Indirect Cost Policy Proposal

First Reading

March 18, 2024

Audrey Gavino Parangan-Smith, Co-Director, SF Build
Crystal Kam, Director of Budget & Finance, College of Science & Engineering
Gretchen LeBuhn, Professor of Biology, College of Science and Engineering
Tiffany O'Shaughnessy, Associate Professor of Counseling, College of Health & Social Sciences
John Kim, Interim AVP of Academic Resources
Michael Scott, AVP for the Office of Research and Sponsored Programs
Eugene Sivadas, Dean, Lam Family College of Business

IDC Explained[1]

Sponsored projects have direct and indirect costs. Direct costs are specifically and uniquely attributed to and billed to a particular project or activity and are allowable under the sponsoring organizations' guidelines. Indirect costs are charged to a funder to cover the expenses associated with the facilities and administrative support for a sponsored activity. These costs are also sometimes called facilities and administrative costs "(F&A)" or "overhead."

Most federal agencies and other sponsoring organizations pay the University for indirect costs in addition to the direct costs of a grant or contract award. University indirect costs include building and equipment depreciation and use allowance; general administration; departmental sponsored programs and sponsored project administration expenses; interest; operation and maintenance expenses; library expenses; and student administration and services expenses. Such costs are incurred by the University, irrespective of whether the granting agency reimburses them.

Indirect costs are not profit; instead, they are part of the actual costs of conducting externally funded research activities on the University's premises. By collecting indirect costs from sponsors, the University is recovering these expenses. The federal government has established what costs may be charged as direct and indirect costs.

At some level, sponsored research may be viewed as similar to other self-support activities. The University is not funded to support research that benefits external entities and, therefore, must recover the costs incurred in conducting externally funded projects. The University incurs expenses in administering sponsored projects, from using its personnel to its facilities. However, the importance of RSCA to generating knowledge that brings social and economic benefits to San Francisco, California and globally, in keeping faculty members current in their fields, supporting students and providing a high

[1] This section is taken from the Office of University Research at University of Louisiana Lafayette https://vpresearch.louisiana.edu/pre-award/building-your-budget/direct-costs-vs-indirect-costs

quality education to our undergraduate and graduate students reminds us that it is an essential part of our academic mission.

IDC Distribution Policies

- Academic Resources shall return **25% of IDC to the college where the grant is generated**. However, there are several "fixed costs" that are paid out of IDC. If these financial commitments exceed 75% of total IDC generated, the amount returned to colleges will be pro-rated in subsequent years. These financial commitments include Administration and Finance expenses, ORSP operating and staffing budget, start-up packages for new faculty hires in COSE, operating costs of the SFSU Tiburon Campus, and support for the Estuary and Ocean Science Center. Academic resources and ORSP will consult with the University Research, Scholarship and Creative Activities Council of the Academic Senate before agreeing to new financial commitments.

- ORSP shall create a reserve fund equivalent to 20 percent of IDC generated to better weather variations in grant activity. Funds from this reserve will be controlled by the AVP of Research and Sponsored Programs and may only be spent to support the research mission of the University. If the reserve fund exceeds the 20 percent threshold, a committee shall be appointed by the Provost or designee to examine how best to utilize the excess reserves.

- Each College shall publish a clear policy for how IDC is shared back to the Department. At present, the College policies are:

College	College Split Policy	Comments
LCA	College retains 100% IDC	Uses it to offset research expenses for new faculty and support faculty research. It also gives up IDC to cost-share in low-IDC grants.
GCOE	College retains 25 percent and gives 75 percent to the Department	Departments may give it back to the faculty.
CHSS	College retains 25 percent and gives 75 percent to the Department	
COSE	College and Department split 50-50.	In the Dean's Office, we use it to support faculty start-up packages and address equipment and infrastructure problems. The departments use these funds at their discretion but mainly support research efforts.

LFCoB	College gives 100% to the Department.	Minimal grant-seeking activity. Very small amounts are generated in IDC.
COES	College retains 100% IDC.	Only small amounts are generated in IDC and used it for faculty professional development.

- In Colleges where per college policy, departments receive a portion of the IDC allocated to the College, the College must publish how IDC funds are shared with Departments and how any funds retained at the College are spent.
- In turn, each Department that receives an IDC allocation must publicly publish how the Department distributes IDC funds, including the Department fully retaining the funds, the Department sharing the funds with PI's, or other strategies.
- How IDC funds are distributed should be reviewed annually by the faculty in the Colleges and Departments. In making decisions about how to utilize IDC, Departments and Colleges must ensure that funds are available to cover the cost of items that are needed for grant-funded projects and that the University pays for expenses of grant-funded projects that the granting agency expects the University to support.
- While the policy does not mandate a set percent of IDC go back to the PI, we strongly recommend that departments incentivize PIs by sharing a suitable and appropriate amount of IDC with the PI. Departments shall craft a policy on PI share, and ensure that all current and new PIs are aware of the policy.

<u>Increasing Transparency</u>

- By the end of the fall semester, Academic Resources website will report the amount of IDC generated by each college, and a detailed report on how IDC retained at Academic Resources and ORSP was spent during the previous fiscal year.

- By the end of the fall semester, each College must publish an annual report posted on the ORSP website reporting how much IDC they received and a detailed report on how it was spent.

- By the end of the fall semester, In Colleges where IDC is shared with Departments, department chairs are required to submit an annual report to the faculty reporting the amount of IDC received and a detailed report on how it was spent. These reports should be reviewed annually with the faculty in the department and any relevant staff who manage grants.

<u>Reserves and Carryforwards</u>

University IDC

- IDC revenue collected by the University in an upcoming fiscal year cannot be predicted with great accuracy. This affects planning for the fiscal year in at least two ways: (a) annual budgets must be allocated without knowing whether annual IDC revenue will be sufficient to cover those budget allocations, and (b) annual spending of IDC may under- or over-estimate the amount of annual IDC revenue. In addition to regular monitoring of IDC spending and IDC revenue during the fiscal year, the following measures shall be enacted:

- When possible, a central reserve in the amount of 20% of the previous fiscal year's IDC revenue will be set aside as a reserve for the current fiscal year. The purpose of this reserve is to ensure that the IDC fund will not end the fiscal year in deficit, under the assumption that IDC revenue for any fiscal year will be at least 80% of the IDC revenue from the previous fiscal year. If there is reason to expect that IDC will increase significantly each year, the central reserve may be reduced to as little as 10%. If there is reason to expect that IDC will decrease significantly in a given year, the central reserve may be increased to as much as 30%.

- IDC revenue will be monitored quarterly. If at midyear it is determined that there will be more than 20% of the current year's reserve remaining at the end of the year, the reserve will be allocated according to the IDC distribution policies outlined in this policy.

Unit Specific IDC

- Any unit that receives an IDC distribution can carryforward 10% of its IDC allocation to the following fiscal year without justification. This rule shall not apply if total IDC allocation is less than $10,000.

- For any amount of carryforward greater than 10%, the relevant unit must write a justification for the use of that part of the carryforward over the course of the next 3 years.

- Colleges are asked to set aside 10 percent of their total carryforward IDC funds in an equipment maintenance account so that such funds can help with RSCA related equipment maintenance. Colleges that do not have any equipment to maintain are exempt from this requirement. The expectation is that the full 10% will be spent each year maintaining and updating research equipment and a report of the spending of the previous year's equipment maintenance account will be made available on the college's website at the beginning of each fall semester.

These policies should be reviewed every 3 years by the University Budget Committee.