

OFFICE OF THE PROVOST
AND VICE CHANCELLOR FOR ACADEMIC AFFAIRS

INDIRECT COST RECOVERY SUBCOMMITTEE

FINAL REPORT

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ILLINOIS
UNIVERSITY OF ILLINOIS AT URBANA-CHAMPAIGN

OFFICE OF THE PROVOST
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The ICR subcommittee included the following members:

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Ruth Watkins, Co-Chair
Harris Lewin
Steve Zimmerman
Barbara Minsker
Edward McAuley
Steve Anderson
Melanie Loots
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Thom Dunning
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Executive Summary

The University of Illinois model of distributing ICR has been effective in enhancing research activity and success. Yet, this model is now difficult to sustain, primarily due to the inadequacy of available ICR to cover both the costs associated with research and the costs associated with recruitment and retention. In addition, tensions between institutes and departments regarding ICR distribution have emerged. In response to these and other pressing concerns, the ICR subcommittee (a) identified and discussed issues related to ICR, (b) developed principles that should guide the distribution of ICR, and (c) proposed a model (“Shared Success” model) designed to address some of the concerns related to the present approach to ICR distribution.

Significant Issues Related to Indirect Cost Recovery

A number of concerns were discussed related to indirect cost recovery (ICR) on campus. Many of the issues relate to ICR distribution; other concerns are linked to the use and application of ICR funds. These issues provided important context for the committee’s discussions and recommendations.

1. Rising costs of recruitment, retention, and infrastructure remodeling
 - One of the most pressing concerns related to ICR, expressed by department heads and other leaders, is the use of ICR to fund faculty research start up and retention packages, areas in which costs are rapidly increasing. In addition, ICR funds are also used for lab and infrastructure remodeling needs, which are significant given the aging state of many campus laboratories. Academic units have virtually no sources of flexible funds that can be applied to start up, retention, and remodeling costs, other than ICR. It is clear that ICR funds are inadequate to address these needs, and the heavy use of ICR as a vehicle for start up costs is not optimal, given that the primary purpose of ICR is supporting research infrastructure needs. Over time, additional sources of start up and retention funds must be identified and secured, in order to reduce the burden on ICR.

2. Increased research infrastructure costs

- The primary function of ICR is to defray cost to the institution associated with conducting research. As compliance and regulatory demands have increased, so has the cost of ensuring adequate research infrastructure, particularly in areas such as animal care, health and safety, and IRB/protection of human subjects. In addition, costs of other elements of research infrastructure, such as utilities, library resources, and facilities/services have rapidly increased.
- The campus has a culture of viewing ICR as “new revenue”, rather than recognizing ICR as designated to cover costs associated with conducting research. As we disperse ICR to academic units, and as ICR is used to support activities other than research costs, we must use institutional funds (state or tuition resources) to support ongoing research expenditures. Historically, UIUC has invested in research in order to promote productivity and creativity in scholarship, and this investment has facilitated UIUC’s leadership in research and innovation. Yet, we are spending more on research than we are garnering, and, at present, there is no source of funds to address this disparity.
- The current model of ICR distribution has been effective in promoting research innovation and success; yet, this model is no longer sustainable. Care should be taken to ensure that any new model of ICR distribution maintains or expands positive effects on research productivity and creativity. Overall, the committee supports a model of ICR distribution that utilizes a greater proportion of indirect cost recovery funds to support research infrastructure expenses, thereby reducing reliance on campus funds to cover the costs associated with research operations. Moving toward this model, over time, is possible to the extent that new resources are available for start-up, retention, and remodeling needs, as summarized above. Even if such a model becomes feasible, some core research services will continue to need to be funded, at least in part, with funds other than ICR, to ensure the sustainability of base services (e.g., the Biotechnology Center). Services such as this benefit units across campus and are a part of the core campus infrastructure.

3. Tension between academic units and institutes

- The current model of ICR distribution creates a context that can foster tension between academic units (departments and colleges) and institutes regarding grant management and access to ICR resources. Some academic units (departments and colleges) express concern when faculty members participate in institutes and/or manage grants through institutes, given that academic units are often responsible for the initial cost of recruiting faculty members, and for creating the conditions that foster faculty members’ initial research success. As campus resources have become more constrained, ICR is used in units to cover a variety of essential expenses. The importance of ICR in departmental finances can unintentionally create conditions in which academic units discourage faculty participation in institute-managed projects.
- As a large institute with a long history on campus, the Beckman Institute provides an informative example of faculty grant activity and associated ICR distribution. An analysis of Beckman Institute faculty grant activity and ICR generation revealed that the faculty members who are active Beckman Institute participants are managing a majority

of their grants, as determined by earned ICR, through their home academic units, and, thus, are contributing to ICR generation in both the Beckman Institute and the home academic unit (see appendix for complete analysis, with data on ICR earnings and distribution). Yet, the perception exists that academic units can be disadvantaged, in terms of access to ICR resources, when departmental faculty members are also active researchers affiliated with institutes such as the Beckman Institute.

- It is important to acknowledge that institutes are vital in our institutional culture, existing and evolving in order to facilitate the interdisciplinary scholarship that enables success in external funding on a scale and scope that would not be possible without an institute structure. Adapting ICR practices to support and sustain the success of both traditional, durable academic units and more flexible, evolving institutes is critical.

4. Permanent allocations of ICR

- The existing model of ICR distribution is complex and difficult to both understand and explain. The model is incremental insofar as the distributions are based on three periods that encompass historical allocations (through FY98), budget reform (FY99 to FY04), and an adjustment for the funding of the OVCR compliance activities (since FY04) (see attached figure). There are a number of permanent/historic allocations of ICR to units that are relevant for research infrastructure, such as allocations to the University Library and Facilities and Services. These allocations are critical to the operations of the campus and cannot be immediately changed. The new model of ICR distribution will need to consider these permanent/historic allocations. If changes in the permanent allocation model are considered, they must be phased in over time.
- The existing model also allocates ICR to academic units based on both historic earnings and on incremental growth in ICR earnings since FY98. Again, units have become dependent on historical allocations and would have great difficulty if these allocations were immediately shifted. At the least, some level of historic allocations will have to be maintained in the new model or the changes must be phased in over time.

5. Accounting complexity and lack of transparency

- The existing model of ICR distribution lacks transparency, particularly when providing the historical context of permanent allocations and distribution of incremental ICR (see attached figure). As a new model of ICR distribution is developed, the opportunity exists to (a) enhance clarity and transparency and (b) simplify accounting practices, while maintaining appropriate distribution of ICR resources in a manner that enhances research strength and excellence.

6. Incomplete recovery of ICR

- The negotiated campus ICR rate is 53%, yet the average ICR recovery rate is 37% (44% for federal grants, 22% for private, and 9.2% for state; see attached reports from the OVCR and WAG). Some granting agencies, such as the U.S. Department of Agriculture, mandate an ICR rate significantly lower than the campus level of 53%. The WAG report recognized that we are waiving significant amounts of ICR revenue. The OVCR estimates foregone ICR revenue of approximately \$20M per year. This is particularly problematic in collaborations with corporate and foundation partners. Again, ICR that is not

recovered requires that the institution pay for a significant portion of our research infrastructure through campus resources. The new ICR model should maximize ICR recovery to the greatest extent possible through the following principles:

- Unless mandated by published agency requirements, require full ICR rate
- Expand ICR recovery in corporate and foundation efforts, to the extent possible
- The subcommittee noted that this recommendation was also included in a previous report on ICR distribution. The campus and OVCR will need to determine how to implement these recommendations. Increasing knowledge among faculty and changing campus culture will be required to make progress in this area.

7. Tuition waivers/ICR charges in lieu of tuition

- In the present model, costs associated with research assistants are assessed an additional 34% indirect cost rate, designed to cover the cost of a tuition waiver. This charge is too low to cover the cost of waived tuition. Tuition waivers are a critical element of recruiting and retaining graduate student research assistants; however, the minimal amount of the actual cost of graduate education that is recovered requires a significant subsidy from other sources of revenue. It is beyond the scope of this subcommittee to address this issue. We suggest that a working group analyze the revenue loss associated with all types of tuition waivers and consider recommendations for the future.

8. ICR as Incentive for Research Productivity

- The majority of committee members believed that some modest amount of ICR flow-through to PIs is desirable, either by providing a specific percentage of the ICR directed to the department associated with a specific grant, and or by having a flexible source of funds in the unit that can be used by the head to respond to faculty research needs. At present, policies regarding whether there is a direct distribution of a small amount of ICR to PIs vary across campus. Although the committee recognizes the value of a consistent policy across campus, several heads indicated that departmental discretion in the distribution of the ICR pool was preferred to a policy that mandated distribution to all PIs at a specified level. The opportunity for unit heads to direct ICR resources to specific needs was viewed by the unit leaders interviewed by the committee as a preferred approach, rather than distribution at a mandated level.
- One minor concern is that there is a perception that PIs make decisions about where to submit grants (i.e., through which unit), when several investigators are involved or when options are available, based on whether the units return ICR resources to PIs. The benefit of a campus policy on distribution of ICR to PIs at a specified level is that it removes this as a potential concern.

Guiding Principles

The ICR subcommittee generated a set of general principles to guide the development and implementation of the campus ICR distribution model. The new model of ICR distribution should:

- benefit the overall campus and enhance excellence of the institution by providing the strongest possible environment for research;
- promote success of departments and institutes, recognizing their interdependence and mutual contributions to the campus research operation;
- facilitate disciplinary and interdisciplinary research;
- minimize burden on researchers, heads, and dean/directors;
- provide resources to (a) advance and enable promising, innovative research activities; (b) defray standard costs associated with research activities; (c) support critical needs, including needs in emerging areas related to research endeavors; and (d) provide incentives for seeking external funding;
- with exceptions for those agencies that mandate an indirect cost recovery rate below the standard level, maximize recovery of research-related costs to the greatest extent possible; and
- be clear, transparent and easily understood by faculty, department heads, deans/directors, and budget personnel.

Models of ICR Distribution: Peer Institutions and On Campus

The subcommittee gathered information about ICR distribution models of peer institutions (see attached reports from Michigan, Wisconsin, and Purdue).

- Wisconsin's model allocates a portion of ICR as part of a permanent/historical base (45M of 108M total, mingled with tuition and state funds), a portion for required payments (25M of 108M total), a portion for research infrastructure (13.1M of 108M total), and a portion that is returned to the colleges and central administration (about 16-25M of 108M total). The school/college and central administration portion is divided on an 80% (college)/20% (central) basis. The central administration uses most of its funds to help fund start up and retention packages. The college portion is used in a variety of ways: some units keep all of these funds, others allocate most back to the departments. Few or no departments distribute ICR to PIs.
- Michigan uses an activity-based system. Part of the base funding each year is a return of all projected ICR to activity-based units. Schools and colleges have a variety of practices guiding the return of a portion of ICR to departments. Some departments return a small portion of the ICR to the PI.

The subcommittee also gathered information about current practices for ICR distribution on the UIUC campus (see attached summary), with respect to how colleges distribute ICR revenue to departments, and whether departments distribute a portion to PIs. There are a range of policies regarding distribution practices. Of the 30% return, most colleges distribute 25% to

departments. In terms of the 52% allocation from budget reform, some colleges retain this entirely, whereas others distribute it fully to the departments. There is similar variability in whether or not a small portion of ICR is distributed to PIs.

Recommended Model

The subcommittee developed a draft model of how ICR distribution at UIUC might be improved. The model is designed to incorporate as many of the guiding principles as possible, and to address some of the general concerns about ICR addressed at the beginning of this report, including (a) promoting transparency and clarity in the ICR distribution policy, (b) enhancing research productivity and efforts in both interdisciplinary and disciplinary scholarship, (c) defraying infrastructure costs associated with research.

1. Shared Success Model

The Shared Success model was developed as an effort to create and communicate to the campus a model that sustains strengths in colleges and departments while distributing ICR to enable the success of institutes. The basic elements of the shared success model are that ICR revenue from grants administered through institutes will be distributed to the institute, up to a certain level, as specified in an agreement between the institute director and Provost. ICR above that specified level will be held centrally and ultimately distributed to the institute, college and department of the PI or PIs, according to a formula, as yet unspecified. Thus, the success of institutes will be shared with academic units in this model. It is anticipated that the amount and/or percentage of ICR needed in any institute will change over the course of the institute's development and maturation. In this model, the remainder of ICR would be distributed in a manner similar to the current model; however, permanent allocations of ICR need to be evaluated for appropriateness (i.e., are allocations adequate to cover the costs associated with research operations). Any changes in permanent allocations will have to be phased in over time.

The concept of the Shared Success model was extended to full campus (see attached). This model attempts to incorporate elements of the existing ICR distribution model, including both allocated ICR and earned ICR in one framework (to promote clarity and transparency), with the following implications:

- Permanent allocations are made to non-academic units in support of ongoing activities that generally enhance the research enterprise (e.g., library, facilities & services, etc.)
- As for the model above, ICR will return to institutes, up to a specified level; above that level, a percentage of ICR will be held centrally and ultimately return to the appropriate home academic units (college, department and institutes)
- Colleges and departments will receive both allocated and earned ICR
- A portion of ICR will be used to support campus research infrastructure (e.g., IRB, IACUC, DAR, DRS, CAN, etc.). Whether this portion is adequate/appropriate for needs of the research operation needs to be considered, in the context of evaluating all permanent allocations of ICR.

- It will be appropriate to evaluate permanent allocations of ICR; however, if changes in permanent allocations are recommended or desired, any such changes will have to be phased over time.

Appendices/Attachments

1. Shared Success Model
2. Beckman Institute ICR Analysis
3. OVCR ICR Analysis, Including Current ICR Model
4. WAG Reports
5. Summary of individuals who met with the committee