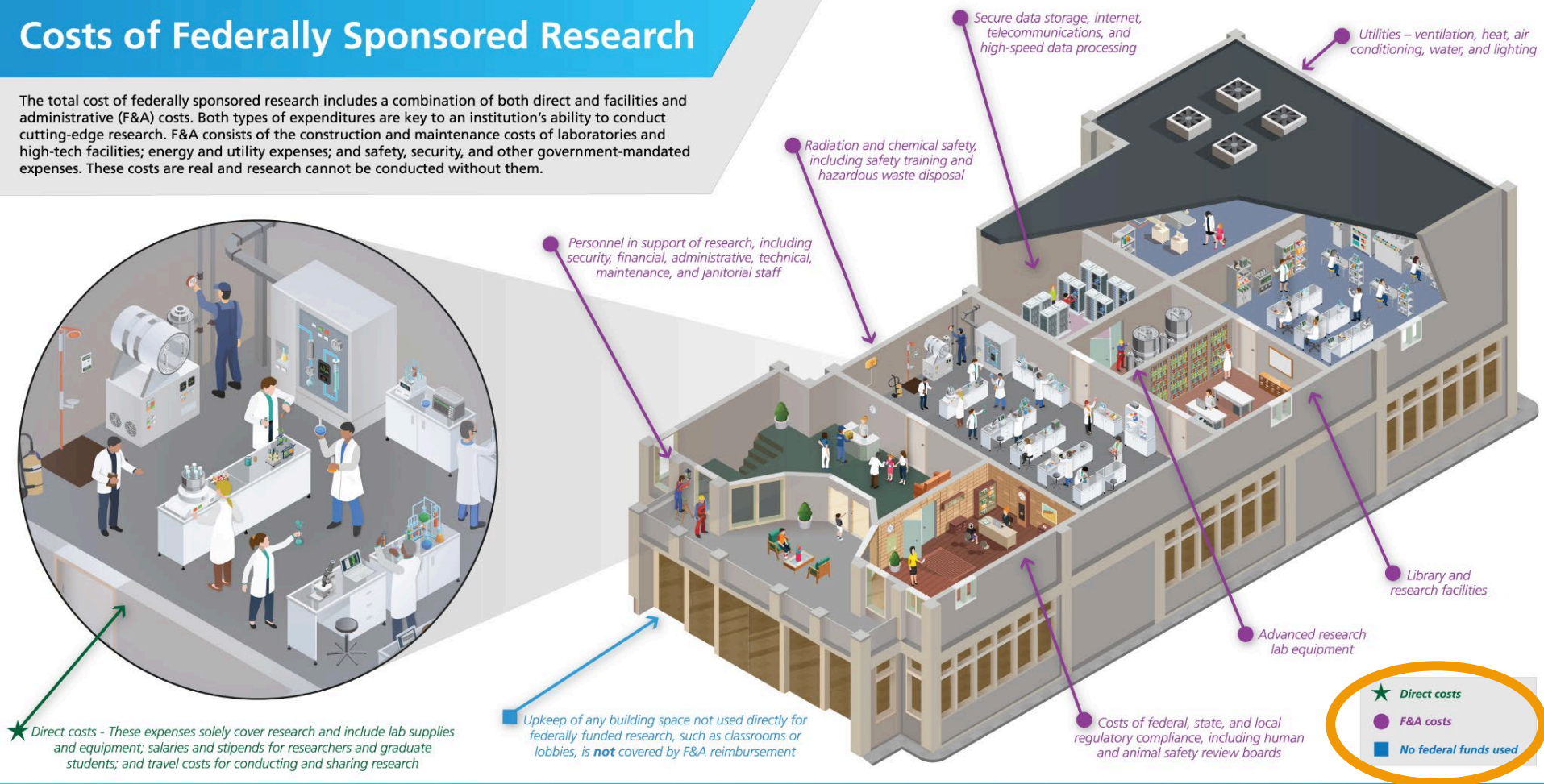
F&A costs are **essential**
for research



UNDERSTANDING WHAT RESEARCH REALLY COSTS

Costs of Federally Sponsored Research

The total cost of federally sponsored research includes a combination of both direct and facilities and administrative (F&A) costs. Both types of expenditures are key to an institution's ability to conduct cutting-edge research. F&A consists of the construction and maintenance costs of laboratories and high-tech facilities; energy and utility expenses; and safety, security, and other government-mandated expenses. These costs are real and research cannot be conducted without them.



WHY IS F&A RECOVERY CRITICAL?

A close-up photograph of a piece of lined paper with a blue horizontal line. On the paper, there is a handwritten scribble in brown ink that appears to be the word 'Wing' or a similar cursive word. The background of the slide is a blurred image of this paper.

Real costs that have already been incurred in support of research

F&A recovery through the F&A rate covers only a portion of the costs of supporting research

WHY IS F&A RECOVERY CRITICAL?

Real costs that have already been incurred

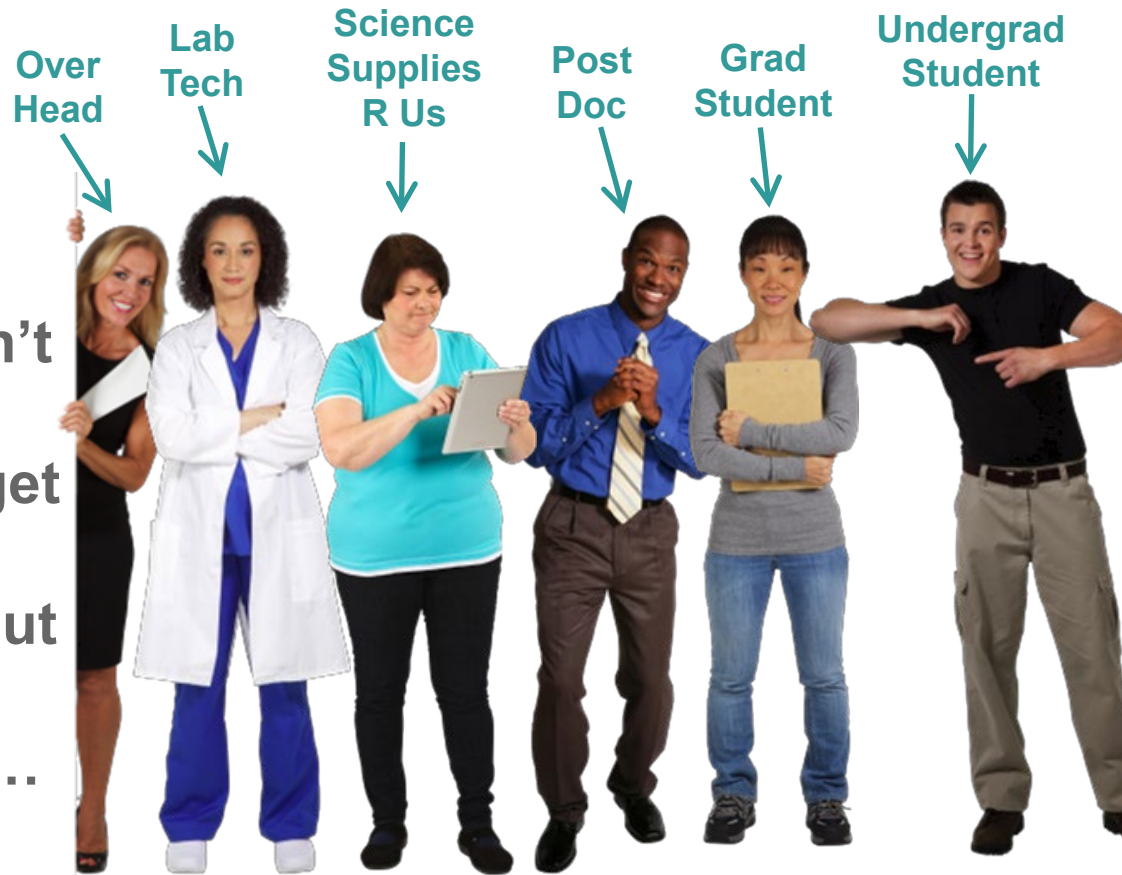
For example, at Duke in FY16, we spent nearly \$283M in F&A costs in support of research. We recovered \$186M from the F&A rate on research awards – 66% of costs.

only a portion of the costs of supporting research

THE ECONOMICS OF THE RESEARCH MISSION



Don't
forget
about
us...



How Each Federal Dollar is Spent At Duke!

26¢

OF EACH DOLLAR IS
FOR OVERHEAD



74¢

OF EACH DOLLAR IS
FOR DIRECT RESEARCH
COSTS



Operations & Maintenance 7¢
Buildings 5¢
Equipment 2¢
Libraries 1¢

Facilities
Related = 15¢

General 1¢
Sponsored Admin/Compliance 1¢
Research Operations Support 7¢
Faculty Support 2¢

Administration
Related = 11¢



Research Salaries
& Employee Benefits 36¢

Materials, Services
& Travel 13¢

Student Support 4¢

Equipment 2¢

Subcontracts 18¢

All Other 1¢

BUT THERE'S MORE...



Duke University contributes *\$125 million* annually to research

OR **26 cents** of every research dollar

Government

Duke



Approx. \$125
million
annually

55¢ direct costs

19¢ F&A

26¢ University

Areas at Risk When Institutions are Not Fully Reimbursed

Quality and compliance

- sponsored research oversight
- human subjects protection
- animal welfare
- conflict of interest management
- biosecurity and safety
- research compliance training

Faculty support*

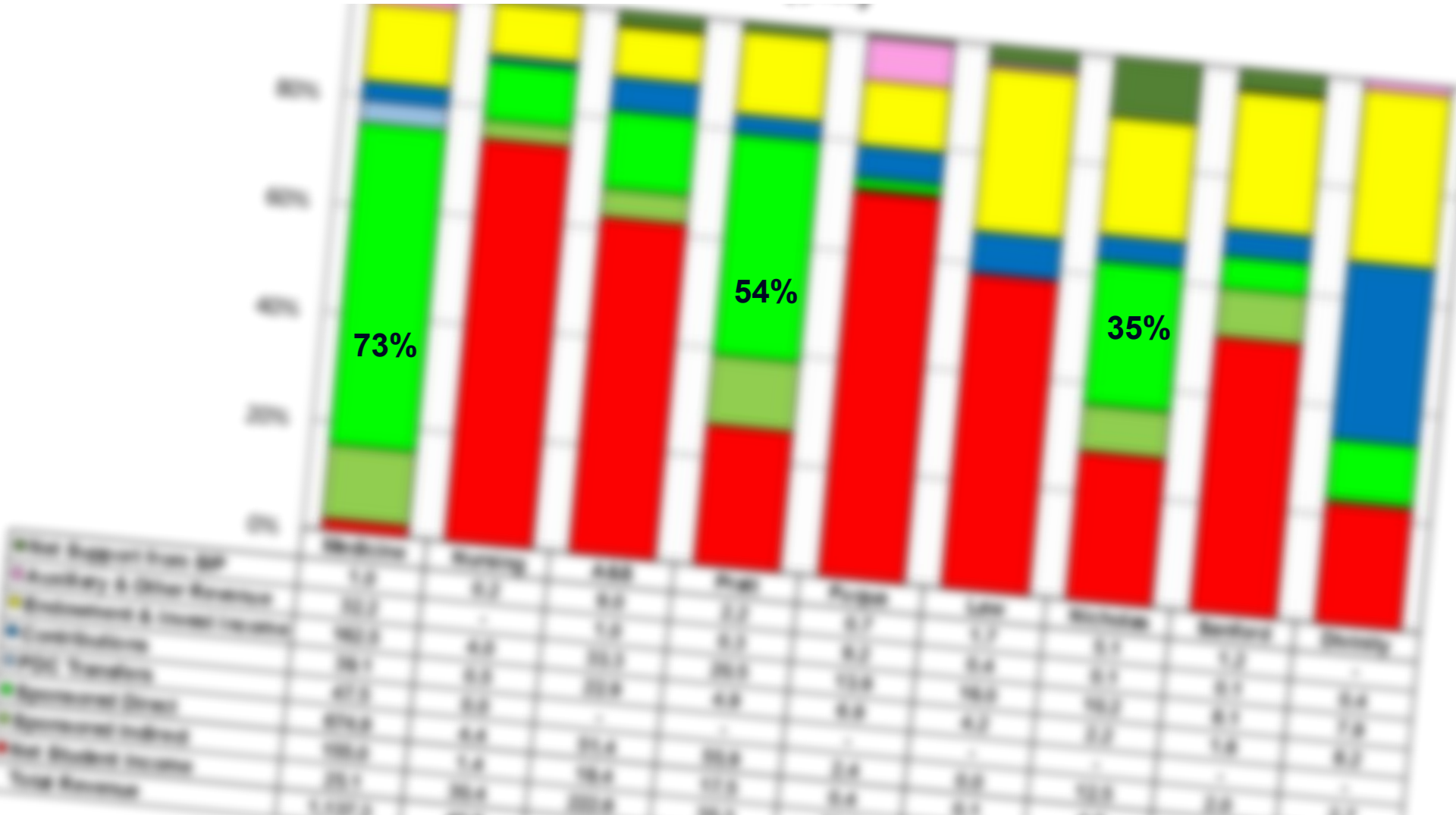
- recruitment/start up costs
- salary above NIH cap
- bridge funding for gaps in grant funding
- retention costs



Infrastructure

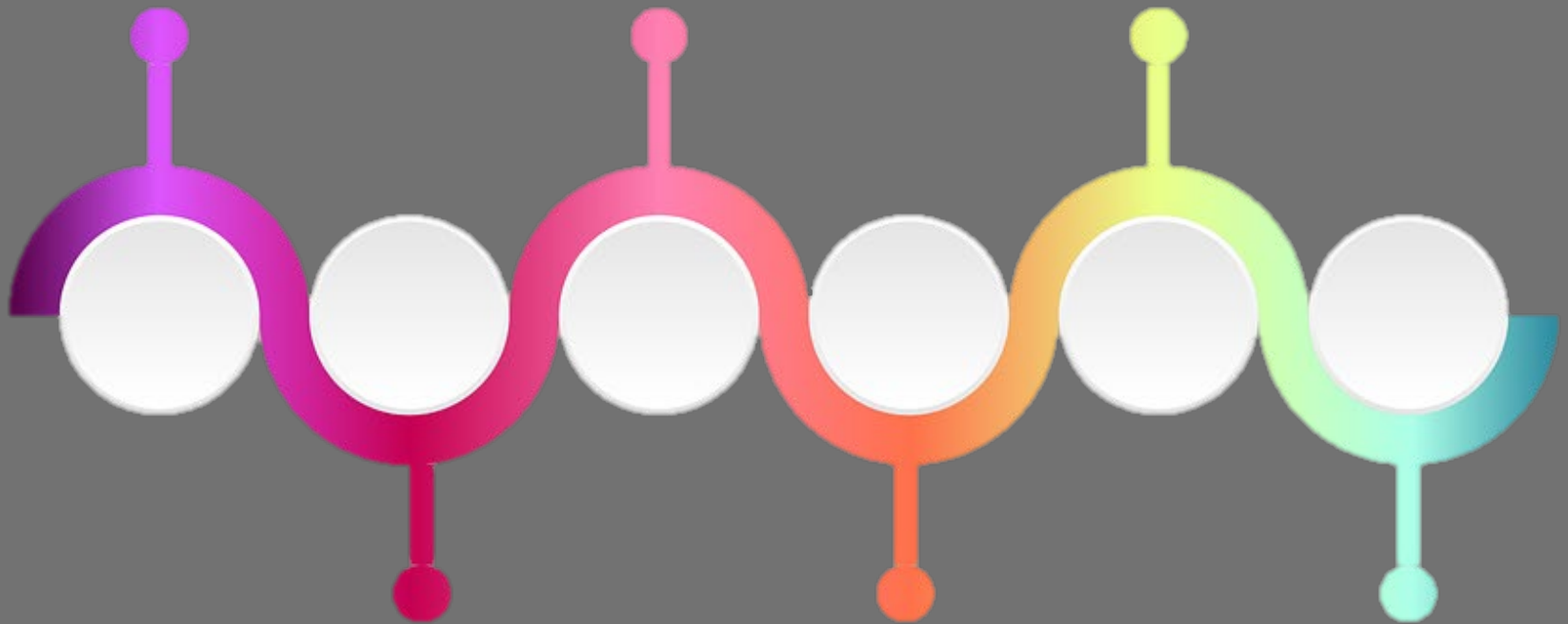
- computer and IT infrastructure
- support of core facilities/services
- data management
- cost of buildings, renovations (all the rest)

The Critical Role of Sponsored Funding and F&A Plays at Research Institutions



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F&A COST PROCESS & KEY TERMS



- Awareness of University issues related to F&A Costs
- Understand the regulations that drive an institution's perspective on F&A Costs
- Understand the process by which an institution calculates and negotiates F&A

CORE CONCEPTS: DIRECT AND F&A COSTS

Direct Costs

Specifically Identifiable

F&A

Supports common or
joint objectives

Composition of Total Costs

UG 200.402

- The cost of a sponsored agreement is comprised of the allocable direct costs incident to its performance, plus the allocable portion of the allowable F&A costs of the institution....



- Therefore, sponsors **reimburse** the institution for the allowable costs of a project, including direct costs and F&A costs....

WHAT *IS* F&A?

**Operations and
Maintenance**

**Building and Equipment
Depreciation**

**External Interest on
Capital Assets**

Libraries

Administration

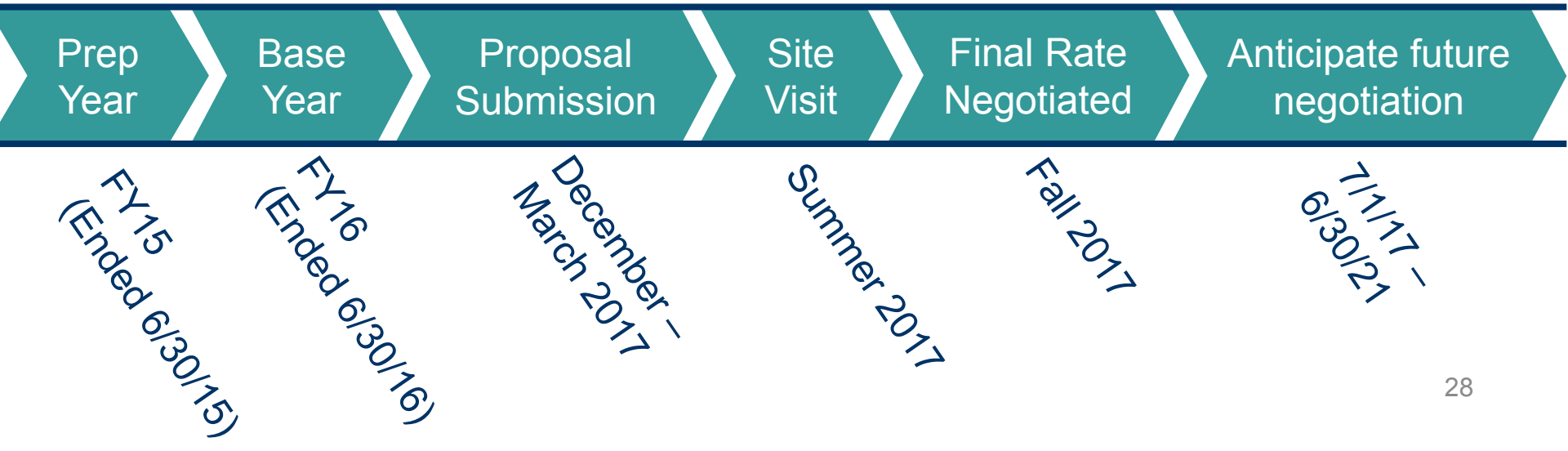


RATE NEGOTIATION PROCESS

Most institutions renegotiate their F&A rate every 4 years with DHHS or ONR.



One timing example is:



COMPUTING THE F&A COST RATE

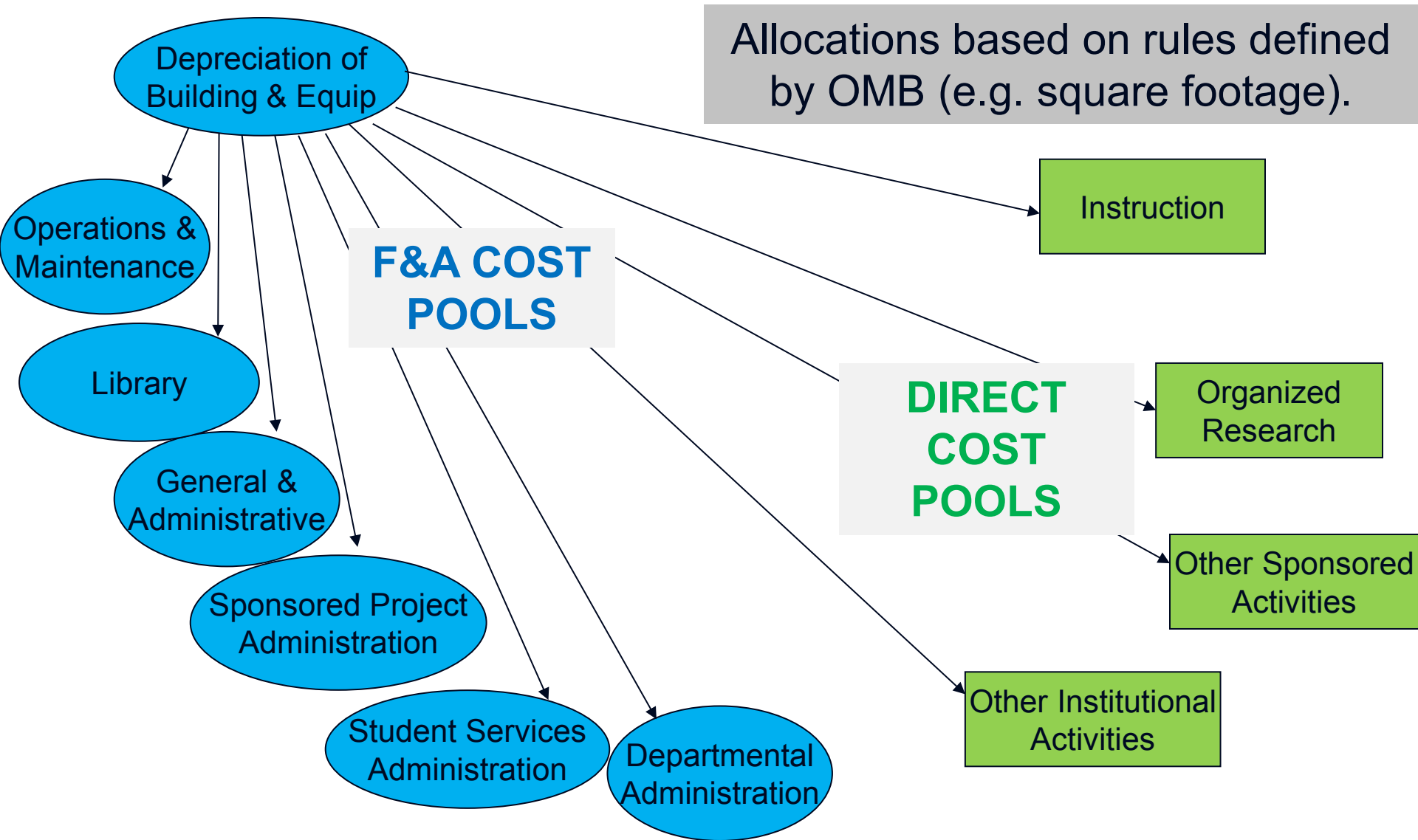
Cost Identification



Cost Allocation

F&A Cost Rate Determination

COST ALLOCATION



SIMPLIFIED F&A RATE CALCULATION

Allocated F&A Costs



Research Costs



**Sponsored Research
F&A Cost Rate**

THE PARTNERSHIP FUNDERS, FOUNDATIONS AND RESEARCH INSTITUTIONS

Nurturing the Partnership

- Nonprofit Funders are a diverse community supporting cutting edge research, start-ups, unique/niche funding, while also complementing other funding sources.
- NSF 2016 Higher Ed R&D Survey reported Nonprofit Organizations accounted for \$4.6 billion R&D expenditures. This surpassed Private Industry and State/Local Government contributions!
- We all recognize F&A and Infrastructure support historically has been defined within the Federal Government-Research Institution partnership.
- And while F&A can be a “charged” discussion, mutual advocacy around the proposed 10% NIH cap affirmed the importance of working together!



Being Proactive

- We need to anticipate the Administration will go after F&A, again.
- Working together around Education and Funding Models will serve us well, especially if the Administration reengages.
- How we address Funding Models is up to us (i.e., it's up to the Partnership to decide next steps!)



Funding Models

- Traditional Federal Model: Direct + Full F&A Cost Rate
- Traditional Foundation Model: Direct + 10% (or other) F&A
- Rethinking the Foundation Model: Direct + 10% (or other) F&A ... and Research Project Support Costs



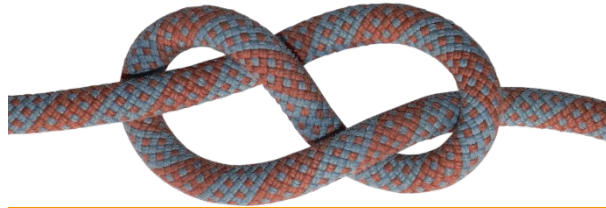
RESEARCH PROJECT SUPPORT COSTS



DIRECT

*specifically
identifiable to the
project*

- ✓ Faculty Salaries
- ✓ Lab supplies



INDIRECT

*difficult to assign to
the project*

- ✓ Library
- ✓ Depreciation
- ✓ Payroll Office
- ✓ Procurement
- ✓ OIT



RESEARCH PROJECT SUPPORT COSTS

*Costs that are not
normally direct but can
be attributed to the
project*

- ✓ microscope costs,
scans, hazardous
waste disposal, high-
speed data, rent, etc.

Next Steps

- Continue “cross-education” ... lots of learning so far, lets’ keep going!
- Refine what we mean by Research Project Support Costs and make sure the community is on board
- Keep inviting funders, foundations, and research institutions; the more the merrier!
- See you November 7 in Washington DC; our next Partnership meeting



QUESTIONS?

