November 1, 2016

Dear Colleagues:

If your work involves grants of any kind, and you’ve ever wondered where the heck all of your indirect costs are going, please take ten minutes of your day to read and study this month’s Expresso. Over my years as a researcher, I’ve been cognizant of indirect costs and their implications, but, honestly, I did not really understand the whole picture until I became EVCP a year and a half ago.

Everyone appreciates indirect costs are a necessary factor to running a vast research enterprise like UCSF. But they are far more nuanced than most people realize. The issue of indirect costs is arguably one of the most confusing aspects of research, and definitely a major source of heartburn for many of us. You apply for a grant, it gets funded, and then you see (more) money (than you’d like) taken out for indirect costs. What are they? How are they determined? Why do we need to have the funder pay them?

We’ve been working for more than six months with talented folks to bring more clarity to the world of indirect costs, so I’m devoting this month’s entire Expresso to it. In this issue you will find:

- Straight Talk on Indirect Costs: How to gain a deeper understanding of the byzantine world of indirect cost recovery
- Slide Show: A click-through overview of “A Primer on Indirect Cost at UCSF” [1]

This is a first step in communicating issues around indirect costs. Have more questions or comments? Please feel free to share with me any of your thoughts on indirect costs.

Also, while I have your attention, I remind you that it’s time for Open Enrollment [2]. There are important changes to consider for 2017, so come to an Open Enrollment Help Desk [3], participate in a Faculty, Staff, and Medical Center Employees Webinar [4] regarding disability insurance changes, or view the Faculty Quick Guide to Voluntary Disability Insurance [5]. No matter what, be sure to complete your open enrollment by November 22 at 5 p.m.

Is there another topic you’d like to see highlighted in a future edition of Expresso? Please write to me at ExecutiveViceChancellor@ucsf.edu [6].

Sincerely,

Dan
Straight Talk on Indirect Costs: How to gain a deeper understanding of the byzantine world of indirect cost recovery

For many principal investigators, the issue of indirect costs can often represent everything frustrating about the modern mechanisms of funding scientific research. These costs, aka ?Facilities and Administration Costs (F&A)? occupy a murky bureaucratic corner, a necessary but sometimes irritating component of the process of applying for and receiving research grants.

As a PI myself, I too have experienced this confusion and frustration. I know one of the hardest things to accept about these budget items is that you don?t see what exactly they?re paying for, and it?s easy to think of better ways you could put that money to use. But as I?ve explored the world of indirect costs more deeply (part of my role as EVCP), I feel I?ve developed a much clearer understanding of the important role they play in making sure we have the world-class facilities and infrastructure we need to conduct our work.

In addition, I am proud to say that UCSF is on the cutting edge of devising tools to make it easier to see how the money that goes to indirect costs is spent, and how they affect you ? your project, department, and school.

For this issue, the EVCP office worked with Ning Wang, director of our Office of Institutional Research within Student Academic Affairs, and Associate Vice Chancellor Mike Clune in the Budget and Resource Management Office. Ning, with the input of Mike and his team, has assembled an excellent interactive online dashboard, ?A Primer on Indirect Costs ? Understanding Indirect Costs of Your Research [7].? This tool is very helpful toward taking some of the mystery out of indirect costs and showing how UCSF advocates for research dollars.

How Indirect Costs Are Calculated

Before I describe the dashboard in detail, I?d like to make sure that I?m clear in what I mean by indirect costs. Certainly the concept of direct costs is simple enough: You apply for a grant and anticipate it will pay for certain key items, including salaries, equipment, supplies, and various services. These are your direct costs.

However, we tend to take for granted that all this research will take place in a lab, which costs money to build and operate. (Please note ? in this discussion I am using the generic term ?lab? to indicate any sort of research space, including ?wet bench? and ?desktop? research space.) We run electricity and water to the building, and your space is furnished with benches, desks, computers, and the like ? things that custodians and security guards maintain and protect. Your lab is also part of a department, a school, and a university, all of which cost money to run; yes, even administrators like me are part of this calculation. These expenses ? some of which you see more readily than others ? comprise the indirect costs of conducting research. I find the term ?overhead? to be a bit more accurate, as it?s a good analogy to the overhead a small business pays for its building, utilities, employees, and other expenses.

Furthermore, because the costs are typically incurred for things that cover a wide range of
activities across our institution, they are not easily broken down nor assigned to specific activities.

When you receive a grant (most typically from a government agency, such as the National Institutes of Health, but it could also be from a private foundation), UCSF has negotiated a rate with the grantor to recover some of those F&A costs. (Since a lot of our grants come from the NIH, I'll be writing from that perspective primarily.) It's a complex formula that calculates, essentially, how much UCSF spends in indirect costs for every dollar its researchers receive in grant funding.

**The Negotiated Rate**

For the 2013-14 fiscal year, UCSF followed a prescribed process with the federal government and negotiated a series of rates:

- The calculated rate, which is the full cost of F&A expenses, is 76.8 percent—meaning for every $1,000 in grant money (direct costs or, in NIH lingo, sponsored activities?), UCSF spends $768.
- The proposed rate, which is the calculated rate adjusted by federal limitations, brings the figure to 70.9 percent. (For instance, the feds limit the amount they will reimburse for administration.)
- The negotiated rate, which is what UCSF and the feds agree on, is 57 percent.
- The effective rate, which is what UCSF actually recovers, is 55.5 percent.

These rates follow strict regulations. If the federal government finds discrepancies or inconsistencies in our calculations, they can reduce our rate or even penalize us.

When you get your grant, you start your research, and as you accumulate expenses, UCSF sends the bill to the federal government, plus the 57 percent. The total amount then shows up as revenue on your financial ledger, but the F&A expenses are then taken out, going back to the University's general coffers. That's the part that is typically irksome, because it looks like money coming to your account and going right back out, and you can't tell what it's going toward.

Yet once you grasp the concept of overhead, you can see that even though UCSF spends a fair amount to keep the lights on and the labs running, it only recovers about three-fourths of those expenses from the feds. We need to make up that money from elsewhere. The state budget covers some of it, but nowhere near as much as it used to; philanthropy covers some of it, but philanthropists are not typically looking to fund general operating expenses.

But here's the real kicker. Up to this point, I have focused only on NIH and similar grants that have an indirect cost rate of 55-60 percent or thereabouts, which already falls short of covering the costs of operations. What about those situations (and there are lots) when you get a grant from a foundation or some other entity and the grantor will only pay ten percent overhead, or none at all? As a rule, we almost always accept these grants because they are important sources of funding for your research. But they introduce a huge shortfall in the dollars available to pay for overhead, because it still may cost $768 in overhead for each $1,000 you use, yet the grantor is only giving us $100 (or $0). If you take all the grants we receive in aggregate (i.e., from government, industry, foundations), the actual indirect cost rate comes to about 30 percent, even farther from the true need of 76.8 percent.
This is a major reason why it’s a constant struggle by the University to make ends meet across the entire enterprise.

**Visualizing Indirect Costs**

As I mentioned above, the interactive online dashboard ?A Primer on Indirect Costs? Understanding Indirect Costs of Your Research [7]? is an intuitive way to get acquainted with the topic. For a quick overview, check out this slide show [1].

The dashboard has several features, sorted into six tabs at the top of the page:

- **Introduction**: An interactive map lets you see the life sciences research and development expenditures at many institutions around the country for the past several years.
- **Indirect Costs at UCSF**: A chart shows how costs are broken down into categories fitting either the Administrative or Facilities umbrella. It’s an easy way to see how indirect costs have grown over the past decade.
- **Rate Negotiation Process**: These graphs explain how indirect costs are negotiated with the federal government, and show that UCSF has the highest rate in the UC system (and among all public universities) because of the higher cost of the type of research we do and our location in the Bay Area.
- **Indirect Cost Recovery (ICR) Rate by Researcher**: This chart lets you plug in your name and see how your research dollars are allocated; you can do the same for your colleagues. Another chart lets you play with hypotheticals, such as how much a certain grant might need to pay for indirect cost recovery.
- **ICR Rate by School/Department**: These charts show how cost recovery differs across schools and even departments within UCSF. You can see how much each school is eligible to recover, and how much it actually recovers.
- **ICR Redistribution**: You may wonder how the money recovered for indirect costs and other items actually gets spent. This figure shows how it works, tracing the money’s path into the ?pooled funds,? otherwise known as the Core Financial Plan ? the resources available to the Chancellor to operate and maintain the campus. It’s only a fraction of UCSF’s broader budget; it doesn’t include our vast clinical enterprise, for instance. This chart, Ning says, really underscores the way that money we recover comes together to contribute to the functioning of the university, in the same way that paying taxes helps support a variety of sources, like public works, schools, and police and fire departments.

**Initial reactions**

So I asked a few colleagues to give it a go. Mallar Bhattacharya, MD, found the dashboard to be a ?wonderful learning module? and was ??reassured to learn the ways in which our university advocates for us at the federal level to support our research.? He synthesized the information quickly, which led to several interesting observations. One in particular is the $30MM increase in costs related to building depreciation.

Dena Dubal, MD, PhD, also appreciated the insight provided. After evaluating the dashboard, she notes, ?As individuals, departments, and an institution, we strive to improve the human condition through biomedical discovery, but many of us are not aware of underlying mechanisms? by which we support UCSF?s research enterprise and vice versa. Part of this
equation is indirect costs, broadly defined by the resource needed for facilities and
administrative support to execute the research; it?s worth noting that actual indirect costs
surpass ?recovered? costs.?

I also heard from Lisa Thompson, RN, PhD, FNP. One of Lisa?s initial reactions was, ?I had
no idea that the facilities category was so much more than administrative costs! I always think
about the people who work on our budgets and contracts, but hadn?t appreciated that
facilities was such a large part of indirect costs.? She also responded to the ability to compare
like institutions as well as our own schools and departments, ?I did not know that IDR was
different for different campuses.? Very useful to see the difference between direct and IDC
recovery across the departments in each school.?

Your opinion

The tool pulls data from a number of sites throughout the University to make this dashboard.
?You can interact with the data and do your own discovery,? Ning says. ?It?s not telling you
what conclusion to reach.? She is eager to hear from more faculty members about how it
works for them, and how she can improve it.

Please visit and tinker with the dashboard [7]. I think you will find it enlightening, and I?m eager
to hear your reaction.

Reminder ? this is only the beginning. Additional materials about indirect costs and the Core
Financial Plan are being developed and added to the Budget website [8]. I?ll keep you posted.

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Dan?s Tip of the Month

[9] on November 5 from 10 a.m. to 4 p.m. is the crowning event of the 6th Annual Bay Area
Science Festival [9]. Led by UCSF Science and Health Education Partnership (SEP) [10], AT&T
Park gets packed to the rafters and on the field with science, including hundreds of hands-on
activities, opportunities to meet local scientists and engineers, and plenty of fun and
educational entertainment. Great for all, the day is especially perfect for families with kids
0?14. So, unleash your inner scientist. See you at the Yard!