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J. Peter Chaires
Executive Vice President
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Dear Peter:

Thank you for your letter of May 23. Because you are a valuable and insightful partner, I take your concerns seriously, as well as those of your Board.

I am gratified by your familiarity with the land-grant mission. I'm sure you appreciate how strongly your references to land-grant historical mileposts resonate with me after more than four decades of professional life championing the tripartite land-grant mission.

So I'm disappointed to be presented with an argument that indirect costs (IDCs) represent a form of double taxation. This is a serious misunderstanding about these overhead costs of doing research. These are real costs that are not born by the taxpayer nor provided by our State Legislature. The Legislature pays for the costs of instruction. While state funding covers scientists' salaries, it does not pay for the space and tools necessary for them to pursue their science. At all public research universities in the United States, the research funding received must pay all costs of doing that research. I can assure you that the various sources of research revenue do not represent charging the same client twice for a service.

Instead we see a diversity of funding sources as essential to supporting a world-class research operation. A lens that frames these diverse revenue streams as duplicative and punitive would, when trained on the land-grant system, suggest that its federal-state-county partnership model is a vehicle for *triple* taxation.

A great misunderstanding about state universities is that they are entirely funded by the state. I'm sure you know this is a fiction. Still, it bears repeating that less than half of UF/IFAS's annual revenue comes from general funding from Tallahassee. So much of what we do comes from USDA's National Institute for Food and Agriculture (NIFA), from 67 county governments, from tuition, from philanthropy, from endowment revenue, even from the sale of citrus from our experimental groves.

Let me try to explain how these indirect costs are used. IDCs, also referred to as Facilities and Administration (F&A), are simply the overhead costs of doing business. There is no line or support from the 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 capture the costs of doing research. For the University of Florida that rate is 50%, which is similar to most major public research universities in the country. So for every dollar of direct costs for which a proposal is funded, $.50 must also be earned to pay the costs of doing that research. At the University of Florida, the Office of Sponsored Programs within the Office of the Vice President for Research has the fiduciary responsibility of managing a research portfolio of approximately $800M annually. Also, there are the many regulatory policies we must abide by in conducting a research program (please see attachment 1). Failure to do so results in stiff fines and penalties. Professional staff in the Research Office are paid to perform these various functions. The cost of these positions are paid by the indirect costs that are associated with the sponsored program funding.

To pay for sponsored research funding and regulatory oversight, each college at UF is assessed a cost to fund the university's Office of Sponsored Programs. IFAS' share of those costs is 12%. This is money that is transferred to the Research Office from the IFAS budget, based on the total direct costs of funded research proposals, whether we collect the IDCs or not. We are not asking our commodity groups to pay the full costs of doing research (50% IDC). If our commodity groups paid the full cost of doing research, IFAS would greatly benefit in being able to build a better research program to serve our commodity clientele. Please allow me to explain further.

Once we pay the IDC charge to the university's Division of Sponsored Programs in the Office of Research, remaining IDC is used to enhance our research effort. So in a way these dollars come back to you (as with all stakeholders) in better research. There are many costs to managing a research portfolio in addition to the costs of paying the salaries of the folks who oversee the management of those grants. IDCs are used to pay these costs. In fact, IDCs can only be used for research-related activities. For example, every time we hire a new faculty member, the salary is paid from recurring state funds provided by the Legislature. However, there are other costs involved, such as startup funds for each of these positions. These costs range from $150,000 to $300,000 or more of one-time funds given each researcher when hired (provided by IDCs). Large equipment purchases are required by various departments, such as growth chambers, greenhouses, tractors (all paid by IDCs). Repairs to equipment and renovation of laboratories are ongoing (paid by IDCs). Young investigator grant programs and grant writing workshops position our faculty to win grants that support industry (again, paid by IDCs). Federal grants pay full IDCs, as do private companies. The five Water Management Districts do not pay full IDC, but do pay 26%. When you try to hire the best scientists available, sometimes you have to fight to keep them as other universities try to hire them away. IDCs are used to enhance the retention packages of outstanding researchers, so that they will stay at the University of Florida.

You may find it interesting that the wildlife, fisheries and forestry faculties generally receive full IDCs for their grants and contracts and we use some of that to subsidize the research we do for the agricultural research of commodity groups. However, we are not asking the commodity groups to pay the full IDC rate, which IFAS could use to better support our research program, but only the foundational amount (12%) that we must pay the University's Office of Research in order for us to conduct your research. Last year we did approximately $39M in sponsored research in Florida without receiving any IDCs. That represents close to a $4.7M dollar loss to the IFAS budget, money that is sorely needed to help upgrade research facilities and enhance the research agenda.

Let's turn the IDC issue on its head for a moment. I share your concern for protecting taxpayers' interests. Taxpayers fund a great deal of the infrastructure that serves as the platform on which we do the work 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.

In essence, indirect costs buy the research truck. The various beneficiaries of that truck pay their share for its use. When industry hires IFAS to use the truck for a single trip, should it not have to cover its fair share of the costs of gas, engine wear and tear, and repairs?

That the direct beneficiaries of the research help cover the indirect costs of that research is fair and equitable. It's this commitment to fairness and service to our stakeholders that prompts us to set IDC rates well below those mandated by the federal government.

IFAS has been subsidizing at great costs to its own budget the research it has been doing for Florida commodities. We plan to continue to subsidize that research but we no longer can afford to subsidize it at 100%. Beginning July 1, we will absorb three-quarters of the cost instead of all of it. That is, our IDC costs will continue to be 50 percent but we will pass along to the commodity groups a rate of 12 percent.

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. We don't have to build the truck every time a stakeholder needs a ride. Collectively, we already own it. But that asset is subject to depreciation and to decay if it is not maintained. We are not asking you to buy the truck. We're asking you to contribute to its upkeep and maintenance, just as the other users of the vehicle do.

Complicating the situation is the decaying infrastructure of our research facilities – laboratories, green houses, etc. This is not just an IFAS problem, but is shared across the land-grant university system of the United States. 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. APLU has formed a task force to develop strategies to address this challenge. I am a member of that task force and we had our first meeting last week in Washington, D.C. Among the strategies discussed, such as developing an initiative under the Research Title of the next

Farm Bill, the number one priority, on which the task force members agreed, was to collect all of the IDC that is generated by grants and contracts.

A few weeks ago I was also in Washington meeting with the leadership of USDA's NIFA. It is this office that takes the national needs of land-grant universities and incorporates them into the President's budget request to Congress. I argued that NIFA needed to begin thinking about including an initiative to support our decaying research infrastructure and the response I received was "that is what IDCs are for."

In attachment 2 please find a handout that was distributed last week at the meeting of the Big Six held at Farm Bureau headquarters, where we had a very thorough discussion of the situation. I am sorry that you were not there to participate as many of the attendees said that they now had a much better understanding of the issue and at the end of the meeting the Florida Cattlemen's Association, the Florida Strawberry Growers Association, and the Florida Nursery, Growers and Landscape Association stated their agreement to pay the minimal rate.

Discussions of divisive issues like IDCs can be painful. It's my hope that our shared commitment to delivering the best possible science to Florida agriculture will lead us to a place of mutual understanding if not complete agreement.

Thank you for considering this as we move forward.

Respectfully,

Jack M. Payne
Senior Vice President

Attachments

cc: Kent Fuchs
Jackie Burns
Nick Place
Elaine Turner
John Hoblick
Kevin Morgan
Mike Stuart
Kenneth Parker
Jim Handley
Mike Sparks
Reggie Brown
Ben Bolusky
Harold Browning
Mike Joyner