

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.¹

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.

¹ 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 billion², 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.

² 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.³ 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](#).

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

³ See Record 306 within the REMS Sponsor Guidance module.