

Questions and Answers – Research Foundation

Question 1. What are indirect costs reimbursements and how are they determined?

Indirect costs are also referred to as F&A (Facilities and Administration) or overhead costs. These F&A reimbursements are paid by sponsors to the institution to support general operating expenses and costs incurred by both San José State University (SJSU) and the Research Foundation (RF) in support of sponsored programs that are not readily identified with a single project. F&A costs include expenses related to accounting, human resources, and compliance, which at SJSU are incurred by the RF, as well as expenses related to facilities usage, utilities, or library services, which at SJSU are incurred by the University.

The federal government approves F&A rates by analyzing SJSU and RF costs. F&A rates differ for research grants and training grants as well as for on-campus and off-campus sponsored programs because their costs to the institution vary. F&A rates are reviewed and approved every four to five years by the U.S. Department of Health and Human Services (DHHS) for educational institutions.

The DHHS F&A rate is the only rate that is determined by an SJSU-specific cost analysis. This rate best represents the real indirect costs of sponsored programs. However, some sponsoring agencies and organizations establish limits as to what indirect cost rates they will pay. This results in activities that do not cover their full costs. Therefore, when SJSU accepts a grant award at an F&A rate lower than the DHHS rate, it is effectively an agreement by SJSU to provide the support services at a reduced cost to the sponsor, effectively constituting a cost match decision by SJSU.

Question 2. What is the current distribution model for grant-related reimbursements of indirect (F&A) costs?

The F&A funds paid by sponsors are used to cover RF central office services operating costs, plus mandatory university services fees paid to SJSU. The remaining reimbursement is transferred to the academic units to be reinvested in support of RSCA (Research, Scholarship and Creative Activity). Historically this reinvestment has gone to the principal investigators (PIs), departments, and colleges that generated the grants.

The mechanism for this reinvestment has been for the RF Board of Directors to distribute the F&A revenue in excess of its costs using what has been referred to as a “surplus/loss model.” In this model, the revenue is distributed approximately 1/3 to principal investigators, 1/3 to departments, and 1/3 to colleges in proportion to the amount of total F&A revenue generated by that entity that exceeds their prorated share of RF costs. The principal investigator portion is calculated first, then the department portion, and finally the college portion. The “surplus/loss” model uses *net* F&A which is the total revenue generated minus the prorated costs of all grants in the portfolio at each level (principal investigator, department or college). As a result, some principal investigators, departments and colleges that generate large amounts of grant funding, even with many at full F&A rate, receive little or no F&A distribution because they also have low F&A rate grants in their portfolios.

Question 3. How was this model determined?

The basic 1/3, 1/3, 1/3 model was adopted in the 1990s by the RF Board of Directors. Board Resolution 149 in 1998 codified the model with fixed costs of RF covered first. Of the remaining funds, 20% was allocated by the RF Board of Directors for the Library and other programs, and 80% of the reinvestment going to the academic units with the 1/3 allocation. The model was modified and refined over the years,

but since 2008 only those principal investigators, departments and colleges who covered the RF costs were eligible for distributions. As stated in (Question 2): "The "surplus/loss" model uses *net* F&A which is the total revenue generated minus the prorated costs of all grants in the portfolio at each level (principal investigator, department or college). As a result, some principal investigators, departments and colleges that generate large amounts of grant funding, even with many at full F&A rate, receive little or no F&A distribution because they also have low F&A rate grants in their portfolios."

Question 4. Please explain why the amount distributed to colleges, departments, and principal investigators has decreased.

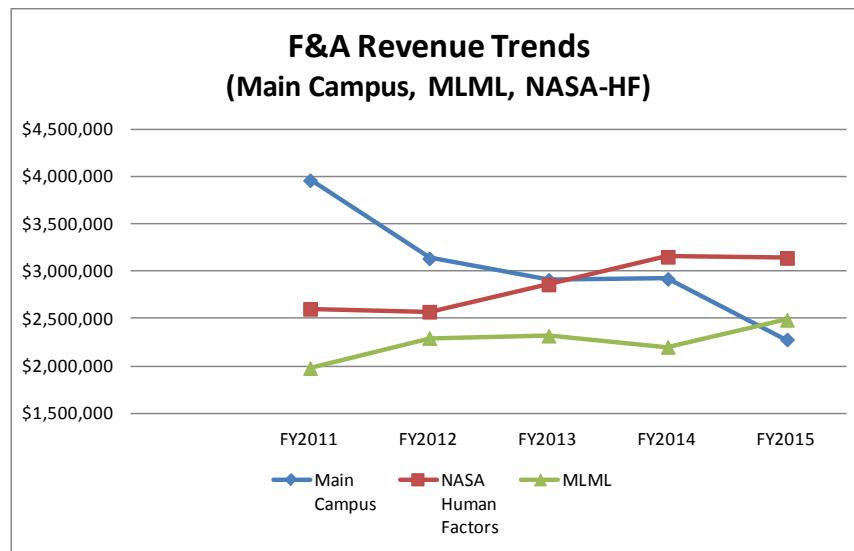
The total F&A revenues for the 2014-15 year went down sharply. Therefore, the available F&A after costs are down as well. The reasons for the reduced F&A revenues in 2014-15 are principally:

- Lower overall **awards**, especially main campus (see Chart below) [see: [SJSU Research Foundation Award and Proposal Statistics](#) at

<http://www.sjsu.edu/researchfoundation/osp/awpropstats/index.html>].

In 2013-14, SJSU received 331 awards for \$60.6 million, whereas in 2014-15, SJSU received 282 awards for \$42.0 million;

- Lower expenditures of existing awards [note that SJSU only receives F&A reimbursement when award funds are spent, not when they are awarded]; and
- Low F&A rate awards [relative to the DHHS established rate].



Question 5. Is SJSU the only CSU experiencing such a decrease in awards?

As one example, San Diego State University Research Foundation (SDSU RF) indicated challenges as well, though they experienced the decline a year earlier than SJSU.

Please see [San Diego State University Research Foundation budget document](#) at http://www.foundation.sdsu.edu/pdf/about_gen_fund_budget_fy1415.pdf.

The revenues generated from F&A recoveries (Facilities and Administrative costs or indirect costs) had a steep decline over a 5 year period. SDSU RF notes that revenues correlate to the decline in number of active SDSU research faculty. SDSU RF anticipates that "as the federal budget improves and efforts to

recruit more active researchers to SDSU continue, proposal submission, award, F&A and expenditure rates will increase."

Question 6. Given that RF costs have increased, but reimbursements to colleges, departments, and principal investigators have decreased, what is being done to lower expenses in the Foundation?

Although the costs of the RF have increased slightly this year over last, over the past three years expenses were artificially low because of staff vacancies. Nevertheless, the new Executive Director is aggressively evaluating the costs at the RF and seeking to improve efficiency at the RF. The RF has kick-started a portfolio of process improvement projects, bandwidth permitting, to enhance customer service and operational efficiencies. Also, the RF is judiciously deferring filling several open positions based on urgency of need and work overload.

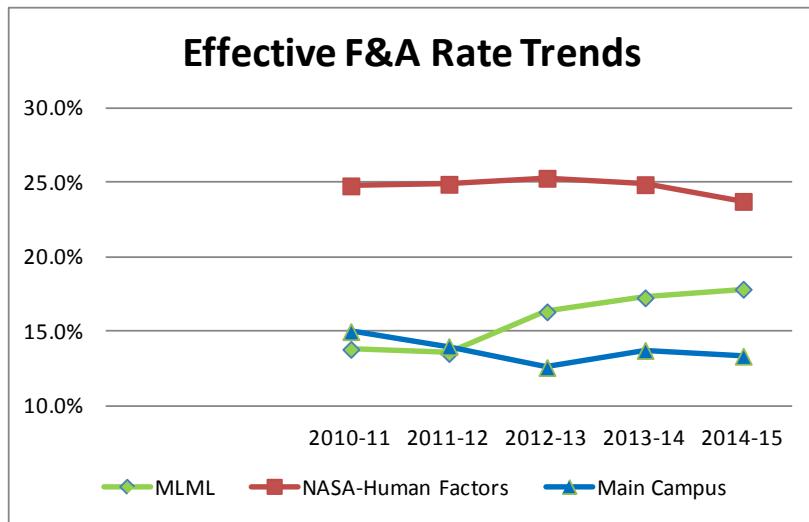
As an operational efficiency comparative, San Diego State University Research Foundation has a larger operation with more employees supporting more revenues. But in a per FTE comparison, each SJSU RF Central Office employee supports about 29% more revenues than an SDSU RF employee.

Question 7. What do you see as solutions to this problem and what are the Research Foundation goals and plans for this coming year?

The problem of decreased F&A recovery has multi-faceted underlying causes, therefore the solution will also be multi-faceted.

The first and most important issue is to ascertain and reverse the reason for lower grant awards. Preliminary analysis suggests that a significant factor may be demographic changes at the University, some resulting from decreased hiring of tenure-track faculty during the recent recession. To the extent that faculty demographics is the principal cause, the solution is robust hiring of additional tenure-track faculty, which has begun under the current Provost. The Provost has also invested substantially (approximately \$2.2 million over 2 years) in supporting and stimulating RSCA activity. Much of this investment is being strategically invested centrally and by colleges to provide incentives for RSCA activity, including grant proposal submissions, as well as to provide professional development opportunities for faculty and staff. These activities include a Grants Academy and a variety of workshops as well as a variety of college-specific programs that will enable our current and new faculty to more effectively compete for extramural resources.

Another aspect of the low overall F&A revenue is the number of low F&A rate grants we are awarded. The Office of Research will engage the campus community in a dialog this fall about how best to balance the need for the direct benefits that these grants provide while acknowledging the administrative costs that are not covered by the grant F&A rate. Should a new model be developed to fully recover costs? If so, who should pay for it?



While the SJSU RF continues to aggressively evaluate its operational efficiencies, they are also working with the Office of Research (including the new Associate Dean of Research), the Center for Faculty Development, and a centrally offered, intensive Grants Academy in Spring 2016 to support increased proposal activity to drive the critical revenues side of the equation.

Question 8. Did the RF fail to recover approved indirect costs?

The RF recovers all indirect costs possible. It is correct to say that some grants were proposed by the University that paid lower than DHHS-approved F&A rates. The decision to accept those grants, if awarded, is part of the proposal approval process. Therefore, the decision is a joint one made by a number of campus community members, including the principal investigator (usually faculty), the chair of the department, the dean of the college, the VP for Finance, and the AVP for Research, acting on behalf of the President and Provost. It is correct to say that the RF recovered 100% of the F&A costs approved by these campus authorities during proposal routing. However, note that F&A revenue is collected at the time of award spending, **not at the time of award**.

Question 9. Why are some departments/principal investigators continuing to receive F&A allocations and others not? Is there a moratorium on F&A distributions?

All principal investigators, departments, and colleges received their share of the distribution in accordance with the distribution model that has been in place since 2008 in February 2015. The amount of F&A revenue is down (as explained in the answers to Questions 1, 2, and 3) and the total distributions are down.

There is no moratorium on F&A distribution. In recent years the F&A distribution to departments has occurred twice per year, in February and August. A predictive model has been used to try to make the February distribution approximately 60% of the anticipated total distribution for the financial year. The remaining funds are distributed in August, after the actual F&A revenue is known.

There have been challenges with the predictive model this year because of lower than anticipated award activity and lower than anticipated award spending. In the 2014-15 year, the February distribution occurred as usual, with a predicted 60% of the total distribution for the year. By May, it became apparent that the predictions were overly optimistic for the main campus. Nevertheless, a

distribution of the remainder, of about \$82 thousand (bringing the total to campus to \$378 thousand for the 2014-15 year), is planned for August **using the existing formula**. In addition, some additional resources will be given to the NASA-Human Factors program to ensure its ongoing viability and to the College of Social Sciences as it adjusts to the limited allocations in fiscal year 2014-15 due to the shortfall of F&A revenue by the campus.

Question 10. Will the 1/3 distribution formula change?

In order to determine whether the distribution formula will change, we as a campus must answer some key questions:

- How do we decide whether to submit grants with low F&A rates?
- If we do receive them, who pays the difference in F&A costs?
- How do we ensure that F&A is used to invest in RSCA activity?
- Are there mechanisms to ensure resources are available to respond to RSCA needs?
- How do we invest in and recognize principal investigators for their activities?

The OR will be seeking broad collaboration and input on this plan so that all stakeholders can participate in this decision.

Question 11. Will the RF and University stop supporting training grants that cap indirect costs at 8%?

No. It must be noted that the training grants bring in significant direct benefits that are responsive to SJSU's mission and the grants supplement the activities supported by the general fund. See Question 10, about questions on how to pay for administrative costs of these grants.

Question 12. Why are the costs of low F&A awards covered by the awards that bring in higher F&A rates?

This is inherent in the historical distribution formulas used since the 1990s and reflects the direct value expected from these grant activities. (See Questions 1, 2, and 3.). Whether this should change or not is a matter for the University community to discuss. (See Questions 10 and 11.)

Question 13. Is the RF "bankrupt"?

The RF is not bankrupt. It currently fully supports its sponsored programs operating expenses from its share of F&A revenue and distributes the remainder to the University.

Question 14. What steps are being taken to improve customer service issues with RF staff?

RF management continues to be actively engaged in process of evaluating customer service processes, and has recently kick-started a portfolio of process improvement projects to enhance customer service and operational efficiencies.

Question 15. What is the plan to increase the F&A revenues available to invest in the campus?

RF management and SJSU administration are actively discussing ways that SJSU can reduce the costs incurred by RF so that more F&A revenues can be redistributed to spur RSCA. The Office of Research and RF are also exploring ways to increase the overall portfolio of full F&A grants and to assure efficient operations at RF. See Questions 6 and 7.

Glossary of Terms and Abbreviations

DHHS – Department of Health and Human Services, a federal agency

F&A rates – Facilities and Administrative rates that are SJSU-specific and approved by the Department of Health and Human Services.

MLML – Moss Landing Marine Laboratories

NASA-Human Factors – National Aeronautics and Space Administration-Human Factors

net F&A – is the total grant portfolio of the principal investigator, department or college level minus all expenses. For example, in a department that has a mix of full F&A grants and low F&A grants, the full F&A revenues have to cover the expenses not covered by the low F&A revenue grants. The resulting *net* F&A would be less than would be expected in a department with a grant portfolio consisting of only full F&A grants.

OR – Office of Research (Formed from the Office of Graduate Studies and Research in Oct 2014 when Graduate Studies was split off and merged with Undergraduate Studies to create the Graduate and Undergraduate Programs Office.)

Office of Sponsored Programs – Office within SJSU Research Foundation that handles grants and contracts for SJSU, including pre- and post-award requirements such as financials, audits, and compliance issues (human subjects, financial conflict of interest, responsible conduct of research, etcetera.).

PI – principal investigator, may also have co-PIs. Creates proposals to granting agencies.

RF – SJSU Research Foundation, an auxiliary of San José State University and a 501(c3) organization.

RSCA – Research, Scholarship and Creative Activity

SDSU RF – San Diego State University Research Foundation

Sponsored Programs – Grants or contracts that are funded from an external agency (may be federal, state, county, municipal government agencies, corporations or foundations) that have “deliverables” associated with the funding.