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OFFICE OF THE FACULTY SENATE
105 HAMPSHIRE HOUSE**

To: John V. Lombardi, Chancellor
University of Massachusetts Amherst

Date: 5 May 2004

From: David Ostendorf, Chair
Research Council of the Faculty Senate

Subject: Recommended Indirect Research Cost Recovery and “Redistribution” Policy

Summary

The Research Council of the Faculty Senate recommends that **the Indirect Cost rate on State sponsored research should be increased from its present rate of 10% to 15% of the Total Direct Cost.** While we understand that revenues are decoupled from expenses, the Council suggests that Awards, and Direct and Indirect Costs provide a baseline for some recoverable administrative costs of Campus research:

- The Office of Grant and Contract Administration budget should be proportional to the **three year running average of awards for the last three years.**
- The Grant and Contract Accounting Department budget should be proportional to the **total expenditures for the prior fiscal year.**
- Principal Investigators should continue to receive **10% of the Indirect Costs** they generate.
- Departments should continue to receive **10% of the Indirect Costs** they generate.
- Colleges should continue to receive **at least 10% of the Indirect Costs** they generate.

The Council also recommends the establishment of an **Internal Research Program**, whose budget is 20% of the Indirect Costs generated by the Campus research community. The Internal Research Program should be comprised of the following **four elements**:

- A Faculty Research Grant Program with a budget equal to 2% of the Indirect Costs.
- A Conti Fellowship Program with a budget equal to 1% of the Indirect Costs.
- An Equipment Matching Program with a budget equal to 9% of the Indirect Costs.
- An Interdisciplinary Research Program with a budget equal to 8% of the Indirect Costs.

We remind the PIs, Department Heads, and Deans that none of these elements are recoverable as Indirect Costs in the US Department of Health and Human Services (DHHS) negotiations with Whitmore, and labeling them as a “redistribution” of Indirect Costs is a misnomer. Though the size of the Internal Research Program is 20% of the Indirect Costs, it is funded internally by the University, and adds to graduate student tuition waivers, academic release time, and unrecovered Indirect Costs as Campus investments in research.

A **third memo** will discuss the administration of the Internal Research Research Program by Whitmore and the Colleges.

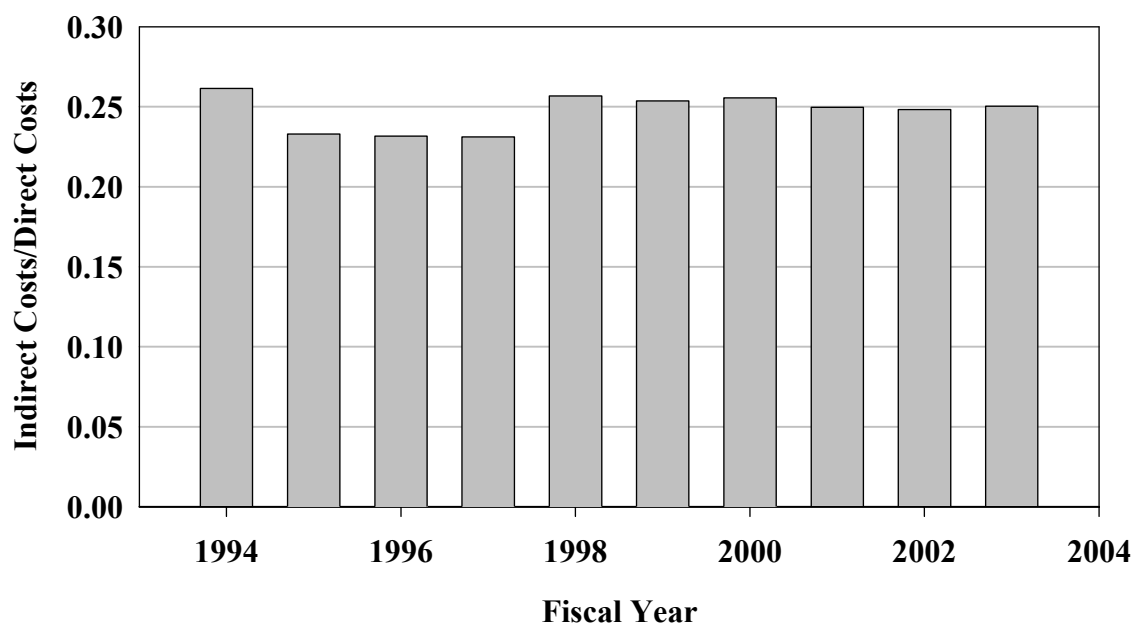


Figure 1 - Annual Indirect to Direct Expenditure Ratio

Annual Report, ORA

Introduction

The Research Council appreciates the chance to contribute to ongoing discussions about the funding and administration of research on Campus as part of its charge to advance the research mission of the University. In response to this charge, the Indirect Research Cost Recovery and “Redistribution” Policy is the second of three Policies the Council is considering this year. The first, a Direct Research Cost Recovery Policy, was sent to you on 5 March 2004. The third Policy will address the administration of the Internal Research Program and discuss decentralized (College) vs centralized (Whitmore) administration of research. **We intend to issue the administrative Policy memo to you in June**, completing our work on Research Cost Recovery Policy for this Academic year.

The Research Policy Committee prepared a preliminary draft Indirect Research Cost Recovery and “Redistribution” Policy for review and comment by the Research Council in April 2004. The revised draft Policy was issued electronically by the Office of Research Affairs to the Principal Investigators and Department Heads across the Campus for their comment. Today’s recommended Indirect Research Cost Recovery and “Redistribution” Policy accordingly reflects valuable feedback from the research community. In an attempt to continue the conversation on an informed basis, we forward this memo to the PIs and Heads.

Indirect Cost Recovery Policy

The Council understands that the University negotiated a benchmark Indirect Cost rate of 55% with DHHS in 2001. Figure 1 displays the ratio of indirect to direct expenditures for the

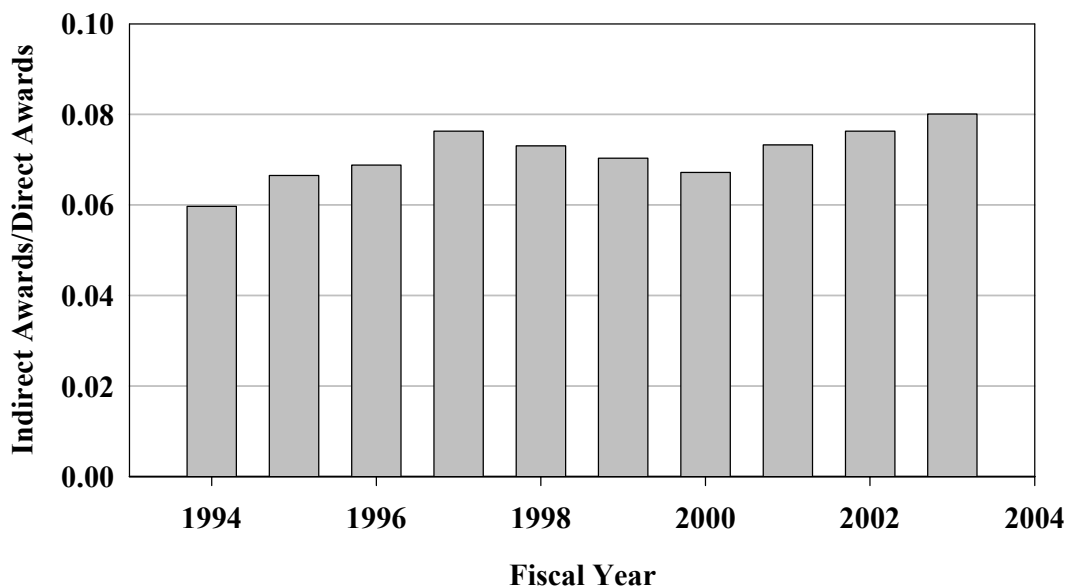


Figure 2 - Annual Indirect to Direct State Awards, 3 Year Running Average

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past 10 fiscal years. These data suggest a fairly stable actual Indirect Cost Recovery rate of 25%, substantially less than the negotiated 55%. While we regard this 30% unrecovered Indirect Cost percentage as a wise investment in Campus research, it seems a more justifiable starting point for additional recovery efforts by Whitmore than such Direct Cost measures as a Graduate Student Curriculum Fee.

In this spirit then, State funded research is the most likely candidate for a revised Indirect Cost rate, because it is currently charged at 10%. Figure 2 displays the ratio of indirect to direct awards (based on a 3 year running average) for State sponsored research over the last 10 years. The effective Indirect Cost rate for State sponsored research is less than 8%, indicating a substantial investment by the Campus that enables our PIs to conduct this research with little overhead. The Campus, by assuming the administrative burden for State funded research, serves our sister agencies and the Commonwealth taxpayers by offering more Direct Cost research for the dollar. This efficiency enables the Campus research community to outcompete our higher profile academic rivals for State research. Figure 3 demonstrates an excellent return on this Campus investment; State awards have tripled over the last ten years, rising from 3 to 10 million dollars. The current performance is particularly impressive due to recent budgetary stresses in the Commonwealth. The current awards are 10% of the Campus FY03 award total of \$103 million, the awards were 5% of the FY94 total: an appreciable part of the research growth is State sponsored.

The Council recognizes, however, that State sponsored research is heavily subsidized by Whitmore, and offers a modest change (10 to 15%) to the Indirect Cost rate as a consequence. We hope that this change will not jeopardize this current productivity of this sector of the Campus research community, nor undermine the valuable service provided to our sister State

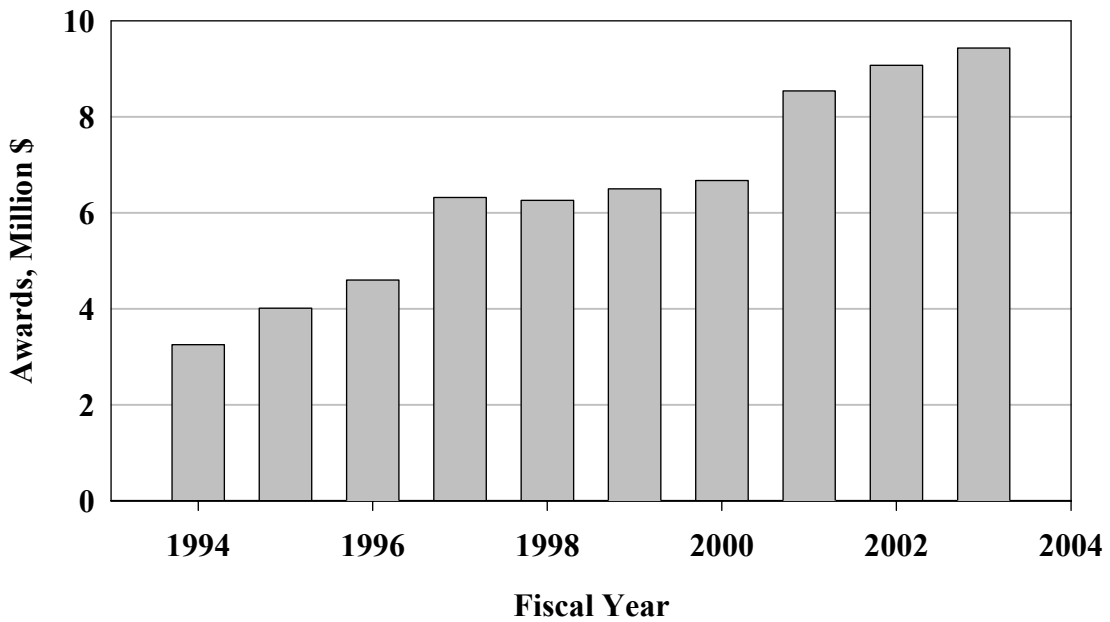


Figure 3 - Annual State Awards, 3 Year Running Average

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agencies. **The Council reserves the right to recommend a return to the 10% rate if the amount of new State awards declines.** We do not wish to recommend a policy that lowers the total annual research expenditures of the Campus. Money matters to the Council.

Administrative Costs of Research

The Research Council identifies the Office of Grant and Contract Administration and the Grant and Contract Accounting Department as essential and central administrative functions for every research dollar on Campus. Accordingly growth in research should be accompanied by budgetary growth in these central administrative offices. **OGCA negotiates new awards, and its budget should be proportional to the 3 year running average of these awards.** The FY04 OGCA budget of \$950,000 is 1% of the FY01-FY03 new award average of \$95.4 million. **The Grant and Contract Accounting Department manages the expenditures of the research community, and its budget should be proportional to the annual expenditures.** The FY04 GCAD budget of \$600,000 is 0.7% of the FY03 expenditures of \$90.9 million. The Council feels that these proportionalities will ensure continuing fiscal and administrative management of the research at high levels of efficiency.

The Research Council recommends the continued practice of a return of 10% of the Indirect Costs to the Principal Investigators and a 10% return of the Indirect Costs to the Departments. We recommend at least a 10% return of the Indirect Costs to the Deans. The Council notes that these administrative costs are recoverable in negotiations with the US Department of Health and Human Services, although our recommended “redistribution” amounts are larger than those agreed to by the DHHS. We remind the research community that much of the 10% IDC returns supports research from internal Campus funds. These administrative

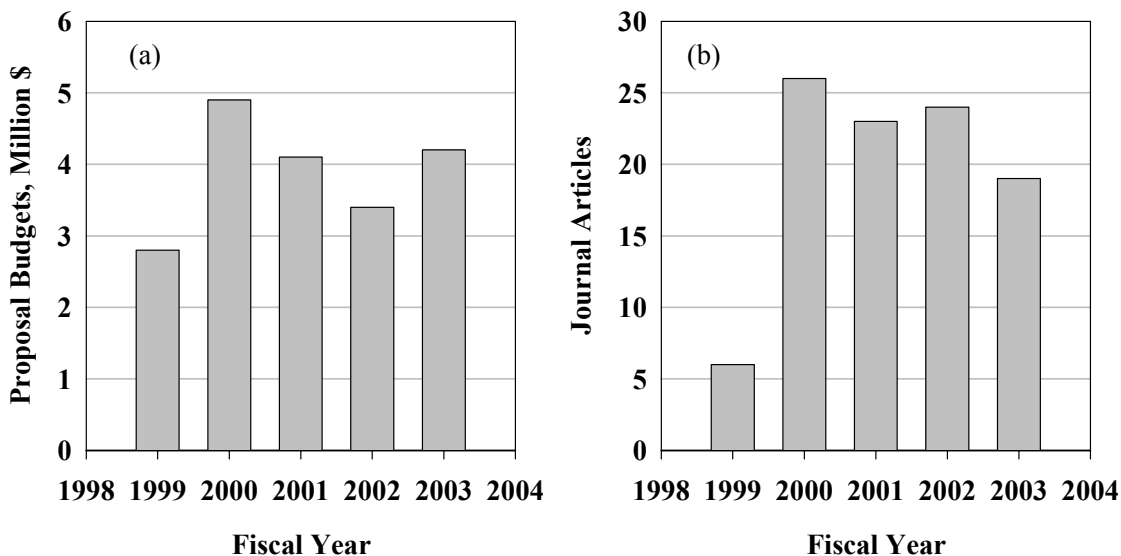


Figure 4 - FRG Deliverables: (a) External Proposal Budgets, (b) Journal Articles

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“redistributions” have been profitably reinvested by the PIs, Heads, and Deans into their research programs, stimulating further growth of the enterprise. We see no reason to change this successful decentralized investment of Campus resources.

Internal Research Program

The Research Council recommends establishment of an Internal Research Program consisting of a Faculty Research Grant Program, a Conti Fellowship Program, an Equipment Matching Program, and an Interdisciplinary Research Program. The first two elements are small research initiatives aimed at expanding the number of tenure system PIs in the research community, while the latter two address big research initiatives to increase the total annual research expenditures of the Campus. All four consequently advance the University research mission. We defer a recommended administration of the Internal Research Program to a third memo. **Since the third memo may recommend College control of some elements of the Internal Research Program, the Deans’ “redistribution” may exceed their 10% administrative percentage.**

We recommend resumption of the Faculty Research Grant Program at a level equal to 2% of the Indirect Cost base. The FY03 IDC total of \$18.3 million would yield an FRG Program budget of \$370,000, comparable to traditional funding levels. Each year, the FRG Program has helped about 20 new faculty from all the Colleges seed their research with up to \$20,000 awards. This additional support is particularly important to those Departments currently developing their research efforts, so the FRG Program responds to the Council’s desire to broaden the number of tenure system PIs across the Colleges. The Office of Research Affairs tracks follow on external proposal dollars and journal articles as part of the Program outcomes, with typical results shown in Figure 4. The Program generates ten times more proposal dollars than it costs, and yields scholarly research for a modest investment.

The Research Council recommends the institution of the Conti Fellowship Program at a level equal to 1% of the Indirect Cost base. The FY03 IDC total would yield a \$183,000 budget for three Conti Fellows. Each Conti Fellow would receive a \$5,000 award and a year's leave of absence. The remaining funds (\$56,000 per Fellow) would be awarded to the Department of each Fellow, to help replace her teaching load. The Council suggests that the prior practice of an underfunded teaching release, while honoring the Faculty researcher and stimulating her scholarly activity, penalizes the Department by undermining its curriculum. A properly funded Conti Fellows Program would be a fitting capstone to the many ways in which this Campus supports research from its internal resources. The Council believes this inclusive recognition of research excellence across all the Colleges would unite and strengthen the research community.

The last two elements of the Internal Research Program clearly foster big research initiatives and need little justification from the Council. We note that Whitmore has been reliable and forward looking in its support of equipment matching requirements by the PIs. The recommended **Equipment Matching Program fraction of 9%** would generate a \$1.6 million investment comparable to the current Campus practice. **The Research Council recommends that an Interdisciplinary Research Program, with a budget of 8% of the Indirect Costs, be included in the Internal Research Program.** The FY03 IDC total would fund the Interdisciplinary Research Program at \$1.5 million. The Council points to the new NSF Engineering Research Center as a recent successful example of the investment level and fruits of interdisciplinary initiatives on Campus. We interviewed the lead PI, Head, and Dean associated with the Center, and estimate that development of the proposal required an investment of \$500,000 of internal resources from Department, College, and Whitmore sources. The Council suggests that no Department or College can sustain this level of risk alone, and offers the Interdisciplinary Research Program as a central source for proposal development, to be drawn upon by the Heads and Deans. We suggest that the 8% fraction would support a credible Campus response to at least three concurrent major interdisciplinary initiatives. **Since Whitmore assumes all the risk, we argue that a successful interdisciplinary grant issuing from the Program has no claim to its overhead other than the 10% PI, 10% Departmental, and 10% College administrative charges.** Rather, the remaining grant overhead should help fund future (not current) interdisciplinary initiatives.

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