

Sherry Esham

From: All Appointed Personnel [ALL-EMPLOYEES-APPOINT@LISTSERV.ARIZONA.EDU] on behalf of Robert N. Shelton [rns@EMAIL.ARIZONA.EDU]
Sent: Thursday, July 24, 2008 4:24 PM
To: ALL-EMPLOYEES-APPOINT@LISTSERV.ARIZONA.EDU
Subject: Change in Distribution of Indirect Cost Returns Starting in FY09

TO: Faculty and Appointed Personnel
FROM: Robert N. Shelton, President
SUBJECT: Change in Distribution of Indirect Cost Returns Starting in FY09

As you are aware, The Arizona university system is facing a challenging year and we are evaluating ways to maximize funding flexibility in order to meet the most critical needs for FY09. After much analysis, it is clear to me that we should implement a change in the way we allocate Indirect Cost Recovery within the university, in order to provide a mechanism for better alignment of ICR dollars with research-related needs, especially in the areas of strategic importance. The current distribution of ICR is based on a model where 70% is allocated to central administration and 30% is distributed to colleges/departments. Effective July 1, 2008, the model of distribution will permanently shift to 75/25. This includes the fourth quarter ICR distribution in August. Please note that the sliding scale will continue to apply (where the ICR return to colleges/departments is reduced if the college effective rate of return is significantly below the full 50.5%).

Given the serious budget constraints and simultaneous significant increases in federal compliance costs including issues directly affecting all research intensive colleges such as ITAR compliance as well as increased federal biohazard, IRB compliance and other issues, we must be able to use central ICR resources to cover these costs and not tuition. In addition, our research development fund which finances our ability to provide campus wide strategic research investments is nearly depleted. Moving our university forward requires us to make strategic research investments. To this end, Provost Hay is putting together a Provost's Strategic Advisory Committee of highly productive researchers from selected areas of the university to provide advice on strategic reinvestments to strengthen some of our most outstanding areas of research.

Recognizing that this change places a serious additional financial burden on the colleges, we will take into consideration the amount of reduced ICR for each college when we determine how to apportion the budget cuts resulting from the \$50M reduction in state funding to the universities.

The actual effect of this change felt by each individual unit is dependent on how the deans decide to allocate the change in ICR return. The deans will see a differential in their base reduction due to their level of ICR and they will have opportunities to redistribute their ICR allocations to lessen the burden on the units that depend on ICR. Again, as we work through the final budgets, the deans will make key, strategic financial choices as to which units to support.

F&A Distribution – Sliding Scale

Formula for calculation of sliding scale

Actual Rate/Full Rate	Fraction of Full (Average for Range)	College Distribution @ 25%
1.0	1.0	25
>=87.38 and <1.0	.93	23.25
>=77.67 and <87.38	.82	20.5
>=67.96 and <77.67	.72	18.0
>=58.25 and <67.96	.62	15.5
>=48.54 and <58.25	.52	13.0
>=38.84 and <48.54	.43	10.75
>=29.13 and <38.84	.33	8.25
>=19.42 and <29.13	.23	5.75
>=9.71 and <19.42	.14	3.5
<9.71	.05	1.25

Sample calculation for projects coded on-campus research, where full rate = 51.0

IDC Rate	College Distribution @ 25%
51	25
45-50	23.25
40-44	20.5
35-39	18.0
30-34	15.5
25-29	13.0
20-24	10.75
15-19	8.25
10-14	5.75
5-9	3.5
1-4	1.25