

Notes from the MWACD Administrative Meeting on October 17, 2013 – by Philip Hockberger and Aaron Rosen (Northwestern University) and Susan Meyn (Vanderbilt University)

I. Rate -setting: toward a sustainable financial model – core facilities are typically subsidized by departments, schools, centers and/or central administration. Is this model sustainable? If not, should the goal be to move toward a full-cost recovery model? What are the downsides of such a model? How do we prevent a race to the bottom?

WHILE A FULL COST RECOVERY MODEL IMPROVES THE LIKELIHOOD OF SUSTAINABILITY, IT DOES SO AT THE EXPENSE OF DRIVING UP COSTS FOR RESEARCHERS. A REASONABLE COMPROMISE IS TO STRIVE FOR 80-85% COST RECOVERY WITH THE REMAINDER COVERED BY INTERNAL SUBSIDIES, CORE GRANTS AND EXTERNAL CUSTOMERS. FINANCIAL MODELS THAT GENERATE LESS THAN 80% RECOVERY ARE ALSO SUSTAINABLE IF STAKEHOLDERS ARE WILLING TO PROVIDE ADDITIONAL SUPPORT. IN THE ABSENCE OF SUBSIDIES, RESEARCHERS WILL BE MOTIVATED TO LOOK FOR CHEAPER SERVICES OUTSIDE THE INSTITUTION. REGIONAL PARTNERSHIPS AND CONSORTIA PROVIDE ALTERNATIVE OPTIONS FOR SPLITTING THE COSTS OF CORE FACILITIES.

IN GENERAL, RUNNING A DEFICIT IS BAD BUT RUNNING A SURPLUS IS WORSE. THE REASONING HERE IS THAT DEFICITS FORCE THE INSTITUTION TO PAY, WHEREAS SURPLUSES GIVE THE IMPRESSION THAT RESEARCHERS ARE BEING OVERCHARGED. IF THE LATTER ARE USING FEDERAL GRANTS TO PAY FOR SERVICES, THEN AUDITORS WILL LOOK CLOSELY AT WHETHER THE INSTITUTION IS GENERATING A PROFIT FOR SERVICES (WHICH IS NOT ALLOWED).

THE RACE TO THE BOTTOM (LOWERING PRICES TO UNSUSTAINABLE LEVELS) IS A RECIPE FOR DISASTER BECAUSE IT SENDS A CONFUSING MESSAGE TO RESEARCHERS AND STAFF. QUALITY AND AFFORDABILITY ARE LINKED. COSTS ARE DIRECTLY RELATED TO STAFF SALARIES (EXPERTISE AND EXPERIENCE) AND TYPES OF RESOURCES (INSTRUMENTS, SERVICES). LOWERING PRICES BELOW COST IS LITERALLY SAYING YOUR SERVICES ARE NOT WORTH THAT COST. CONVINCING STAKEHOLDERS THAT SUBSIDIES ARE WORTHWHILE IS THE MOST COST-EFFECTIVE WAY TO KEEP COSTS AFFORDABLE. GENERATING 80-85% COST RECOVERY MAKES THIS REQUEST MORE PALATABLE FOR THE STAKEHOLDERS.

II. Evaluating cores: beyond bibliometrics - many institutions and federal agencies ask for bibliometrics (user publications and grants, staff publications and grants) when evaluating core facilities. How does your institution evaluate core facilities? Besides bibliometrics, some institutions use annual reports, professional development, user surveys and program review. Are there institutions willing to share these tools? Would it be useful to create a virtual repository of tools, accessible to others?

MOST INSTITUTIONS HAVE DEVELOPED A SET OF METRICS FOR EVALUATING CORE FACILITIES EITHER BY THE SCHOOL OR CENTRAL ADMINISTRATION. THERE WAS INTEREST IN SHARING IDEAS AND TOOLS THAT FACILITATE EVALUATION.

THE MORE IMPORTANT POINT WAS THE DESIRE BY CORE FACILITY PERSONNEL TO BE ACKNOWLEDGED IN GRANTS AND PUBLICATIONS FOR THEIR SERVICES. THIS PRACTICE ENHANCES THE ACCURACY OF BIBLIOMETRICS USED FOR EVALUATING THEIR IMPACT. VARIOUS IDEAS WERE DISCUSSED TO ENCOURAGE RESEARCHERS TO ACKNOWLEDGE THE SERVICES OF CORE FACILITIES, E.G., SENDING A REMINDER OF THIS WHEN YOU SEND THEM THE DATA.

III. Cores and the future of the research enterprise - are core facilities a temporary reaction to federal budgetary constraints, or is this a long-term solution to a fundamental change in the way research is done (interdisciplinary and multidisciplinary)? If the latter, who will be responsible for educating the workforce to fill this need? What new kinds of skills will need to be taught and nurtured to facilitate this need?

THE SKILL SET AND MENTALITY OF A SCIENTIST VERSUS THE SKILL SET AND MENTALITY OF A BUSINESS ENTREPRENEUR ARE OFTEN NON-OVERLAPPING. RUNNING A SUCCESSFUL CORE REQUIRES A THOROUGH

UNDERSTANDING OF BOTH. IT IS IMPORTANT FOR CORE MANAGERS TO ACQUIRE THE BUSINESS ACUMEN NEEDED TO PROPERLY PROMOTE THEIR FACILITY, APPROPRIATELY PRICE SERVICES, AND MANAGE THE FINANCES OF WHAT IS ESSENTIALLY AN INDEPENDENT SMALL BUSINESS. EXECUTIVE CERTIFICATE COURSES (SUCH AS NORTHWESTERN'S "BUSINESS FOR SCIENTISTS" COURSE OFFERED THROUGH THE KELLOGG SCHOOL OF MANAGEMENT) ARE HELPING TO BRIDGE THE DIVIDE BETWEEN THE BUSINESS AND SCIENCE WORLDS.

IV. NIH FAQ (NOT-OD-13-053): what's included, what's not?

A) Purpose – paragraph 3 states that the FAQ document is NOT intended to establish new policies or interpretations; rather it is intended to provide "broad guidance." Paragraph 5 reminds us that these guidelines are subject to future revision and updating. Will this document withstand the scrutiny of auditors? What about the recent fine at Iowa State University (<http://oig.hhs.gov/oas/reports/region7/71106024.pdf>)? Does this document apply to federal agencies beyond the NIH? Which federal agency negotiates F&A rates with your institution?

IT IS IMPORTANT TO UNDERSTAND WHICH FEDERAL AGENCY IS RESPONSIBLE FOR NEGOTIATING THE "FACILITIES AND ADMINISTRATION RATE" (F & A) FOR YOUR INSTITUTION. IF THE NEGOTIATION TO DETERMINE THIS RATE TAKES PLACE WITH THE DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS), THEN THE NIH FAQ IS DIRECTLY PERTINENT TO ALL CORE FACILITIES AT YOUR INSTITUTION (SINCE THE INCLUSION AND EXCLUSION OF CERTAIN EXPENSES AT ANY CORE IS RELEVANT TO THE F & A NEGOTIATION). THE NEGOTIATION SETS A PRECEDENT FOR WHICH BRANCH OF THE FEDERAL GOVERNMENT WILL BE RESPONSIBLE FOR AUDIT. AN AUDIT OF ONE FEDERAL GRANT CAN LEAD TO CLOSER SCRUTINY OF ANY INSTITUTIONAL CORE FACILITY, IF THAT CORE CHARGED THE GRANT UNDERGOING AN AUDIT.

B) Section 1.b – provides information for pricing a simple, single service. It does not address how to set prices for more complex services, or whether it is appropriate to distribute personnel costs over multiple services. Is it reasonable to distribute personnel costs over multiple instruments that require minimal technical support after training of users? What methods do you employ at your institution?

THERE IS A RECHARGE RATE CALCULATION TEMPLATE AND INSTRUCTIONS AVAILABLE ON THE NORTHWESTERN WEBSITE ([HTTP://WWW.NORTHWESTERN.EDU/COSTSTUDIES/RECHARGE.HTML](http://www.northwestern.edu/coststudies/recharge.html)) THAT WAS REVISED THIS PAST YEAR IN LIGHT OF THE FAQ. THE "EFFORT BILLABLE HOURS" TAB SPECIFICALLY ADDRESSES HOW SALARY IS DISTRIBUTED OVER VARIOUS SERVICES OFFERED AT ANY GIVEN CORE. MORE COMPLEX, AND ALSO MORE VARIED, IS HOW DIFFERENT TYPES OF SUBSIDY MODELS ARE HANDLED BY OUR RATE CALCULATION PROCESS. IF A GRANT PROVIDES SALARY SUPPORT TO A CORE, THAT MUST BE ACCOUNTED FOR VERY DIFFERENTLY THAN IF THE GRANT IS PROVIDING A "PER-UNIT" SUBSIDY (AS PER THE EXAMPLE IN THE FAQ). WE HAVE DEVELOPED DIFFERENT PROCEDURES FOR DIFFERENT MODELS, BUT THIS GETS VERY COMPLEX VERY QUICKLY (EG. DOES THE SALARY SUPPORT SUBSIDIZE ALL USERS OF THE CORE, OR ONLY A SUBSET OF USERS?). IN SHORT, THE FAQ HAS RAISED THE BAR IN TERMS OF HOW TO CALCULATE RATES.

C) Section 1.c – acknowledges that F&A rates do not cover all administrative services provided by core facilities. An example: depreciation of equipment purchased with institutional funds. What other admin services might be charged to users? How will we know if these are acceptable charges? Is there a rule-of-thumb? (see section 2.g)

THERE ARE MANY "IT DEPENDS" DISTINCTIONS IN TERMS OF ADMIN COSTS IN A FACILITY. TIME SPENT WRITING GRANTS IS GENERALLY UNCHARGEABLE IN TERMS OF INCLUSION IN THE RATE STRUCTURE, BUT WHAT ABOUT "EQUIPMENT GRANTS" SPECIFICALLY FOR THE FACILITY (CONTROVERSIAL)? ADVERTISING IS GENERALLY UNALLOWABLE AS A CATEGORY, BUT WHAT ABOUT INTERNAL ADVERTISING, TIME SPENT PROMOTING THE FACILITY TO INTERNAL USERS (PROBABLY ALLOWABLE)? FINANCIAL MANAGEMENT OF THE CORE MIGHT BE CONSIDERED A PART OF THE INSTITUTION'S OVERALL F&A AGREEMENT, BUT WHAT IF CORE PERSONNEL ARE DIRECTLY RESPONSIBLE FOR MAINTAINING THE FINANCIAL MANAGEMENT OF

THE CORE (LOOKING CLOSELY AT THE JOB DESCRIPTION ASSOCIATED WITH THIS WORK MAY BE RELEVANT)? THERE IS A GREAT DEAL OF AMBIGUITY IN TERMS OF WHAT MIGHT BE ACCEPTABLE AND WHAT MIGHT BE CONSIDERED UNALLOWABLE IN TERMS OF THE INCLUSION OF ADMIN COSTS, AND THE FAQ IS SPARSE ON DETAILS HERE. ONE USEFUL RECOMMENDATION WAS TO MAKE SURE THAT JOB DESCRIPTIONS OF ADMINISTRATIVE ASSISTANTS IN CORE FACILITIES SPECIFICALLY MENTION THEIR RESPONSIBILITIES REGARDING CORE FACILITY ADMINISTRATION (BE SPECIFIC).

D) Sections 1.e & 1.f – acknowledges that institutions have flexibility in defining core facilities (within the constraints of section 1.a). Therefore, facilities can be grouped for purposes of cost accounting if they have integrated services for an overlapping set of investigators. This seems reasonable until one appreciates that contemporary research involves services and collaborations across disciplines (interdisciplinary and multidisciplinary research). Where do we draw the lines?

THERE IS NO GUIDANCE IN THE FAQ REGARDING WHERE TO DRAW THE LINES. ADMINISTRATORS ARE LEFT TO MAKE THIS CALL USING YOUR EXPERT JUDGEMENT. IF YOU THINK THERE IS SUBSTANTIAL OVERLAP IN SERVICES AND USER BASE, THEN YOU CAN PROBABLY GROUP THE FACILITIES FOR PURPOSES OF COST ACCOUNTING.

E) Section 2.c – lists a couple of simple examples of allowable costs (personnel and service contracts) and acknowledges that other costs that support day-to-day operations are allowable. What other activities would satisfy this condition? Internal advertising, professional development (travel to meetings, poster presentations, business courses), costs associated with personnel recruitment (job advertisement, travel for interview)?

SEE RESPONSE IN SECTION 1C (ABOVE). IN GENERAL THESE COSTS ARE ALLOWABLE IF THEY CAN BE SHOWN TO DIRECTLY APPLY TO THE OPERATION AND MISSION OF THE FACILITY.

F) Section 2.g – provides a general rule-of-thumb for recovering F&A costs: those that are not covered in the institution's F&A rate, and those that are not included in the service rate. This necessitates that you understand what is included in your F&A rates. Confusion occurs when one has to decide between billing the service as an indirect (F&A) cost versus building it into the direct (service) cost. This would seem to be up to each institution, but we would suggest that most if not all admin costs should be built into direct costs. Other indirect costs (building depreciation, heating, electricity) may be appropriate to charge under the indirect cost umbrella IF it is not included in the F&A (e.g., because the core facility is renting space off site).

ALSO SEE RESPONSE IN SECTION 1C (ABOVE).

G) Section 4.d – indicates that differential pricing is allowed for certain services and purchases IF this reduces the unit price for users based upon documented cost differences (volume discount, off hours usage) and is available to all users. But sometimes it is difficult to define and document the cost differences that can justify differential pricing. What methods do you use to justify differential pricing? Should this be based strictly on actual costs (discount averaged over all users, no labor charge for usage after hours) or is any reduction in price acceptable as long as its applied uniformly? How do you justify (quantify) reducing a bottleneck for users?

THE TRUE AMBIGUITY OF THE FAQ IS WHETHER OR NOT THE RATIONALE FOR AN OFF-HOURS DISCOUNT MUST BE SPECIFICALLY COST-BASED. IF A CORE DECIDES TO CHARGE ALL USERS A LOWER AMOUNT DURING CERTAIN PERIODS, IS A COST-BASED ARGUMENT ABSOLUTELY REQUIRED? AFTER ALL, THE LOWER RATE OFFERED OFF HOURS WILL CERTAINLY BE LOWER THAN THE CALCULATED RATE (SINCE THE DAY TIME RATE IS ALREADY LOWER THAN THE CALCULATED RATE) AND THE NIGHTTIME DISCOUNT DOES NOT DISCRIMINATE AGAINST ANY PARTICULAR USER. IS IT JUSTIFIABLE TO LOWER THE RATE AT NIGHT WITH AN ARGUMENT ALONG THE LINES OF "THERE ARE LESS PERSONNEL HERE AT NIGHT, THEREFORE, THE COST BASIS FOR RUNNING INSTRUMENTATION IS LOWER AT THIS TIME"? IT IS DIFFICULT TO QUANTIFY JUST HOW CHEAPER IT IS TO RUN A CORE AT NIGHT, AND THAT DOES NOT ADDRESS THE BROADER QUESTION OF THE NECESSITY OF SUCH AN ARGUMENT. IN SHORT, SOME CORES MAKE A

SPECIFIC COST-BASED ARGUMENT ON THEIR COST STUDY, WHILE OTHERS DO SO ESSENTIALLY BY FIAT.

H) Section 5.a – acknowledges the appropriateness of charging external customers a different (higher) rate for services as long as the rates are "reasonable." There is no indication as to what is reasonable, and no distinction between non-profit and for-profit customers. There is also no mention of a limit on the amount of external business that can be generated by a facility. There is information elsewhere in OMB Circular A-21 that addresses some of these issues (profit is allowed up to 2 months of working capital, taxes must be paid on unrelated business income, can't underprice local businesses), but reasonable appears to be a relative term. How does your institution address these issues? What other models might be adopted? For example, there is an entire world of philanthropy that is untapped when it comes to core facilities. How do you position your cores to take advantage of such opportunities?

THE DISTINCTION BETWEEN NON-PROFIT AND FOR-PROFIT EXTERNAL CUSTOMERS IS IMPORTANT AND LAYED OUT IN A BEST PRACTICES PAPER PUBLISHED BY LEADING ADMINISTRATORS OF THE ASSOCIATION OF BIOMOLECULAR RESOURCE FACILITIES (ABRF). THIS PUBLICATION DESCRIBES HOW TO HANDLE EXTERNAL CUSTOMERS AND ADDRESSES MOST OF THE COMMON ISSUES THAT ARISE FROM THIS PRACTICE - <http://www.ncbi.nlm.nih.gov/pubmed/23814500>.

ESTABLISHING RATES IS LEFT UP TO EACH INSTITUTION. WE RECOMMEND WORKING WITH YOUR OFFICE OF FINANCIAL SERVICES TO DEVELOP RATES THAT BALANCE EXCESS CAPACITY WITH OPERATING COSTS.

AS FOR PHILANTHROPY, THIS SHOULD BE COORDINATED THROUGH YOUR INSTITUTION'S DEVELOPMENT OFFICE.