Explain Facilities & Administrative Costs. You Have Thirty Seconds

February 27, 2025

Speakers:

#COGRFeb25

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Moderator:

Cindy Hope, Director, Costing and Financial Compliance (COGR)

COGR

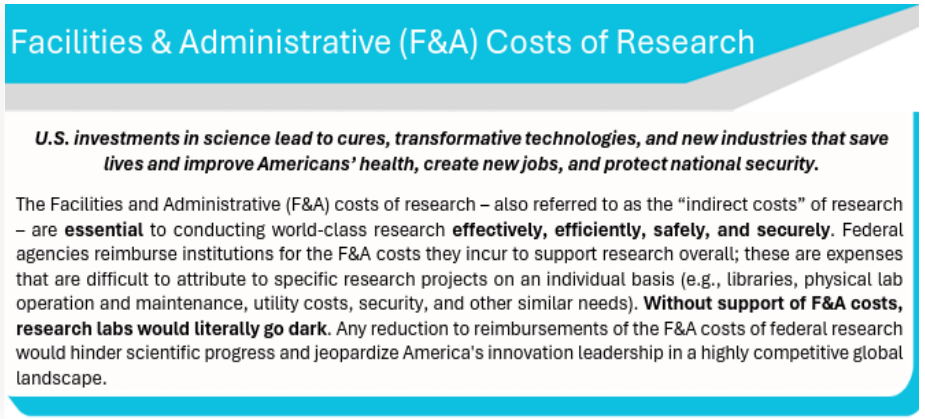
Reminder:
Related Session and Related Materials

Friday, February 28,
12:00-1:30pm EST

COGR F&A Cost Reimbursement Materials

Updated 5-minute Video

New "One-Pager"

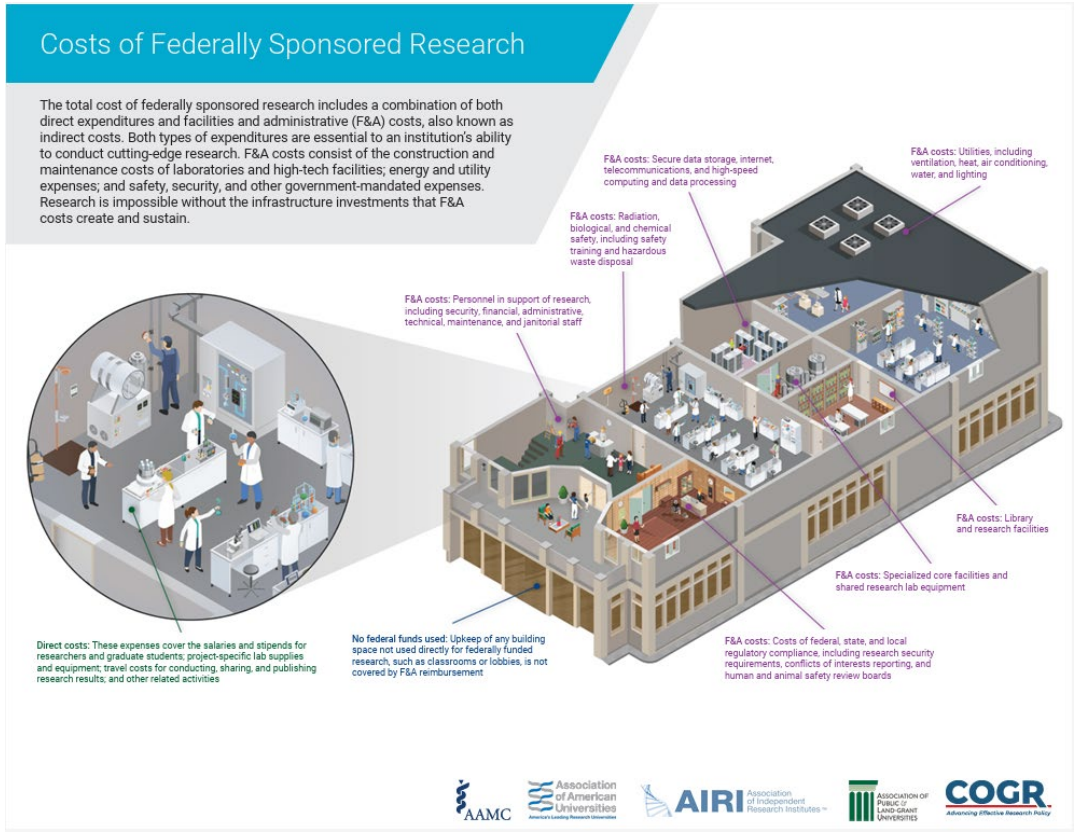


and More!

https://www.cogr.edu/fa-cost-reimbursement-materials-0

Such as:

Updated Infographic



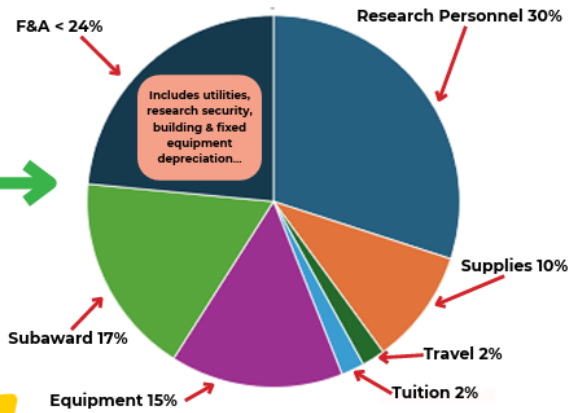
New F&A Cost Reimbursement Rate Explainer

Facilities & Administrative (F&A/Indirect) Cost Rates Are NOT a Percent of the Total Award

They are a percent of a subset of Direct Costs (DC) called Modified Total Direct Costs (MTDC)

Sample Budget - $1M Total Award
50% F&A Cost Reimbursement Rate

Direct Project Expenses	% of Total Funds	Total Direct Cost	F&A Cost at 50% MTDC Rate	MTDC Exclusions F&A Rate Not Applied to:
Research:				
Personnel	30.0%	$ 300,000	$ 150,000	
Supplies	10.0%	100,000	50,000	
Travel	2.0%	20,000	10,000	
Student Researcher Tuition	2.0%	20,000	-	Tuition
Project Specific Equipment	15.0%	150,000	-	Equipment
Subaward to Collaborator	17.5%	175,000	25,000	Sub Amounts > $50K
> 76% of $s Available for Direct Costs of Research	76.5%	$ 765,000		< 24% of Total Award Amount Budgeted for F&A
	23.5%		$ 235,000	
	100.0%	Total Budget = $1,000,000		



A 50% F&A Cost rate typically results in about one-fourth of the funding reimbursing F&A costs, as the rate is only applied to MTDC.

Even with no MTDC Exclusions, a 50% F&A cost reimbursement rate will result in only one-third of the total cost charged to F&A.

F&A = Direct Cost (DC) x 50%

DC + (DC x 50%) = $1,000,000
DC x 1.50 = $1,000,000
DC = $1,000,000 / 1.50
DC = $666,667
F&A = $1,000,000 - $666,667
F&A = $333,333
$333,333 / $1,000,000 = 1/3

COGR
Advancing Effective Research Policy
www.cogr.edu

Learn More About the Full Cost of Supporting Research on COGR's "F&A Cost Reimbursement Materials" Resource Page, https://www.cogr.edu/fa-cost-reimbursement-materials-0

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Topics for Discussion

- Why are F&A Costs and Their Reimbursement Mysterious?
- What should we be communicating, and who needs to hear it?
- What should Institutions be doing?
- What should COGR be doing?

Explaining F&A: A New Approach and the Road Ahead

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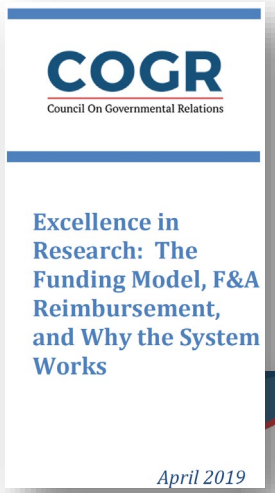
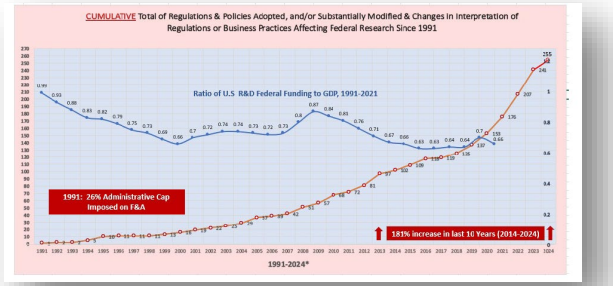
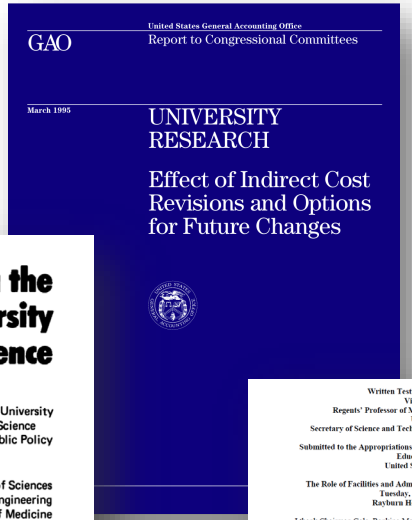
Disclaimer

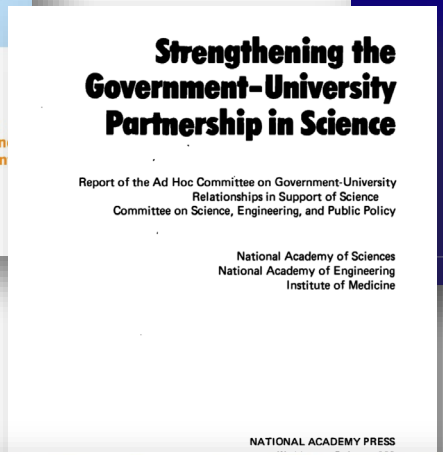
- All opinions expressed, and actions recommended, in this presentation are those of the author and do not represent the views, opinions or policies of the University of Illinois, its Board of Trustees, or its employees.

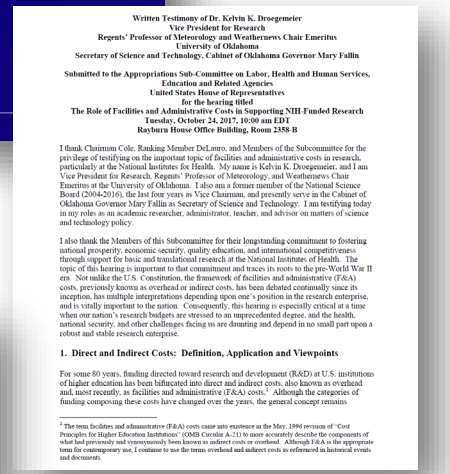
It’s Not Like We Haven’t Tried!!

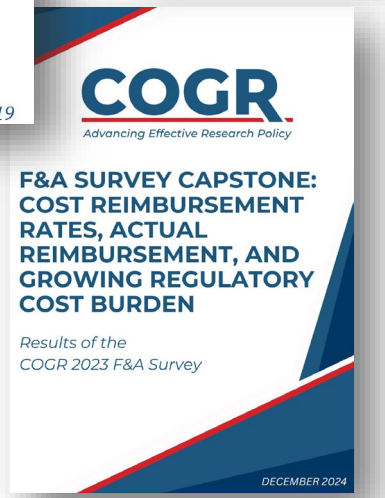


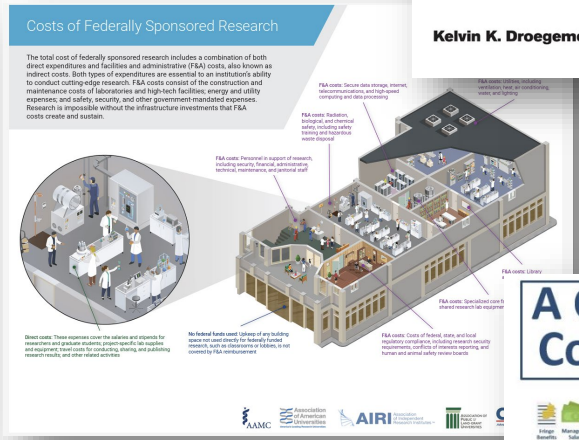


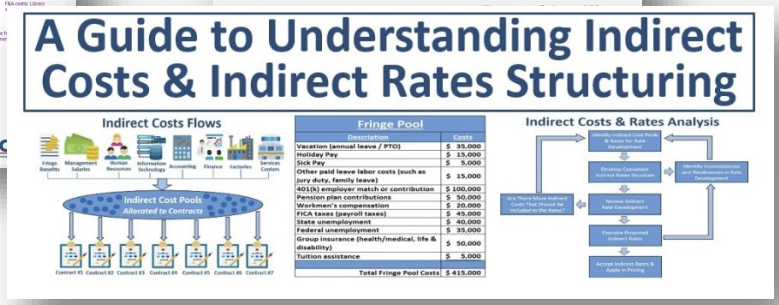








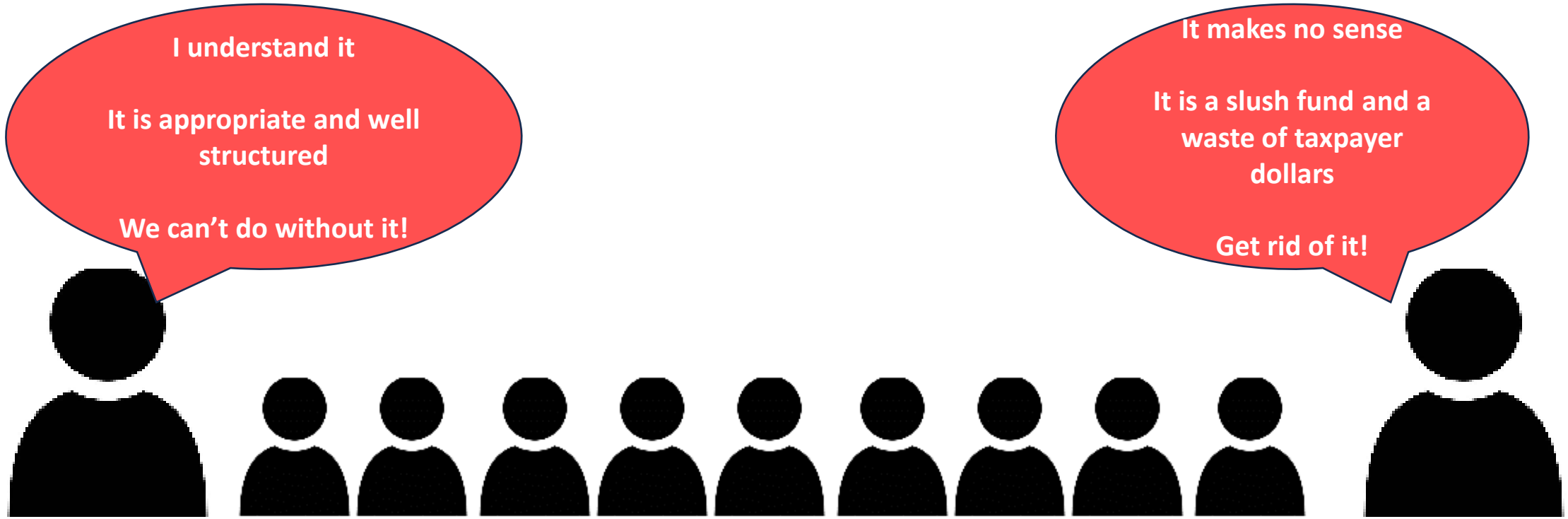




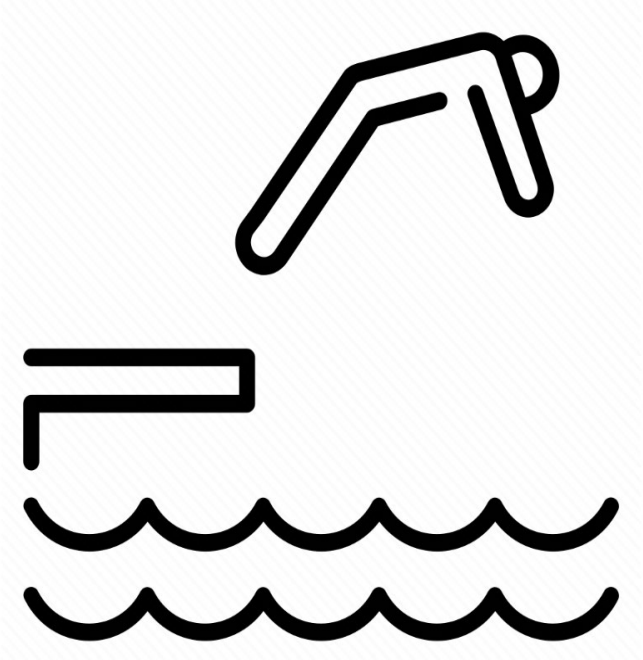
Core Audiences

- The White House
- Congress
- Government Funding Agencies
- Private Companies
- Non-Profit Foundations
- Government Relations Experts
- Research Administrators
- Researchers
- University Presidents & Chancellors
- The General Public

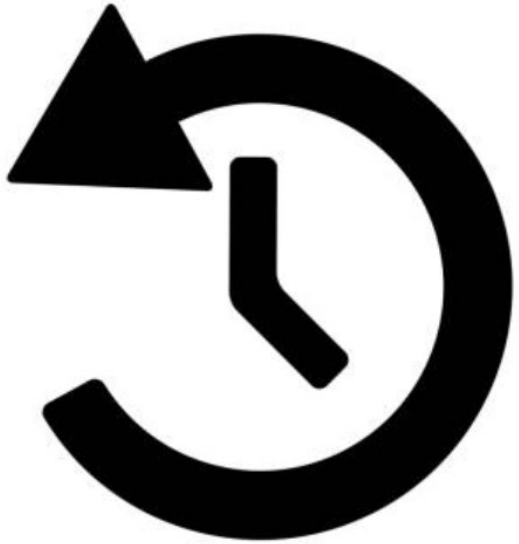
A Spectrum of Understanding, Worldviews and Goals



Part of the Problem…



We Dive Into Proposing Changes…



…Before Understanding History, Context, and Implications

How We Got Here

- Prior to WWII, virtually all **research** in higher education was funded by **philanthropy or private foundations**
- Faculty and Administrators at **private universities** were funded mostly by endowment income and tuition
- **State institutions** relied mostly on state appropriations and tuition
- **Little interest** existed in obtaining Federal money for fear of **intrusion and control**

Image Credit: Encyclopedia Britannica

How We Got Here

- In 1937, the **National Cancer Institute (NCI)** was created within the National institutes of Health (NIH)
- NCI began issuing **Federal grants for university research** – all other NIH research was performed in-house
- The National Research Council helped create a concept for the National Bureau of Standards to provide **research funding to universities.** The bill failed but NRC involvement **calmed fears in academia**

Image Credit: National Cancer Institute

How We Got Here

- In 1939, President Roosevelt began mobilizing the Nation for **war**
- The National Advisory Committee for Astronautics (NACA), led by Vannevar Bush, began providing **contracts** to individual university researchers
- The contract vehicle (procurement) was **well known** and its use was **endorsed** by the NRC

Image Credit: PBS

How We Got Here

- Vannevar Bush was President of the Carnegie Institute and understood that universities bring a **lot of resources to the table** for research (buildings, equipment, people)
- He established a **two-part funding model to leverage university assets for incremental cost by the Government**
  - **Direct costs** (people, travel, equipment)
  - **Indirect costs** (administration, support services, other things related to the research) **fully reimbursed** by the government

Image Credit: Le Monde *diplomatique*

How We Got Here

- In June, 1940, President Roosevelt authorized Bush to organize and **federally fund academic and industrial research** for national defense
- Higher education began accepting the funding owing to **need and patriotism**
- This watershed moment set the stage for an 80-year **PARTNERSHIP** between the Government and academia in performing research of **MUTUAL BENEFIT. THIS IS KEY!!!**

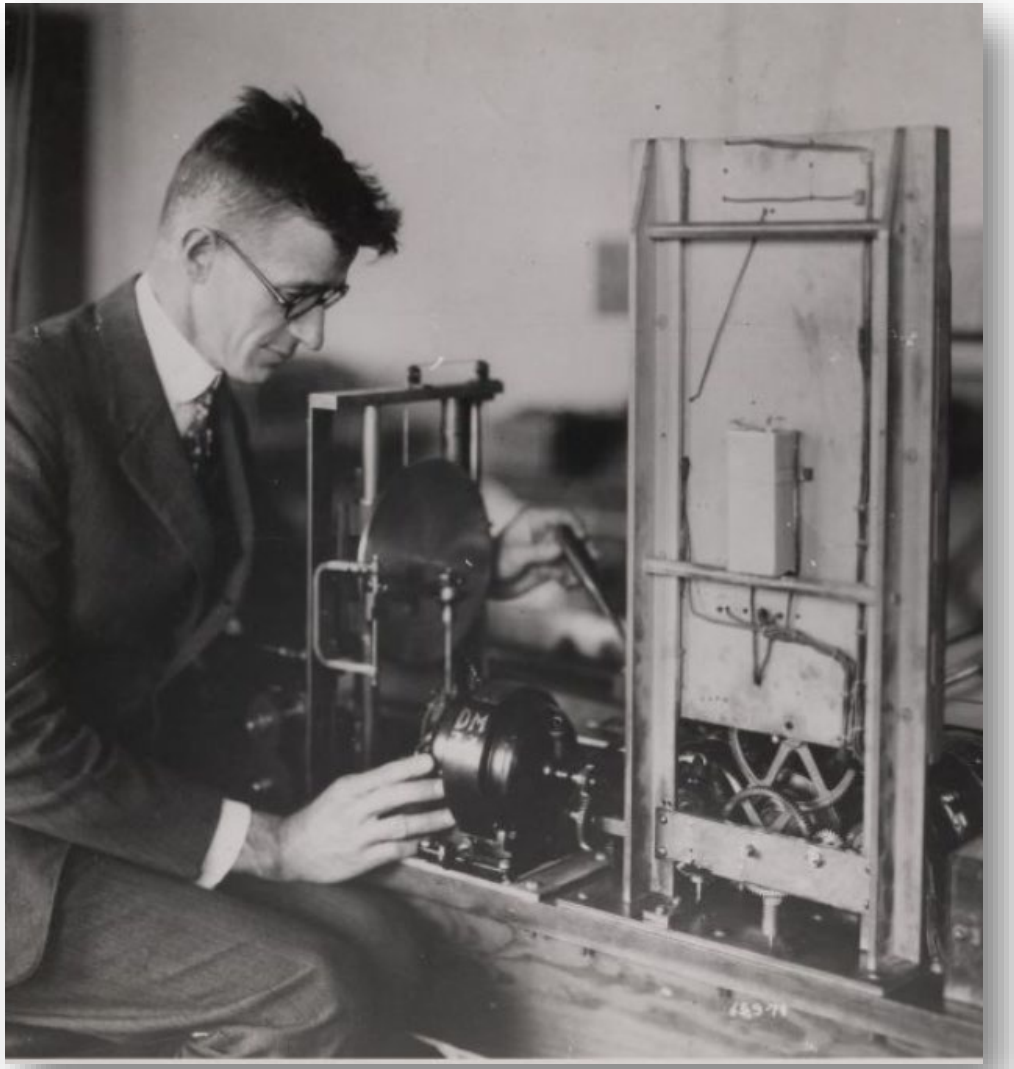
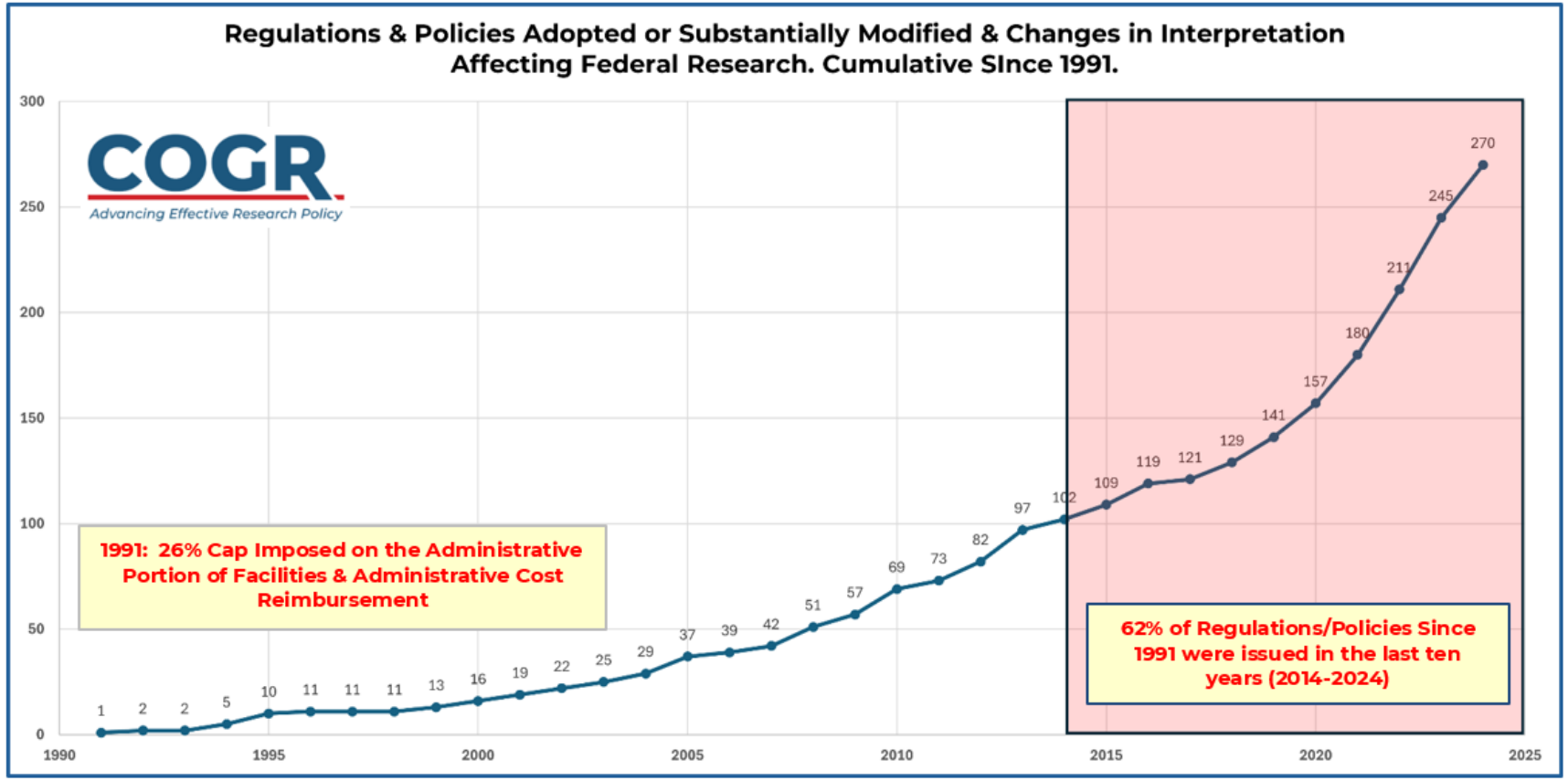


Image Credit: MIT Museum

Unfunded Compliance Mandates

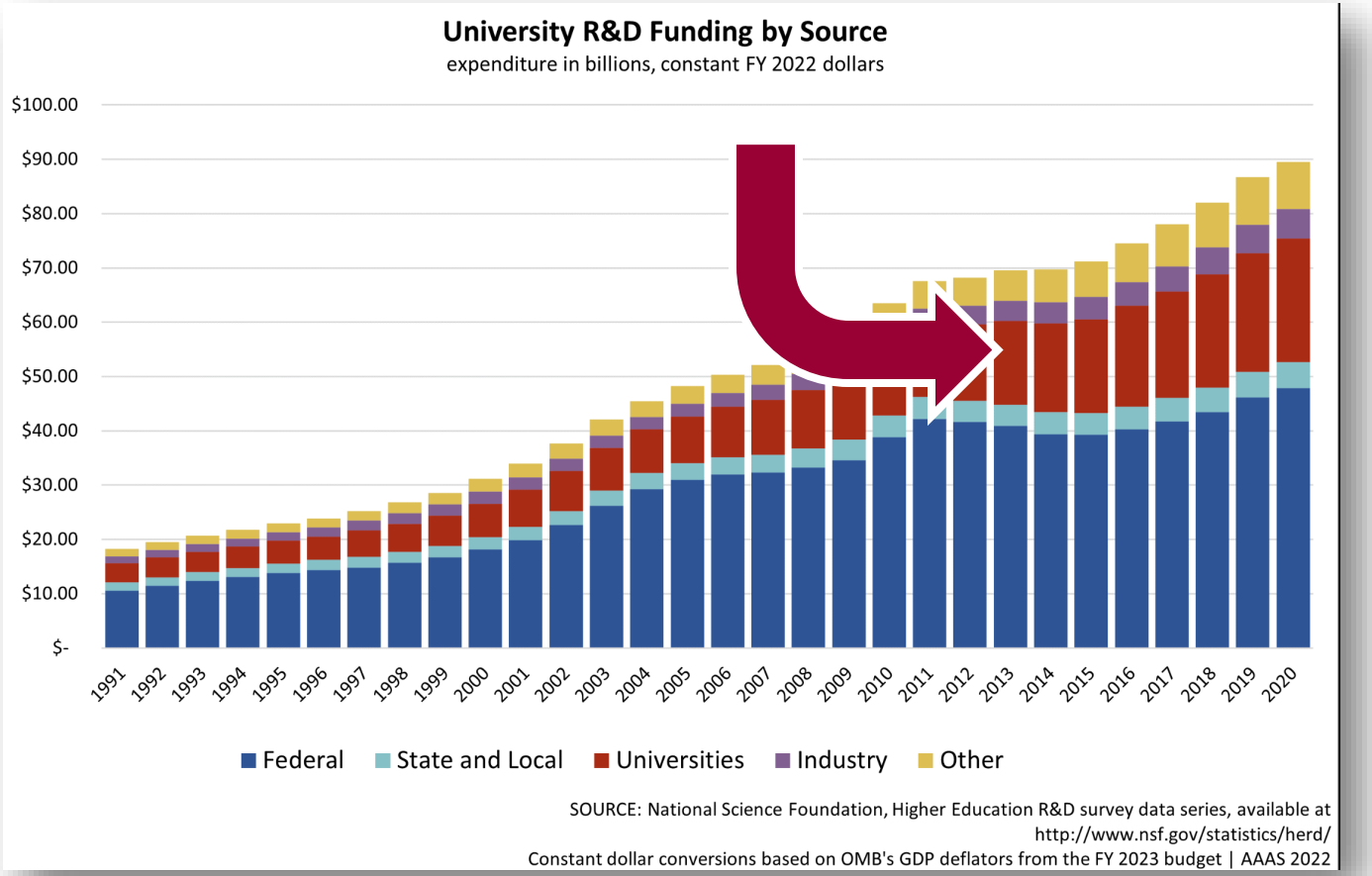


- 270 new or substantially modified requirements since 1991
- 62% of them occurred in the past 10 years
- 181% growth in past 10 years
- No new Federal $ for these since 1991 – costs come partly from **tuition**

Image Credit: COGR

Source of Funds for University R&D

- Part of the growth of university investment in research has come from having to support **unfunded Federal compliance mandates** on the previous slide
- During the past 25 years, the only growth in R&D funding as a percentage for universities has come from **private foundations** and **universities themselves**



And of Course the Real Rub – in Two Parts!

- Part 1: Some Federal agency research programs **do not allow** universities to use their **FEDERALLY NEGOTIATED** F&A rate!! They limit it to 25 or 30% - capriciously
  - Across all academic research institutions, this amounts to about ~$5B of **unrecovered funding** each year!!
- Part 2: At UIUC, the **negotiated** F = 32.6%, A = 26.0% for a total of 58.6%
  - The **"A" component** has been capped at **26%** since 1991 – despite a **HUGE increase in compliance requirements placed on universities** (next slide)
  - The **real rate at UIUC** going into negotiation is **66.7%** (government negotiates it down)
  - The F&A rate **UIUC actually realizes is 23.1%** owing to accepting many grants with reduced or no F&A (e.g., from foundations)
- Private companies **operate differently** and can charge **fees and profit** in addition to recovering indirect costs. **Foundations** also operate differently. (subsequent slides)

Possible Major Change on the Horizon

- NIH recently issued a **new policy** dramatically limiting its F&A rate – from Federally negotiated rates at institutions (e.g., 58.6% at UIUC) to a **flat 15% rate**
- The impact on **research production** would be **substantial**.
- The policy has been **put on hold** by a Federal judge
- Could eventually apply to **all Federal agencies,** say via Executive Order

https://www.nature.com/articles/d41586-025-00436-1

‘Devastating’ cuts to NIH grants by Trump’s team put on hold by US judge

The ruling temporarily halts a policy slashing research-overhead costs that left some universities wondering how to make ends meet.

By Max Kozlov, Dan Garisto & Heidi Ledford

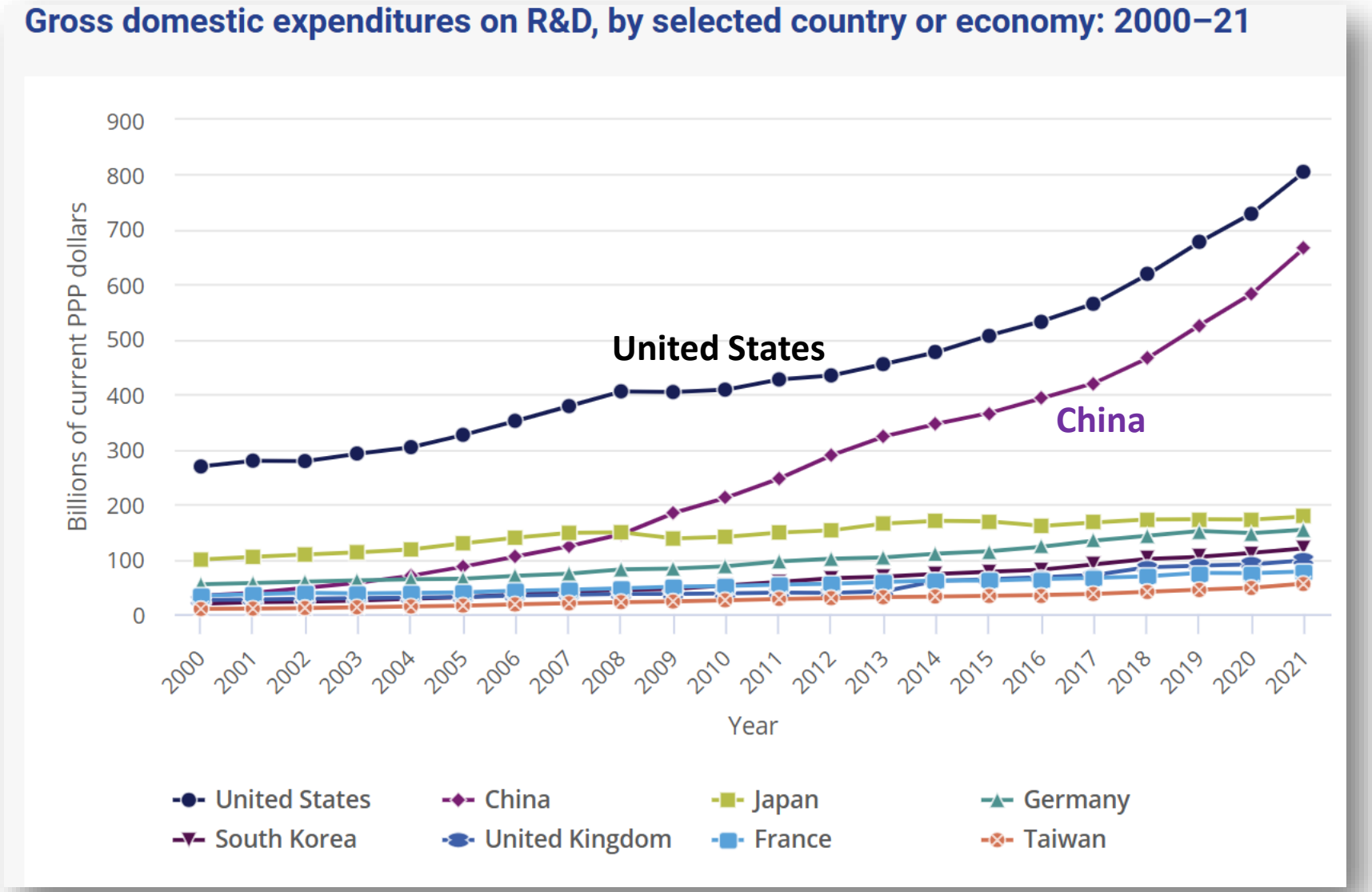
One of the buildings on the US National Institutes of Health’s campus in Bethesda, Maryland, is a hospital

What is Motivating This Action?

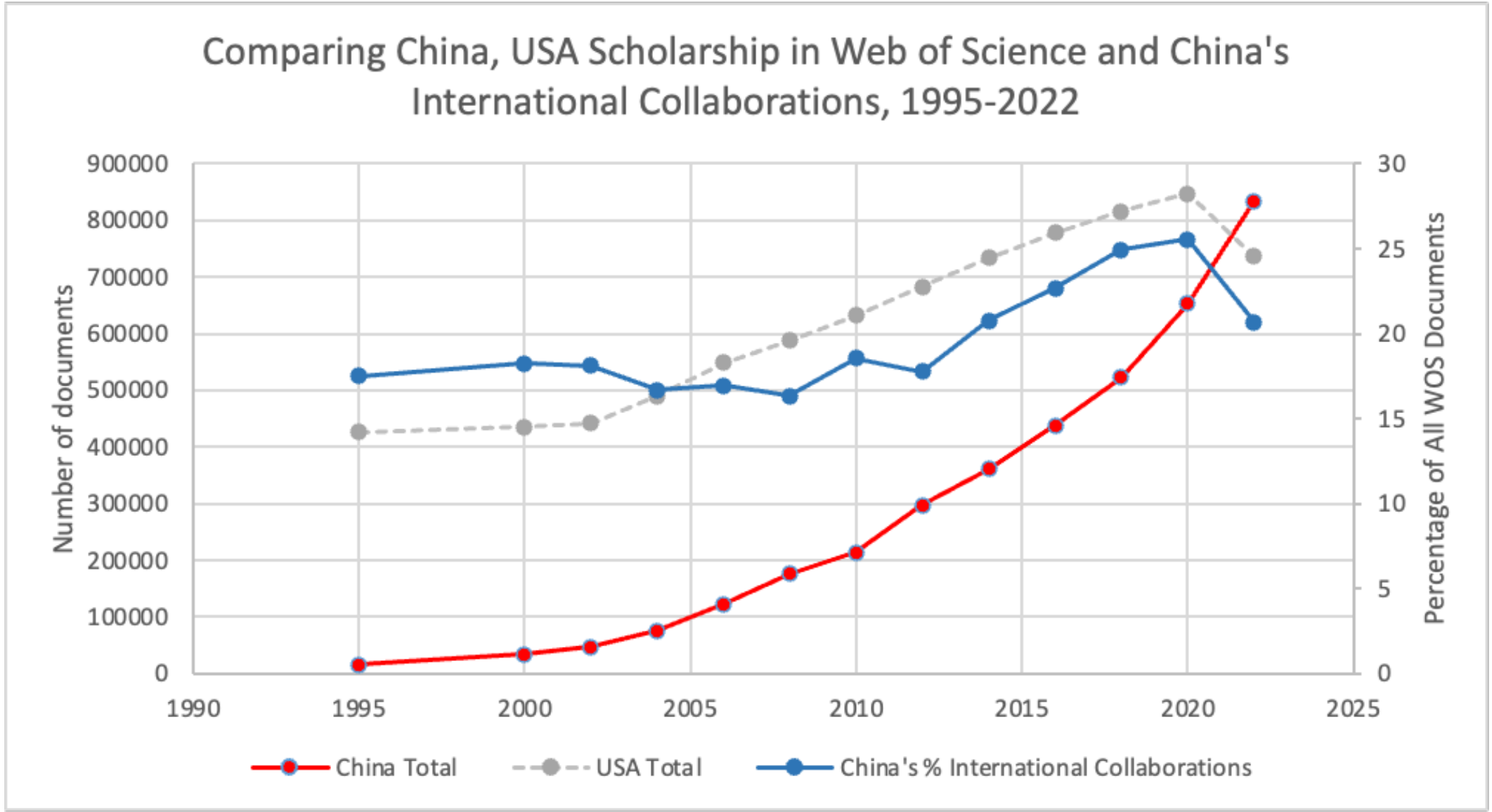
- **Insufficient transparency** in the F&A model and the presumption that taxpayer dollars for F&A are **not spent on research**
  - This is **somewhat understandable** because faculty, for example, never **"see"** the F&A in the same manner they see **direct funding** in their research budgets. Rather, F&A supports **existing university resources** already available to researchers (e.g., library, electricity, HR, payroll, compliance) and that is utilized on their Federal research grants at **incremental cost**
- **Comparisons** of F&A between universities and private foundations
- Perceived availability of **endowments** to offset cuts to the F&A rate

Clarifying Misimpressions

- F&A charged to the Federal government by universities represents the **incremental cost associated with using existing university resources** (e.g., HR, electricity, buildings, computers) – **huge leveraging!!**
- Indirect cost rates are **lower at private foundations** because they allow **direct charging** of many items included in F&A. Universities often accept these grants because they are a **small percentage** of overall university R&D funding but lead to **lower realized F&A**
- Endowment funds are **highly restricted to specified donor intent** (e.g., tuition reduction, professorships, scholarships, some research projects) but **no donor** wishes to fund administrative overhead and compliance costs that **rightfully belong to the government**
- If F&A is lowered **without changes** to what can be included in **direct costs**, university research will be **dramatically impacted**, especially for **specialized work** (e.g., medical) and at **smaller institutions**, and US global competitiveness **severely reduced**



Source: National Science Foundation



Graphic: Dr. Caroline S. Wagner, The Ohio State University

How the Impacts Ultimately Manifest

- Some **benefits** of a robust US research and education enterprise
  - Economic and national **security**
  - **Products and services** to improve quality of life
  - High-paying **jobs** in all sectors
  - Increased **tax base**, providing a strong return on government investment
  - **Leadership** in setting international standards (e.g., ethical use of AI)

$$\text{U.S. Global Competitiveness} \propto \frac{\text{Capabilities and Investments}}{\text{Threats/Interference Challenges}}$$

- Post WWII, the numerator was big and the denominator small → America led the world
- Today, the numerator is smaller to flat and the denominator is MUCH larger → America is losing the race to China

The Path Forward

- Research community **leaders** are beginning to understand that simply **explaining F&A**, as in the past, is **no longer a viable option**
- They also are deeply concerned about **research agency budget and staff reductions**
  - They will **drastically decrease the numerator** of the competitiveness equation
  - Greatly harm our ability to **innovate and create companies** like those shown previously.
  - We simply can't hand **China** the keys to the future
- The **community** (industry, academia, non-profits) also recognizes that **real issues exist** with the current F&A system and stands **ready, as a TEAM, to work** with the Government on a productive path forward and be **part of the solution**

What the Community Needs

- A clear set of **shared goals** for F&A reform, such as
  - Ensuring America is the **world leader** in S&T research and education via **robust funding**
  - Much greater **transparency and accountability** in the use of taxpayer funds
  - A system that is **fair** for all types and sizes of institutions
  - A strong **higher education** research enterprise, which has been foundational to America's success (Why Vannevar Bush created indirect costs in the late 1940s)
  - Significant reduction in **administrative burden** for USG Funding agencies, universities, and individual researchers
  - Full engagement of **industry, academia, government, and private foundations**
- **Good will** on all sides to work productively together
- A **pause** on any action related to F&A so we can develop a plan

Alternative Approaches (COGR, 2019)

- Fully-Authenticated Direct Charging
- Set F&A Rate by Type of Research
- Use Default Rates or Alternative Rate Bases
- Remove Cap on Compliance Costs
- Fixed-Price Model
- Separate Billing/Drawdown for Direct and F&A Costs

Moving from Reports to Simple One-Pagers

- Reports, data tables, and detailed analyses are exceptionally **valuable** and must be **continued**
- However, given the array of audience characteristics, a **one-size-fits-all approach** will not work
- **A New Approach**: Develop a series of **one-pagers**, with a single, simple **graphic** and two or three **key bullet points,** to explain **key topics**
- Select from this **“buffet”** of topics to create the **meal!**

A Topic for Each One-Pager

- How **research** has made **America** what it is today
- How we **got here** – a **context** starting with WWII
- **Sources** of research funding(USG, academia, industry, non-profits, state and local governments)
- **Types** of research and **performers** of research
- The concept of **shared value** in research assistance awards (cost sharing) between the **USG and universities**
- Differences between **grants & contracts**

A Topic for Each One-Pager

- How **the F&A model** came about and its two components
- Concept of the **F&A rate**
- The **rate-setting** process
- How F&A is **funded up front** as research takes place
- The concept **of F&A reimbursement** and how it can be used
- The difference between **F&A rate and % of F&A** in a grant
- **Capping** of the A part of the rate since 1991 + **compliance mandates**
- **Impacts of reducing F&A** ($ and impacts to our lives)

Example: Concept of F&A Reimbursement

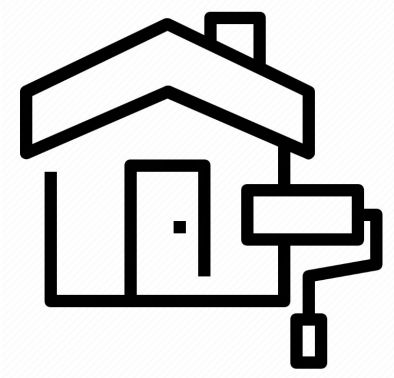
Homeowner's Roof is Destroyed by a Hailstorm. Insurance Adjuster Assesses $40,000 Covered Replacement Cost

Homeowner Withdraws $40,000 From Savings Account to Have Roof Replaced Immediately

Homeowner Hires Roofing Company to Replace Roof and Pays with $40,000 from Savings

Insurance Company Reimburses Homeowner $40,000 After the New Roof is Installed

Homeowner Deposits the $40,000 Reimbursement from the Insurance Company Back Into Savings Account



Homeowner Re-Invests the Reimbursed $40,000 From the Insurance Company to remodel the house and improve its value.

Has the Homeowner Done Anything Wrong? Have they Defrauded the Insurance Company, or Were They Free to Re-Invest the Reimbursement as They Saw Fit?

Key Points

1. F&A costs are **funded up front, by institutional resources,** to support government-funded projects.
2. The government **reimburses** institutions for F&A funds because they are real funding associated with research.
3. The **reimbursed funds may be re-invested** by the institution in any legal manner deemed useful.

Making a Meal

- You are meeting with a Member of Congress who **somewhat understands** F&A but is **dubious** about its structure and value
- You might draw from the following one-pagers
  - The concept of **shared value** in research assistance awards (cost sharing) between the **USG and universities**
  - How **the F&A model** came about and its two components
  - Concept of the **F&A rate**
  - How F&A is **funded up front** as research takes place
  - The concept **of F&A reimbursement** and how it can be used

Assessing the Impact

Jeremy Forsberg, Associate Vice President for Research at the University of Texas at Arlington

Funding Uncertainty

- Changes or removal of Funding Opportunities
- Changes or termination of Awards
- Delay in Funding Issued
- Unrecovered F&A
- Institutional Subsidy to Federal Research

MS CoPilot 2/26/25 P: Government Funding Uncertainty

Funding Opportunity Changes / Deletions

- Programs and Funding Opportunities removed or changed.
  - Between 2/21/25 and 2/24/25 NIH closed 30 RFA/PAS/PAR.
  - NSF Removes and NIH Archives opportunities in grants.gov – difficult to track
  - Some are resurrected with changes
  - Lack of Agency Change Announcements
- NIJ removed all funding opportunities
- DOE PIER Plans halted (1/27/25)
- NIH MIRA Removed Plan for Enhancing Diverse Perspectives
- Proposal Sections Removed (DEIA)
- Significant reduction in federal employees – impact to proposal review and issuance.

Changes or Termination of Awards

- 200.340 Termination (a)(4): Federal award may be terminated in part or its entirety by the federal agency "if an award no longer effectuates the program goals or agency priorities."
- NIH Supplemental Guidance Memo to Review of Agency Priorities (2/13/25):
  - If "sole purpose" of award or supplement supports DEI activities, then award must be fully restricted.
  - Expecting new DEI language – possibly modify existing awards.
  - CFR process and preventing NIH review panels
  - NIH NOGA Special T&C: "Funds included in this award must be used in accordance with all applicable laws, regulations, policies, and executive orders"
- Senate Committee - Commerce, Science, & Transportation Report on D.E.I. flagged nearly 3,500 NSF research grants totaling over $2 billion for promoting DEI and other "far-left ideologies." - 10% of NSF funding from 2021 to 2024. Dealing with False positives
- Terminations to DOS, USAID and Dept. of Ed awards.

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Delay in Funding Issued - NSF

NSF Awards 1/1 - 2/25 (2025 vs 2024)			
	2025	**2024**	**% Change**
Total #	**621**	**1200**	**-48.25**
By Directorate			
BIO	103	114	-9.65
CSE	109	154	-29.22
EDU	35	78	-55.13
ENG	63	192	-67.19
GEO	81	161	-49.69
MPS	120	230	-47.83
O/D	8	14	-42.86
SBE	65	85	-23.53
TIP	37	172	-78.49
Award Type	**2025**	**2024**	**% Change**
Standard	424	715	-40.7
Standard Amount	$142.7M	$226M	-36.83
Continuing	185	460	-59.78
Cooperative Agreement	11	25	-56

Source: NSF Research.gov

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NIH Funding Impact (current Delay)

DHHS Awards 1/1 - 2/25 (2025 vs 2024)			
Dates	**2025**	**2024**	**% Change**
1/1-2/25	**978**	**500**	96%
1/1-1/8	130	19	584%
1/9-1/16	228	31	635%
1/17-1/24	339	39	769%
1/25-2/1	226	77	194%
2/2-2/9	**13**	**77**	**-83%**
2/10-2/17	**20**	**113**	**-82%**
2/18-2/25	**22**	**144**	**-85%**
NIH Only	949	474	100%
Award Type	**2025**	**2024**	**% Change**
New (Type 1)	653	332	97%
New Amount	$302.7M	$101.5M	198%
Renewal (Type 2)	125	56	123%
Competing Revision (Type 3)	155	99	57%
Extension (Type 4)	45	13	246%

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Source: NIH Reporter

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Under Recovery of F&A Costs

- NIH NOTICE Supplemental Guidance : Indirect Cost Rates (15% Cap)
- Reference to Estimated 27-28% average IDC rate (Overview Supplementary Tables at 87)

	Direct	Indirect	Total	IDC as % of Total Award	F&A Unrecovered	% F&A Lost
NIH 2019 Final	$ 20,544,931	**$ 7,953,747**	$ 28,498,678	27.9%		
If 15% of Total Award	$ 20,544,931	**$ 4,274,802**	$ 24,819,733	15%	**$ 3,678,945**	46%
If 15% of TDC	$ 20,544,931	**$ 3,081,740**	$ 23,626,671	13%	**$ 4,872,007**	61%

Forbes article, Education Reform Now estimated based on 2024 NIH funding, Texas could lose $310M in F&A reimbursement with a 15% flat IDC rate. There are approximately 704k Full Time Students in Texas in 2023 (THECB Databridge) at Universities and Health-Related Institutions. This amounts to roughly $440 per student.

- Estimate if applied to all funding?
- COGR FY 23 F&A Capstone:
  - Avg. Effective Federal Research Reimbursement Rate (44.3% MTDC).
  - Average calculated admin rate is 9% above the 26% cap.

Institutional Subsidy

- Between 2010 and 2023 (significant number of unfunded mandates) the federal government proportion of Total R&D expenditures dropped 6.4% (~$7 Billion) while Institutional expenditures increased by 6% (~$6.5 billion)
- Mandatory Cost Sharing

NSF FY 23 Higher Ed. Research Expenditure by Type of Cost (in millions) - All Fund Sources			**% of TDC**	**% of Total**
Salary and Fringe	$	47,089,000	56%	46%
Other Direct	$	24,122,000	29%	24%
Capital Purchases	$	3,482,000	4%	3%
Pass Thru	$	9,515,000	11%	9%
Total Direct Costs	**$**	**84,208,000**	**100%**	83%
IDC Recovered	$	17,702,000	21%	17%
Total Research Costs	**$**	**101,910,000**		**100%**
IDC Unrecovered Costs	**$**	**6,771,000**	**8%**	**6.6%**
% Total IDC Unrecovered		**28%**		
IDC Unrecovered Due to Existing Admin Cap?				
Institutional Expenditures are ~24.5% of Total				

What Will COGR Do?

- F&A Cost Reimbursement Principles Document
- More One-Pagers
  - Update the Dollar
  - Graphic representation of the F&A cost rate calculation
  - And more! Many inspirations can be found in existing materials.

In fact, the Federal Dollar shown below is typical of a research-intensive university and shows that for every $1 of federal research support, 73 cents support direct costs and only 27 cents support F&A costs.

Calculating the Organized Research Cost Rate

F&A COST RATE = $\frac{\text{F\&A Allocable to On-Campus Research}}{\text{Modified Total Direct Costs (MTDC) for On-Campus Research}}$

54% = $\frac{\$21.6 \text{ Million Allocable to On-Campus Research}}{\$40.0 \text{ Million MTDC for On-Campus Research}}$

The 54% rate represents an "average" rate to be applied to all On-campus research projects, which simplifies the entire F&A process. This technical concept is addressed in Appendix 1 of the paper.