

Facilities and Administrative Costs Commonly Asked Questions

This document is designed to assist you with advocacy when speaking to policymakers about this issue.

In addition to our notes below, here are some additional resources you can view that will also assist you:

<https://www.aau.edu/sites/default/files/FA%20One%20Pager%20FINAL%202-525.pdf>

Here is a video: <https://www.youtube.com/watch?v=yxTDlFvkvio&feature=youtu.be>

Backgrounders:

- Breaking Down the Costs of Federal Research at Universities
- Comparing Foundations to Federal Government Research Support

Q: What are Facilities and Administrative Costs?

Facilities and Administrative Costs (F&A) are sometimes referred to as Indirect Costs. The Academy strongly believes you should refer to the costs, Facilities and Administrative Costs, or F&A, as it more aptly describes what the money covers. F&A are real and necessary expenses of conducting research that have led to innovative breakthroughs in science for decades. They are the expenses associated with running a lab, including things like equipment, utilities, building maintenance, rent, administrative officers' salaries, accounting department costs, and personnel department costs. F&A are incurred independently of the funded research project, but the project depends on them to happen.

Q: What is the history of Facilities and Administrative Costs?

The Government compact with university research was established over 70 years ago when President Roosevelt asked his Director of Scientific Research and Development, Vannevar Bush, to advise him about the future relationship of the federal government to the scientific research enterprise. In his report, "Science, The Endless Frontier," Bush urged the federal government to greatly expand its ties with

scientists. He addressed science broadly, but singled out the “war against disease,” noting that “the Government should extend financial support to basic medical research in the medical schools and in universities.” What has evolved is a federal-academic cost-sharing grant-in-aid agreement. By awarding a lab an NIH grant, the government helps to pay for the proposed experiments and a portion of the infrastructure, the F&A, needed for those experiments. This partnership benefits both government and academia, especially compared to another concept under consideration at the time, which envisioned a vast network of federal laboratories constructed, maintained and populated at government expense. Instead, the present system provides for genuine cost sharing, while crucial research and training are carried out predominantly in academic environments, producing the next generation of outstanding researchers, and discoveries profoundly important for understanding health and treating disease.

Q: Why shouldn't government align with what private foundation groups cap for F&A?

The concern here is that private foundations typically offer lower F&A reimbursement rates than the federal government, NIH in particular. Foundations and NIH categorize direct and indirect costs differently. For example, the Bill and Melinda Gates Foundation counts facilities, utilities and communications as direct costs, whereas NIH does not. A recent study from the Association of American Universities showed that if the criteria for defining direct and F&A costs are aligned, the federal government and philanthropic organization F&A rates would be similar. For example, at UCSF, an experiment was conducted and F&A costs were recalculated using NIH criteria for the \$138 million in Gates funding awarded during the 2013-2017 period. The recalculated rate was found to approximate that for federal grants.

Q: Does this money just go to the universities' slush fund that pays for DEI projects? No.

OMB rules (2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards) require that F&A cost reimbursements can only be based on federally funded research space and related research activities, not education or other university facilities or activities.

Q: Why does a university need 50% of its grant for F&A?

A university's F&A cost rate is not a percent of the total grant, but rather a percentage only of a subset of the research project's direct costs. Currently, the average amount paid to universities for F&A expenses is approximately 25-33 percent of the total amount of a grant. (Campuses with medical centers tend to be

closer to 33 percent because of the higher costs involved in providing for medical research facilities.) Here's how it works: To determine the level of F&A expenses the federal government will cover, every 3-4 years, the agency responsible for setting a university's F&A rate (either the Department of Defense Office of Naval Research or the Department of Health and Human Services) will comprehensively audit and assess these shared costs to determine the appropriate federal share based upon specific costs that have been deemed allowable expenses by the OMB. The overall figure is ultimately calculated as a percentage of the amount the federal government awards for direct research costs (not a percentage of the overall funds, the figure most people see). For example, after reviewing all the expected costs and considering past research projects, a university and the federal government may determine that an amount equal to 50 percent of direct research costs is appropriate for the federal government to contribute toward F&A costs. In that case, if the federal government awards a university \$300,000 for the direct research portion of a grant, then it also awards \$150,000 for F&A costs, for a total of \$450,000. These overall institutional F&A cost rates are then applied uniformly to each grant at the university to avoid the very tedious, expensive, and inefficient process of computing the F&A expenses for individual awards, which would add additional costs for both the government and the university.

Q: What are the direct expenses in the grant?

Direct costs support researcher salaries, graduate students, lab supplies, and equipment.

Q: Why can't universities, especially those with large endowments pay the difference?

The vast majority of endowment funds are targeted endowment. This means the donor gave them with specific conditions. Some are for research. However, once money is placed in the endowment generally, with very few exceptions, you are only able to spend off the interest. This means that that \$20 million gift is really only worth about \$800k a year. The vast majority of the funds are not liquid. Also, only a handful of universities (Harvard, MIT, Stanford) have large endowments; most universities don't have that cushion and rely almost entirely on federal grants for research. Public universities and institutions with lower endowments will actually be hit the hardest by research cuts.

Q: What oversight is there on F&A?

F&A cost reimbursement processes are efficient and regularly audited. Each institution must negotiate its F&A rate with the relevant federal agencies, based on

their actual costs for facilities, administrative support, and other indirect expenses. Federal agencies conduct regular audits to verify that an institution's F&A calculations are accurate and comply with the Uniform Guidance, potentially leading to cost disallowances if discrepancies are found. Universities and research institutions must maintain robust internal controls to track and document their F&A costs, ensuring proper allocation to sponsored projects.