University Budget Committee
Jeff Wilson, CFO & VP, Co-Chair
Amy Sueyoshi, Provost & VP, Co-Chair
UBC webpage: https://adminfin.sfsu.edu/ubc
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MEMORANDUM

DATE: July 22, 2024

TO: President Lynn Mahoney LM

FROM: Jeff Wilson, CFO & Vice President, UBC co-chair JW
Amy Sueyoshi, Provost & Vice President, UBC co-chair AS

SUBJECT: **UBC recommendation of the Indirect Cost Policy**

On behalf of the University Budget Committee (UBC), attached is the proposed Indirect Cost (IDC) Policy, as approved by UBC members at the May 16, 2024 meeting.

UBC members recommend this policy for approval.

Encl.: Indirect Cost Policy NG

cc: UBC coordinator
Office of the President LM

Distributed to CFO & VP Office, Provost & VP Office, Academic Resources, ORSP, UBC website

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Indirect Cost Policy

May 16, 2024

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

Policy Background

In May 2021, SF State's Academic Senate passed a "Resolution on the Transparency in Recovery and Allocation of Indirect Cost" (RS21-422), calling for "a taskforce of stakeholders to be convened to review the current Indirect Cost (IDC) allocation policy and consider if revisions should be recommended," and further "calling on the University Budget Committee (UBC) to include IDC recovery and allocation policy as a budget literacy learning objective." The Workgroup was expected to review the University's current policies and practices around IDC collection and allocation, alongside federal regulations relating to IDC and best practices from peer institutions, and propose recommendations for change if warranted. That workgroup completed its work in August 2022 and came up with a set of recommendations. The current workgroup was tasked with creating a set of policy recommendations that could be adopted by the University.

IDC Explained

Sponsored projects have direct and indirect costs. Direct costs are specifically and uniquely attributed to and billed to a particular project or activity such as faculty time spent on the project 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. The terms indirect costs, overhead costs, and facilities and administrative (F&A) costs are synonymous.

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.

The University incurs expenses in administering sponsored projects, from using its personnel to its facilities. However, the importance of Research, Scholarship, and Creative Activities (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-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 or unit where the grant is generated**. It is the current practice at SF State to return 25 percent of IDC generated back to the unit or college where it was generated. IDC rates on funded projects can range from 0 to 55 percent as of April, 2024. Many universities only return IDC to colleges or units for projects where IDC rates are above a certain threshold. The committee decided against recommending a higher IDC return percentage as universities that do so, only return IDC for projects charging a certain minimum IDC threshold rate. We also decided against recommending a lower IDC return rate due to various factors including the funding model at our university and to highlight that RSCA is valued at SF State. There are several fixed costs paid out of the 75 percent retained by academic affairs. These include a) a flat sum paid annually to A&F for administrative and some facility expenses; b) ORSP operating expenses including small grants funding for faculty; c) the salary and benefits of one ORSP staff member; d) CoSE new faculty start-up packages; and e) supplementing IDC returns to the Estuary and Ocean Science Center in years when their IDC return falls below the operating costs of the Romberg Tiburon Campus. If these financial commitments exceed 75% of total IDC generated (the amount retained by Academic Resources), the amount returned to colleges will be pro-rated in subsequent years.

- Academic resources and ORSP will consult with the University Research, Scholarship and Creative Activities Council of the Academic Senate before agreeing to new permanent financial commitments from IDC Funds.

- 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.

- Each College shall publish a clear policy for how IDC is shared back to the Department. The policies followed by the colleges at present are outlined in Appendix 1.

- 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 other units and how any funds retained at the College are spent.
- In turn, each Department or unit that receives an IDC allocation must publish how the Department or unit distributes IDC funds and the amount of funds it chose not to spend.

- How IDC funds are distributed should be reviewed annually by the faculty in the Colleges and Departments or units. Units, Departments and Colleges should 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.

- Many universities do share or give a portion of the IDC to the PI who generated the grant. This is an acknowledgment of the effort the PI put in to obtain the grant and to ensure that they have an infrastructure in place to successfully complete the project and incentivize them to seek further grants. We have to be mindful that there is no incentive pay in the CSU system. At the same time PIs need to recognize that IDC is a reimbursement of cost to the university and they are not entitled to the IDC generated. While the policy does not mandate a set percent of IDC go back to the PI, we ask that each department discuss whether they want to allocate a portion of the IDC to the grant generators. Each department shall individually discuss this issue at a departmental meeting and craft a policy on PI share, and ensure that all current and new PIs are aware of the policy adopted by the department.

Increasing Transparency

- By the end of the fall semester, ORSP 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 college 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 or units, department chairs and unit heads are required to submit an annual report to the faculty reporting the amount of IDC received and broadly outline how it was spent. Departments and units may chose to implement this specific policy in Fall 2024 or wait one year to implement this policy.

Reserves and Carryforwards

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. This factor and other emergencies such as unanticipated equipment failure may necessitate the need for reserves. 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%.

Unit Specific IDC

- Any unit that receives an IDC distribution can carryforward 20% of its IDC allocation to the following fiscal year without justification. (Note: If the total IDC allocation to a unit is less than $10,000, there are no restrictions on the carryforward).

- For any amount of carryforward greater than 20%, the relevant unit must write a justification for the use of that part of the carryforward over the course of the next 3 years.

This policy should be reviewed every 3 years by the University Budget Committee.

APPENDIX 1

SF State College IDC Policies

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	Specifically, units utilize 75% of the 25% for faculty travel and OE (Operating Expenses), while the College allocates 25% of the 25% for new faculty professional development and staff professional development.
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 are used for faculty professional development.