

## **AAMC RESEARCH VIEW: Demystifying Facilities and Administration Costs**

**Ross McKinney, MD – Chief Scientific Officer, Association of American Medical Colleges**

In another challenging year for the federal budget, I'm glad to report that Congressional appropriators and leadership continue to show support for the National Institutes of Health. As you probably know, in March the Trump administration proposed cutting the 2018 NIH budget by 23% below its current FY 2017 level of \$34 billion. Some weeks later, the administration added detail proposing that most, though not all, of this cut would be taken from the NIH's Facilities and Administrative (F&A) expenditures, which would be limited to 10% of the NIH's extramural budget. Over recent decades, these expenditures have been stable at about 27%. This cut would translate to millions of dollars lost at many institutions.

Thanks to advocacy by you, your institutions, the AAMC, and many other organizations, the recent draft appropriation bills in Congress have proposed not to cut, but to increase NIH's budget in 2018 by one billion dollars in the House and two billion in the Senate. Both bills include language to prevent the administration from decreasing F&A payments on NIH grants below current levels.

But the outcome is by no means certain. We must continue working with Congress and advocating for NIH funding until a funding agreement that preserves F&A reimbursements can be reached. Even then, a final appropriation or continuing resolution will apply for only one fiscal year. We all need to continue to communicate with the administration, including the Department of Health and Human Services and Office of Management and Budget, with examples of what cuts to NIH as a whole or F&A reimbursements in particular would mean for medical research, local communities, and the nation.

Given the complexities of biomedical research and how research is financed, the academic community must also educate its own members so that the whole community understands these issues well. Clearly, all of us want to ensure that limited funds available for biomedical research are spent most appropriately and effectively. Very few faculty would prefer to work in old, unmaintained laboratories with limited security, constrained disposal of toxic wastes, and little support for research subjects or animal protections, but that is exactly what would happen if the F&A cuts move forward.

The attached document provides background about F&A payments and what they mean for the research enterprise. We urge you to share with faculty, administrators, and others. The bottom line is that cuts to F&A are cuts to research.

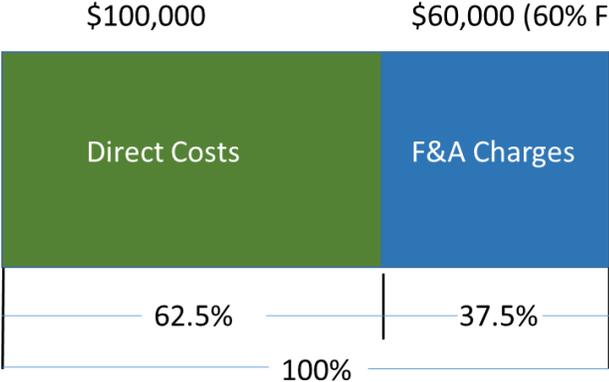
### **A Discussion Regarding Facilities and Administration Charges**

Although F&A charges, also known as indirect costs, may be difficult to understand, they are a key concept linked to most grants and contracts from the federal government, foundations, and corporate sponsors. F&A charges are payments granted to an institution above the directly attributable costs of a specific research project in order to provide the infrastructure necessary to do the research work.

F&A charges have been included in federal grants since the 1940s, recognizing that institutions have expenses related to research projects that may not be directly attributable project by project. For example, a lab requires heat, lights, power, water, internet access, a roof, janitors – and attributing these items line-item by line-item on each and every grant would lead to a confusing and expensive administrative nightmare. For example, how much of the power bill should be attributed to one specific grant? How much water?

To be fair to institutions, the federal government defines a fixed set of expense categories and reimburses institutions for them after evaluating the institution’s real costs and negotiating a reasonable rate. The resulting calculation allows the funding agency to deal with multiple grants at an institution through a single F&A rate, rather than requiring a cumbersome grant-by-grant negotiation. The method is defined in a document, “OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements,” and described in the Code of Federal Regulations at 2 CFR Part 200. Those F&A charges are broken down into two categories, **facilities costs** and **administrative costs**. Administrative costs for universities —which include paying for staff to ensure compliance with regulations and other obligations – are capped at 26%, while facilities costs do not have a similarly fixed limit.

**Figure 1: Example Grant with \$100,000 Award and 60% F&A rate (total cost - \$160,000)**



The first step in determining the F&A charges occurs when an institution negotiates with the government regarding which institutional costs can be reimbursed. The method is standardized, and there are nine categories of expense (listed below in Table 1), each of which must be well justified in the negotiation process. Once an F&A rate is established (typically 50-60% for universities), that rate is multiplied against the allowable direct charges in the grant (referred to as the “Modified Total Direct Cost” or MTDC) and the previously determined F&A charge.

For example, if a \$100,000 grant was awarded to Stellar University, which has a negotiated rate of 60%, Stellar would receive \$60,000 to provide support and resources for the research above what is being paid for the direct costs of the research (See Figure 1). Those direct costs include salaries, reagents, laboratory supplies, animals, and the like. In this illustration, the total cost of the grant to the NIH is \$160,000, roughly two thirds of which goes to the direct costs of the research and one third to F&A reimbursements.

Part of what makes F&A charges confusing is the way institutions describe their use. Because they are reimbursements for a collection of expenses, F&A charges reflect real costs to the institution. Some institutions state they “return indirects” to departments or investigators when they obtain a grant. In fact, what this means is that the institution is using its own resources to reward a faculty member or department for obtaining research funding. To put it in personal terms, when I am reimbursed for a plane ticket, the expense was real, but I can now spend that reimbursement check on groceries. I really did spend the money on the plane ticket, but as a cash-flow question, I can use the reimbursement dollars any way I would like.

**Table 1: F&A Cost Components and data from two schools**

<b>Cost Component Category</b>	<b>SOM A</b>	<b>U of Cincinnati</b>
<b>Facilities</b>	33%	32%
Building depreciation	16.2	7.5
Interest (on debt for buildings, equipment, capital improvements)	7.5	3.3
Equipment depreciation	3.8	3.4
Operations and Maintenance (physical plant, utilities, security, transportation) – only portions of the campus used for research	3.0	16.3
Library	2.5	1.5
<b>Administrative Costs (capped at 26%)</b>		
General Administration (Dean's office, HR, Financial management)	3.6	4.6
Departmental Administration (3.6% set aside for faculty admin work; non-faculty admin support, supplies, internet, telephones, local travel)	19.5	17.2
Sponsored Projects Administration (Grants Office, Post-Awards Office)	2.9	4.2
Student Services Administration		
<b>Total</b>	59%	58%

SOM A = A School of Medicine which was negotiating its NIH rate at the time this document was being prepared.

There are other important points about F&A charges to keep in mind. For most universities, the costs associated with the administrative portion of the F&A usually exceed the 26% limit. Those costs must be paid from other sources like philanthropy, tuition dollars, dean's taxes, state funds (at public institutions), or transfers from clinical operations. Because neither direct grant charges nor F&A reimbursements cover issues like unfunded faculty effort, gaps in funding (i.e. paying the direct costs of a research project when there's no grant associated), time spent preparing grant applications, start-up packages for new faculty, and exploratory "departmental" research are all expenses paid using university funds. When research is done off campus, or if it is non-laboratory based clinical research, the F&A rate does not include facilities fees, so the F&A rate is capped at the 26% administrative cost. Some training grants have an overall F&A limit of only 8%. So the process of determining the F&A charge on any one grant may still be complicated even if the rate is uniform at the institution.\*

### *Conclusion*

As medical school faculty confront difficult decisions in sustaining labs, training programs, and other vital activities, they also need to consider the vital role that direct and F&A payments play in the long-term sustainability of our institutions. An AAMC study shows that institutions already provide \$0.53 for every dollar of federal support received. If cuts are made from federal sponsors, where will additional revenues come from?

AAMC will continue to inform you about the latest developments on the NIH budget as they occur. I also look forward to your own questions and discussion on how best to advocate for biomedical research.