

COUNCIL ON GOVERNMENTAL RELATIONS

1200 New York Avenue, N.W., Suite 460, Washington, D.C. 20005

(202) 289-6655 / (202) 289-6698 (Fax)

2017 SURVEY OF FACILITIES & ADMINISTRATIVE (F&A) RATES

EXECUTIVE SUMMARY

February 2017

The Council on Governmental Relations (COGR) is an association of 190 leading universities and research institutions. Member institutions conduct over \$60 billion annually in research and development activities and play a major role in performing basic research on behalf of the federal government. COGR brings a unique perspective to regulatory and cost burden and focuses on the influence of federal regulations, policies, and practices on the performance of research and other sponsored activities carried out at COGR institutions.

COGR conducted the F&A Survey between August and November of 2016, with quality review and analysis conducted through February 2017. *Surveys were emailed to the 190 COGR member institutions.* COGR has conducted similar F&A surveys as a mechanism to educate stakeholders on the role of F&A (indirect) costs at research institutions. F&A costs are those necessary research operating costs that support the real costs of research infrastructure and compliance activities. Reimbursement of F&A costs by federal and other sponsors help to ensure state-of-the-art research laboratories are available and that adequate levels of administrative support are provided to secure compliance with the sprawling array of federal rules and regulations. In this report we will use the following three terms interchangeably: F&A, Indirect, and Research Operating Costs.

Surveys were completed by 145 institutions. A breakdown by Cognizance and Region, (i.e., Department of Health and Human Services, Cost Allocation Services (HHS) and Department of Defense, Office of Naval Research (ONR)), is shown below. Of the 145 institutions, 43 are Private and 102 are Public. Additional characteristics and breakdowns by institution are included in the appendices section at the end of this report.

COGNIZANCE / REGION	Count
HHS-NY (Northeastern)	32
HHS-DC (Mid-Atlantic)	31
HHS-Dallas (Central)	39
HHS-SF (Western)	27
Office of Naval Research	16
Total Responses	145

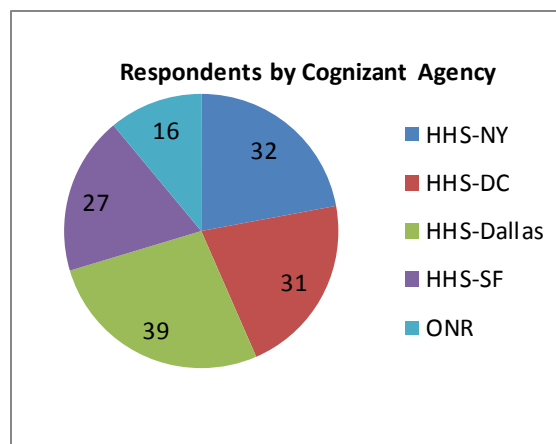


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The 2017 Survey included 27 sections covering the broad areas of institutional characteristics, historical rates by institution, and negotiation experience. This Executive Summary provides a high-level analysis of F&A rates and trends, while detailed, institution-specific F&A rate data is available separately for COGR member institutions for their internal purposes. The remainder of the Executive Summary is organized as follows:

Primer on F&A and Research Operating Costs. Provides a general overview of F&A (Research Operating Costs) and the F&A reimbursement process.

Survey Results and Trend Analysis. Provides insight into the high-level survey results, including an F&A Rate Trend Analysis over the past decade.

APPENDIX A: Sample Copy of the 2017 F&A Survey. Institutions completed the survey using an on-line interface (Survey Gizmo); hard copies also were provided to facilitate completion of the survey.

APPENDIX B: Survey Data Sheet. Of the 27 sections of the survey, selected sections covered questions of interest, including negotiation experiences. The results of these sections of the survey are summarized in tables and graphs.

COGR Members Only Reports. The process for establishing F&A rates can be complex, driven by the rules defined by the Federal government through the Office of Management and Budget (OMB). Research institutions make great efforts to explain these complexities to their faculty and other stakeholders so that F&A rates are not misunderstood and F&A rate data is not misused. Normally, institutions make their negotiated F&A rates publicly available through their websites, which allows each institution to communicate its F&A rates directly to its community. As institutions should decide the best presentation of their F&A rates to the public, the detailed, institution specific F&A rate data obtained in this survey are restricted to COGR Members Only. To access reports, go to www.cogr.edu, Policy Issues / Financial Management, and, for questions, contact COGR staff.

PRIMER ON F&A AND RESEARCH OPERATING COSTS

Research sponsors, including the federal government, private industry, state and local governments, and nonprofit foundations, provide funding to universities in the form of grants, cooperative agreements, or contracts. Awards generally include funds for the direct costs of research as well as F&A (i.e., “Research Operating Costs”), both of which are real costs incurred by the institution to conduct research. *We use the terms “F&A”, “Indirect”, and “Research Operating Costs” interchangeably as a means to reinforce that F&A costs are an absolute necessity for a functional and effective research enterprise.*

Direct Costs

Direct research costs are what people generally think of when it comes to federal support of research projects. These costs solely support research that is about to take place and often include laboratory supplies, specific research equipment, salary support for researchers and lab personnel, and travel for conducting research or disseminating research results. This is the core of university research, and it is also where the bulk of the federal investment is spent.

Facilities and Administrative (Research Operating) Costs

In order to perform research on behalf of federal agencies, universities incur a variety of other significant costs both leading up to and during a specific research project that they would otherwise not incur. F&A costs cover the portion of these infrastructure and operational costs related to federally-funded research. Such shared costs include the maintenance of sophisticated, high-tech labs specifically designed for cutting-edge, federally-sponsored research; utilities such as light and heat; telecommunications; hazardous waste disposal; and the infrastructure necessary to comply with various federal, state, and local rules and regulations.

From the Association of American Universities (AAU) and the Association of Public and Land-grant Universities (APLU). "Understanding the Costs of Federally Sponsored Research at Universities," October 2013.

Federal policymakers, and the investigators who conduct research projects, generally recognize the necessity of the direct costs of research, including salary support (e.g., investigators, laboratory staff, technicians, graduate students), supplies, and sophisticated equipment. F&A costs, on the other hand, are often devalued for primarily two reasons: (1) due to the way some agencies provide for F&A, some stakeholders view the F&A budget category as diverting funding from direct costs, and (2) the reimbursement mechanism for F&A costs (i.e., the "F&A rate") is complex and thus difficult to explain and to understand.

However, fair reimbursement of F&A costs is crucial to a stable and viable research enterprise. Research universities and institutions cannot implement research programs if sponsors do not support the real costs of research infrastructure and compliance activities. Construction and maintenance of state-of-the-art research laboratories and administrative efforts that ensure compliance with federal rules and regulations are necessary investments. A June 2014 COGR paper, *Finances of Research Universities* (see www.cogr.edu, Policy Issues / Financial Management), provides an in-depth look at the financial landscape of research universities, including the importance of the F&A reimbursement process.

The F&A rate is the mechanism used to determine and accomplish F&A cost reimbursement. The Office of Management and Budget (OMB), through [2 CFR Part 200](https://www.e-reading.org/docs/2_CFR_Part_200)

(Uniform Guidance) and related guidance, defines rules for reimbursement of F&A costs by way of federally-negotiated F&A rates. F&A rates are:

- **Calculated** by the university according to rules defined by OMB and based on audited university financial data;
- **Submitted** to the rate-setting cognizant agency (for research universities and most research institutions, either the Department of Health and Human Services, Cost Allocation Services or the Department of Defense, Office of Naval Research);
- **Reviewed and/or audited**, rigorously, by the rate-setting cognizant agency;
- **Negotiated** between the university and the rate-setting cognizant agency and normally effective for a period of two to five years; and
- **Charged** by multiplying the negotiated F&A rate by a subset of the direct costs of the sponsored research project.

An institution determines F&A costs by applying the negotiated F&A rate to a subset of the direct costs of the research project – this subset is known as the “modified total direct costs”, or MTDC. Through 2 CFR Part 200, OMB specifies those items that are included in MTDC and those that are not included to ensure equitable allocation of F&A costs. The items excluded from MTDC are generally direct costs which are assumed to not require extensive F&A costs/activities (e.g., graduate student tuition, equipment, subaward amounts greater than \$25,000) compared to other direct costs (e.g., salaries, benefits, supplies).

The chart below illustrates typical direct cost items in a research budget and application of the F&A rate. The F&A Amount (column 4) is determined by multiplying the negotiated F&A Rate (column 3) by the Direct Amount (column 2) for MTDC cost categories.

CHART 1: Research Budget and Application of F&A

Cost Item	Direct Amount	F&A Rate	F&A Amount	Total Reimbursed
Salaries and Benefits (MTDC)	200,000	54%	108,000	308,000
Supplies (MTDC)	30,000	54%	16,200	46,200
Grad Student Tuition	25,000	n/a	0	25,000
Equipment	75,000	n/a	0	75,000
TOTAL	<u>330,000</u>		<u>124,200</u>	<u>454,200</u>
<i>(Percent of Total Reimbursed)</i>	72.7%		27.3%	100%

The “*Percent of Total Reimbursed*” is of particular interest: The 54% F&A rate applied in the example results in F&A costs of 27.3% of the total research budget. National Institutes of Health data shows that F&A costs as a percent of total awards has remained constant for over a decade (see CHART 2 below).

CHART 2: NIH Direct and F&A Awarded (Dollars and Percent)

Fiscal Year	Direct Awarded (000s)	F&A Awarded (000s)	Total Awarded (000s)	Direct as a Percent of Total	F&A as a Percent of Total
FY2002	12,822,068	4,835,456	17,657,524	72.6	27.4
FY2007	15,387,745	5,876,060	21,263,805	72.4	27.6
FY2012	15,978,032	6,182,900	22,160,932	72.1	27.9
FY2016	16,899,936	6,407,203	23,307,139	72.5	27.5

Source: Congressional Justification of the NIH fiscal year (FY) 2017 budget request; Overview of 2017 Presidents Budget.

National Institutes of Health data shows that F&A costs as a percent of total awards has remained constant at less than 28 percent for over a decade. This may or may not represent the “ideal” ratio; however, it does demonstrate that a consistent allocation of funds dedicated to the direct costs of scientific activities is reliable.

At the same time, cutting-edge science requires appropriate infrastructure and other support and institutions incur these real research expenses in the form of facility operations and compliance activities when conducting research on behalf of the federal government and other sponsors. Equitable reimbursement of those F&A costs has a significant impact on the financial health of research institutions, and, consequently, helps to ensure that research activities are supported with the best, state-of-the art laboratory facilities, as well as the highest quality administrative and compliance support mechanisms.

The remainder of this EXECUTIVE SUMMARY shows high-level survey results, including F&A rate trends over the past decade.

SURVEY RESULTS AND TREND ANALYSIS

COGR conducted the F&A Survey between August and November of 2016, with quality review and analysis conducted through February 2017. Surveys were completed by 145 institutions, a large portion of which are among the top 100 research institutions (according to [Rankings](#) from the *2015 Higher Education Research and Development (HERD) Survey*, conducted by the National Science Foundation).

Members were encouraged to print the hard copy version, but were required to complete the survey using the on-line interface (Survey Gizmo). Each institution designated one individual as the primary person responsible for completing and submitting the survey. COGR staff granted on-line access and managed the survey process. Upon submission of the survey, the institution could no longer access its survey unless COGR staff reauthorized access. As a rule, an institution would not need to re-access its completed survey. However, in some cases, an institution was not able to complete the full survey as its F&A rate negotiations were still in process with its rate-setting cognizant agency. In cases where the F&A rate negotiation was not completed, institutions were (or will be) granted re-access to their surveys to enter the results of their F&A rate negotiations.

The F&A Rate Trend Analysis uses survey results from the 2017 Survey and results from the F&A survey conducted by COGR in 2011. By using results from both surveys, we have constructed longitudinal data that captures F&A rates over the past decade. The analysis below summarizes the “average” and “median” F&A rates for FY2007 and FY2017 for Research Universities. The cohort represents 107 research universities where survey data was available from the 2011 and 2017 surveys. While a 100 percent representation would be ideal, these 107 institutions provide a representative sample, which allows for insight into F&A rate trends and potential factors influencing these trends. Note, the rates below cover a broad range of institutions and are not meant to be used for comparisons to peer institutions.

CHART 3: F&A Rate Trends; FY 2007 – FY 2017

Reporting Cohort & Survey Year	FY 2007	FY 2017	Annualized Percent Change
Research Universities (average)	51.2	55.0	+ 0.8 %
Research Universities (median)	50.3	54.5	+ 0.7 %

Note: “Research Universities” includes 107 institutions where FY07 and FY17 data is readily available.

F&A rates have trended up from FY 2007 to FY 2017 at an annualized rate of less than 1% per year. ***However, this trend does not appear to have created a shift from direct cost to F&A recovery. The fact that there has not been a shift is important.*** Research funding agencies, ideally, would prefer their budgets to be dedicated solely to the direct costs of research (e.g., salary support, graduate students, research supplies, equipment). Despite the truth that F&A costs are real costs of conducting research, these costs, generally, are not popular. National Institutes of Health (NIH) data (see CHART 2) indicating that F&A costs as a percent of total awards has remained constant at less than 28 percent for over a decade shows that the upward trend of F&A rates has not eroded the direct cost funding support for research.

The NIH data is a critical metric: NIH funding accounts for over 50% of the total federal research funding at research institutions. Since there has been no shift from direct to F&A at NIH, the upward trend of F&A rates has not affected the direct cost allocation for the NIH portion of the federal research budget. And, while data for possible shifts from direct to F&A is not readily available for other research funding agencies, the anecdotal evidence suggests that a shift has not occurred at other research funding agencies. NIH, NSF, and DOD are the research funding agencies that most consistently reimburse F&A cost at the institution's negotiated F&A rate; still, maintaining a zero-impact shift from direct to F&A seems to be a common research funding agency priority.

Below, are several observations on F&A rate trends and the corresponding zero-impact shift from direct to F&A costs:

- 1) The upward trend in negotiated F&A rates may be related to: a) an increase in the quality and associated documentation of F&A rate proposals submitted to the Department of Health and Human Services, Cost Allocation Services (HHS) and the Department of Defense, Office of Naval Research (ONR), and b) more fair and fact-based F&A negotiations conducted by HHS and ONR.
- 2) Despite the upward trend in negotiated F&A rates, the evidence (NIH data and anecdotal) indicate that there has been no shift from direct costs to F&A costs over the past decade. Possible explanations for this include:
 - a. Generally, F&A rate increases from FY 2007 to FY 2017 have been more associated with Public institutions as compared to Private institutions. In fact, the higher rate Private institutions have experienced the smallest (in terms of actual percentage points) F&A rate increases, and in a number of cases have experienced decreases. As the higher rate Private institutions perform a significant amount of NIH-funded research, their experience is a key contributor to the observation that there has been no shift at NIH from direct costs to F&A costs for over a decade.
 - b. While some Public institutions have significant NIH portfolios, generally, their research portfolios are less NIH-centric. Generally, Public institutions (and more significantly, the smaller research volume Public institutions) have

a greater portion of their research portfolios that include research funding from agencies that do not consistently reimburse at the institution's negotiated F&A rate.

- 3) The recent [2015 Higher Education Research and Development \(HERD\) Annual Survey](#), released by the National Science Foundation, supports the observation that, despite the upward trend in negotiated F&A rates, there is a zero-impact shift from direct to F&A across all research funding agencies. The 2015 HERD Survey shows that research institutions are continuing to increase their contribution of University/Institutional funds, in lieu of Federal funds, to support research infrastructure and related costs. ***The 2013 HERD Survey showed, for the first time since the 1950s, that the Federal government contribution to the research enterprise dipped below 60%.*** According the 2015 HERD Survey, the Federal share has fallen to 55% (\$37.9 billion), while the University/Institutional contribution is at its highest level ever at over 24% (\$16.7 billion).

In summary, negotiated F&A rates have increased from FY 2007 to FY 2017 at an annualized rate of less than 1% per year. However, the evidence shows that this is not affecting the allocation of research agency funds between direct and F&A costs. The more significant observation, in fact, may be that despite an increase in negotiated F&A rates over the past decade, research institutions remain passionately committed to partnering with the Federal government to ensure that the research enterprise of the United States remains the strongest in the world.

COGR is an association of 190 leading research universities, affiliated medical centers, and independent research institutes. We are the national authorities on the financial and regulatory infrastructure, and the corresponding compliance requirements associated with managing federal research grants and contracts within research institutions. We provide information, analyses, advice, policy perspective, and historical context to our members in the areas of research administration and compliance, financial oversight, and intellectual property.

COGR communicates the viewpoint and concerns of its members and fosters productive relationships between the research community and federal policymakers, advocating for innovation and change that avoid unnecessary regulatory burden.

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