

Minutes*

**Senate Research Committee
Monday, March 22, 2010
2:15 - 4:00
238A Morrill Hall**

Present: Melissa Anderson (chair), Mustafa al'Absi, Linda Bearinger, Margaret Catambay, Paula Chesley, Paul Cleary, Leslie Delserone, Donald Dengel, Demoz Gebre, Maria Gini, Seung-Ho Joo, Frances Lawrenz, Jennifer Linde, Toni Leeth, Timothy Mulcahy, Jason Neff, Federico Ponce de Leon, Thomas Vaughan, Lynn Zentner

Absent: Arlene Carney, Jerry Cohen, Robin Dittman, Genevieve Escure, Tom Hays, Nikhil Kundargi, Tucker LeBien, John Sullivan, Karen Williams

Guests: none

Other: Associate Vice President Pamela Webb (Sponsored Projects Administration)

[In these minutes: (1) committee business; (2) Facility and Administrative Costs and sustainability of the research enterprise]

1. Committee Business

Professor Anderson convened the meeting at 2:15 and briefly noted three matters.

-- She encouraged all who are Senators to attend the meeting on March 25, when the vote on salary matters will be taken, and encouraged all who are not Senators to make their views known to their Senators.

-- The Board of Regents approved a new conflict-of-interest policy, one that this Committee went over in detail. This Committee recommended several changes; Vice President Mulcahy reported that the policy was changed substantially as a result of consultation with a number of groups.

-- She asked Committee members to sign up for small-group lunches to become better acquainted and to discuss possible Committee agenda items.

2. Facility and Administrative Costs & Sustainability of the Research Enterprise

Professor Anderson turned now to Vice President Mulcahy, who distributed copies of a set of slides about Facilities and Administrative costs of research (F&A costs, what used to be known as indirect-cost-recovery costs).

Dr. Mulcahy recalled that about 18 months ago the President appointed a working group to address financing the future of the University; the group issued a report that was subject to considerable

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discussion. One question the report asked is whether there are revenue streams that might be enhanced. One suggestion was to increase the volume of sponsored research and thereby collect additional indirect-cost funds. Many, however, recognized the fallacy in that suggestion: The University does not recover the full cost of research, so increasing the volume of sponsored research would mean greater cost and that the University would have to increase its subsidization of research. Many do not understand F&A costs, so he had a session with the President's executive team to introduce the idea that the University should introduce changes in its policies and practices.

Universities around the country face financial challenges, Dr. Mulcahy observed—the private institutions because their endowments have dropped in value, the public institutions because state support is declining. There has been a lot of discussion of F&A costs, and the Association of Public and Land-Grant Universities is holding a series of discussions around the country about the financial challenges faced by public institutions. One element of those discussions is F&A costs. The discussion at this meeting will focus on the University of Minnesota, but it is a national topic. In the next year the major education associations are likely to make recommendations to Congress about managing F&A costs.

The federal role is one part of dealing with F&A costs, Dr. Mulcahy said, but what is done at the University is another part that affects what the institution receives in F&A income. For one thing, the University has a practice of sometimes voluntarily waiving F&A income it could receive. This issue fits with the larger question of sustainability of the research enterprise because the challenges to sustainability are tied to the revenues available to put systems in place, provide infrastructure, matching funds, equipment, and so on. F&A income is a big piece of the revenue used to support research, so to the extent units decide to waive F&A charges, it adds to the challenge of sustaining the research enterprise.

Dr. Mulcahy turned to the slides he had provided to the Committee.

F&A costs (indirect costs, overhead) are real costs incurred while conducting research. They are related to administrative management, providing facilities, and "costs that are incurred for common or joint objectives and, therefore, cannot be identified readily and specifically with a particular sponsored project." F&A costs are costs that some sponsors will reimburse based on a calculated average rate developed and negotiated in accordance with OMB Circular A-21. The cost-recovery mechanism is not, Dr. Mulcahy emphasized, a "tax" on grants or investigators. The University is not "taxing" the federal government or the PI; this is a cost-recovery mechanism.

The reason this is so important is that in the University's budget model, all costs to operate administrative units are distributed to colleges, as are all tuition and most F&A revenues and state funding. F&A funds are one way colleges pay for services provided by the University, and make up an important revenue stream.

Circular A-21 classifies research costs as direct and indirect; the latter are F&A costs and include such things as department administration, sponsored-projects administration, operations and maintenance, libraries, depreciation, etc. There are very specific definitions and exclusions and allowable costs. Allowable direct costs lead to the MTDC, Modified Total Direct Cost, which is the total direct cost minus tuition remission, equipment, and a few other items. Indirect costs are administrative and research-facilities costs.

The calculation of the F&A rate is different from the actual F&A costs. Dr. Mulcahy explained the formula used, which results in a calculation of a 62% indirect-cost rate for the University of Minnesota. One would think that this would mean the federal government would provide 62 cents in addition to each research dollar provided, but it does not.

The actual rate negotiated with the federal government is 51%. The reason it is lower than the 62% is because there is a federal cap of 26% on administrative F&A costs. The federal government agrees that the University has demonstrated legitimate administrative costs of 32.57%, but it will only pay 26%. It also agrees that the University has legitimate other indirect costs that total 30.31%, but it has only agreed to pay 25%. The University can justify the 62%, but the federal government gives it 11 cents less than that for each research dollar. The administrative cap of 26% has been in place since 1991, ever since there was a scandal involving a yacht at Stanford. (Although Stanford was ultimately vindicated, the cap has stayed in place). If, on the other hand, one asks what has happened since 1991 with respect to paperwork and regulation required by the federal government, one realizes it has gone through the roof—but there have been no additional F&A funds from the federal government to respond to these mandates. The difference between the 32.57% and the 26% costs the University about \$7 million per year.

If the full F&A rate of 51% were applied to all appropriate sponsored research costs, the University would receive \$145 million per year. The EFFECTIVE rate, however, is 37%, because the University only received \$104 million in 2009. It is not that the federal government is not paying the full rate (which some agencies do not), but that other funding organizations do not, either. The average rate from the federal government is only 42.6% because some federal agencies do not pay 51%. The clinical-trials rate is 26%, as is the off-campus F&A rate. Many sponsors limit F&A to less than 51%, including collectives, the State of Minnesota, commodities groups, research foundations, etc. One can see the point of view of foundations (e.g., American Cancer Society, American Diabetes Association): they want their money to go to research for a cure, not for administrative costs. But that leaves the University paying those indirect costs. In some cases, sponsors may cap total costs, direct and indirect, and make no distinction between them. That makes proposal with lower F&A costs more competitive.

Average F&A rates, by sponsor, are as follows:

Federal agencies:

NIH	45%
Dept of Education	37.2
NSF	43
Dept of Energy	40.1
EPA	46
NASA	49.6
USDA	14.4
NEA/NEH	0

Non-federal sponsors:

Associations	9
Business & Industry	37.7
Foundations	14.7

Private	21.7
State of MN	9.8
Voluntary Health Orgs	10.5
Other	21.1

Some have maintained that business and industry should be paying the full 62% indirect-cost rate.

One big reason the University does not receive 51%, however, is that it sometimes voluntarily waives F&A costs that are allowable and that the sponsor is willing to pay.

Effective F&A rates vary by college.

CBS	42.6%
CEHD	38.5
CFANS	17.0
CLA	41.3
HHH	29.3
IT	39.5
Med School	37.8
Pub Health	36.2
Vet Med	28.6
UMD	28.3

The number of waiver requests increased considerably starting in 2003. In 2008, increasing awareness about waivers led to a decline in 2009. But the increase from 2003 (about 18) to 2008 (about 190) is a cause for concern.

The deans maintain that there are legitimate reasons for granting waivers, Dr. Mulcahy said, and he agrees. There are good reasons, peculiar to each circumstance, so it would be unwise to adopt a general policy prohibiting waivers. Some of those reasons include seed grants that may attract larger grants, hardship for a new PI, awards that include equipment or building funds, community-relations or library projects, student-services projects, when a department is committed to undertake the research regardless of external funding (so any money is better than none), small cost, junior or incoming faculty member, etc. But the University of Minnesota is more generous with F&A waivers than other top research universities.

Dr. Mulcahy noted again that the University has a total unrecovered cost of research of about \$75 million (the difference between the full rate of 62%, or \$179 million, and the effective rate of 37%, or \$104 million). \$34 million of that \$75 million is difference between the full (62%, \$179 million) and the negotiated rate (51%, \$145 million). The other \$41 million is the difference between the negotiated rate (\$145 million) and the effective rate (\$104 million). The key point is that someone paid that \$75 million. The \$34 million is, in essence, the cost of doing business—the University is not going to recover the difference between the full/actual rate of 62% and the negotiated rate of 51%. But of the \$41 million difference between the negotiated and effective rates, perhaps half is recoverable. Not all of it, Dr. Mulcahy said, because some sources will not or cannot pay the negotiated rate, but with more stringent University rules, it should perhaps be able to recover \$20 million.

So the institutional "cost" per dollar of research is about 25 cents for every unrecovered F&A dollar. Indirect costs are not a revenue-generator, Dr. Mulcahy concluded. If the University is to have the revenue to support the burdens of research—the paperwork, etc.—and if it is to be able to invest in the research infrastructure, it must get back some of those unrecovered F&A costs.

Efforts to increase recovery of F&A costs are several:

- Educate the community about F&A principles and needs
- Gather data and negotiate an increase in the F&A rate (it is possible, but the federal government will not approve any large increases in the rate for any institution)
- Encourage federal agencies to pay the negotiated rate
- Negotiate with state and other local groups to increase F&A payments
- Encourage proposals to agencies that pay the full F&A rate (if there are two funding sources for a proposal, and one can pay more F&A, one hopes the PI would consider proposing a project to the agency with the higher F&A rate)
- Decrease the amount budgeted for subcontracts (because there is a cap on indirect costs paid for subcontracted work)
- Decrease the amount of F&A charges that are waived.

The last would include implementing policy changes to regulate and monitor F&A waivers. It is in this area where the University can make an effort. The biggest fallacy is that if the University cuts its F&A rate, proposals will be more competitive. NIH panels are told not to consider the indirect cost rate. Dr. Mulcahy said he did not believe that asking for the full F&A rate makes proposals less competitive in major government agencies.

Professor Cleary observed that faculty have been told they should do more translational research, which involves working with business and industry, but business pays less than most federal agencies, so it is not clear how that research will help. It all comes down to what is negotiated.

Professor Bearinger said she did not agree that a higher F&A rate does not hurt proposals. Using an example, she said, that if one goes in for a grant award that the funding agency has capped at \$1 million, and that cap includes both direct and indirect costs, then a PI has at least one hundred thousand fewer dollars to work with if the full University F&A rate (51%) is charged as compared to, for example, 26%. At times, it has even been impossible to have adequate appointment time for the PI, without using matching dollars or contributed time, if a 51% rate is applied to a capped award. It seems that there are an increasing number of requests for proposals with these capped awards that include both direct and indirect dollars. Dr. Mulcahy said it seems to be happening across universities, as the trend is to recover the full F & A rate, and in the case of caps that include both direct and indirect costs, the caps do introduce limits to the scope of work. In these instances, Professor Bearinger suggested, it might be advantageous to negotiate with a PI to stay at the full F&A rate but to support the work of the grant and preserve its competitiveness to offer matching dollars. In other words, it could be better to match dollars and keep the 51%. So, in the example she gave for a \$1.0 million grant, the full F&A rate would garner approximately \$300,000 in indirect costs; at 26%, the same \$1.0 million would provide only about \$200,000. If the University matched a \$1.0 million proposal with full F&A, with \$50,000, the net gain would still be \$50,000. The Committee held a discussion of matches, indirect costs, and caps. Dr. Mulcahy did remind the Committee, however, that the source for matching dollars are the indirect monies accrued within the school; thus, full F&A generates great resources for matches. Dr. Mulcahy concluded

by saying that he was not suggesting individuals or colleges stop doing something, only that they be more strategic about their decisions.

Dean Ponce de Leon said that in CFANS they always charge full indirect costs and will use the funds to match and/or to the extent possible provide matching funds based on the F&A funds generated. This is done as a separate deal. However, what someone gets, another does not; it all depends on the specific proposal requirements.

Associate Vice President Webb observed that every time there is cost-sharing, that drives down the University's F&A rate.

What can be done to introduce more discipline into the waiver process but not make it more bureaucratic? Dr. Mulcahy turned next to three responses to the problem.

The first response is to create three waiver categories and corresponding policy: (1) administrative waivers that Sponsored Projects Administration (SPA) will automatically approve (PI transfers, non-profits with a published policy—SPA has a list—special government programs, and projects that move from off-campus to on-campus). (2) Routine waivers (the dean must approve (small projects); other reductions above the minimum rate will be tracked by his office. (3) Strategic or very large waivers (require approval of the Vice President for Research, for waivers or reductions to rates below established minima). In the case of the latter, the deans have asked why the institution needs to weigh in on them. The reason is that every dean makes the case for more institutional support from central funds; if one reason is that he or she gave away money by granting waivers, that means money out of everyone else's pocket.

Professor Cleary inquired how much of the \$41 million difference between the negotiated rate and the effective rate is from waivers for small grants. It is for that reason he has suggested that only about half the difference is recoverable, Dr. Mulcahy responded: Because the University will not get the money on some small grants, there is not a lot of money involved, and it would likely cost more to recover the money than would be received.

Dr. Mulcahy noted a schedule of proposed F&A rate minima for awards that have more than \$50,000 in direct costs per year that would come into play when, in category (2), deans approve reductions other than for small grants, and when there are strategic waivers (category 3). The schedule:

Federal grants:	the federally-negotiated rate (or as approved by SPA)
Foreign govts:	" "
For-profit:	34%
State of MN:	0% (for now)
Non-profit/ Foundations:	lower of 10% or published policy
Corp Affil Progs:	10%
Industry-funded Clinical trials:	26%.

The second response is to identify instances when waivers will not be granted. They include projects that did not receive institutional endorsement prior submission to the sponsor (no more "oops, I

forgot" grants, Dr. Mulcahy said; the PI can take the grant but the department or college will be required to pay the difference) and F&A waivers or reductions negotiated by the PI with the sponsor. If reduced F&A rates result, the unit must set up a cost-sharing account to pay the difference between the sponsor-approved rate and the federally-negotiated rate or approved minimum for the type of project.

The third response is to improve the waiver process. They have put on the web a "foregone F&A" calculator, Dr. Mulcahy reported, because colleges sometimes do not calculate correctly. This is a tool that helps them figure out the amount of money being forfeited. The process improvements include eliminating use of the formal process for small grants (less than \$50K), SPA has a list of agencies with pre-approved rates and proof of agency policy will no longer be required for them, waiver request deadlines are established, and the Council of Research Associate Deans will be updated twice per year on the amount of F&A charges that have been waived via regular and strategic waivers (but not for small and administrative waivers).

Dr. Mulcahy next identified myths about F&A cost recovery; all of the following statements are false, he said.

- F&A cost recovery from increased research represents a financial strategy to resolve the University's financial challenges.
- The University recovers the negotiated F&A rate on all direct costs.
- F&A waivers are approved as exceptional circumstances through a controlled process.
- Conducting more research doesn't cost more since we already have the resources. (He said he hears this all the time, but it does cost more to do more.)
- There is nothing the University can or need do to recover more of the legitimate costs of conducting research. (The fiscal times demand that everything possible be done to control costs.)

There are few ways to infuse more money into research, Dr. Mulcahy said, and two of them are to increase F&A recovery and to increase money from the commercialization of technology.

Another myth, Professor Cleary said, is F&A money generated in one unit helps to cover the costs of projects in another unit. That is a myth to this extent, Dr. Mulcahy said: Even if the unit recovered the negotiated rate, it would not cover all the costs of doing research. It is only possible to cover costs related to research, not to other parts of the University, so one cannot say that NO dollars ever went to another unit, because the funds are all pooled.

Professor Vaughan asked if there is a consistent University policy about how indirect-cost money flows to PIs, or if this is decided independently by different departments and deans. Dr. Mulcahy said the college that generates the indirect-cost money receives it, but each has a different practice in how the money is used. Some send the money to departments, some provide some to the PI. There is no standard practice. One thing perhaps worth thinking about is whether to provide some money to the PI who gets the grants in order to provide an incentive to do more research.

Mr. Neff inquired if Dr. Mulcahy had the effective rates at other universities. He does, Dr. Mulcahy replied, and they also receive the calculated rate. If the University of Washington has a calculated rate of 56%, why is that different from the University of Minnesota's 51%? For any justified rate, there should be a comparable rate paid.

The efficiency of units also determines the rate, Dean Ponce de Leon pointed out. There is also a need to stop backdated RFPs, which he has seen. His college provides 25% of F&A funds to the department; some departments provide money to the PIs.

Professor Bearinger said there is a conundrum in that, while the intent and hope is that research funding to the University will double or more in the future, so too would the deficit resulting from unrecovered costs of administering research grants. If funding doubled, the current \$41 million "deficit" would become an \$82 million deficit. The question is, then, what is the message to faculty, particularly to new faculty? One hears that "researchers are costing the University money," but that is not the message that should be sent. There is a need to think about talking points with particular consideration to incentives for new PIs. If one considers the 62% actual costs and the 51% negotiated rate, Professor Anderson said, some of the costs are offset by benefits—which must be real or the University would not pay the costs. There are benefits in standing, in ranking, etc.; the research is buying something the University is willing to pay for.

Dr. Mulcahy said that the University has three missions and it does not recover the full cost of any of them. It will not stop providing education. In doubling the research volume, it must be disciplined about accepting lower F&A rates. At one extreme is not allowing any variation from the rates; at the other is allowing great variation. The University has tended toward the latter end and needs to achieve a better balance.

Imagine what an additional \$20 million could do to increase the University's competitiveness, Dr. Mulcahy commented. It could provide new faculty, pilot projects, etc. It is a large amount of money that could be reinvested in research and scholarship at the University.

Ms. Webb reported that SPA is available to help talk with sponsors about indirect costs. A number of times faculty have asked for their help and had positive results. Once sponsors understand indirect costs, they are often able to increase their rates by a small percent. But often they do not know before a deal is cut.

Professor Gini said she would look at this from a different point of view: If there were no research, what costs would disappear? The libraries would remain, as one example, Dr. Mulcahy said, because they are important to education. Without research there would be a loss of money to support more research-related materials in the libraries; there is much in the University's libraries that is not in the libraries of very good non-research colleges and universities. To the extent that the University has buildings that are not uniquely research-related, presumably those building costs would still exist. Some of the costs would remain. One gray area is graduate students, Professor Gini said, because part of their education is doing research.

The University's rate applies to the coordinate campuses, Dr. Mulcahy said in response to a question. And the money stays on the campuses.

Another way to increase funding is to commercialize more research, Professor Vaughan said, but he and his colleagues still see impediments and barriers to doing so. That issue deserves a longer answer, Dr. Mulcahy said, and should be a future topic of discussion. There are many positive things occurring and there are also lingering challenges. It is a long pathway through different domains and he must persuade others there are responsible actions they can take that would be more conducive to the end

product. He noted that he cannot alone control the process and must persuade others, and University leaders, in making the process more efficient. The focus on financial challenges is bringing new light on these issues. In some areas there have been surprises. The federal government realizes it must provide accountability to the public for the money spent on research by saying that new products and drugs are being developed. The financial challenges are also bringing into play criticisms from business and industry on how difficult it is to work with universities. That problem has existed since Bayh-Dole was adopted, Professor Anderson observed, but now the pressures are greater, and some institutions have a greater appetite for commercialization—and make it more routine.

Dr. Mulcahy agreed. Part of the problem is cultural, and attitudes range from seeing commercialization as completely foreign to a university to seeing it as intrinsic to the mission. The prevailing culture can make it more or less easy, and the University has not been one of the more entrepreneurial institutions. It has room to improve. Discussion could help identify where it is making progress and where there is room to improve.

Professor Anderson adjourned the meeting at 3:50.

-- Gary Engstrand

University of Minnesota