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COMMITTEE ON BUDGET AND RESOURCE ALLOCATION

23-24 COBRA 14
April 10, 2024

TO: The Academic Senate

FROM: Committee on Budget and Resource Allocation (COBRA)

SUBJECT: 23-24 COBRA 14: IDC Recovery

PURPOSE: For Information to the Academic Senate

BACKGROUND INFORMATION:
Chandra Khan, AVP ORSP came to COBRA to provide information on IDC Recovery costs on March 27th 2024. Deputy Provost Hernandez also presented data on IDC Recovery Costs at the meeting.

ACTION REQUESTED:
For Information to the Academic Senate.

Presentations by AVP Chandra Khan and Deputy Provost Hernandez on IDC Recovery Costs

Chandra Khan, AVP Office of Research and Sponsored Projects joined the COBRA meeting on March 27th and provided an overview of IDC Recovery Costs. This was supplemented with a presentation from Deputy Provost Hernandez on IDC Recovery Cost data. The slide presentation for AVP Khan is linked here and the relevant slide# referenced in the report and the presentation for Deputy Provost Hernandez is linked here and reference to the relevant slide noted in the report..

AVP Khan first provided an overview of ORSP and noted that the office is focused on faculty and student success through research, scholarly, and creative activities. Research refers to all disciplines and every kind of research. AVP Khan next listed all the personnel in ORSP (see Slide#3) and described how since her arrival she had established a new unit with ORSP around pre-award to post award. There are two Faculty Fellows (Drs. Kashinath and Helgren) who help faculty with the development of their research and scholarship. In addition, Hanover Research provide support on grant applications. The staff in ORSP work with faculty to align grant applications with calls for proposals and help with the submission process. There is a considerable amount of work needed when a grant is awarded that requires working with other units on campus such as procurement, accounting, and administration and finance. Dr. Jennifer Sherwood is the Director of the Center for Student Research to engage students in the research process and connect them with faculty.

Having outlined the ORSP team, AVP Khan next provided an overview of the level of extramural funding (see Slide#4). On joining the university AVP Khan set a goal of bringing in new awards in the $25M range in 5-years – this goal has been met within 2-years. As of the time of the presentation, ORSP is seeing new awards nearing $29M and this may increase before the end of the fiscal year. Last year awards totaled $27M. From 2018 – 2022 new awards have increased from $15M - $27M. Currently there are 127 active extramural grants with a grant or contract portfolio of $71M – a record for the campus. AVP Khan highlighted that many units on campus are directly and indirectly responsible for this increase.

Slide#5 provides an overview of what IDC recovery costs are. Basically, they are the funds needed to reimburse the university for the expenses it incurs in supporting the grants received from external agencies. As a grant submission is created, the budget will include the costs associated with the expenses the university incurs. Currently, the negotiated Federal rate is 47.5% (e.g., on NIH and NSF grants). Side#5 illustrates how a budget might be crafted – the direct costs are first calculated and then the 47.5% IDC rate applied to that total. Slide#6 provides a summary of the IDC recovery costs for fiscal years 2020 to 2023. These have increased year-on-year and are on target to do so this year. Slide#6 also shows the "effective IDC rate" which is the rate based on the total amount of grant funding relative to the total of indirect costs recovered. This is around 10% and hasn't moved much in the past 4-years. The explanation is that the IDC recovery rate varies based on the funding agency. Many of the grants we receive have low IDC recovery rates (0 – 15% range). For example, scholarship grants typically do not come with IDC.

With grants that generate IDC the question arises as to how those funds are used. AVP Khan has established an Advisory Committee to make this determination and the committee has wide campus representation (see Slide#7). The committee established a pilot program that had IDCs redistributed the IDC surplus ($415K from FY21-22) to PIs, Colleges, AA, and ORSP with a 25% ratio to each entity. ORSP used $100K of their redistribution to Administration and Finance for enhanced grant support.

AVP Khan turned the presentation over to Deputy Provost Hernandez to provide more detail on the financials. Deputy Provost Hernandez noted that in his long history with COBRA this was the first time there has been a conversation about IDCs. This is a welcome opportunity to provide some transparency around IDC recovery costs. Deputy Provost Hernandez drew a parallel between the larger question around when a university goes broke with the same question at a unit level – in this case ORSP and how it's reserves are built. Before elaborating on this, some background information was provided to give context (see slide#3).

ORSP is state-side and is part of the larger operating fund (Fund 485) that encompasses all EB funds. The data that is presented represent actual values with a positive value denoting expenditures and a negative value denoting revenue or balance available. At one time, the grants and contracts were under the Foundation but a decision by Administration and Finance to better capture these financials moved the funds from Foundation accounts (W0999) to the larger general operating fund. As presented by AVP Khan, IDCs are the funds from grants that are to cover the university's costs in administering a grant or contract. The data to be presented shows how these recovered costs play into the bigger financial picture.

Slide#4 addresses that prior to 2018 all ORSP all expenditures were expected to be covered by cost recovery whether pre-award or post-award. In 2018 Deputy Provost Hernandez made the decision to move the pre-award expenditures to the general revenue budget which was consistent with how many other CSUs operated with respect to grants. Slide#5 provides a history of ORSP expenses to cost recovery and the key point to note is that between 2015 and 2018 expenditures outstripped cost recovery (NB. negative values reflect a positive balance) – noted as deficit spending on the slide. After 2019 the balance returns to a surplus and this aligns with the change in accounting noted. This is because, as shown in Slide#6, ORSP has other funds beyond cost recovery that include reserves and other revenue streams that provide a fuller picture of operating costs. Looking at this wider picture the balance available has continued to grow through the combination of revenue, reserves, and cost recovery (see Slide#7). Utilizing PaCE funds, AA was able to support reinvestment in scholarly and creative activities through the Faculty Workload Program and between 2018 - 2021 increase the pool of funds for Faculty Support Grants (see Slide#8).

Slide#9 provides a summary of ORSP expenditures from the primary fund accounts and the total costs involved in running ORSP. Total expenditures were consistent between 2014 to 2021 at

around $1.2M. Key is the balance available at end of year as this becomes the reserve for the next fiscal year – if revenue and cost recovery cover costs (see Slide#11 for an example). If they don't then we need to use reserves as happened in past years when the fund was depleted (2018 as noted on Slide#11). An important question, and one that translate to the overall university budget, is how much needs to be held in reserves to ensure the unit can operate? Using a reserve of 6-months of operating costs as a benchmark, if expenditures run around $1.4M annually then the reserve needs to be around $700K (see Slide#10). Building reserves (see Slide#12) is key to being able to maintain operations if revenues decline and avoiding getting into deficit spending. As shown in Slide#13, the majority of ORSP expenditures, like most AA units, is on personnel although this balance has shifted over the years and currently sits at around 70% for personnel and 30% for operations. This shift is related to changing the accounting mode in 2018 as described above. Slide#14 provides a more detailed breakdown on the categories of spending for personnel and operations.