

Research Indirect Costs – Fall 2007 Update

How are funds generated and how are they used?

PART I. INDIRECT COST RECOVERY (ALSO REFERRED TO AS THE FACILITIES & ADMINISTRATIVE RATE)

A. CAMPUS RATE DEVELOPMENT

The indirect cost recovery (also referred to as facility and administration costs) is a reimbursement for expenditures already incurred by the campus to support research. The rate is calculated for the campus in a negotiation with the Department of Health and Human Services according to a methodology defined in OMB Circular A-21 that is briefly described below.

All indirect costs for the campus are divided into nine cost pools:

- Facilities Costs
 - Buildings and improvements
 - Interest expense
 - Equipment
 - Operations and Maintenance of Plant
 - Library support
- Administration Costs (maximum rate is 26%)
 - General administration
 - Department administration
 - Sponsored project administration
 - Student services administration

Total indirect costs are divided by “modified” total direct costs (direct costs to support research less equipment and several other costs). This calculation provides an average indirect cost for all research activity. The volumes of data behind this calculation include detailed coding of accounts, space and other resources. The campus rate is the result of detailed data collection and analysis followed by a negotiation with the DHHS to establish a multi-year rate framework.

The current agreement was finalized in June 2004 and established rates for July 1, 2003 (48.5%) through June 30, 2008 (52%). The campus submitted a new proposal in fall 2007 and will negotiate with the DHHS for new rates effective July 1, 2008.

The F&A rate negotiation process is managed by the Costing Policy & Analysis unit (part of Accounting and Financial Services in the Office of Administration). Additional information is available at <http://accounting.ucdavis.edu/costing/>.

B. APPLICATION OF THE INDIRECT COST RATES

The rate setting process establishes 8 separate rates: Organized Research (on-campus and off-campus), Instruction (on-campus and off-campus), Other Sponsored Activities (on-campus and off-campus) and Primate Center (base grant and other research). The campus rate agreement is at http://accounting.ucdavis.edu/EX/UCD_F&A_Rate_06_30_04.pdf.

Base Cost. The indirect cost rate is applied to a subset of direct costs called the modified total direct cost (MDTC). The MDTC includes salary and wages, fringe benefits, supplies, services, travel and subcontracts up to the first \$25,000 of each subcontract. Equipment, capital expenditures, rental costs, patient care costs, tuition remission, scholarships, fellowships, and subcontracts in excess of \$25,000 are not assessed indirect costs.

Off-Campus Rates. The off-campus rate is used for research conducted in space that is not owned by the University. When the off-campus rate is used, the lease and OMP costs for the space are directly charged to the research project.

California National Primate Research Center (CNPRC). The NIH provides a base grant that covers direct costs and some indirect costs so the base grant activities are charged a lower indirect cost rate (21.5%). Other research activities not covered by the base grant are charged the base grant indirect cost rate (21.5%) and a second indirect cost rate (B-rate, 29.5%). Current negotiations introduce a “C” rate which, when negotiated, will be applied to privately sponsored research that is conducted at the CNPRC.

Waivers and Exceptions. All waivers or exceptions must be approved by the Director, Research Administration Office at the Office of the President. Negotiated rates for state agencies are often lower than the full rate and private clinical trials pay a lower rate.

PART II. SOURCES AND USES OF INDIRECT COST RECOVERY FUNDS

A. GENERATION OF INDIRECT COSTS FROM CAMPUS RESEARCH ACTIVITIES

Indirect costs are tracked and managed in three groups based on who sponsors the research: (1) federal, (2) private and local, and (3) state agencies as summarized in figure 1.

Figure 1. UC Davis Direct and Indirect Costs for 2006-07

| | Direct Costs | Indirect Costs Generated ¹ | Effective rate (Indirect/Direct) |
|-------------------|-----------------|---------------------------------------|----------------------------------|
| Federal | \$235.8 million | \$62.2 million | 26% |
| Private and Local | \$81.9 million | \$16.3 million | 20% |
| State | \$66.6 million | \$4.8 million | 7% |
| Total | \$384.3 million | \$83.3 million | 22% |

The effective indirect cost rate is much less than the negotiated rate (currently 52%) for two primary reasons:

1. Not all costs are subject to indirect costs (see section on base cost and modified total direct costs above); and

2. Not all research is charged at the full on-campus organized research rate (e.g., training grants, USDA, state agencies).

How do we compare with other UC campuses?

As shown below in Figure 2, UC Davis generates the 4th highest amount of federal and private indirect cost fund and has experienced the largest percent increase in indirect cost funds generated over the last ten years. The growth is attributable to the increased size of the research program, increases in the campus F&A rate, and improvement in the effective rate (actual indirects as a percent of direct).

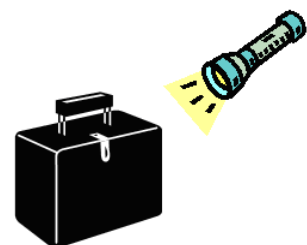
Figure 2. UC Federal, Private and Local Indirect Cost by 2006-07 Amount Generated
 (State Agency indirect costs not included)

| | 1997-98 | 2006-07 | 10-year increase |
|---------------|-----------------------|-----------------------|-----------------------------|
| Los Angeles | \$71.6 million | \$156.9 million | 2.2x |
| San Diego | \$69.9 million | \$146.0 million | 2.1x |
| San Francisco | \$63.8 million | \$146.0 million | 2.2x |
| Davis | \$26.9 million | \$78.5 million | 2.9x (almost triple) |
| Berkeley | \$46.7 million | \$74.4 million | 1.5x |
| Irvine | \$22.4 million | \$55.3 million | 2.5x |
| Santa Barbara | \$16.7 million | \$31.3 million | 1.9x |
| Santa Cruz | \$7.0 million | \$17.5 million | 2.5x |
| Riverside | \$6.1 million | \$14.9 million | 2.5x |
| Merced | None | \$1.25 million | n/a |

Other campuses have better effective rates than Davis. For example, UC San Diego and UC Irvine have effective rates for federal research of 29.4% and 27.8% respectively. In contrast, UC Davis has an effective rate of 26.4% for federal research. Each 1% improvement in the effective rate would generate approximately \$2.4 million dollars.

B. ALLOCATION OF INDIRECT COSTS TO THE CAMPUS FROM THE OFFICE OF THE PRESIDENT

Enter the black box! Indirect costs generated by the campus are transferred annually to the Office of the President (UCOP). A different set of policies and allocation methodologies are applied to each type of indirect cost based on historical practices and formulas. For example, federal indirect costs are separated into four different funds by UCOP and each fund carries different restrictions (see flow chart in Appendix 1).



In recent years, UCOP had adopted a more consistent process that returns 94% of indirect costs beyond some historical base. However, each type of indirect cost relies on a different base year and not all funds are subject to this policy so there is not a simple way to describe these allocations. State contract and grant indirect cost funds are an exception to the “94% policy”. UCOP retains state indirect cost funds as University general fund income so those funds are allocated with other state general funds and cannot be identified as indirect cost funds at the campus level. A new policy implemented in 2007 does return CIRM indirect cost funds to the campus.

The final complication is that the indirect cost allocations for the current year are based on prior year actual activity. The campus allocation from UCOP for 2007-08 (based on actual activity in 2006-07) is displayed in Figure 3.

Figure 3. Indirect Cost Recovery Funds Allocated to the Campus

| | Indirect Costs Generated (from Figure 1) | Indirect Costs Allocated to the Campus | Percent of funds returned to the Campus |
|-------------------|--|--|---|
| Federal | \$62.2 million | \$48.15 million | 77% |
| Private and Local | \$16.3 million | \$13.34 million | 82% |
| State | \$4.8 million | (\$31,300 CIRM) | less than 1% |
| Total | \$83.3 million | \$61.52 million | 74% |

UCOP advises that less than 6% of the indirect costs are retained to support systemwide functions. The balance of the indirect cost funds not directly returned to the campus are combined with other University sources and allocated as state general funds (19900). The campus is not able to distinguish these funds from other general funds.

C. USES OF FUNDS

Policy Regarding Use of Funds. Federal OMB Circular A-21 contains strict rules and what types of indirect costs can be reimbursed; however, A-21 and University policy do not stipulate how the funds should be spent.

Why not? The answer is that the indirect cost recovery is a reimbursement for expenditures already incurred by the campus to support research. A useful analogy is the reimbursement of expenses for business use of a personal automobile by a faculty member. The university reimburses the costs associated with the use of a faculty member’s personal car for business at a standard rate per mile. The university makes no demands about how the faculty member should spend the reimbursement (for example, the faculty member is not required to use the funds only for auto-related expenses). The calculation of the rate for reimbursement is not tied to how the funds must be spent.

D. THE CAMPUS ALLOCATION PROCESS (Enter a dark gray box?)

The campus allocates the funds it receives to support research and other priorities using various methodologies many of which were implemented in 1999. The campus process uses the OP fund designation as a basis for allocation. The portion that is returned to academic departments (department chairs) by the programs described below is about 7-8% of the amount generated by federal research and 15% - 17% of the amount generated by private research. The balance of the funds is used to support a variety of programs as summarized below. And, the Office of Resource Management and Planning publishes an annual report on the sources and uses of ICR funds (Attachment 1).

E. MORE INFORMATION ABOUT USES OF FUNDS

1. *Federal ICR Return Programs.* The Federal ICR funds are returned to the campus as four separate funds: (1) Garamendi, (2) Opportunity Funds, (3) Off-the-top; and (4) UC General Funds (State Share), as shown on Appendix 2.

Garamendi Funds and CNPRC. The campus is allowed to retain 100% of the federal indirect cost funds generated as a result of research in the Center for Comparative Medicine and Genome and Biomedical Sciences Facility to pay debt service, OMP and equipment expenses. Any surplus funds not needed for allowable expenses are treated like all other federal indirect cost funds.

The campus also returns 100% of what it receives from the CNPRC B-Rate because the NIH views the B-rate as program income. CNPRC A-Rate funds are treated like all other federal indirect cost funds.

Opportunity Funds. 25% of the campus allocation of Opportunity Funds is returned to *Department Chairs*. The distribution of the funds is based on the pro-rata share of Federal indirect costs generated by the department.

Off-the-Top funds. 25% of the campus allocation of Off-the-top funds is returned to campus *Deans, Vice Chancellors and campus Librarian*. This allocation is based on the administration components of the F&A rate and the library (see page 1).

UC General Funds (State Share). In 1999-00, UCOP began allocating 94% of the growth of the state share to the campus (growth beyond 1998-99 base). These funds are used for faculty start-up costs and capital costs (facilities renewal and deferred maintenance).

- 2. *Private ICR Return Programs (Education Funds).*** In 2007-08, the campus received 81.75% of the Private ICR generated. The campus allocates 5% to the Office of Research for administrative support of the campus research function including the human subject review process. Another 20% is returned to *Department Chairs* based on the pro-rata share of Private indirect costs generated by the department. [note: All of the private ICR received by the campus from Federal -flow-through (FFT) activity occurring in a Garamendi financed building is returned to the Garamendi program]
- 3. *Permanent Budget or On-going Indirect Cost Allocations.*** The campus has on-going or permanent budgets that directly support research as described below.

Research (equipment) match funds. The campus research match program has a permanent budget of \$3.6 million and is indexed annually based on growth of indirect costs allocated to the campus. The Vice Chancellor for Research administers this fund.

Bridge Program. Each year \$320,000 is allocated to the Vice Chancellor for Research to provide modest bridge funding for principal investigators that meet certain criteria.

Core Research Facility Support. Permanent or ongoing budgets totaling about \$2.5 million have been established for many campus research facilities and programs (see appendix 2).

**UC Davis Contract and Grant Indirect Cost Recovery
 Budgeted Sources of Funds for FY 2007-08¹**

| Federal Contract & Grant Activity | | | | |
|--|-----------------------|------------------------|------------------------------|--|
| | Total Direct Costs | Gross ICR Generated | ICR Returned to Campus | % Returned to Campus by Category |
| Total Direct Costs | \$235,788,000 | | | |
| Federal Indirect Cost Return Funds: | | | | |
| Off-The-Top Overhead Funds | | \$10,596,000 | \$9,960,000 | 94% |
| State General Fund Offset ² | | \$23,457,000 | \$11,210,000 | 48% |
| Opportunity Funds | | \$19,192,000 | \$18,040,000 | 94% |
| Funds for Garamendi Research Facilities ³ | | \$8,937,000 | \$8,937,000 | 100% |
| Total Federal ICR Generated | | \$62,182,000 | \$48,147,000 | 77% |
| Effective Rate ⁴ | | 26% | | |
| Private Contract & Grant Activity | | | | |
| | Total Direct Costs | Gross ICR Generated | ICR Returned to Campus | % Returned to Campus by Category |
| Total Direct Costs | \$81,878,000 | | | |
| Private Indirect Cost Return Funds | | \$15,811,000 | \$12,833,000 | 81% |
| Clinical Drug Trial Receipts | | \$509,000 | \$509,000 | 100% |
| Total Private ICR Generated | | \$16,320,000 | \$13,342,000 | 82% |
| Effective Rate ⁴ | | 20% | | |
| State Contract & Grant Activity | | | | |
| | Total Direct Costs | Gross ICR Generated | ICR Returned to Campus | % Returned to Campus by Category |
| Total Direct Costs | \$66,618,000 | | | |
| State Indirect Cost Return Funds | | \$4,818,000 | \$31,300 | 1% |
| Total State ICR Generated | | \$4,818,000 | \$31,300 | 1% |
| Effective Rate ⁴ | | 7% | | |
| Total ICR FUNDS | \$384,284,000 | \$83,320,000 | \$61,520,300 | 74% |
| Effective Rate ⁴ | | 22% | | |

¹ Budget for current year is based on prior-year activity.

² Effective with the 2001-02 fiscal year, the campus receives 94% of the growth in the state general fund offset component of the federal indirect

³ Campuses receive 100% of Federal ICR generated by projects related to buildings financed by Garamendi funds from the State. These monies are restricted to capital and operating costs associated with the Center for Comparative Medicine and the Genome and Biomedical Sciences Facility.

⁴ The effective ICR rate is the rate of Gross ICR Generated as a percent of Total Direct Costs.

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**UC Davis Contract and Grant Indirect Cost Recovery
 Budgeted Uses of Funds for FY 2007-08**

Campus Sources of ICR Funds

| | |
|--|---------------------|
| ICR Funds Returned to Campus in 2006-07 | \$61,520,300 |
|--|---------------------|

Campus Uses of ICR Funds

| Research Programs and Research Administration | Amount | % of Total |
|---|---------------------|-------------------|
| Campus Indirect Cost Return Programs ¹ | | |
| Federal Program (department chairs) | \$4,874,000 | 8% |
| Private Program (department chairs/Vice Chancellor-Research) | \$4,832,000 | 8% |
| Off-the-Top Indirect Cost Return Program (deans and vice chancellors) | \$2,535,000 | 4% |
| Bridge Program (principal investigators) | \$320,000 | 1% |
| Equipment Match Program (principal investigators) | \$3,586,000 | 6% |
| Faculty Research Grants (principal investigators) | \$1,040,600 | 2% |
| Organized Research Units and Facilities | \$3,707,300 | 6% |
| Research Administration (administrative units) | \$2,308,700 | 4% |
| Total Research and Administration | \$23,203,600 | 38% |
| Faculty Start-Up Cost Sharing² | \$11,125,000 | 18% |
| Graduate Student Support | | |
| GSHIP/Fee Remission/NRT ³ | \$3,602,500 | 6% |
| Graduate Fellowships, Research Awards, Travel Awards | \$1,782,700 | 3% |
| Total Graduate Student Support | \$5,385,200 | 9% |
| Academic and Outreach Programs (various) | \$714,600 | 1% |
| Capital Projects and Debt Service | | |
| Capital Projects ⁴ | \$5,063,500 | 8% |
| Garamendi and CIRM Projects | \$8,968,300 | 15% |
| Debt Service ⁵ | \$5,260,100 | 9% |
| Environmental Management and Deferred Maintenance | \$1,800,000 | 3% |
| Total Campus Debt Service and Capital Project Costs | \$21,091,900 | 34% |
| Total Allocation of ICR Funds to Campus | \$61,520,300 | 100% |

¹ Research administration and campus indirect cost return program funds are allocated as general funds. Includes CNPRC B-Rate.

² Planned allocations to faculty start-up and retention packages. Total central campus commitments for recruitment and retention is estimated to total \$14 million.

³ In 2007/08 the central campus funding for fee remission programs from all fund sources is estimated to total \$17.5 million.

⁴ Indirect cost recovery funds were invested in the following capital projects: Robbins Hall, Advanced Materials Research Laboratory, Watershed Building and Robert Mondavi Institute - Winery and Brewery.

⁵ Debt service for the following facilities are paid with indirect cost recovery funds: Accounting and Financial Services Administration Building, Academic Surge, Neurobiology, Network 21, UC D Net 2 and Veterinary Medical Instructional Facility.

