

TO: Ravisha Mathur, Chair of SJSU Academic Senate

SUBJECT: Clarification of Research F&A Charges and Distribution

FROM: Mohamed Abousalem, SJSU VPRI and President of the SJSURF Board of Directors

CC: SJSURF Board of Directors
Vincent Del Casino Jr., SJSU Provost and Sr. Vice President for Academic Affairs

DATE: April 23, 2020



The purpose of this memo is to clarify matters related to facilities and administrative (F&A) grant charges and distribution in response to two requests from San José State University: (1) a request from the Academic Senate Budget Advisory Committee, and (2) a request from a faculty member following the November 2019 Academic Senate Budget presentation.

Facilities and Administrative Charges

Facilities and administrative (F&A) costs is the federal government term for what was previously referred to as “indirect costs.” F&A is comprised of facilities (F) and administrative (A) costs incurred by San José State University (SJSU) and San José State University Research Foundation (SJSURF) in the process of undertaking the work and administration of research activities and service contracts. These costs cannot be directly identified with (and therefore charged to) a specific grant or contract. The costs result from shared services such as research-specific physical plant operations, maintenance, and utility costs; departmental, unit/college, and sponsored projects’ administrative expenses; federal compliance requirements; depreciation of buildings and equipment; and libraries. These are real and significant costs that are part of the university budget and must, therefore, be recovered from grants and contracts. Reimbursements for those costs are paid by sponsors to the institution, SJSU and SJSURF. As grant expenses occur, SJSURF covers those costs and then submits requests for reimbursement to the sponsor. The sponsor reimburses the direct costs and the F&A costs. For example if SJSURF covers \$10,000 on grant activities on campus, the sponsor will reimburse \$10,000 and \$4,600 (if the F&A rate is 46%) for a total of \$14,600.

The F&A costs recovered on grants allow SJSU to build, maintain, and operate facilities that are dedicated to research and research support as well as fund various research support programs and activities. F&A dollars received are not “extra” dollars; they are part of the funding required to sustain the research infrastructure. Without these funds, research laboratories and facilities could not be built

nor maintained, nor could the administrative infrastructure needed to apply for and administer grant funding be supported.

Facilities and Administrative Charge Rate

F&A rates are periodically reviewed and negotiated with our cognizant federal audit agency, the Department of Health and Human Services/Division of Cost Accounting (DHHS/DCA). The process involves an extensive proposal compiled by SJSURF and submitted to DHHS/DCA. Following its own careful analysis of our research funding and space utilization for research, DHHS/DCA assigns SJSURF F&A rates that will be used for the subsequent several-year cycle.

As an auxiliary organization of SJSU, SJSURF is required to follow the CSU Chancellor's Office policy mandating that the full F&A rate be included in proposal budgets and to collect these funds on behalf of SJSU for all sponsored projects, regardless of funding source, unless a sponsoring agency's *written policy* will not allow full recovery of F&A costs. Additionally, the federal government requires consistent and uniform allocation of the full federally-negotiated F&A rate to all projects. The exact same process is conducted at all other research universities in the country.

San José State University Research Foundation

SJSURF is a private 501 (c) (3), not for profit auxiliary organization of SJSU, whose mission is to further the educational, research and community service objectives of SJSU. A Board of Directors, comprised of SJSU faculty, administration, and student representatives as well as community members, oversees the SJSURF. Functionally, SJSURF is a unit under the SJSU Division of Research and Innovation.

SJSURF's primary function is the solicitation and administration of extramurally-funded SJSU research and service grants and contracts. In doing so, SJSURF is responsible for administering all compliance requirements imposed by the granting and regulatory agencies and organizations. As a non-profit corporation, SJSURF must also comply with federal and state laws and regulations. Additionally, as an auxiliary organization of the CSU, SJSURF must comply with policies and procedures of SJSU as well as those of the Trustees and Chancellor's Office that pertain to all auxiliary organizations.

Facilities and Administrative Cost Recovery

Historically, SJSU and SJSURF have received no state-funded support for research administrative or facilities costs. Currently, however, SJSU provides partial funding support for the SJSURF grant submission functions. SJSURF is required to support itself as an auxiliary as well as support the SJSU research enterprise on campus. At fiscal year-end, SJSURF uses the recovered F&A costs to pay for SJSURF expenses associated with the administration and management of externally-funded grants and contracts, SJSU new research space development (e.g. the Interdisciplinary Science Building) and existing space maintenance, SJSU IT infrastructure support, SJSU off-campus research administration expenses, other specific SJSU research program administration and other overhead costs (e.g. NASA project cost share, Washington DC representation), as well as SJSURF Board-approved reserves to cover SJSURF expenses during federal government shutdown periods.

The remaining F&A funds are paid to SJSU to be used to develop and support future externally-funded projects. SJSU administration determines how these funds are distributed internally. The current distribution includes a proportionate split between Moss Landing Marine Labs (MLML) and the main campus. The internal distribution of MLML F&A payment is determined by MLML management to cover administrative and RSCA-related expenses. The main campus distribution is shared among the campus constituents for RSCA-related expenses: Principal Investigator: 15%, Department: 15%, College: 35%, and Division of Research & Innovation: 35%.

For example, in fiscal year 2018/2019, the SJSU research enterprise generated \$8.2 million from F&A reimbursements (revenue). This revenue was used to cover SJSURF general and administration expenses for the year totaling \$7.4 million (\$425K under budget), which included the following specific payments to SJSU: \$238K for SJSU IT services, \$71K for SJSU business and financial services, and \$187K for research space utilization. The SJSURF Board of Directors, via its standard budget approval process, approved the distribution of the remaining \$1.38 million or 17% back to SJSU (\$847K over budget). The distribution of these funds was as follows:

- Contribution to Interdisciplinary Science Building: \$500k
- MLML Central Administration: \$190k

- NASA-Human Factors Cost Share: \$160k
- Washington, DC Representation: \$125k
- Main Campus F&A Distribution: \$311k
- MLML F&A Distribution: \$98k

Closing Remarks

In closing, it may be instructive to clarify what F&A costs are not. F&A costs are not a tax or "transaction costs," such as the cost of cutting a check. F&A recoveries are not kept by SJSU Research Foundation but are used to reimburse SJSU for its costs in support of the research enterprise. F&A costs are not taken out of a grant or contract, rather the F&A costs are built into the grant. F&A costs are not discretionary or arbitrary, but are dictated by F&A rates determined by the federal government.