

Frequently Asked Questions about Facilities and Administrative (F&A) Costs of Federally Sponsored University Research

May, 2017

Association of American Universities and Association of Public and Land Grant Universities

1. What are “facilities and administrative” (F&A) costs?

F&A costs – also referred to as “indirect costs” – are real and necessary costs of conducting research. The federal government’s longstanding recognition and reimbursement of these costs has encouraged U.S colleges and universities to build and support the required research infrastructure that has made the American research enterprise the best in the world.

When the government provides a grant to a university to support a research project, a portion (typically 67-75 percent) of the funds are distributed directly to the researcher. This “direct costs” portion supports researcher salaries, graduate students, equipment, and supplies. Another portion (typically 25-33 percent) covers necessary research infrastructure that the university provides to support the research. These research infrastructure costs – officially called facilities and administrative (F&A) costs – support research expenses including: state-of-the art research laboratories; high-speed data processing; national security protections (e.g., export controls); patient safety (e.g., human subjects protections); radiation safety and hazardous waste disposal; personnel required to support essential administrative and regulatory compliance work, maintenance staff, and other essential work which is essential to supporting research.

2. Why does the federal government provide support for F&A costs of research?

The current university research costs system, including the payment of F&A costs, is based on the long-standing and successful partnership between universities and the federal government that grew out of World War II. The federal government relies on universities to conduct research in the national interest and aimed at meeting specific national goals such as health and welfare, economic growth, and national defense. Performing research on behalf of federal agencies incurs a variety of costs that would not otherwise exist for universities. Universities – not the federal government – assume the risk of building the necessary infrastructure to support this research in anticipation that their research faculty will successfully compete for federal research grants and thus the university will be reimbursed for a part of the associated infrastructure costs.

3. How do F&A reimbursements help finance facilities on university campuses?

In practice, research facilities are planned and funded by universities in advance of receiving federal grants. A university assumes all the risk when committing to build a major new research facility. The university plans the research facility, raises the capital, and then constructs the building. Only after that process is completed – and then only if the university’s faculty successfully compete for research grants – does the university recover some portion of the costs already incurred through its negotiated F&A cost rate. In other words, F&A cost payments are reimbursements for allowable research expenses already paid for by universities.

4. Do universities contribute any of their own funds towards research?

Yes. Universities are the second leading sponsor of academic research and development (R&D). Federal data show that colleges and universities pay for more than 24 percent of total academic R&D funding from their own funds to support R&D activities on their campuses. This university contribution amounted to \$16.7 billion in FY15, including \$4.9 billion in unreimbursed F&A costs. These institutional commitments to academic R&D significantly exceed the combined total of all other non-federal sources of support for academic R&D: state and local government, industry, and foundation, support was at 6 percent each in FY15 and other non-federal sources provided 3 percent in FY15. Federal spending on higher education R&D has continued to decline and was just under \$37.9 billion in FY15, or 55 percent of all funding for academic R&D (See figures 1-2).

5. Do universities 'profit' from the F&A costs they receive associated with federal research grants?

No, universities absolutely do not make gains from their F&A recoveries. Universities are not even fully reimbursed for the expenses they incur to provide the necessary infrastructure to conduct federal research. As stated above, in FY 15 universities contributed more than \$4.9 billion in facilities and administrative expenditures not reimbursed by the government, many of which were not covered because of existing OMB limitations on the amount it will reimburse universities for administrative and compliance related expenses.

6. Has the university contribution to research been increasing or decreasing in recent years?

Increasing. Over the past decade, the share of institutional support that colleges and universities provide to support research conducted by their faculty has grown faster than any other sector. This growth in institutional spending on R&D has come at the same time that federal support been declining (see figure 3). The increase in institutions' support for the R&D they conduct is due in part to the rising compliance costs associated with increased federal research regulations and reporting requirements. Despite the increasing administrative costs required for compliance, the amount that universities can be reimbursed by the government for these costs has been capped at a flat rate by OMB since 1991. This cap **only** applies to higher education institutions. Unlike other sectors that conduct government research, universities must therefore subsidize compliance costs from their own financial resources.

7. Has the percentage of federal funding for F&A cost reimbursements changed over time?

No. F&A costs recovered by research institutions have remained flat for over 15 years. For example, the National Institutes of Health's percent of total funding going towards F&A costs has remained unchanged, at approximately 31-32 percent of total funding, for more than a decade (see figure 4).

8. How much are universities reimbursed by the government for F&A costs compared to other government research performers such as the national laboratories and industrial contractors?

Generally, past studies suggest that total F&A costs for research performed by universities are slightly less than those costs for other research performers. A study in 2000 by the RAND Corporation found that universities had the lowest percentage classified as F&A (31 percent). Federal laboratories were somewhat higher at 33 percent and industrial laboratories were higher still at 36 percent. This demonstrates that universities are efficient performers of research. Unfortunately, a comparable study to the RAND study has not been undertaken in recent years. Such a study would be welcomed by the university community.

Additionally, as indicated under the previous question, the federal reimbursement to universities for their F&A costs does not cover the full costs to their institution. This is unlike other sectors that receive full compensation for all their costs. The federal government has smartly invested in university-based research: F&A costs at universities are lower than other sectors, the government is not required to pay a profit to universities like it must for industry research performers, there is a university-specific cap on the amount the government will reimburse for administrative expenses, and the system of agency oversight ensures universities continue to be excellent stewards of federal taxpayers' dollars.

9. Why do foundations pay less for F&A costs than the federal government does? Is the federal government subsidizing the infrastructure required to do foundation-sponsored research?

First, comparing what can and cannot be charged to a federal grant versus a foundation grant is an “apples to oranges” comparison since foundations categorize and pay grant-related expenses very differently than the federal government does. For example, foundations often allow many items to be charged to a grant as a direct expense that are not allowed as direct charges by the federal government under the OMB rules governing F&A cost reimbursement.

To the extent that a foundation does not pay for certain F&A expenses, these costs must be covered by the institution. OMB rules ([2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#)) specifically require universities to ensure the federal government does not subsidize non-federally sponsored research activity – including research and associated infrastructure costs performed by universities for private foundations – in their reimbursement for F&A expenses.

Additionally, as previously noted, after World War II the federal government consciously chose to encourage universities to conduct research on its behalf to help achieve national goals. A core tenant of the partnership between the federal government and universities is that the government shares in the costs of research by providing universities with competitively awarded grants to support the people, tools, *and infrastructure* necessary to conduct high-quality research for the nation. Historically, most foundations view their grants as supplementing research that scientists are already conducting. To this day, most foundation research funding is viewed as supplementing existing federal and non-federal research.

Finally, foundation funding for university-based research remains a small proportion of total academic R&D funding (only 6 percent) compared to federal funding (55 percent) and the funding provided to support academic R&D by the colleges and universities themselves (24 percent).

10. Are federal F&A cost payments being used to subsidize other campus accounts, such as athletics or construction?

No. OMB rules ([2 CFR Part 200 - Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards](#)) require that F&A cost reimbursements can **only** be based on federally funded research space and related research activities, not education or other university facilities or activities.

11. Is it true that universities with F&A rates over 50 percent spend more than half the grant funds they receive from the federal government to pay for F&A costs?

No, this is not true. A university's F&A cost rate is **not** a percent of the total grant but rather a percentage only of the research project's direct costs. Currently the average amount paid to universities for F&A costs is approximately 25-33

percent of the total amount of a grant. (Campuses with medical centers tend to be closer to 33 percent because of the increased costs and expenses involved in providing for medical research facilities.)

12. How does the F&A rate determine how much a university is reimbursed for F&A costs on a grant?

Here's how it works: To determine the level of reimbursement, every 3-4 years, the agency responsible for setting a university's F&A rate (either the Department of Defense Office of Naval Research or the Department of Health and Human Services) will comprehensively audit and assess these shared costs to determine the appropriate federal share based upon specific costs that have been deemed allowable expenses by the OMB. The overall figure is ultimately calculated *as a percentage of the amount the federal government awards for direct research costs* (**not** a percentage of the overall funds, the figure most people see).

For example, after reviewing all the expected costs and considering past research projects, a university and the federal government may determine that an amount equal to 50 percent of direct research costs is appropriate for the federal government to contribute toward F&A costs. In that case, if the federal government awards a university \$300,000 for the direct research portion of a grant, then it also awards \$150,000 for F&A costs, for a total of \$450,000. These overall institutional F&A cost rates are then applied uniformly to each grant at the university to avoid the very tedious, expensive and inefficient process of computing the F&A expenses for individual awards which would add additional costs for both the government and the university.

13. Why do F&A cost rates vary between institutions?

Federal agency officials and university administrators predetermine an overall percentage of allowed F&A costs to be reimbursed, based on documented historical costs and cost analysis studies. The final rates allowed for reimbursement are established based on a rigorous review and audit of the actual funds previously spent for reimbursable costs. F&A cost rates vary from institution to institution because construction, maintenance, utilities, and administration costs vary by institution and by region. Additionally, F&A rates depend upon geographic location, the age and condition of facilities and buildings, and the amount of renovation and construction needed to house certain types of research projects. For example, the F&A costs for a biomedical research facility built in an urban area that experiences earthquakes is different than an engineering research facility built in a rural area.

14. How would universities cover F&A costs if the government cut back on the amount it would reimburse?

Universities have a limited number of funding sources. The primary funding sources for research universities to fulfill their educational missions of teaching, research, and service are tuition, research grants, cooperative agreements and contracts, philanthropy, endowment income, and state appropriations.

A reduction of federal F&A costs reimbursements would result in one or more of the following:

- The inability of universities to accept research awards from and conduct research on behalf of federal agencies or other non-federal entities that require additional institutional subsidy;
- The deterioration of research facilities as the financial risk to build new facilities or maintain existing ones becomes too great to invest institutional funds;
- Substandard compliance with government regulations threatening the health and safety of patients, researchers and students because institutions cannot afford to pay for mandated compliance costs;

- A reduction in the pipeline of trained scientists and engineers in the workforce due to reduced research training opportunities at universities.
- The possibility of universities needing to increase their funding through other sources.

Bottom Line: Cuts to F&A research costs are real cuts. If such cuts are made, they will reduce the amount of research that universities and their scientists can conduct on behalf of the federal government to achieve key national goals to improve the health and welfare of the American people, grow the economy, and enhance our national security.

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Figure 1

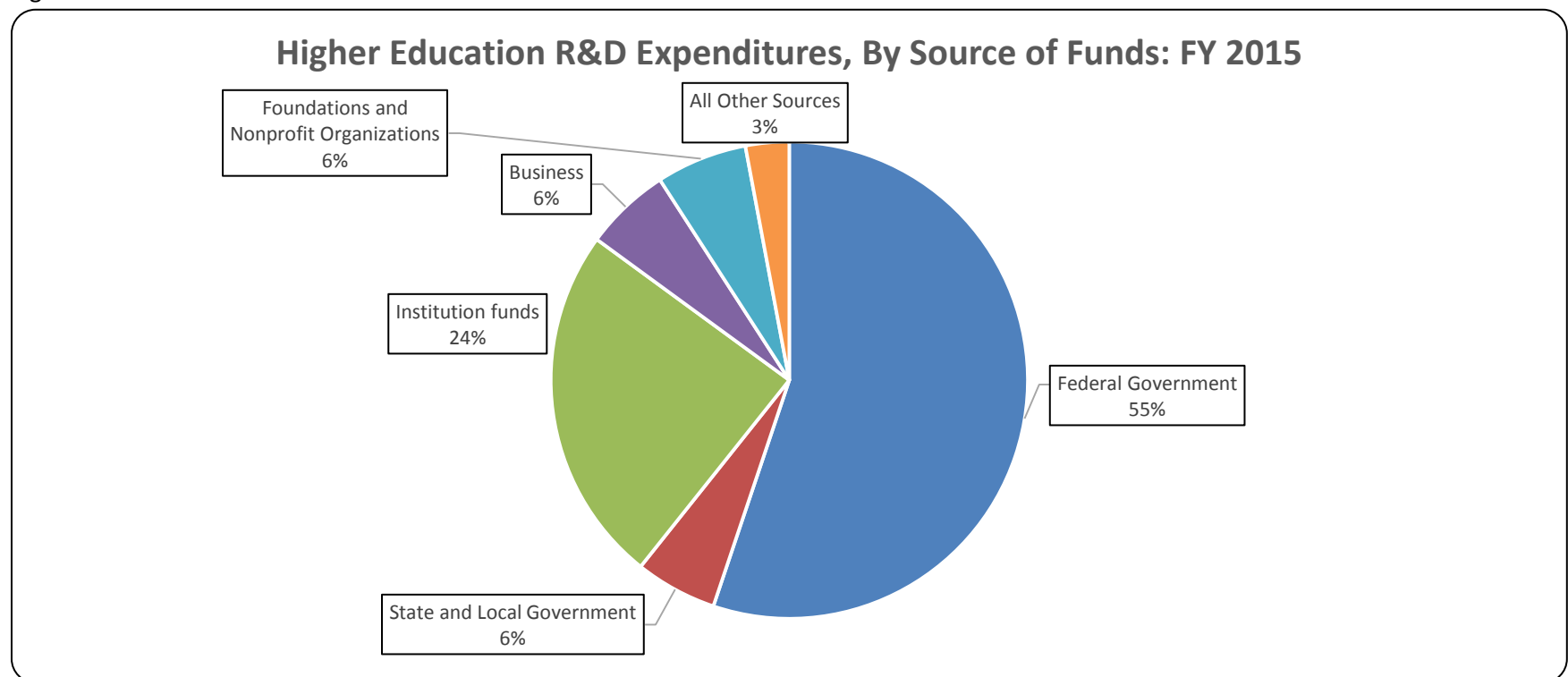


Figure 2

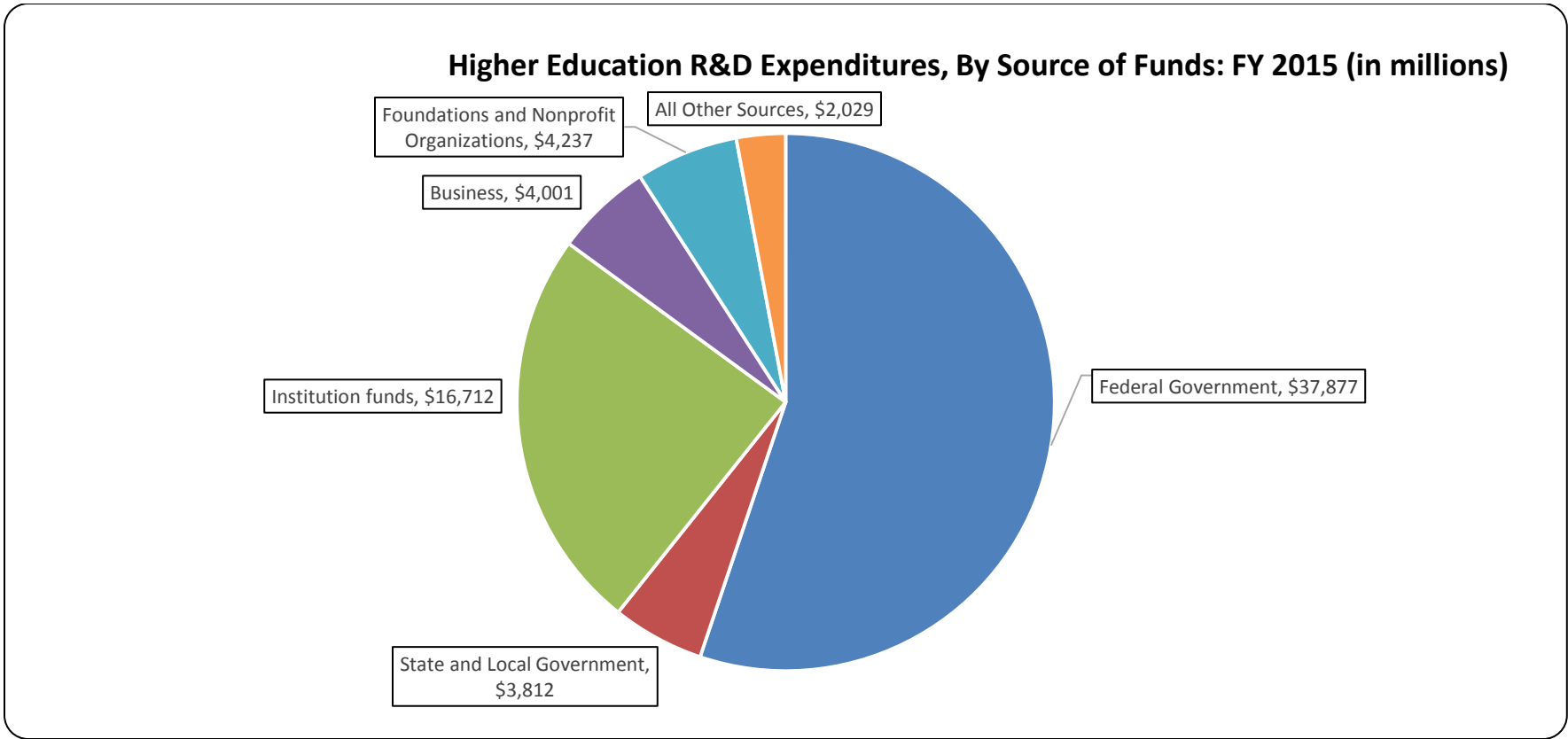


Figure 3

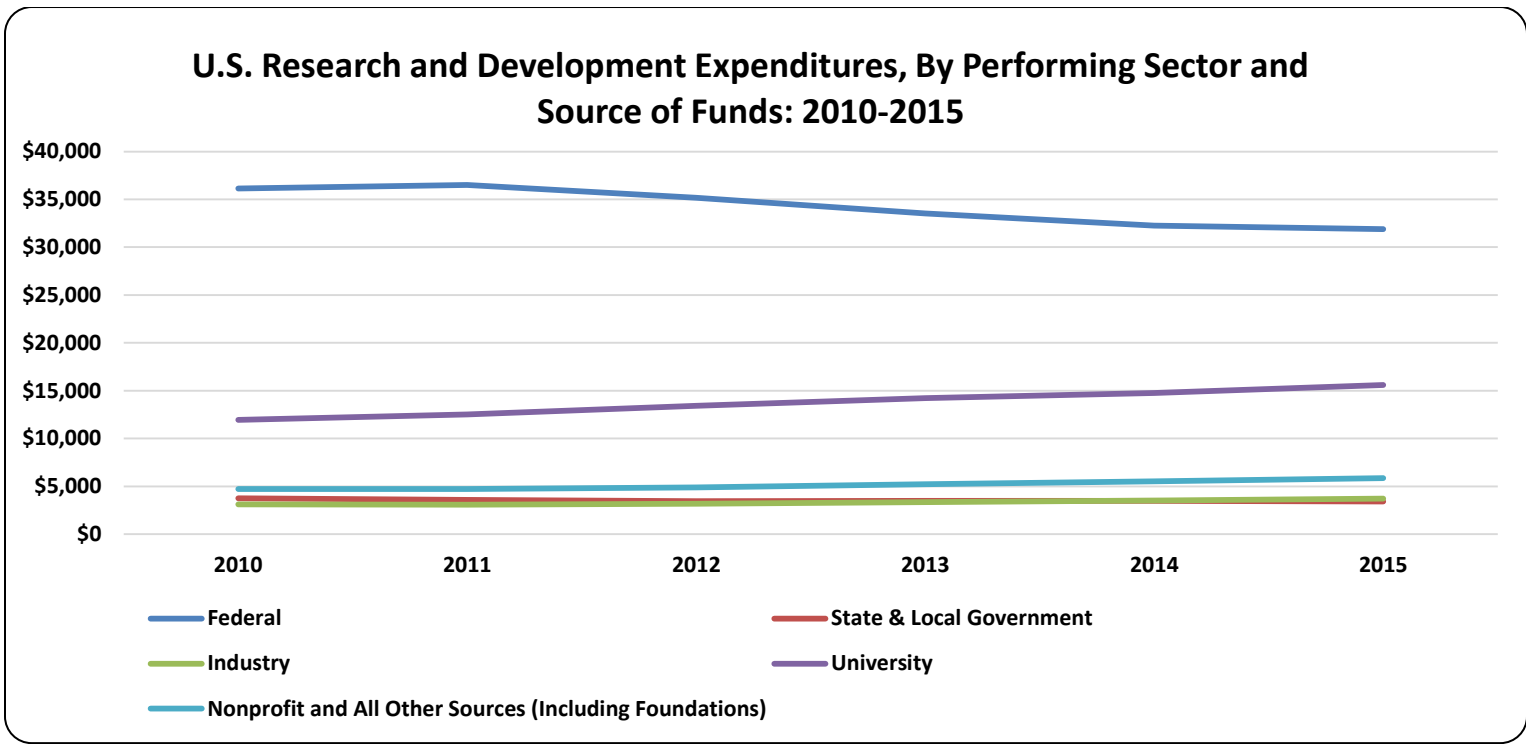


Figure 4

F&A Costs as a Percentage of Total Costs Steady Over Time

NIH Research Project Grants, FY 1998-2014

