Incentive-based Budget Model Subcommittee Report
Preface

To fully understand this report, you are encouraged to learn more about IBB by reviewing all of the informational and educational materials on the IBB website.

We are committed to meeting with anyone, anytime, anywhere to discuss IBB. If you would like to schedule a meeting, please contact Alberto Citarella, University Budget Director.

The following report is one of eight separate reports that will be used to develop a comprehensive Incentive-based Budget Model for the University of Vermont. Each of the eight subcommittees was asked to address a particular component of the overall IBB budget model.

The proposed algorithms contained within the reports are not intended to be a perfect accounting of revenue generation and resource usage across the University. They do, however, provide a solid foundation upon which the initial IBB model will be based, and they support the project’s Guiding Principles and the University’s Academic Excellence Goals.

Each report has only been vetted by the subcommittee that wrote it. It is possible that the proposed algorithms presented by the eight IBB subcommittees may, at times, contradict each other.

The IBB Steering Committee will use these reports as the basis for its further discussions and final recommendation on an integrated IBB budget model. It is possible that the Steering Committee may need to adjust the proposed algorithms to create a coherent, comprehensive and workable budget model.

It is strongly recommended that you read all eight subcommittee reports; they are all interrelated. If, after reading a report, you have feedback to share, please complete the survey that accompanies the report.

January 29, 2014
Research and Indirect Cost Recovery Subcommittee Report to the IBB Steering Committee
January 24, 2014
(modest revision February 3, 2014)

Subcommittee Charge
By January 24, 2014, submit for the IBB Steering Committee’s consideration a report that includes a minimum of two algorithms to allocate the revenues and expenses associated with research that has budgetary implications, and any related indirect cost recovery, to the revenue-generating Colleges and Schools. The report should include:
- A description of the process by which the algorithms were developed
- An explanation of the algorithms and their component parts
- A discussion of how the algorithms support the IBB guiding principles
- Any additional information that would be useful to the Steering Committee as it considers the algorithms

Subcommittee Membership
Jim Vigoreaux, Breazzano Endowed Professor and Chair, Department of Biology (Chair)
Paula Deming, Associate Professor, Department of Medical Laboratory and Radiation Sciences
John Evans, Interim Vice President for Research
Jennifer Gagnon, Interim Associate Vice President for Research Administration
Dryver Huston, Professor, School of Engineering
Robin Lockerby, Evaluation Data Specialist, UVM Extension
Jessica Strolin, Associate Professor, Department of Social Work
Russell Tracy, Professor, Department of Pathology
Kevin Trainor, Professor and Chair, Department of Religion
Tom Vogelmann, Dean, College of Agriculture and Life Sciences

Description of the Process by Which the Subcommittee Developed the Algorithms
The Subcommittee met on six occasions: October 16, October 31, November 21, December 2, December 4, 2013, and January 10, 2014. In addition, members of the Subcommittee met with the Indiana University team on October 28. Due to scheduling conflicts and extenuating circumstances none of the meetings included the full membership. To keep members fully informed, meeting minutes and ancillary information were posted on Sharepoint and shared by email.

Prior to the first meeting, the Subcommittee chair requested the following information from the Office of Financial Analysis and Budgeting (FAB), University Financial Services (UFS), and Sponsored Projects Administration (SPA):
1) List of UVM Facilities and Administrative (F&A or “indirect cost”) rates.
2) Percent revenue generated from each F&A rate category for the three most recent years.
3) Current ways in which F&A is allocated in different schools and colleges.\(^1\)

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\(^1\) From the Report on Use of Indirect Return to Schools and Colleges, Financial & Physical Planning Subcommittee, March 28, 2013
4) Data on unrecoverable F&A (i.e., UVM cost-share of F&A from central, colleges, and departments).
5) Percent funded grants with two or more UVM PI's (or one PI and one or more co-PIs; separated, co-PIs from same school/college vs co-PI's from different schools/colleges; three most recent years).
6) Information on "research foundations" at other institutions (preferably peer and aspirant) that manage grants for the faculty.

Additionally, the subcommittee examined the IBB allocation examples from other institutions provided by FAB, the Sponsored Projects Activity Reports available from SPA, and an estimate on the cost of supporting sponsored activities (i.e., the budget of the Office of the Vice President for Research, (OVPR)) provided by SPA, OVPR, and FAB (see Appendix 1). The initial phase of the process was dedicated to reviewing the charge to the subcommittee, the President's guiding principles, and the questions proposed to the subcommittee in the Charge document. We then discussed the information provided by FAB, SPA and the OVPR. The subcommittee's main goal was to achieve an understanding of the current (and recent historical) level of activities that generate F&A and the cost of supporting those activities. Several salient features of the information shaped the group’s discussion:

- UVM yearly sponsored awards average $129 million in annual gross income (FY09-FY13), including generation of $26 million F&A (FY11-FY13).
- Many sponsoring agencies will not pay UVM’s negotiated F&A rate, therefore a significant amount of F&A is unrecovered; sometimes sponsors allow the unrecovered F&A as UVM’s contribution to the project costs (“cost share”).
- The OVPR, responsible for overseeing activities related to all sponsored projects and other research activities, has an annual operating budget in the neighborhood of four to five million (excluding costs from Controller’s office for such things as Effort reporting and F&A rate negotiations)(See Appendix 1 for breakdown by reporting units). There is an additional (~$1 million) sum that comes from a variety of central sources to support research (e.g., cost-share and incentive funds).
- Colleges and Schools receive 25% of their generated F&A. The two exceptions are COM which receives 34% of research F&A plus some small percent of non-research F&A, and Extension which receives no direct allocation, but their funding formula includes some small portion of F&A.
- As reported by F&PPC, in most Colleges and Schools F&A (all, or a large portion of) is used at the discretion of the Dean. The most common uses are for start-ups and to support faculty research. The exception is CESS which returns to PIs (75-85%). COM operates under a separate formula.
- With few exceptions, most of the institutions in the IBB models provided by FAB return either all or a significant portion (30% and higher) of the F&A to the Colleges and Schools that generate it.
After the second meeting, committee members were asked to propose two algorithms for the revenue side and two for the cost side. The third through sixth meetings (and afterward, through email) were dedicated to discussing the proposed algorithms and other questions as they arose, including: (i) Should there be a central office overseeing (sponsored) research activities? (ii) Should research/matrix centers be considered Responsibility Centers, housed in OVPR, or housed in particular units? (iii) What are the proper mechanisms for supporting TRI and other inter-disciplinary activities? (iv) How to incentivize sponsored activities and what is an appropriate budget for it? (v) How does sponsored research activities/scholarly work relate to the broader university activities?

**Proposed Algorithms**

*Proposed Algorithm 1 for F&A Revenue Distribution and Research Office Support:*

**Proposed algorithm 1.a: F&A Revenue Distribution**

For every dollar of F&A (indirect cost) recovered, 90% returned to the College or School (or Colleges or Schools, in case of multiple PIs or Co-PIs from different units) where grant originated and 10% to Research Office (currently OVPR).

**Proposed algorithm 1.b: Research Office Support**

*Step 1.* Research Office retains 10% F&A (approximately 40% of its budget) to incentivize sponsored activities.

*Step 2.* 60% of the expenses of the Research Office are allocated to the Colleges and Schools based on a three year rolling average of a percentage of total sponsored awarded dollars.

*Proposed Algorithm 2 for F&A Revenue Distribution and Research Office Support*

**Proposed algorithm 2.a: F&A Revenue Distribution**

For every dollar of F&A recovered, 100% returned to the College or School (or Colleges or Schools, in case of multiple PIs or Co-PIs from different units) where grant originated.

**Proposed algorithm 2.b: Research Office Support**

Operating expenses for the Research Office are allocated to the Colleges and Schools based on a three year rolling average of a percentage of total sponsored awarded dollars.

*Proposed Algorithm 3 for F&A Revenue Distribution and Research Office Support*

**Proposed algorithm 3.a: F&A Revenue Distribution**

For every dollar of F&A recovered, 100% returned to the College or School (or Colleges or Schools, in case of multiple PIs or Co-PIs from different units) where grant originated.
Proposed algorithm 3.b: Research Office Support

Operating expenses for the Research Office are allocated to the Colleges and Schools based on a fixed percentage (e.g., 20%) of recovered F&A.

Algorithm 1 generated the most consensus among subcommittee members. The opinion on Algorithms 2 and 3 was split, with some members considering Algorithm 2 as not being fundamentally different from Algorithm 1, while other members considering Algorithm 3 as not viable. However, the arguments for and against Algorithm 3 are based on the same fundamental principle that research and sponsored activities that generate little to no F&A should be supported and valued as much as those activities that generate full F&A. Some members viewed Algorithm 2 as unfairly penalizing Colleges and Schools that bring in mostly sponsored projects with little or no F&A, and as a disincentive to faculty for pursuing those opportunities. Algorithm 3, the argument goes, better supports the University's land grant mission. Other members viewed Algorithm 3 as providing little incentive for the Research Office to improve its efficiency, productivity and support for non-F&A generating activities. This is because Algorithm 3 would not adequately allocate the costs to support the extramural funding based on the actual amount of work. Also, those Colleges and Schools that generate the most F&A revenue would pay more of the costs of the Research Office.

The committee rejected models in which revenue is driven by total sponsored activity (funded only, and funded + unfunded), or total FTE, in part because of the added complexity and potential loss of transparency.

Discussion of How the Algorithms Support the IBB Guiding Principles

The algorithms proposed provide strong incentives for Responsibility Center leadership to support and encourage sponsored activities amongst its faculty as it creates a direct source of revenue for the Responsibility Center that would be proportional with the level of activity. Agencies that fund sponsored activities base their decisions largely on the recommendations of peer-review panels that evaluate the intellectual quality and impact of the proposed activity. Funded projects, whether for research, service, or education, therefore, will be in a strong position to positively impact the academic quality and excellence of the university. Models in which Colleges and Schools have the ability to provide investigators with funds from multiple sources to continue research activities, particularly those not funded by sponsored projects, will create incentives at all levels of the university as research/scholarly/service activity generated by the faculty has a multiplying effect on departments and colleges. Furthermore, the models will encourage innovation and entrepreneurship as the use of these funds is not restricted to committed research activities. With access to these funds, investigators will have more freedom to pursue ideas that may not be amenable for extramural funding either because they are too risky or are at a too premature stage. The research that emerges from these “unrestricted” funds will in turn spawn new sponsored activities and inventions that will contribute to UVM’s financial sustainability.
Currently, a large percentage of the indirect cost revenue generated stays centrally, as part of the general fund to cover UVM’s operating expenses, and few individuals outside central administration understand how these funds are utilized. The models that we propose increase the predictability by which indirect cost revenue is allocated. Transparency and clarity will be achieved by encouraging units to develop guidelines based on faculty input that articulate how funds will be distributed. The three models that we propose are simple, consisting of one or two steps. Hence, these models are easily understood and will be easy to implement and operate.

Related Issues for Additional Information Related to the Algorithms
The subcommittee felt very strongly that regardless of the algorithm adopted, a set of guiding principles must be followed. These are (in no particular order of importance):

1. **Fairness** – Research (sponsored and otherwise) is central to the mission and strategic goals of UVM and essential for maintaining intellectual vibrancy and academic relevance. The intrinsic value of research and other sponsored activities should not be measured by the amount of revenue they generate for the university but by their contribution to our mission and strategic goals. The allocation of indirect cost revenues should first and foremost support UVM’s mission of scholarship, research, and education across all units.

2. **Centralization** – Given the importance of research and sponsored activities to UVM, a Research Office is warranted to effectively coordinate, manage, and incentivize these activities. Moreover, a centralized Research Office will facilitate and foster collaborative and trans-disciplinary research, a principal strategic goal for UVM.

3. **Operation of Matrix Centers and Programs Outside Colleges and Schools** – The committee had several discussions about how center-like activities should be managed in an IBB model in terms of where they report and the means by which they are supported. The group recognized the importance of center-like activities (centers, institutes, and center-like programs with formal directors and/or staff) as ways to foster and sustain trans-disciplinary research. The consensus was that there is no single solution that should be applied to all center-like activities, but rather each needs to be evaluated to determine how to best ensure the center-like activity’s success. In some cases the center would be best to report to the Research Office (currently OVPR) and in other cases to a Dean or Deans. In either case the F&A associated with extramural awards would accrue to the unit, or units, to which the Center reports. The reporting unit(s) would be responsible for appropriately supporting the Center. At the present time there are a variety of center-like programs on campus, some officially designated and others not. Examples include: the Vermont Cancer Center (VCC), the Center for Clinical and Translation Science (CCTS), the UVN Transportation Center (TRC), the Vermont Advanced Computing Center (VACC), the multiple EPScRoR Programs, and the Vermont Genetics Network (VGN). The committee supported the concept that efforts like EPSCOR, VGN, and VACC which not only cross multiple colleges, but have substantial
outreach to other educational institutions and develop core research infrastructure both at UVM and with statewide partners, might best be assigned to the Research Office.

Enterprises like the TRC, the VCC, and the CCTS could be best assigned to a Dean (or Deans). As currently defined, departments may share financial responsibility for faculty and staff with Matrix Centers; Deans and the Provost may decide there may be other entities included in this type of sharing. In recognition of this sharing, F&A generated by the faculty in question should flow to the Center in proportion to the financial responsibility being shouldered.

4. **Soft landing** – The implementation and practice of IBB may imbalance a unit’s budget. The reliance on F&A revenue may result in year-to-year seismic budgetary changes. There should be strategies in place to allow units time to work themselves out of trouble without undue or immediate penalty.

5. **Quality assessment** – There should be regular, fair, and transparent assessment of service units whose operations rely on and support those activities that generate F&A revenue.

This report was read and approved by all subcommittee members.

**Appendix 1. Estimate of cost of supporting sponsored activities**

<table>
<thead>
<tr>
<th>OVPR Budget</th>
<th>Current</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Sponsored Project Administration</td>
<td>$2,346,970</td>
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<tr>
<td>VP Research Operating</td>
<td>$1,047,567</td>
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<tr>
<td>Research Protections Office</td>
<td>$540,191</td>
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<tr>
<td>Institutional Research Board Support (IBC)</td>
<td>$71,857</td>
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<tr>
<td>Office of Technology Commercialization</td>
<td>$331,542</td>
<td></td>
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<tr>
<td>Office of Animal Care Management Base</td>
<td>$187,376</td>
<td></td>
</tr>
<tr>
<td>Office of Animal Care Management Subsidy</td>
<td></td>
<td></td>
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<tr>
<td>Office of Technology Commercialization Shortfall</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Subtotal OVPR Core Operations</strong></td>
<td>$4,525,503</td>
<td>$4,837,503 ← If OVPR budget is increased for increased Animal Care Subsidy ($250k) and OTC shortfall ($67k)</td>
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<tr>
<td><strong>VPR Base Incentive Funds</strong></td>
<td>$718,000</td>
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<tr>
<td><strong>VPR Base Incentive Funds (currently to TRC)</strong></td>
<td>$0</td>
<td></td>
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<tr>
<td>Incentive Funds (if no CTSA)</td>
<td></td>
<td></td>
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<tr>
<td>Incentive Funds to REACH Grants</td>
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<td></td>
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<tr>
<td>Incentive Funds to VGN</td>
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<td></td>
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<tr>
<td><strong>Subtotal OVPR Research Incentive Fund</strong></td>
<td>$718,000</td>
<td>$1,218,000 ← If OVPR budget is increased by Provost; currently Provost; funds $375k for things like VGN, REACH, VACC</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$5,243,503</strong></td>
<td><strong>$6,055,503</strong></td>
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