University Budget Committee Recommendations about the ICR Issues

The University Budget Committee was charged by the Provost to examine certain issues regarding Indirect Cost Recovery for corporate grants, minimum acceptable recovery of F&A costs on grants and contracts, and the recommendations of the ICR Task Force regarding the distribution of revenue from F&A charges. The UBC spent a part of four separate meetings discussing these issues.

The UBC based many of its discussions on the ICR Task Force Report, which examined several of these issues in depth. That report had 30 recommendations concerning ICR cost recovery, revenue dispersal, and related issues. These 30 recommendations are summarized in the Appendix of this report.

The UBC found that six of the ICR Task Force recommendations (Recommendations 1, 4, 5, 7, 10, and 12) have been adopted. These recommendations are non-fiscal in nature and deal with transparency, communication, and institutional practices concerning the setting of F&A rates.

The UBC recommends that Recommendations 2, 3, 6, 9, and 11 of the ICR Task Force report be implemented forthwith. These recommendations are also non-fiscal. Upon the advice of the Research Office and the Budget Office, the UBC considers these recommendations as “do-able” and generally meritorious. The only one of these recommendations that may be “controversial” is recommendation #11 that transfers control of the distribution and expenditure of Building Use Credits to the Research Office. This was thought to be advisable to assure long term tracking of these Credits with the ability make sure they are used effectively.

Regarding the recommendations with fiscal implications, the UBC recommends that full implementation of all of the Task Force Recommendations be funded by future incremental revenue from increased research ROH (when and if that becomes available). We recommend a high priority be given to funding the ICR Task Force Report recommendations in the use of this incremental revenue.

Specifically, the UBC recommends implementation of Recommendations 20, 24, 25, and 28 of the ICR Task Force Report,
which deal with new investments in central initiatives such as increased support for the library; the establishment of a major infrastructure fund by allocating money for the debt service on these bonds; increased support for multi-user, multi-College research facilities; and increased support for the CIPs. The revenue for this action is to be raised by increases in F&A charges against corporate grants to a full cost recovery level (48.6%) and the imposition of a new rule that would decrease the ROH of all units having grants that have effective F&A returns of less than 8% (of Modified Total Direct Costs) by the amount of the “lost” revenue due to the low F&A rate. The cost of these recommendations as suggested in the FY05 ICR Task Force Report is given in the Table below.

<table>
<thead>
<tr>
<th>Action</th>
<th>Total Recurring Cost</th>
<th>Recommended Initial Recurring Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increased Library Support</td>
<td>$567,000</td>
<td>$376,000</td>
</tr>
<tr>
<td>Debt service for major infrastructure fund</td>
<td>$907,200</td>
<td>$328,000</td>
</tr>
<tr>
<td>Support for multi-user research facilities</td>
<td>$1,134,000</td>
<td>$464,000</td>
</tr>
<tr>
<td>Support for CIPs</td>
<td>$1,134,000</td>
<td>$328,000</td>
</tr>
<tr>
<td>Totals</td>
<td>$3,742,200</td>
<td>$1,496,000</td>
</tr>
</tbody>
</table>

As suggested in the ICR Task Force Report, an incremental approach to funding these new initiatives is the most viable fiscal policy. Full funding of these initiatives should be from increased incremental revenue generated by research activities.

The increased F&A rate for corporate grants and contracts will generate modest new revenue (< 0.1 M$) while the minimum F&A rate of 8% will generate 1.5 M$ by a redistribution of existing ICR monies to the recommended new investments.

The budgetary principle behind the suggestion of a minimum F&A rate recovery is that F&A costs are real costs to the University. If
they are not recovered, then the entire University is effectively “taxed” to provide the monies needed to do the research.

The UBC did consider the suggestion that for grants and contracts, which did not allow F&A costs, PIs be encouraged to put direct cost items in the budget in lieu of F&A charges that would help to pay the expenses normally covered by F&A charges. The UBC declined to endorse this action because it felt this was not appropriate policy.

The UBC debated whether Recommendations 16 and 17 of the ICR Task Force Report, that would increase ROH for units from an average of 30% to 40%, be implemented using the plan developed by the Budget Office. This involved a revenue-neutral approach by decreasing the base budget of each unit by some amount and then returning that amount to the units as ROH. The total decrease in the base budget from this action would have been 2.3 M$. The UBC declined to endorse this action, due to concern about future fiscal problems with the OSU budget and a desire not to stress it further. Also it was felt that this action might offer an unneeded incentive to units to emphasize research at the expense of instructional activities. Similarly the UBC considered a recommendation developed by the Budget Office to fund Recommendations 18 and 21 of the ICR Task Force Report, which would provide increased funding for certain central research-related activities by an $8.0 M$ recurring decrease in the base budget. For reasons similar to those given above, the UBC declined to endorse this action.

Appendix—ICR Task Force Recommendations

- Recommendation 1: The facilities and administrative income to the University should be tracked and reported separately in the initial budget process.

- Recommendation 2: A web site should be established, linked to both the Research Office and Budgets and Fiscal Planning to provide an explanation of how Facilities and Administrative costs (the formal name for indirect costs) are determined, how they are allocated, and a summary of the current fiscal year’s allocation.

- Recommendation 3: The Research Office should provide as part of its annual reporting process a summary of the allocation of F&A funds from the various sources (initial budget, Research Equipment Reserve Funds, Building Use Credit Funds) to individual units.
• Recommendation 4: The Committee recommends that the appropriate campus unit aggressively pursue the possibility of an amendment to our current indirect cost rate.

• Recommendation 5: We should engage an outside professional to guide and manage the next negotiation effort. Even a one-percentage point increase would pay back the investment fivefold.

• Recommendation 6: The Committee recommends the adoption of standard criteria for measuring research productivity, grant activity, and for appropriately assigning credit for large, multi-investigator grants.

• Recommendation 7: The portion of F&A costs returned to AES/Agricultural Sciences and FRL/Forestry should be passed through the academic unit, rather than through the Statewide Public Service Units.

• Recommendation 8: The Office of Budgets and Institutional Research, in consultation with the cognizant Deans and Provost, should consider the classification of expenditures through the AES and FRL. To the extent that some of those activities can appropriately be defined as public service or another appropriate activity, it would diminish the denominator in the F&A rate calculation.

• Recommendation 9: An index should be established that allows tracking expenditures of E&G funds for space and facilities improvements in support of sponsored research activity.

• Recommendation 10: The Provost should reconstitute a space management committee. This committee should consider models and processes appropriate to manage space and reassign space in the best interests of the University. The first task should be to consider current metrics for assigned research space and strategies for auditing and assigning that space in preparation for the FY05 base year. The faculty should be represented on that committee.

• Recommendation 11: The Research Office should be charged with coordinating the distribution and expenditure of Building Use Credits. The charge is to coordinate planning for expenditures, such that improvements are made to facilities and in a time frame that have the most impact on our negotiation of our F&A rate.

• Recommendation 12: The Research Office should be charged with coordinating the distribution and expenditure of Research Equipment Reserve Funds. The charge is to coordinate planning for expenditures, such that acquisitions and improvements are made in areas and in a time frame that have the most impact on our negotiation of our F&A rate.

• Recommendation 13: The procedures and consequences of cost-sharing on grants and contracts should be clarified.

• Recommendation 14: The Research Office web page, in an appropriate place, should clearly identify those agencies from which we automatically accept a reduced overhead rate. The standard expectation is that all grants or contract application will request the allowable overhead rate. The Research Office may, at its discretion, waive a portion of the allowable indirect cost rate. In such case, the expectation is that the dollar reduction in rate will be deducted from the unit return of recovered indirect costs.
Recommendation 15: The Task Force recommends that, as part of the preparation of unit strategic plans, that units articulate their understanding of their core responsibilities to the campus community. In the specific context of this report, we are most interested in those responsibilities relevant to the research mission of the University. The definition of those responsibilities should be shared between units and their constituencies, so that we emerge with a common understanding.

Recommendation 16: All units should receive a minimum of 25% of the recovered F&A costs that they generate as ROH. Units must document how they expend those funds in support of research and must make the use of those funds transparent to their faculties. Continued allocation of ROH should be contingent on the documentation of appropriate investments.

Recommendation 17: We recommend that the University adopt a tiered approach to the allocation of ROH above the base 25%. That tiered allocation would recognize: the degree to which units have “leveraged” their research enterprise against the support provided by state and tuition dollars, the responsibility or risk they have assumed in doing so, and the rate at which units recover F&A costs; the model by which this would be done is still under discussion and review. In this model to 40% of the recovered F&A costs would be returned to units.

Recommendation 18: 20% of recovered F&A costs should be budgeted to Facilities Services. 15% should be allocated for operation of the research physical plant and 5% for repair and maintenance of that research space.

Recommendation 19: We recommend that the Director of Facilities Services and the Vice Provost for Research constitute a working group to review the criteria for support of off-campus facilities. In particular, we suggest that alternate models for the facilities support of large off-site facilities like the Hatfield Marine Science Center be explored. The support of those costs directly from the Research Office is inconsistent with most other expenditures and responsibilities of the Research Office.

Recommendation 20: We recommend that 2.5% of the recovered F&A costs be allocated to the library.

Recommendation 21: We recommend that the following allocations be made to units in support of research productivity:

- Information Services: 2%
- Research Accounting: 4% (through Business Affairs)
- Pre-award support: 4% (through the Research Office)
- Research compliance: 2% (through the Research Office)

Recommendation 22: We recommend that 4% of the recovered F&A costs be allocated into Building Use Credits, which are then distributed as at present, in proportion to the generation by units, with a portion retained centrally to fund joint facilities.

Recommendation 23: We recommend that 8% of the recovered F&A costs be allocated to the Research Equipment Reserve Fund. Half of that reserve would be distributed to units as are the
BUC, in proportion to the rate at which the unit generated indirect costs. The Research Office would distribute the balance centrally, both competitively and strategically.

- **Recommendation 24:** We recommend that 4% of the recovered F&A costs be set aside as debt service for a major infrastructure fund. This would provide about $900,000 annually which would secure about $10,000,000 in debt at a 4.5% interest and 15-year period.

- **Recommendation 25:** We recommend allocating 5% of the recovered F&A costs to provide support for multi-user, multi-College research facilities. Support from these funds would be based on a match between the sponsoring academic unit, any user fee income, and these designated funds.

- **Recommendation 26:** The committee recommends that College policies about the distribution and use of the ROH they receive should be published along with other information about the investment of recovered F&A dollars on the Research Office web site.

- **Recommendation 27:** We suggest that the return of a portion of the recovered F&A dollars be left to the discretion of individual units. Whatever the policy, faculty members in each unit should understand how the F&A funds are being used and how those uses benefit their work. Direct return of some of those costs may or may not help that understanding, depending upon the culture of the unit.

- **Recommendation 28:** We recommend that 5% of the recovered F&A costs be used to provide core support to the programmatic investments in research, which can include Centers, Institutes, and Programs (CIPs) reporting to the Research Office. The distribution of those funds should be based on guidelines developed by the Research Office in consultation with CIP directors, Deans, faculty, and the Research Council. Those guidelines should include a discussion of the criteria by which supported programs are phased-out, closed, or moved to self-sufficiency.

- **Recommendation 29:** The distribution of ROH, BUC, and RERF to CIPs should be treated in exactly the same manner as for Colleges and Departments. CIPs should be credited for F&A costs recovered in proportion to the responsibility they have assumed for the personnel and associated infrastructure costs that generated those F&A dollars.

- **Recommendation 30:** We recommend that the policies for the “buying” of faculty time into Centers and Institutes be clarified. It would be advantageous, both as an incentive and to the CIP, for membership some CIPs to be contingent on the generation of a certain proportion of salary through the CIP. To be effective, the base salary released by such a buyout must remain in the home department, to be used for both replacement instruction and other needs of the unit. An appropriate group should be constituted by the Provost to consider the right models to codify this type of “buyout” structure.

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