



Tomorrow's Doctors, Tomorrow's Cures

Understanding Facilities and Administration (F&A) Charges in NIH Grants

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F&A Charges – the “Indirect Costs”

The “total cost” of an NIH grant includes two components:

1. Direct costs – the expense of doing the specific project (experiments)
 - Salary, reagents, laboratory costs, equipment
2. F&A charges (Facilities and Administration, AKA “Indirect costs”). These are audited research costs for the institution that are hard to attribute to one specific project (How much water did that experiment use?)

F&A Charges – the “Indirect Costs”

Examples of indirect costs include:

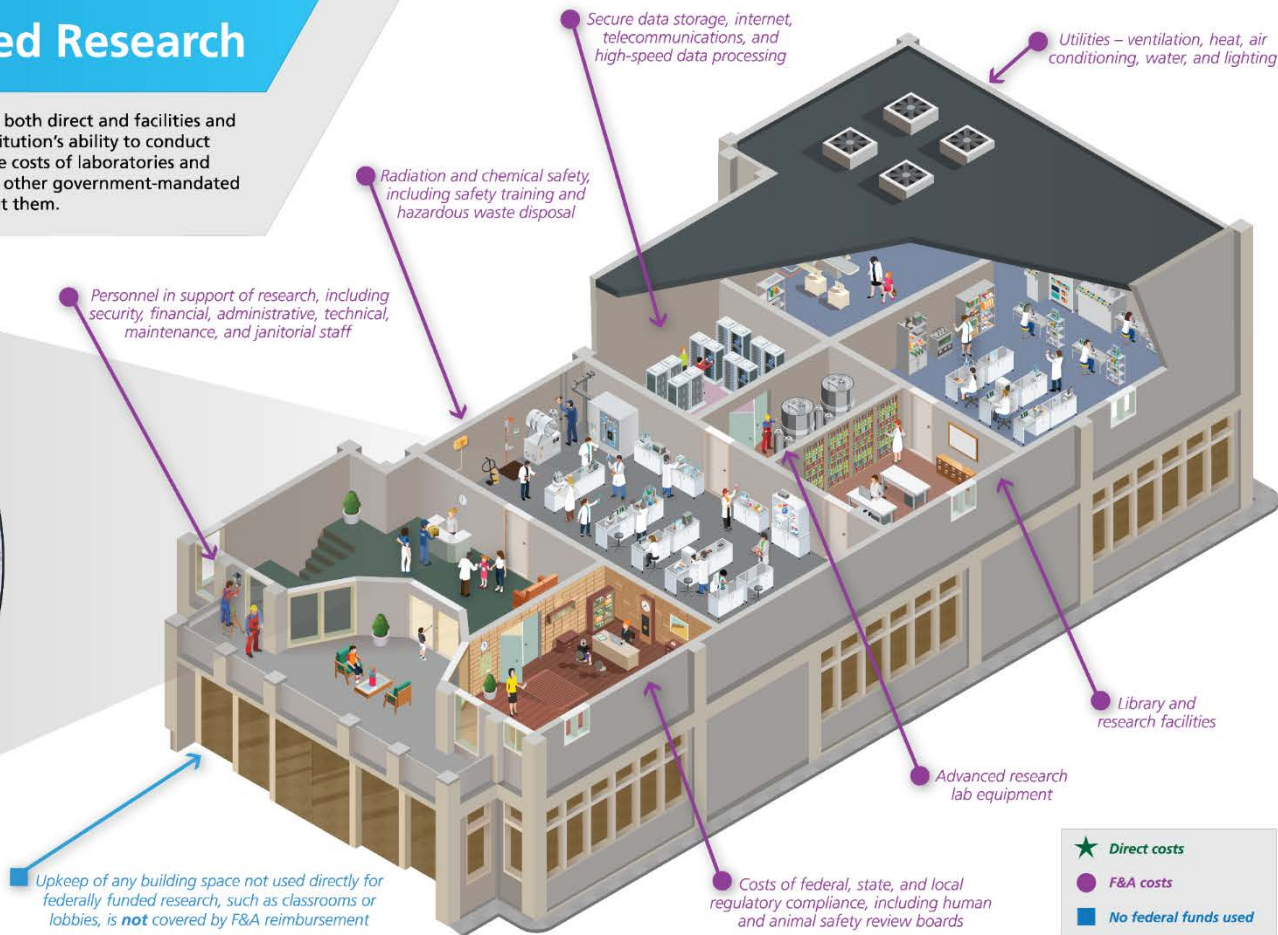
- Building and equipment depreciation (for space used on NIH-funded projects)
- Interest on bonds, research-related administrative costs (including IRB, animal care, other compliance functions)
- Security, waste disposal, water, power, library, computing networks and systems
- Costs based on an average of specified costs from all NIH funded projects at an institution
- Costs based on real and audited expenses incurred by the institution in doing NIH-related research

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.



★ **Direct costs** - These expenses solely cover research and include lab supplies and equipment; salaries and stipends for researchers and graduate students; and travel costs for conducting and sharing research



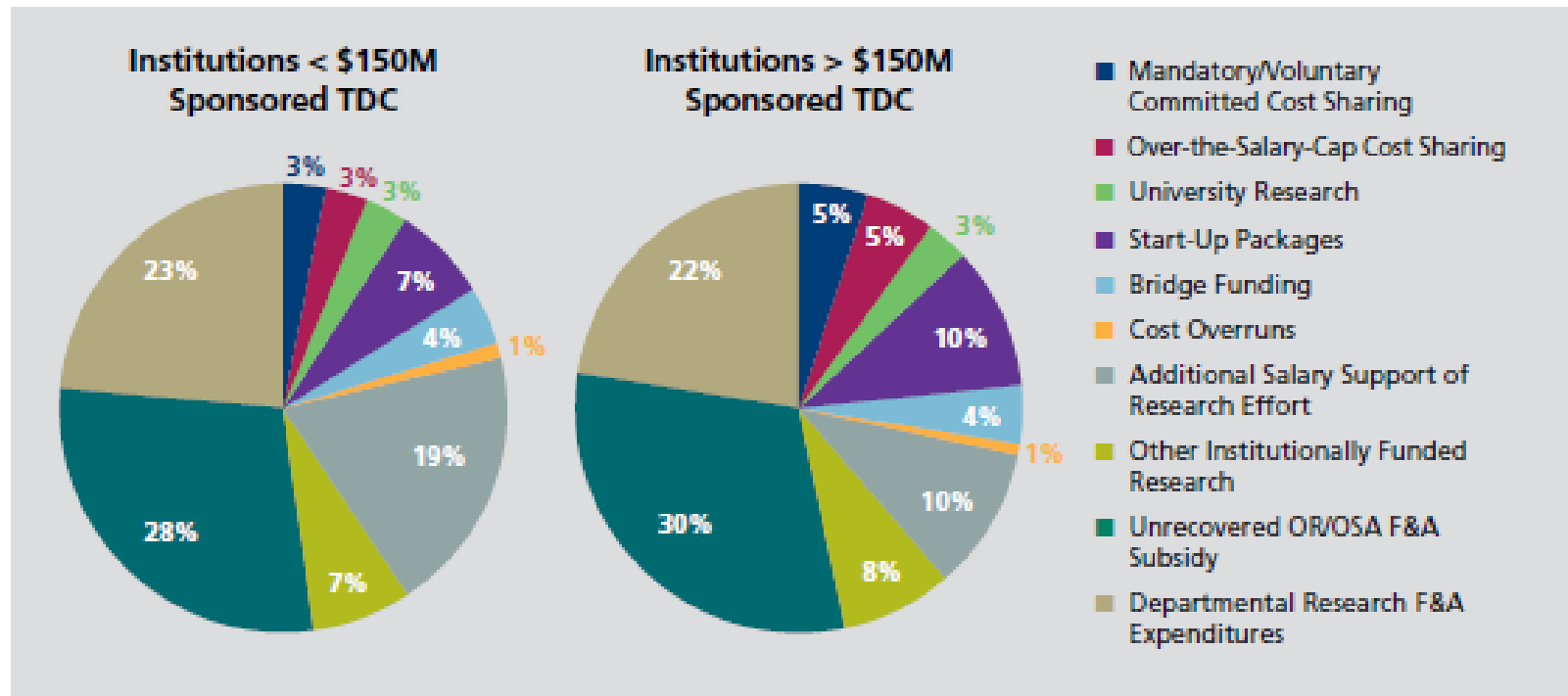
F&A Charges

- No margin to F&A charges – institutions receive less in F&A reimbursement than they actually spend on supporting research.
- If institution says it's providing \$ to investigator as incentive for applying for NIH grant (often referred to as “returning your indirects”), \$ has to come from some other institutional source, because NIH F&A reimbursement was already allocated to real expenses and spent to support them.
- Sources institution could pull from to “return indirects” could include endowment income, philanthropy, state funds, or a transfer from clinical services.

F&A Charges

- Medical school tuition is already insufficient to pay costs of education, so source for “returning indirects” can’t be a “funds” source
- Private institutions do not generally receive state funds
- Most endowment income is restricted (for example, to fund a chaired professorship)
- New or refurbished labs are expensive and F&A provides only partial payment

How institutions invest their own funds in research



This slide shows national averages on the distribution of what institutions pay to support research. The actual amounts are institution-specific. On average, institutions contribute 53 cents for every dollar of sponsored research received (TDC = total direct costs).

Source: "Academic Medicine – Investment in Medical Research (Technical Report)" – AAMC report 2015

Proposal and Effect

- The current administration budget proposal would limit NIH F&A expenses
- The proposal would translate to a fixed F&A rate of around 12%, which would replace the current negotiated rate (typically 50-60%)
- At an institution like [your institution] this would result in a revenue loss of [\$###M]!
 - Since building bonds and many costs associated with research will continue, and most revenue sources have already been maximized, institutions will need to aggressively trim their budgets to cope with this loss of reimbursement
 - Institutional funds will need to replace the federal funds, but may not be sufficient for current needs and uses

Possible Effects of an F&A Cap

If the institution has diminished F&A support, most of the effect will be on personnel – some non-tenure track faculty will likely be laid off:

- Financial exigency might also allow tenured faculty layoffs
- Lab staff and technicians will lose jobs
- Administrative support (grants offices, the IRB, animal protection, janitors) will be cut

Possible Effects of an F&A Cap

- Some buildings may be closed
- Core laboratories that have been running with institutional subsidy may be closed
- Institutions will prioritize efficiencies:
 - Existing contracts, salary, and services may need to be renegotiated
 - The research portfolio may be reconsidered, with preference to less capital intensive research

Proposal and Effect

- Institutions might limit faculty application for new awards since each research project brings more expenses than institution may be able to cover (i.e., more lab space)
- Many institutions will fund a smaller number of faculty at a higher percentage, since there will be less money available to provide faculty salary support
- Bridge funding will be limited and unfunded faculty salaries will be reduced in some institutions (or those positions terminated)

Proposal and Effect

- PhD training programs will be contracted
- Post-doc positions subsidized by the schools may be terminated
- Some institutions may sell their buildings to investors and lease them back, since lease expenses are a direct cost item

Faculty Understanding

- Some faculty have thought indirect costs should be part of their reward for obtaining a grant, but that isn't possible
- Institutional resources that allow grant-funded research are expensive
- Many of the expenses will continue regardless of changes in F&A reimbursement rate

More NIH grants might be available if the proportion of funds used to pay indirect costs is reduced, but the net effect of layoffs, contraction of PhD training programs, loss of bridge funding, reduced salaries, loss of institutional resources and services, and cessation of new faculty hiring will make the increased number of grants less valuable.



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