Overhead Rates for Federal Research Are As High as Ever, Survey Finds

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23 January 1998

Editor's note: The text is available from the University at Albany, State University of New York. It is believed to be an accurate copy of the original text published on pages A30-A31.


THE AVERAGE RATE that major universities charge the government for verhead in federally financed research projects appears to be nearly as high as ever, despite years of pressure from Congress and faculty members, and a series of revisions in federal rules to restrain the charges.

In fact, many institutions' overhead rates are actually higher now than they were several years ago, according to an analysis by The Chronicle.

The average rate among top research institutions was about 52.7 per cent for fiscal 1991. By fiscal 1997, the average had barely budged, standing at about 52.3 per cent.

A rate of 52 per cent means that for every dollar that a university receives for the direct costs of a research project, it can charge the government as much as 52 cents for the overhead costs associated with that research. Overhead includes expenses for such things as utilities, libraries, and administrative costs that are related to research but cannot be divided accurately among specific projects. The government and universities negotiate the rates, which are based on complex calculations of the overhead costs for which government rules allow universities to be reimbursed.

The Chronicle's analysis included academic institutions that were in the top 100 for fiscal 1995 - the most recent year for which these data are available - in terms of federal awards for research and development in science and engineering. Some of the federal obligations reported for that year are paid out to the institutions over a number of years.
The analysis is based on the rates in effect for the institutions’ fiscal years of 1991, 1994, and 1997. Rates set for 1991 were generally the last agreed to before a scandal over improper overhead charges at Stanford University focused widespread attention on the issue. The controversy at Stanford and other leading institutions led to new limits, including stricter federal rules about what items universities are allowed to bill as overhead.

More than one rate is taken into account for some universities, most often those with medical schools that receive significant federal research support. Those universities have negotiated separate rates for separate entities on their campuses.

LOWER AT PUBLIC INSTITUTIONS

The overall average masks a difference in the trends for private versus public institutions. The latter receive state support and traditionally have negotiated lower rates than those of the private universities.

For private institutions, including their medical schools, the average rate declined from about 60.7 in fiscal 1991 to about 59.5 per cent in fiscal 1997. Some institutions that originally had relatively high rates also have had relatively large declines. The rate for the Harvard Medical School, for example, went from 88 to 79.9 per cent; the University of Chicago's rate fell from 65 to 53 per cent.

But in the same period, the average rate for public institutions has gone up slightly, from about 48.2 to about 48.3 per cent.

The fact that the overall average is closer to the public-university average reflects the larger number of state colleges among the top 100 performers of federal research.

Despite the fact that many public institutions have negotiated higher rates for themselves in recent years, private universities still dominate the list of those with the highest rates. Indeed, 22 of the 25 highest rates in fiscal 1997 were at private research institutions. On the other hand, all 25 of the lowest rates were for public research institutions.

Nearly half of the top 100 universities had institutional rates in 1997 that were higher than they were in 1991. Of the 35 private institutions in the top 100, 15 had higher rates in 1997 than in 1991. And 32 of the 65 public institutions in the top 100 also had higher rates in 1997 than they did before the controversy broke.

PHASING IN CHANCES

Since a 1993 analysis of overhead rates by The Chronicle, for fiscal 1994, more than half of the rates have risen, nearly a quarter have held steady, and about a
quarter have gone down.

Charles J. Seed, who directs the division of the U. S. Department of Health and Human Services that negotiates overhead rates for most universities, said he was "a little surprised" at the results of the analysis. The Office of Naval Research also negotiates rates for some institutions.

Mr. Seed said he knew of no obvious reasons for the increases in rates on many campuses. He added, however, that the government is still phasing in some changes that are expected to depress rates somewhat in fiscal 1998 and beyond.

The government recently proposed additional changes in its overhead rules which are expected to be made final this summer. After that, Mr. Seed said, officials of the White House's Office of Management and Budget and other federal agencies hope to "give these regulations a rest for five years" or so, to let the changes of the past few years take effect.

Some university representatives said a number of factors could help explain why rates had not fallen more. They pointed to the intense financial pressures on many public universities in recent years, as state appropriations have dwindled. The financial pinch has made them much more aggressive in seeking reimbursement for overhead costs than they were in the past.

GROWTH OF BIOMEDICAL RESEARCH

University representatives also noted that federal support for biomedical research is accounting for a larger proportion of the total federal spending on academic research, and that the costs of biomedical research facilities are increasing rapidly, which would tend to keep rates up.

Milton Goldberg, president of the Council on Governmental Relations, interpreted the results as evidence that federal rule changes and efforts by universities to streamline their operations have had a major impact. Before the changes, he pointed out, all predictions were for overhead rates to continue rapidly climbing. Instead, he said, the average rate is no longer growing.

"The change is significant because the slope of the increase was fairly significant back in the 1980s and early 1990s," said Mr. Goldberg, whose group tracks federal regulations and science policies for 143 major research universities.

He argued that "universities' contributions to research is ever growing and still very significant," and that much of the cost that universities shoulder, and for which the government does not reimburse them, is for the salaries of faculty members while they are conducting federal research. That contribution does not play a role in the ups and downs of overhead rates, he said, because it is considered a direct cost of individual projects that universities themselves cover.
Most experts agree that differences in rates do not necessarily reflect differences in how efficiently universities spend research money. For example, regional costs, such as construction expenses and the tenacity of individual institutions in seeking to recover the overhead costs they incur, can lead to differences in rates.

Indeed, some officials of institutions with relatively low rates sound more chagrined than proud. The University of Connecticut, for example, had a rate of 59 per cent in 1991. By 1997 it had dropped nearly 17 points, to 42.3 per cent. But that doesn't mean the university's costs are really that low, said Robert V. Smith, vice-provost for research and graduate education.

"We know we are artificially low," he said, explaining that at least some of the drop stems from flaws in the university's methods of tracking how much space it devoted to federally supported research.

The university was also using other accounting methods that failed to capture all of its overhead costs, he said. The state has recognized that his institution had also fallen behind in the condition of its research facilities, he added, and now "buildings are going up here like mushrooms." Given those circumstances, Dr. Smith said, his institution is working to increase its reimbursements from the federal government.

At the University of Minnesota, meanwhile, the overhead rate has gone up by 7 points since 1991 and now stands at 47 per cent, which is still below the national average and the average for public institutions.

Mark L. Brenner, vice-president for research and dean of the graduate school, is frank about what happened. In the past, he said, the state required the university to hand over to the state treasury almost all of the federal money it received for overhead. "We didn't have much of an incentive to have really tight systems to really track and monitor" overhead expenses, he said.

The state has since changed the rules, so the university is now allowed to retain almost all of its overhead payments. "We became much more attentive to how that rate was derived," and to documenting exactly what the costs were, Dr. Brenner said. Even so, he added, new federal limits on specific sorts of bills mean that Minnesota is still not recovering its full costs.

Even small changes in overhead rates can make a financial difference, especially at universities, like Minnesota, that conduct a high volume of research.

Dr. Brenner reported that Minnesota received about $45.7-million in fiscal 1997 in federal payments for the overhead costs it incurred in conducting research for the government. That means that every point in its 47.0 rate represents nearly $1-million in reimbursement from the government.
In the Chronicle, there's a large table containing data on the top 100 schools which receive research money from the federal government. The top institutions are: Johns Hopkins, U of Washington, MIT, Stanford, U of Michigan, UC- San Diego, UCLA, U of Wisconsin, Madison, U of Minnesota, Cornell, UCSF, U of Pennsylvania, Harvard, Columbia. Their rates vary from 68% at Johns Hopkins to 44% at Minnesota.