## UNIVERSITY OF CALIFORNIA

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SANTA BARBARA • SANTA CRUZ

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## 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. 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. 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. 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>&</sup>lt;sup>1</sup> See <u>The University of California At a Glance</u>.

<sup>2</sup> Id

<sup>&</sup>lt;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>&</sup>lt;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>&</sup>lt;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,

Mathan Brostrom

cc: Division Leaders
Vice President Ellis
Chief of Staff Grossman