Making sense of "overhead" charges on academic grants - G. Hudler, March 2015

The December 2015 meeting of the Tree Fund Board of Trustees included some discussion of the need for the Fund to reach consensus regarding inclusion of institutional "indirect costs" (IDC) in budgets of grant applicants. Inasmuch as no one at the table seemed to have a firm grasp on the whys and wherefores of the IDC issue from the perspective of agencies requiring it, the matter was tabled until more background information was available.

Since then, I've queried colleagues with tree research programs at ten prominent universities in the U.S. to learn (1) what their IDC policies were and (2) how flexible they were with respect to the granting agencies overall fiscal resources.

Here's what I learned cut and pasted directly from replies with minor editing to disguise names and locations:

Reply 1. *We are currently not as strict with IDC as some other universities are and will accept research funds if the Foundation or Agency has a published statement indicating they do not allow IDC on grants. I asked this of Sponsored Projects Administration to make sure of their policy and their response follows:*

> *Generally, we like to receive IDC if allowed by the sponsor, however, we do have grants that we accept from sponsors or in this case foundations that do not allow IDC. Usually, we need a statement of some kind that explains that IDC is not allowed. Sometimes the statement is part of a proposal announcement or application, if they have one, or it's posted somewhere on their website or it can even be in a letter we receive from the sponsor or foundation.*

Reply 2. What Reply 1 said about the situation there is true of us, too. Of course in the past few years, there has been an increasing push from our administration to get IDC on grants like those from the various commodity boards that traditionally have not allowed IDC. Nonetheless, it is a bit of mixed bag. Some commodity groups have acquiesced and others have strongly resisted the change, but the IDC's that are allowed never approach the NSF or NIH levels with their 50+ % rates.

Reply 3. Our policy/practice is that if an organization (non-profit and governmental only; industry *has* to accept our indirect rates) has a published policy that indirect is not allowed on grants, then we abide by that. This policy either has to be published in the RFA, on their website or in a letter on letterhead from an authorized organizational representative. I hope this information is of some help in making your decisions.

Reply 4. Just yesterday our University passed down an edict stating that we can no longer accept grower and producer group money without IDC, with the minimum being 12%. Because of the history of our department being heavily influenced by commodity groups, who are not happy paying for large amounts of IDC, we have been shielded longer than many other departments on this. However, I have heard of some people in other units being told they cannot accept money without IDC. Even if it isn't explicitly banned, there is the implied negative effects on one's tenure and promotion considerations if there is a small amount of IDC being generated. Of course we are all aware of the fact that for forest health research, often we are relying on low IDC sources such as USFS Coop agreements etc. If it weren't for those sources, I would be in a different career right now. They built my program and the large IDC accruing grants have largely been fleeting for me. I can't say I have been personally hurt by this, but have been told by administrators I need to work harder to get those. FWIW, I think at least one tenure decision of a colleague hinged on this issue. I am very thankful for ISA funds and similar groups funding forest/tree health work. Without it, I fear we would be seeing a further erosion of our discipline and research infrastructure at Universities.

Reply 5. *Our policies within the university vary a great deal. The overall university indirect rate for large grants is roughly 50%, and there is no getting around it. The US Navy sets that rate, since we (not me!) get a lot of $$$ from them. However, we can negotiate state grants (from our state only) down to*

about 15%. Internal, competitive grants that go through our College of Ag (i.e., lump sum from one industry that is then opened to competitive proposals within the college) are very competitive among researchers serving that industry and they carry no overhead. (GWH note: this seems to be a "one off" - perhaps politically motivated - to placate one significant commodity group in the state.) Of course, "gifts" (which everyone likes!) from chemical industries and other private sources also carry no overhead, so we get much more bang for our buck if we can secure gifts.

Reply 6. I just called our SPO to confirm my understanding, which is that here at XXXX, a restriction on IDC is not a deal-breaker. However, at a nearby institution which might also have interest in Tree Fund grants, it's a very different story: not only would they not accept a grant that did not include IDC; they have not allowed proposals submitted to USDA because of the 20-22% IDC cap that USDA imposes (in contrast to negotiated IDC rates as high as 55% with NIH and NSF). On a personal note, I believe that USDA is bending on its policy of capped IDC, because they're not getting research funds to some very good research institutions for whom the 20-22% rate is unacceptable. So they are currently working on modifying the policy to accept negotiated rates. (GWH note: I haven't heard this last concern expressed by USDA and will have to learn more from other sources.)

Reply 7. At our institution, we can apply for and receive grants without IDC or with reduced IDC. For example, some federal and state Forest Service grants have a 10% IDC. With little or no IDC, we are encouraged to include some expenses, like clerical help and phone charges, that wouldn't be normally included in a grant with IDC. I think for the smaller awards, our university is quite happy to get the funds without IDC than not getting the funds at all.

Reply 8. The basic tune here is that we should do all we can to recoup some or all of the IDC, but in reality I have had many proposals approved by our Office of Sponsored Programs, and my department in particular, without ANY IDC. There is an (unofficial perhaps) understanding that it is better to have some research done without IDC than none with IDC. Having said that, in general we try to recoup at least 10%, unless there is no opening by the sponsor on this matter. Then we go with 0%.

GWH Summary: All of the institutions represented here seem to have some sensitivity for the inability of smaller funding agencies to provide the 50-70% IDC that is common for prominent research sponsors like NIH and NSF. It's also interesting to note that some distinguish between "industry" and "non-profit". I wonder which side of that aisle the Tree Fund would fall on. For those who come as close to a mandate as possible (leaving themselves a little room to negotiate with special local interests), the going rate seems to be 10%.

From the Cornell administration comes the following in its entirety with what I perceive to be most important points in **bold** and added personal commentary in red. (Note: This reply comes from a relatively new Senior Associate Dean who is still learning the fine points of life in higher administration and who, because of that, may have taken more time than others to try to provide a comprehensive view. I trust the honesty of this effort and suspect that it reflects what others elsewhere in the country would also share *except maybe point number 4.*

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Dear George,
Sorry for the delay on this reply. There are not simple answers to your questions but I can tell you a few things that I have learned about overhead that you may be able to use (with more detail that Anne Marie pulled together below):

1. **The federally negotiated rate of 55% is based on real confirmed costs of doing research but does not cover everything** (even at 55%!)**, so every time we take a grant or contract with lower IDC we are not covering real costs. The CALS average** (for *all* grants) **is well below 55%.** If I'm reading this right, then for every $1000 of *federal* money that the university gets to conduct research, $450 goes for purchase and maintenance of basic equipment and supplies, travel, labor (but maybe not faculty except for June-August; and fringe benefits where appropriate.) The other $550 goes to utilities in the broadest sense, libraries, IT, big-ticket equipment (like an electron microscope that might serve needs of many people across several departments), secretarial/administrative support and other items. Things like new building construction are funded via special allocations.)

2. **Research at universities is subsidized by the teaching enterprise.** The challenge is to balance this sustainably**.** I interpret this to mean several things including:
   a. Even though faculty are paid to teach from mid-Aug to mid-May, many do not spend 100% of their time doing that; yet some significant amount of their non-teaching time is paid via tuition dollars and whatever supplements come from the state. There is probably some additional use of tuition dollars for research purposes when undergrads do research for academic credit. UG research is increasingly common and in many top-ranked institutions, students who graduate *without* some research experience are at a disadvantage for grad school and other career growth opportunities.
3. State support has been flat though our costs continue to go up. This is *definitely* true in NY such that Cornell now calls itself a "state-assisted" university rather than a "state-supported" university. I think most other land-grant universities as well as other "state colleges" are in similar situations. Expenses like support staff, general infrastructure, utilities, etc. have suffered most from loss of state $$$ resulting in greater reliance on IDC.
4. **Specifically at Cornell, under the new budget model, CALS is being taxed roughly 20% on all research dollars coming in to cover the real costs of running the university. So every research dollar that comes in without overhead we need to come up with 20% from some source to cover this cost.** I'm not going to put anything in writing re. this issue; we can talk more at the meeting.

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More info:

The cost of conducting research consists of two broad types of costs – direct costs and facilities and administrative costs (F&A). Direct costs can be identified easily with a high degree of accuracy and *specificity* to a particular sponsored project. F&A costs are the costs incurred for common or joint objectives as a part of sponsored activities that cannot be identified with a *particular* sponsored project. The most important thing to remember is that F&A is about cost recovery – it is not about profit. If the costs of doing research are not recovered, funding has to come from elsewhere, because the costs of research are real. To think about what kind of costs are in the F&A bucket, I've included some examples as they relate to CALS, below:

Facilities Costs

Building depreciation – depreciation expense associated with university-owned buildings, land improvement and related infrastructure

Equipment depreciation – depreciation for university-owned capital equipment that cost more than $5,000 and a remaining useful life greater than one year

Interest pool – external debt financing of building construction or renovation

Operation and maintenance – cost of utilities, custodial services, repair and maintenance of buildings

Library – cost of maintaining and running a library, including acquisitions

Administrative Costs

General administration – costs of university and general administrative offices (President, Provost, Counsel, Board of Trustees, etc.)

Sponsored project administration – cost of offices responsible for administering sponsored research (Senior Vice Provost for Research, OSP, ORIA, CARE)

Department administration – Dean's office and departmental and administrative staff, non-labor costs (copying, office supplies, phones, etc.)

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Final thoughts … for now.

The issue of IDC raises hackles with everyone who has to confront it. And what you read above is by no means intended to be a defense of current practices but rather honest views of those of my peers who are trying to deal with them. My best guess is that there is something to be gained by using verbiage in our RFP that indicates our willingness to negotiate an acceptable IDC rate. Furthermore, I think we'd be doing our profession and our donors a terrible disservice if we ever let reasonable IDC rates (however we define them) trump more important items like the quality of a research proposal, the value of the work to the industry, or the track record of the investigator.

'Nuf said.
George Hudler