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Cost of Conducting Research at Land-grant Universities and the Use of Indirect Cost Recovered Funds

Talking Points with Commodity Groups and Other Funding Sources

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There is a serious misunderstanding among many commodity group leaders and other private funding entities about how research is funded at Land-grant Universities (LGU), particularly regarding overhead costs. Most do not realize that indirect cost (IDC) recovery is necessary to cover a large portion of these costs. For many, IDC charges are seen as a form of double taxation because they believe all the LGU overhead costs are paid through federal and state funds supplied from taxes. However, as LGU administrators know, these public funds have decreased or stayed flat with diminished buying power, so that most overhead costs are not covered by federal and state appropriations. This critical situation is well illustrated by the recent Sightlines study which identified over $8 billion in deferred infrastructure maintenance in the LGU system. Much of this deferred cost is due to lack of overhead funds for anything except immediate short-term expenses, such as utilities, equipment replacement and maintenance, computer hardware and software, office supplies, etc.

Due to the fact that most LGU's have a unique situation relative to funding from commodity groups and other private entities, there's no one-size-fits-all model for attempting implementation of IDC recovery from these funding sources across the board. However, it is prudent to inform and educate leaders of these funding groups about the real cost of conducting research at LGUs, the lack of federal and state funds to cover indirect costs, and the use of those funds that are available for this purpose. Below is a bullet list of talking points and actions that may be useful in this educational process. It's not meant to be exhaustive and, of course, should be tailored and illustrated based on local situations.

Talking Points to Use with Commodity Group Leaders and Other Private Funders –

- Overhead are real costs that are not completely provided by federal or state legislatures nor born by the taxpayer. Federal and state appropriations cover scientists' salaries and benefits, but they do not cover the cost of space and tools necessary for them to pursue their science.

- When a scientist receives a grant to breed a new disease-resistant vegetable, to design a more efficient irrigation system, or to decrease fertilizer use without decreasing yield, much of the money goes to people – paying the scientist, the collaborators and the graduate students for

time and expertise. But the costs don't stop there. Discovery runs up utility bills, puts wear and tear on greenhouses, uses up printer ink, creates a need for specialized equipment, and requires administrative professionals to manage the many strings attached to grant money. These hidden or "indirect" costs are not covered by state and federal appropriations that cover the payroll that make these experts available to solve commodity groups' problems.

- There are the many regulatory and safety policies that must abided by in conducting a research program, failure to do so results in significant fines and penalties. The costs of compliance to these regulations is continually increasing and are primarily covered by IDC.

- IDC that remains in the college is used to enhance research efforts. So these funds are invested back to the stakeholders and funders as enhanced research activities.

- When a new faculty member is hired, the salary is usually paid from recurring state or federal funds. However, there are other costs involved, particularly start-up funds, for each of these new hires. These costs often exceed $500,000 in one-time funds provided to each new researcher to enable them to initiate their program and become competitive for grants. IDC funds are the primary source of these start-ups.

- Large equipment purchases are required by various departments, such as growth chambers, greenhouses, tractors, etc. These are usually paid for by IDC funds.

- Repairs to equipment and renovation of laboratories are ongoing and usually paid by IDC funds.

- If the college has a young investigator grant program and or grant writing workshops or assistance, those are usually supported by IDC funds.

- Many of the best scientists are recruited by other institutions, sometimes you have to offer retention packages to keep these outstanding researchers. IDC funds are usually used to enhance the offer so that they will stay at your institution.

- At all public research universities, research funding received through grants must pay for most of the costs of doing that research. Having multiple sources of research revenue does not represent charging twice for the same service.

- Diverse funding sources are essential to supporting a world-class research operation. It is essential to our research operations that we maintain the federal-state-private partnerships that have supported the LGU research enterprise for over 150 years.

- A common misunderstanding about state universities is that they are entirely funded by the state. Most commodity leaders realize this is not true, but it's important to reiterate that less than half of most LGU's research revenue comes from state funding. A significant portion comes from USDA's National Institute of Food and Agriculture and other federal agencies,

from county governments, from philanthropy, from endowments, and from sale products from outlying experiment stations.

- IDCs, also referred to as Facilities and Administrative Costs (F&A), are simply the overhead costs of doing business. There is normally no budget line or support from the state legislature to pay these costs.

- The federal government officially sets the IDC rate for public research universities in the United States, which is the rate determined to cover the costs of doing research. For most LGU's that rate is approximately 50%. So for every dollar of direct costs for which a proposal is funded, $.50 must also go to pay the indirect costs of doing that research.

- All universities have an office of sponsored programs or grants & contracts within the college, institute, or at the university level. This office has fiduciary responsibility of managing the research portfolio and is normally funded in whole or in part by IDC funds. Many colleges are assessed a cost to fund this office. This assessment is based on the total direct costs of funded research proposals, and often is collected whether the IDC is recovered or not.

- Looking at the IDC issue from a different perspective, taxpayers fund much of the infrastructure that serves as the platform on which research is done that delivers solutions to industry. A taxpayer could very well argue that an industry that does not pay its share of indirect costs is enjoying a public subsidy for innovation that directly feeds businesses' bottom line.

- Funding from industry is entirely applied to targeted research. That some of the costs are identified as indirect do not set them outside of the scope of this targeted research. Growers and industry groups get the maximum benefit from targeted research precisely because of the infrastructure that these IDCs fund. However, those assets are subject to depreciation and decay if they are not maintained. IDC funds contribute to the upkeep and maintenance of this critical infrastructure.

- Recently, the Association of Public and Land-grant Universities (APLU) commissioned a study to ascertain the extent of this research infrastructure problem. Examining only colleges of agriculture, the study determined a deferred maintenance problem of $8 billion. Increased IDC recovery can help maintain research infrastructure and reduce future deferred maintenance.

Potential Activities –

- Meet with leaders of a few of the top, most politically powerful commodity groups first to inform them about research costs and IDC use.

- It's essential that the message come from the top of the organization so that commodity leaders know that what they're hearing is from the ultimate decision-maker.

- In the course of the discussion, some leaders will understand your message. These leaders can help others understand and hopefully offset pressure some may feel from their boards and memberships to disagree with the importance of IDC recovery.

- Continuous outreach through mass communications is very important. Many organizations have monthly or quarterly publications and authoring articles or editorials in these can be very valuable, particularly by highlighting stories of how IDCs support the research that solves their industry's problems.

- Direct personal letters to specific industry leaders who are unconvinced or speaking out negatively can do the following;
    - Give them the due respect of a direct response.
    - Puts you on the record as not letting their misinformed position stand.
    - Crystallizes your thinking as you make the case for the importance of IDC funds.

- Solicit support of the university president. Ask them to accompany you to a board meeting, conference, or expo where they can give a keynote speech or welcome. This can;
    - Show that the university is backing agriculture on this issue.
    - Boost the president's standing in the agriculture community.

- Make calls to each of the commodity leaders separately to listen and gain an appreciation for what each group's specific concerns are.

- Use examples of IDC impact and investment in production agriculture research. Investments that leveraged other funding or provided a facility of great value to a specific industry are particularly useful.

- Direct visits to informal groups of growers or key commodity groups' annual meetings or field days to inform those present.

- Use graphics to demonstrate increasing costs that are common to most industries; infrastructure maintenance, equipment replacement, regulation compliance, etc.