



November 1, 2021

To: LeRoy Westerling, Chair, Merced Division of the Academic Senate

From: Juan Sánchez-Muñoz, Chancellor, University of California, Merced
Gregg Camfield, Provost, University of California, Merced

Re: Distribution of Indirect Cost Recovery (F&A rate) on research grants

Thank you for the Senate's review of the proposed Indirect Cost Recovery (F&A rate) provided earlier this year. We greatly appreciate the Senate's review and comments and as a result we have made some revisions to the policy based on your feedback. In reviewing the Senate's comments, the following issues appeared to have been the most concerning:

1. The proposed policy would result in a reduced amount of IDCRC supporting the ORUs, but the ORUs should receive a percentage of the IDCRC that is commensurate with their research development and administration costs.
2. What are the service levels that the campus will be providing to support grants in general and how do these relate to the flow of resources generated by the IDCRC policy?
3. Will departments be asked to take on more responsibility for supporting research, now that they are set to receive a percentage of the indirect funds?
4. The policy states that the IDCRC levels will increase when research expenditures increase but the thresholds are not provided.
5. Does the policy apply to only new grants, or will it apply retroactively to existing grants?
6. Are the funds provided under the IDCRC discretionary or only for the purposes of supporting research?

Listed below are brief responses to each of the questions above, followed by revised policy which will take effect on November 1, 2021.

Responses:

Question 1: We have changed the distribution of IDCRC funds so that ORUs (including CITRIS) continue to receive the 5% level of funding when the grant originates from the ORU. This is achieved by augmenting the prior 2.5% with 1.25% from the PI's allocation and 1.25% from the Dean's allocation when the grant is supported via an ORU.

Question 2: Per the agreement of each campus with the UC Office of the President (see Contracts & Grants Manual), ORED's Sponsored Projects Office receives 19.9% of all indirect costs generated on our campus to broadly support sponsored research. The current proposal provides more resources to ORED because our prior policy did not award these funds unless the grant was fully encumbered (55% IDC). These funds will increase the resources provided to ORED to support research. Furthermore, given that large grants exceeding \$5M will receive 50% of the remaining IDCRC after ORED receives their 19.9%, this will increase their discretionary resources to hire staff to support grants including additional research staff. In fact, the increase in funds across campus will provide funding at other levels to increase staffing support for research (e.g., schools). Therefore, we anticipate the increased IDCRC will provide an opportunity for those managing these funds to increase staffing support for research.

Question 3: Yes, departments will be asked to take on more responsibility for supporting research. When additional funding is requested to support grants (e.g., cost share) it is expected that PIs will be the first to cover these expenses, followed by their department chair and then dean in the case that additional funding is required. Only in the case when the PI, department chair and dean are not able to provide additional research funding will the EVC/Provost or ORED be engaged in the request to provide additional research support.

Question 4: The IDCR will increase to 30% on our campus when the three-year moving average of research expenditures exceeds \$80M. It will then increase to 35% when the three-year moving average of research expenditures exceeds \$100M. These subsequent increases will result in a revision to the existing policy, which will be drafted for campus review prior to changes.

Question 5: The policy does not apply to any existing grants. It only applies to grants funded after November 1, 2021.

Question 6: The funds are to support research broadly speaking and are not completely discretionary. However, any expense that can be rationalized as research related is applicable for the use of these funds.

REVISED IDCR POLICY AND DESCRIPTION
EFFECTIVE NOVEMBER 1, 2021

Purpose

In order to accelerate the campus' progress toward meeting its R1 goal we want to incentivize increased faculty grant activity, and specifically per capita grant funding. Central to this incentive structure is the amount of Indirect Cost Recovery (IDCR) that is provided both to the faculty member obtaining the grant as well as the corresponding research infrastructure. To achieve this goal, we propose increasing the rate of IDCR provided to the campus from 20% to 25% with the distribution provided outlined below. Furthermore, we propose developing a performance-based metric for future increases in the IDCR that, when met, will increase the IDCR provided to the campus in the future. This is elaborated in Sections E and F below, which define when IDCR will be increased to 30% and 35% respectively.

Background

The campus' current IDCR, or Facilities and Administrative (F&A) rate, is 55% for on-campus and 26% for off-campus sponsored research. Any grant that supports the 55% indirect cost rate is referred to as a fully burdened grant. However, a significant amount of our research grants do not, in fact, cover the 55% indirect cost rate. Currently at UC Merced, indirect funds are not distributed for grants that are not fully burdened. Our new policy will return indirect funds on all grants, with the percentage of return dependent on the indirect cost recovered. The exception would be for the Sponsored Projects Office (SPO), which would receive the first 19.9% on all grants with indirect return, as agreed by the Office of the President.¹

On November 19, 2018, Chancellor Leland approved a change to the IDCR on research grants. The policy allocated 20% of the remaining 80.1% associated with fully burdened grants in equal 5% levels to the following individuals: Principal Investigator (PI), Dean/ORU, EVC/Provost and Vice Chancellor for Research (VCR). Prior to this change, only 10% of the IDCR was distributed on campus and it was equally split between the PI and the VCR (to be spent primarily on cost share). The objective of the November 19, 2018 policy was to:

- Provide discretionary funding to the Deans to support faculty research
- Provide discretionary funding to the Provost to support faculty research

Proposal and Recommendation

Given the increasing number of grants that have been submitted and awarded, as well as the increasing need to support them moving forward, we propose that the current IDCR funds be expanded to include departments and modified to both increase the IDCR to PIs as well as award IDCR on all grants received via a pro-rated scale to all recipients, as well as SPO. These proposed changes will increase the IDCR for all current recipients of IDCR and expand the IDCR to our newly formed departments.

The proposed distribution on all grants is as follows:

- A. 19.9% of indirect cost on all grants will be awarded to SPO.
- B. Of the remaining 80.1%, 25% of the funds will be allocated to the campus' "Opportunity Fund" (formally 20% on fully burdened grants) according to the following allocation mechanism:
 - a. 7.5% to the Principal Investigators (PIs) based on the IDCR generated by the PI.
 - i. If more than one PI is present on a given proposal the 7.5% will be distributed among them based on the percent credit that each of them provides to the proposal in question. This will provide discretionary research dollars for faculty, provide bridge funding between grants, help support cost share agreements and incentivize them to write more research grants.

¹ This is by agreement with the Office of the President for all of the UC campuses, see: <https://www.ucop.edu/operating-budget/files/rbudget/2020-21-budget-detail.pdf>

- ii. For grants managed by an Organized Research Unit (ORU) the PI will retain only 6.25% of the IDCR, with the remaining 1.25% being awarded to the ORU through which the grant was submitted.
 - b. 2.5% to the Principal Investigator's Department based on the IDCR generated by the PI.
 - i. If more than one department is associated with a given proposal the 2.5% will be distributed between them based on the percent credit that each provides (based on their faculty activity) to the proposal in question. These funds will increase the department's discretionary funding for research purposes, as well as facilitate their ability to provide bridge funding for faculty and cover their department's cost share agreements.
 - ii. For grants managed by an Organized Research Unit (ORU) the PI's Department will receive 1.25% of the IDCR with the remaining 1.25% being awarded to the ORU.
 - c. 5% to the Dean based on the IDCR generate by their respective school.
 - i. If more than one school is associated with a given proposal the 5% will be distributed between them based on the percent credit that each provides (based on their faculty activity) to the proposal in question. These funds will increase the school's discretionary funding as well as facilitate their ability to provide bridge funding for faculty as well as cover the school's cost share agreements.
 - ii. If the proposal is supported by an Organized Research Unit (ORU), the IDCR will be equally split between the Dean (subject to point c.i.) and the ORU. These funds are provided to the ORU to support their operations and faculty research initiatives. In addition, the ORU will receive 1.25% from both the PI and the PI's Department when the grant is managed by an ORU. Thus, raising their total IDCR to 5% while keeping the Dean's at 2.5%, the latter to address ancillary faculty support.
 - d. 5% to the Vice Chancellor of Research based on total IDCR generated.
 - i. A fraction of the IDCR should be retained in the Office of Research and Economic Development (ORED) to support campus-wide research and other research initiatives (i.e., CORE research facilities, ORUs). This money should not be used to support campus wide research and other research initiatives.
 - e. 5% to the Provost based on the total IDCR generated.
 - i. These funds will increase the Provost's discretionary funding as well as facilitate their ability to provide bridge funding, as well as general research support for faculty.
- C. On grants that do not support the full 55% indirect cost rate, the aforementioned returns assigned under A and B will be pro-rated based on the grant's percentage of the fully burdened rate, such that the full rate will only be awarded when the grant covers the 55% indirect cost rate. For instance, if a grant's indirect cost rate is 27.5%, SPO and each recipient of the IDCR will receive 50% of the full allocation defined above.
- D. On grants that exceed \$5M in total costs (e.g., direct and indirect costs), net of cost share, the PI will be awarded 50% of the IDCR (following the 19.9% that is provided to support sponsored research within ORED; 50% of the remaining 80.1%) to support the operations of the grant. If the grant is submitted/coordinated by an Organized Research Unit the entire 50% will be awarded to the ORU. With these large grants that exceed \$5M in direct costs, the PI's Department, Dean, Provost and VCR will receive 0% of the IDCR. IDCR will only be provided to the PI or ORU submitting the grant proposal.
- E. The IDCR will be increased to 30% when the campus' 3-year running average for contracts and grants awards exceeds \$80M, with changes to the distribution of those funds decided by campus leadership at that time.

- F. The IDCR will be increased to 35% when the campus' 3-year running average for contracts and grants awards exceeds \$100M, with changes to the distribution of those funds decided by campus leadership at that time.

Per the policy established on November 19, 2018, the indirect costs on all contract and grants submitted by administrative units (e.g., Division of Finance and Administration, Division of Student Affairs, Division of Undergraduate Education, Division of Graduate Education, Library) will be retained by the Division of Finance and Administration as part of the overall campus' budget.

Although the IDCR funds are discretionary resources to be managed by the aforementioned parties, the intent of the funds is to enhance the University's research funds. For example, when faculty request additional support for their grants (e.g., staff support, GSR support) the intent is for these funds to support such requests.