Dear Fellow Senators:

As Chair of the Research Policy Committee, I would like to share some of our committee's work.

In an attempt to gain greater understanding, we have been exploring the flow and distribution of Indirect Cost (IDC) dollars, also called Facilities and Administrative Costs (F&A).

Independently from RPC, the the Steering Committee. at the recommendation of the Stakeholder Advisory Group (for the AIB) convened a working group named: "AIB Facilities and Administrative Costs (F&A) Working Group". With their permission, we have pasted their report from December 1, 2021 on the following pages.

Separately, one of our members, Dr. David Cuillier, did some investigation and his report is also pasted at the end of this report.

The AIB Facilities and Administrative Costs (F&A) Working Group addressed five questions (see Executive Summary, page one).

The RPC agrees with its conclusions and recommendations for all five – except #4:

"**Should Principal Investigators receive a direct distribution of F&A from RII that bypasses the colleges?** <u>Recommendation</u>: No."

It is the RPC's belief that this does not appropriately address one of the AIB Guiding Principles: Reward Positive Research Outcomes and incentivize researchers. It also goes against the principles of Faculty Governance. We are also troubled that at least 10 of the 15 group members are budgetary people in Dean's offices, only one is from RII and none is a non-Dean faculty member. This does not appear to be a representative group for the Principal Investigators about whom this recommendation is made. We are not suggesting that the entire IDC go to the PI. We ask the Senators to acknowledge that PIs often do not have discretionary funds to start pilot projects, pay students, or even for something as small as a new printer or other materials & supplies (not allowed on Federal budgets). An agreed upon percentage would benefit the PI and help incentivize ongoing research productivity.

We move that at the first Faculty Senate meeting of the new academic year (AY2022/2023): "**Principal Investigators receive a direct distribution of F&A from RII."**

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AIB Facilities and Administrative Costs (F&A) Working Group Report December 1, 2021

I. Executive Summary

The F&A Working Group was convened to review funding of research support activities and RCM F&A distribution models, with the goal of incentivizing research, supporting the growth of research infrastructure, and aligning with the AIB Guiding Principles: 1. Ensure Adequate Funds Centrally to Meet Institutional Strategic Opportunities; 2. Reward Positive Research Outcomes; 3. Build Innovation and Interdisciplinary Approaches; 4. Reduce Complexity.

The Working Group met seven times between the beginning of July and October 2021 to consider the following questions related to research infrastructure funding and F&A distribution:

1. Should the RII Operating Budget scale with changes in research activity?

Recommendation: Yes.

- The RII Operating budget should scale annually with research activity as measured by changes in sponsored MTDC using a three-year average.
- The RII operating budget should continue to be funded by the Strategic Budget Allocation through Revenue Sharing (SBA) mechanism and not through direct allocation of F&A returns.

2. Should the RII Research Development Fund fluctuate with changes in research activity?

Recommendation: Yes.

- Allocations to the Research Development Fund should scale with annual changes in F&A return to the University.

3. Should Facilities charges that are supported by F&A (support unit space charges) fluctuate with changes in F&A returns?

Recommendation: No.

- Support for facilities costs should not fluctuate with annual changes in F&A revenue, although they should scale with research activity over a multi-year time-period to accommodate long term growth in research support operations.

4. Should Principal Investigators receive a direct distribution of F&A from RII that bypasses the colleges?

Recommendation: No.

- Decisions about F&A allocation, including incentivizing distributions to faculty, are best made at the college level.

5: Should the F&A returns to colleges continue to be determined using a "look back" to FY15 as a Base Year, should a new Base Year be selected, or should returns fluctuate each year with changes in F&A returns (no Base Year)?

Recommendation: No Census Reached.

II. Background and Discussion

The transition from RCM to AIB provides an opportunity to review research support units are funded and how F&A, (also commonly referred to as *Indirect Cost Recover [ICR]*) is being used to support research infrastructure and incentivize research activities. It's important to clarify that F&A is not a revenue source but rather reimbursement from research sponsoring agencies for the portion of the real costs of conducting research that cannot be reasonably apportioned to a specific sponsored project. Although a portion of F&A returns to the university is used to fund those support activities from which the costs derive, F&A also supports a variety of incentivizing activities including allocations to colleges. The AIB F&A Working Group addressed the principles for funding research support activities and potential changes to how F&A is currently being used under RCM. The Working Group struggled with having an incomplete understanding of institutional funds flows and the resulting lack of clarity about how different options for reapportioning of F&A to specific uses might lead to shortfalls elsewhere.

The following discussion provides more detailed background information for each of the recommendations summarized in the Executive Summary above.

1. Should the RII Operating Budget scale with changes in research activity?

<u>Working Group Feedback</u>**:** There was unanimous consensus that the RII operating budget should scale with research activity as reflected by F&A returns, but that a direct F&A allocation should not be used to fund the RII operating budget (0 Yes, 9 No, 1 undecided/not participating).

Background: In the current RCM model, a tax on all sources called the "Support Center Expense Recovery" (SCER) has been used to support all non-college activities including RII operations and infrastructure, research facilities, the Research Development Fund, sponsored award administration, research core facilities, research centers and institutes, and research administration broadly. F&A retained centrally represents one component of the SCER (in AIB the SCER is called Strategic Budget Allocation through Revenue Sharing [SBA]).

RII Operations funds increased by roughly $3M during the first three years of RCM, were held flat for three years and saw a $4.3M decline in FY21 in alignment with most support units on campus.

Sources	2016	2017	2018	2019	2020	2021
Base Budget	24,227,759	24,521,402	27,287,979	27,271,362	27,328,880	23,038,071

Figure 1: RII Operating Base Budget FY2016-FY2021

Advantages of scaling RII operating budget with research activity: Aligns with guiding principles as stated – growth in F&A returns would result in growth in support for RII Operations. This approach could incentivize optimizing RII Operations funds management to drive research expenditure growth and overall UA research performance.

Disadvantages: Declines in F&A returns could result in reduced RII Operations funds available for investment, perhaps precisely when they would be needed to spur new activity.

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2. Should the RII Research Development Fund scale with changes in research activity?

Working Group Feedback: 6 YES, 1 NO, 3 members undecided or not participating

Background: UArizona research expenditures (MTDC) have increased 20%[1] from 2015-2020 with little or no adjustment to research operations budgets or development programs and no institutional mechanism for scaling budgets with increasing research activity. To date, changes to the Research Development Fund and RII operations budget have relied on leadership decisions without regard to changes in research activity. As we transition from RCM to AIB, it is generally agreed that mechanisms are needed to ensure that support for research operations and development programs scales with changes in research activity.

Leadership decisions during the first few years of RCM resulted in increases to the Research Development Fund of approximately $875,000, though the budget has not changed since FY19 and is currently $13.55M (Figure 2). As core operations costs have increased and budget challenges have arisen (for example the COVID-19 pandemic), RII leadership also shifted some RII operation costs to the Research Development Fund as a tool for managing budget reallocations/reductions. As part of the FY22 All Funds budget allocation process, $3.24M was provided to RII to so that these costs could be moved off the Research Development Fund, restoring the entire $13.55M for direct investment in research growth.

BUDGET OWNERSHIP Pre-RCM/RCM	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Research Investment/Development	12,986,406	12,674,003	13,374,003	13,624,003	13,550,153	13,550,153	13,550,153

Figure 2: Research Development Fund Budget FY2015-FY2021

Advantages: This recommendation aligns with AIB Guiding Principle 1) *Ensure Adequate Funds Centrally to Meet Institutional Strategic Opportunities*, and 3) *Reward Positive Research Outcomes* by ensuring that the Research Development Fund increases along with growth in overall research activity. It could also optimize management of the Research Development Fund to drive research expenditure growth and overall UArizona research performance.

Disadvantages: Declines in F&A returns will lead to a reduction in the Research Development Fund precisely when they might be needed to spur new activity.

3. Should Facilities costs supported by F&A (support unit space charges) fluctuate with annual F&A returns?

Working Group Feedback: 0 YES, 9 NO, 1 member undecided or not participating

The Working Group's position is that funds to support unit space charges should not fluctuate annually with changes in F&A because this could be disruptive, though support should scale in the longer term as needed to support changes in research activity.

Background: In RCM all physical space allocated to colleges is supported by a flat $/sq. ft charge applied to all occupied space, while support unit space occupancy charges are recovered through the above referenced SCER tax on multiple sources, including F&A. Any long term increases in support unit occupancy of research space would be paid from the SCER (SBA in AIB).

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[1] FY15 MTDC $203.99M and FY20 MTDC $244.92M per UAccess Analytics RCM.RCM Sponsored F&A Report

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Advantages: Might provide RII with more flexibility to respond to near term increased space needs.

Disadvantages: Support unit space needs are relatively fixed over the short term and so annual fluctuations tied to F&A return could be disruptive should F&A revenues decline.

4: Should Principal Investigators receive a direct distribution of F&A from RII that bypasses the colleges?

Working Group Feedback**:** 2 members felt that there should be Direct PI F&A distribution from RII; 6 members were against a direct distribution because they felt that decisions regarding PI distributions should be made at the college level; 2 members were undecided or did not participate.

This issue led to considerable discussion among Working Group members. Most members felt that a direct distribution from RII unnecessarily bypassed college dean authority and failed to accommodate the diversity of college cultures and financial models. The two members who voted for a central distribution felt that their colleges were not handling F&A appropriately and that central distribution was a mechanism to directly support faculty.

Background: In RCM, the college dean has sole discretion to determine how F&A distributed to the colleges is utilized. Each college currently has its own process, reasoning, and approach to distributing or not distributing F&A earnings to individual PIs.

Advantages of Direct PI Distribution: Could be seen as aligning with Guiding Principles 3 – Reward Positive Research Outcomes and 4 – Build Innovation and Interdisciplinary Approaches. Potentially creates an incentive for PIs to actively seek new funding and to minimize F&A rate reductions or waivers since they will be a direct beneficiary of F&A returns. Potentially aligns PI research interests with university goals of growing research expenditures.

Disadvantages of Direct PI Distribution: RCM and AIB are college-level funding models, and a direct PI distribution would bypass college/dean authority and represent a significant shift in philosophy. A direct distribution might also reduce strategic alignment of use of funds with university and/or college level strategic goals. It also places the strategic investment of these funds in a more distributed framework, which could be seen as a violation of Guiding Principle 1 – Ensure Adequate Funds Centrally to Meet Institutional Strategic Opportunities. Management of distribution to ensure proper accounting would add administrative overhead to the F&A distribution process.

5: Should the F&A returns to colleges continue to be determined using a "look back" to FY15 as a Base Year, should a new Base Year be selected, or should returns fluctuate each year with changes in F&A returns (no Base Year)?

Working Group Feedback: 2 YES, 8 undecided or not participating in vote.

Background: Two overriding philosophies were adopted going into the first year of RCM with respect to budget changes: the concepts of "hold harmless" and that RCM should not change budget or accounting practices. This first principle of "hold harmless" meant that college budgets would not significantly change at the outset of RCM and that budget allocation decisions made before RCM would not be immediately undone but could be redressed over time. This approach ensured that RCM would not be the singular cause of the collapse of a given unit's operational budget. The philosophy of not changing accounting or budgeting practices meant that the 25% F&A returns colleges received prior to RCM would continue (the "true up"), while a new process would begin of "looking back" to the first year before RCM started (FY15), also called the Base Year. All colleges began RCM with 25% "budget ownership" of their FY15 F&A returns.

Subsequent increases in F&A returns above their FY15 "base year" amount were proportionally split between the college and support unit budget authority at a rate of 87.616% to colleges and 12.384% to support units for FY16-20 and beginning in FY21 87.216% to colleges/12.784% to support units.

Although consistent with the RCM principle of allocating maximum resources to the revenue generating colleges, in time this allocation approach resulted in significant disparities between colleges in the percent of F&A budget authority, because if a college was at a "low water mark" for F&A returns in FY15 and had a lot of upside potential then it received significantly more budget authority for your F&A returns than if FY15 was a high-water mark year.

As two concrete examples, the Eller College of Management had F&A returns in FY15 of ~$0.75M and therefore had F&A budget authority in FY15 of ~$0.19M (25%). Their F&A returns declined to ~$.483M in FY21 and so now have negative F&A budget authority of –$0.052M (-11%). On the other hand, the Arizona Health Sciences Centers and Divisions had F&A returns in FY15 of ~$4.58M and corresponding budget authority of ~$1.15M (25%). Their F&A returns increased to ~$13.59M in FY21 and so their current F&A budget authority is ~$9M (66%).[1]

This approach has increased overall F&A budget authority to colleges since the beginning of RCM from 25% in FY15 to 41% in FY21, corresponding to $22.6M in new F&A allocations to colleges. In contrast, funds used to support the Research Development Fund, research related facilities costs, and general institutional support costs, including RII Operations, declined from 75% budget authority of F&A funds to 59%, corresponding to just $3.6M of new investment in these centralized costs. Continuing this F&A allocation approach is in apparent violation of AIB guiding principles 1. Ensure Adequate Funds Centrally to Meet Institutional Strategic Opportunities 3. Reward Positive Research Outcomes, and 8. Reduce Complexity.

Due to challenges in understanding the complexities of funds flows, and lacking information about the total current central support unit shortfall, the Working Group struggled to determine how best to realign the current F&A budget distribution mechanism. Lacking this information, and how other AIB related changes might alter central budget authority, the Working Group felt that they could not rationally identify an optimal method for realigning the current F&A distribution method to meet overall institutional support unit needs.

Advantages of Keeping the FY15 Base Year: F&A budget authority "earned" in RCM would not require reconsideration in other parts of the AIB model so long as taxation/revenue sharing was held relatively constant/similar to what it is in RCM. Keeping the RCM Base Year approach would mean changes to the F&A portion of the AIB model would have minimal impact on the Strategic Budget Allocation amounts required to keep budget authority of the RCM "winners" intact so long as taxation/revenue sharing was held relatively constant/similar to what it is in RCM.

Disadvantages of Keeping the FY15 Base Year: It's unclear how the AIB model could move away from decisions made by past leadership going into the adoption of RCM. Significant changes in revenue sharing/tax in AIB to align with Guiding Principle 1 (Ensure Adequate Funds Centrally to Meet Institutional Strategic Opportunities) would essentially create a new Base Year for "taxation" that is distinct from the Base Year for calculating budget authority which would require significant adjustments in other parts of the model, particularly in the Strategic Budget Allocation for these units. The Base Year look-back essentially ensures RCM revenue sharing needs will remain the same. If revenue sharing is to align with Guiding Principle 1 then removing the Base Year concept altogether and adjusting the Strategic Budget Allocation for colleges to accommodate for this change would make more sense.

Advantages of Changing the Base Year to FY22: Resets the budget authority calculations to align with the implementation of the AIB model. F&A budget authority "earned" in RCM would not require reconsideration in other parts of the AIB model even if there were major changes in taxation/revenue sharing to accommodate for Guiding Principle 1. Budget authority "earned" both prior to RCM and during the RCM years would be "baked into" the F&A budget authority calculated in AIB.

Disadvantages of Changing the Base Year to FY22: Inequities of budget authority "earned" in RCM would remain, not fundamentally addressing the low-water mark/high-water mark disparities outlined in the background section. Eller would continue to retain ~-11% of their earned F&A as budget authority while AHS Centers & Divisions would continue to retain ~66% of theirs. With assumed higher revenue sharing percentages in AIB, the majority of incremental changes in FY23 and beyond would not accrue to colleges, essentially ensuring this budget authority would not materially change with changes in F&A, likely undermining any incentive structure that remains in AIB. Stated another way, a combination of a new base year and higher revenue share percentages means F&A budget authority would likely not change much in future years even with significant changes in F&A returns.

Advantages of Eliminating the Base Year Concept: Allowing F&A budget authority to fluctuate each year based on a fixed % of returns (pre-RCM model) drastically reduces the complexity of the AIB model and is in close alignment with Guiding Principle 8 – Reduce Complexity. It allows for an even playing field for all colleges and does not "bake in" inequities or disparities from prior years. This approach eliminates issues above related to high-water/low-water mark F&A earnings years and allows all colleges to participate equally and proportionally. It allows for the realignment of fund and budget authority that was obfuscated in RCM with the "true-up" methodology and allows for much more transparency into the reporting of F&A funds flow, further supporting Guiding Principle 4. It would allow for the realignment of budget authority with the implementation of a new budget model and would allow for and support Guiding Principles 1 & 3.

Disadvantages of Eliminating the Base Year Concept: This methodology would require realignment in other parts of the AIB model, specifically Strategic Budget Allocation would need to be assigned to units who had benefited significantly from the RCM Base Year methodology to minimize significant budget authority change going into FY23. Of note, since SBA will need to be reassigned to accommodate for other significant model changes such as the changes in SCH weighting, Course Owner assignment, and Degrees Awarded, adding to the list of SBA adjustments for F&A is likely not a significant or impactful disadvantage.

There has traditionally been some alignment between the actual incurred F&A costs and the distribution of F&A. Although this relationship has changed since the implementation of RCM, with only 59% of F&A funds flowing to central support units (where most of our actual F&A costs are incurred), removing the Base year without also changing the SBA share % could result in a large portion of F&A funds flowing to colleges which is not where the actual F&A costs supporting those funds were generated. This could be remedied in part by significant changes in the SBA share %, however, existing strategic growth plans being enacted within colleges could be hindered by a drastic change in the SBA share %.

[1] See supplemental spreadsheet for a detailed break-down on RCM budget authority changes by college, the Research Development Fund, F&A support of facilities, and all other F&A support unit budget authority.

Working Group Members:

Garth Perry—Co-Chair
Sangita Pawar—C-Chair
Parker Antin—Report Author
David Elmer
David Gonzalez
Kelly Grimm
Jason Marr
Kriss Pope
Pete Reiners
Janis Rutherford
Joan Sweasy
Mikel Tsipis
Mark Van Dyke
Justin Walker
Jason Wertheim

Folks,

I hope you had a restful holiday and are avoiding the covid!

Just looping back to see if you would like me to invite Parker to talk with us at our Feb. 24 meeting, to answer questions about the F&A working group report. I attached it again. Some things I noticed:

- They support tying RII's budget to research activity, as reflected by F&A returns, to incentivize research support.
- Research facilities costs should not be tied to F&A returns – keep them stable and predictable.
- PIs should NOT receive a direct distribution of F&A, that it be left up to the colleges to determine what they get. This was not unanimous (6 for, 2 against, 2 undecided).

I would be curious who was for and against, based on their positions/titles. Out of curiosity, I looked up the working group members, listed below, and noticed the working group was pretty packed with college finance officers. From what I can tell, nine of the 15 people represent the interests of college deans' finances or central administration finances. A few folks appear to represent the research of colleges. I think I see one department head. No faculty or people without a big title, from what I can tell. It appears their input reflects the perspectives of the colleges and central administration, but not research faculty, or even department heads. I suppose that's where our input could be useful.

Also, notice on page 2 they state they "struggled with having an incomplete understanding of institutional funds flows and the resulting lack of clarity about how different options for reapportioning of F&A to specific uses might lead to shortfalls elsewhere." That's saying something, given the university financial expertise on the working group!

Want me to reach out to Parker to have him come chat with us?

Dave

F&A Working Group

1. Garth Perry, co-chair, VP/Chief Budget Officer
2. Sangita Pawar, co-chair, VP of Operations at RII
3. Parker Antin, report author, Associate Dean for CALS
4. David Elmer, Associate VP for Finance, Health Sciences
5. David Gonzalez, Director of Finance, Optical Sciences
6. Kelly Grimm, Assistant Dean of Finance, College of Science
7. Jason Marr, Assistant Dean of Finance, College of Medicine
8. Kriss Pope, Assistant Dean of Finance, Engineering
9. Pete Reiners, Department Head, Geosciences (left for University of Northern British Columbia?)
10. Janis Rutherford, Director of Finance, CALS
11. Joann Sweasy, Director of Cancer Center
12. Mikel Tsipis, budget analyst, provost's office
13. Mark Van Dyke, associate dean of research, Engineering
14. Justin Walker, associate dean for business, Optical Sciences
15. Jason Wertheim, vice dean of research, College of Medicine