

**August 29, 2017**

**To:** Contract and Grant Directors

**Subject:** Indirect Cost Recovery for State of California Awards

### **Purpose**

The purpose of this memo is to provide guidance about indirect cost recovery (IDC) for awards from State of California agencies.

### **Background**

In an August 25, 2017 letter to Chancellors, Chief Financial Officer Nathan Brostrom indicated that the University, in consultation with the California State University, has suspended for one year the escalation from 25% to 30% IDC to be applied to on-campus agreements from State of California agencies.<sup>1</sup>

Historically, State of California agencies have provided little if any indirect cost recovery on their agreements to UC, resulting in an unsustainable subsidy of real costs at a time of greater disinvestment in UC's undergraduate mission by the State. Over the next year, the Office of the President will be reaching out to State of California agencies to help them understand the impact on UC from continued under-recovery of actual costs.

### **Guidance**

For all State of California agreements except the California Department of Food and Agriculture (CDFA) and commodity groups (see below), and absent express approval from the CFO, a rate of 25% of the federally-defined Modified Total Direct Costs (MTDC) should be applied to funding accepted through June 30, 2018.

This UC Rate for state-funded projects is not contingent upon or determined by use of the California Model Agreement (CMA). The CMA is a separate and distinct issue from IDC.

The first escalation of the UC Rate for state agencies is anticipated to apply to on-campus projects with a start date on or after July 1, 2018, as illustrated in the below table. The increased rate would also apply to previously unencumbered funds added by amendment to existing projects after this date.

---

<sup>1</sup> However, note CDFA rate discussion below.

## Revised UC Rate for California State Agencies

On-Campus	Off-Campus
25% through June 30, 2018	25%
30% through June 30, 2019	
35% through June 30, 2020	
40% starting July 1, 2021	

### California Department of Food and Agriculture (CDFA)

Rates for CDFA are subject to the agreement reached between CFO Brostrom and Secretary of Agriculture, Karen Ross.

Please consult REMS Sponsor Guidance for additional information.

### Marketing Orders, Agreements, Councils and Commissions

Given that California is the nation's top agricultural state with farm revenues that exceed \$42 billion<sup>2</sup>, it is understandable that California has a diverse population of agricultural associations, many of which fund UC campuses and [Agriculture and Natural Resources \(ANR\)](#). Such associations include [Marketing Orders and Marketing Agreements](#) enabled under the [Marketing Act of 1937](#), Commissions and Councils, formed under enabling statutes in California Food & Agriculture Code, and others. Funding for these groups originates by various means, commonly including grower assessment fees. In some instances, such funding is awarded to UC campuses and ANR directly from the association, while in other cases, the funding passes through CDFA.

CFO Brostrom and ANR VP Humiston agreed to delay implementation of the UC Rate for these associations for an additional year, until July 1, 2018, during which time campuses should continue to use each commodity group's historic rate (0% in many, but not all, cases).

UCOP will use this time to work with CDFA to better understand the various groups and determine how to address IDC going forward. REMS Verified Sponsor Policy listing 131503 is available to apply the [historical policy to allow for reduced or no indirect costs recovery](#).

### Procedures for Indirect Costs Exceptions for State of California Agencies

The authority to approve indirect cost exceptions for State of California agreements remains with the Office of the President.

---

<sup>2</sup> UC has helped the state achieve this distinction. See [University of California At a Glance](#).

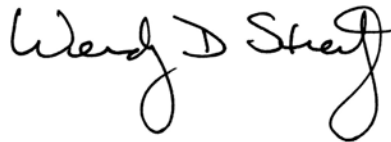
Regardless of a published policy by a State of California agency, recovery less than the UC Rate, or the rate specified in CDFA-specific guidance, requires an indirect cost exception under the Chancellor Approval procedure outlined in REMS Sponsor Guidance.<sup>3</sup> Such requests must include a clearly stated rationale for a reduced indirect cost recovery and must document approval by the Chancellor or her/his designee.

No exception will be considered without following these special procedures and without the consent of the Chief Financial Officer.

For information about UC's practices, guidance, and policies on indirect cost recovery, please consult [Contracts and Grants Manual Chapter 8](#) and [RPAC's dedicated web resources on indirect cost recovery](#).

### Contact

Michael Kusiak  
[Michael.Kusiak@ucop.edu](mailto:Michael.Kusiak@ucop.edu)  
(510) 987-0659



Wendy D. Streitz  
Executive Director  
Research Policy Analysis & Coordination

**Attachment** August 25, 2017 Letter from CFO Brostrom to the Chancellors

---

<sup>3</sup> See Record 306 within the REMS Sponsor Guidance module.

# UNIVERSITY OF CALIFORNIA

BERKELEY • DAVIS • IRVINE • LOS ANGELES • MERCED • RIVERSIDE • SAN DIEGO • SAN FRANCISCO



SANTA BARBARA • SANTA CRUZ

EXECUTIVE VICE PRESIDENT—  
CHIEF FINANCIAL OFFICER

OFFICE OF THE PRESIDENT  
1111 Franklin Street, 6<sup>th</sup> Floor  
Oakland, California 94607-5200  
510/987-9029

August 25, 2017

## CHANCELLORS:

As you know, our campuses rank among the nation's top public universities and among the world's top research universities. Many of California's leading industries grew from UC research, including biotechnology, computing, semiconductors, telecommunications and agriculture.<sup>1</sup> UC research in nanotechnology, clean energy, neuroscience, genomics and medicine is helping drive the next wave of California economic growth.

Following a period of increased funding pressures, including state disinvestment, UC is under tremendous pressure to support the costs of the infrastructure that enables the research that trains our students and fuels innovation. UC trains nearly half the medical students and medical residents in California.<sup>2</sup> However, this caliber of academic and scientific leadership is unsustainable absent quality physical and administrative resources to attract, retain and support the work of our faculty and students.

If UC is to maintain its infrastructure and the quality of our research and training, we must recommit ourselves to the long-standing University policy of recovering the full costs of every sponsored project. Full project recovery is often challenging as many non-profits, and even the federal government<sup>3</sup>, refuse to pay UC's actual costs of performing research. However, without consistent diligence in seeking higher recoveries, UC's infrastructure, quality, and reputation will decline.

In the past year, we have worked in collaboration with the California State University (CSU) system to implement indirect cost rates (IDC) to be applied to funding from State of California agencies.<sup>4</sup> This approach is a departure from previous practice where campuses would request and receive approval for indirect cost reductions for any State of California-funded agreement in cases where the specific agency provided a policy justifying reduced or no indirect cost recovery. Under this practice, the University historically received an average of about 18% indirect cost recovery across all agencies. In aggregate, this meant that UC invested \$40 of its own resources for every \$100 of state funding to support research or provide training or services for the state.

Together with CSU, we made a decision to gradually raise the IDC we require from state agencies up to 40% (compared to the 53.5-58.5% we receive from the federal government), starting at 25% in FY 16-17 and increasing by 5% per year for "on-campus" projects.<sup>5</sup>

<sup>1</sup> See [The University of California At a Glance](#).

<sup>2</sup> Id.

<sup>3</sup> The federal F&A Rate Agreement is negotiated every four years between DHS and each individual campus. Despite substantial campus documentation of costs, the negotiation consistently results in an approved F&A Rate *less than the campus's actual costs*.

<sup>4</sup> The UC Rate for state agencies is not tied to use of the California Model Agreement template; these are separate and distinct issues.

<sup>5</sup> The UC Rate for state-funded projects conducted "off-campus" does not increase beyond 25%.

Despite pushback from some state agencies, campuses have largely succeeded in recovering at least 25% of the federally-defined Modified Total Direct Costs (MTDC) on new agreements. While some agencies were prepared to honor the first proposed escalation to 30% on July 1, 2017, others expressed significant concerns with their ability or willingness to do so.

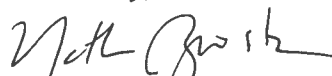
In consultation with you earlier this year, and with the endorsement of President Napolitano, we have agreed to suspend the escalation of rates for one year. This means that rates for state agencies will stay flat at 25% until July 1, 2018. CSU is following course as well.

In the meantime, in coordination with Research Policy Analysis and Coordination (RPAC), I intend to reach out to our state partners to communicate and clarify the real costs UC incurs in conducting extramurally funded projects.

You may recall that we discussed the California Department of Food & Agriculture (CDFA) in particular earlier this year. We continue to work with the CDFA to better understand the nature of their funding and investments in UC research. In particular, this includes funds from Marketing Orders and similar entities. We will continue to honor our practice, in place since 1970, of allowing reduced indirect costs from such entities through the rest of this fiscal year (through June 30, 2018). During this time, we will work with CDFA and ANR to classify and better understand any special considerations for agricultural commodity group-generated funding.

I appreciate your continued support in recovering the full and real costs of sponsored programs at the University of California. As we increase our engagement with the State of California on this important issue, I will look to you for your guidance and assistance. Thank you for all that you do to ensure that we fulfill our mission and protect our ability to do so in the future.

Sincerely,



Nathan Brostrom

cc: Division Leaders  
Vice President Ellis  
Chief of Staff Grossman

:

: