

# Increasing Investment in Research

## A New Formula for the Distribution of Indirect Cost for Sponsored Research Grants and Contracts Awarded to Texas A&M University

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Texas A&M University's FY11-15 Strategic Plan, *Action 2015: Education First* "insists that we make difficult decisions about the investment of scarce new resources, and that we make even more difficult choices about whether we are using our current resources in a manner that is consistent with our stated plan and goals." In the spirit of *Action 2015*, the purpose of instituting changes to the University's indirect cost (IDC) allocation formula is: (1) to deliver a larger share of flexible resources directly into the hands of principal investigators (PIs) for the purpose of helping them be even more successful in their research programs and (2) to expand the total share of resources available for investment in the growth of the research enterprise by the University's colleges. We are able to achieve these objectives due to cost savings in research administration gained through the creation of The Texas A&M University System Office of Sponsored Research Services (OSRS) and as a result of the University's decision to reduce its share of retained IDC for strategic investment.

### Current University IDC Distribution Practices

Sponsored research grants or contracts carry a budget line commonly known as "indirect cost," "overhead," or "F&A," unless such a cost is not allowed by the funding agency. This charge is based on a rate negotiated with the federal government to support research-related services and infrastructure (e.g., grants administration, research compliance, and research administration). The negotiated rate for grants awarded to Texas A&M University, the College Station-based state agencies (e.g., Texas AgriLife Extension, Texas AgriLife Research, Texas Engineering Experiment Station, Texas Transportation Institute), and the Texas A&M Health Science Center is currently 46.5 percent of modified total direct costs; the rate will be reduced to 46 percent of modified total direct costs in September 2012. While IDC is effectively returned to assist in the recovery of facilities and administration (F&A) costs, Texas law allows state universities and agencies to retain 100 percent of IDC and mandates that it be reinvested in areas that will advance research for the state of Texas (e.g., research and researcher development, new research facilities, feasibility studies, etc.).

### Overview of Indirect Cost Distribution at Texas A&M University

	Current Distribution	New Distribution*
<b>PI-Faculty Research Incentive Fund</b>	0%	15%
<b>College Program Development Fund</b>	39.5% avg.	35%
<b>University Strategic Investment Fund</b>	40%	35%
<b>Grants Administration Fees</b>	20.5% approx.	15%

These allocations apply to sponsored research grants and contracts awarded to Texas A&M University, not to other College Station-based Texas A&M System members. Consistent with the exceptions authorized by Texas A&M University's president to University rule 15.01.01.M5 sponsored research awards secured by University faculty in the College of Agriculture and Life Sciences and the Dwight Look College of Engineering and (at the discretion of the dean) the College of Veterinary Medicine & Biomedical Sciences are largely administered through the Texas Engineering Experiment Station (TEES) or Texas AgriLife Research (AgriLife). In such cases, faculty in two of the colleges (agriculture and engineering) act in their joint-appointment capacity as researchers of the state agencies (i.e., not as University faculty). In all such cases, 100 percent of IDC goes directly to TEES or AgriLife, which govern the distribution of resources. If, however, a project must be submitted through the University (e.g., when a funding agency requires submissions from a degree-granting institution), IDC will be allocated in accordance with the new distribution formula outlined in this table.

\* Effective September 1, 2012, and retroactive on earned IDC for the final six months of FY12 (March-August 2012)

Through Texas A&M University's current practice for IDC distribution, the University has: (1) provided an automatic, formulaic return to those colleges with PIs who generate IDC; (2) retained a portion of IDC for strategic investment campus-wide; and (3) served as the source of funds for costs associated with the administration of sponsored research. Under this practice, the University has historically returned approximately 40 percent of all earned IDC to the respective colleges on sponsored research projects directed through Texas A&M University. Since the University has no policy for how colleges distribute IDC, colleges have been free to retain and/or allocate that IDC as they saw fit (e.g., to departments and faculty). The University likewise has historically retained approximately 40 percent of the IDC for strategic investment—investments that go almost entirely back to the colleges, departments, and faculty that generated them to support aspects of the research enterprise, including faculty startup and retention, equipment purchases, and matching funds for research grants. The remaining portion of IDC (approximately 20 percent) has been dedicated to supporting sponsored projects administration, either by Texas A&M University Research Services or the Texas A&M Research Foundation.

The IDC return practices described above have been applicable only to grants and contracts officially awarded to Texas A&M University, not to other College Station-based Texas A&M System members. This distinction is important, since all Texas A&M University faculty have not traditionally submitted grants through the University, thus not returning 100 percent of IDC to the University. Therefore, some disparities currently exist within selected colleges in how University faculty-generated IDC is distributed. Since this disparity can create confusion, some explanation is in order.

University rule 15.01.01.M5 requires that Texas A&M University faculty submit grants and contracts through the University. However, the rule also allows Texas A&M's president to provide exceptions to faculty who hold joint appointments with other system members, even when the administrative location (adloc) of the faculty member is with the University. The rule states that the president "may approve exceptions where it is in the best interest of the college and the University." In 2004 and 2009, the president granted such exceptions for sponsored grants and contracts led by faculty in the University's College of Agriculture and Life Sciences (COALS), the Dwight Look College of Engineering (COE), and the College of Veterinary Medicine & Biomedical Sciences (Vet Med). Faculty in two of these colleges (COALS and COE), acting in their joint-appointment capacity as researchers of the state agencies (i.e., not as University faculty), are directed,

per the exceptions from the president, to submit grants and contracts through the Texas Engineering Experiment Station (TEES) and Texas AgriLife Research (AgriLife), respectively. The 2009 presidential exception also grants the dean of Vet Med the authority to allow the college's faculty to submit grants through either Texas A&M University or Texas AgriLife Research. Exceptions notwithstanding, faculty in these three colleges must always submit proposals through the University in cases where funding-agency rules necessitate that a grant be submitted through Texas A&M University—due to requirements for institutional eligibility (e.g., when a grant must be managed by a degree-granting institution) or for other reasons, including proper institutional representation.

As a result of the standing presidential exceptions granted to three colleges at the University, Texas A&M University does not receive, oversee, distribute, recommend, or manage IDC allocations on grants led by University faculty that are processed and managed by the state's engineering or agricultural experiment stations, i.e., AgriLife and TEES. Rather, the two state agencies determine their respective IDC distribution policies and allocations to PIs, departments, and colleges, independent of the University.

#### **New University IDC Allocation Formula**

Effective September 1, 2012, and retroactive for the final six months of FY12 (March-August 2012), the University will now, and for the foreseeable future, allocate 15 percent of IDC earned on all Texas A&M University-sponsored research contracts and grants directly to the PIs who generate IDC. The 15 percent distribution will be deposited into an account for each PI, created specifically to advance their research activities. In addition, direct IDC distribution to colleges with faculty who generate IDC will now be 35 percent of the total IDC earned on grants submitted through Texas A&M University; as before, this resource allocation must be expended, at the discretion of the respective deans, to enhance and support the college's research activities.

As a result of the combined IDC distributed to PIs and colleges through the new allocation system, the University will now pass on 50 percent of total IDC earned on a University grant directly to PIs and colleges, an increase from the previous 40 percent. Consistent with the current practice, colleges may choose to pass on a share of their 35 percent IDC return to departments and/or PIs responsible for securing the grant, on top of the 15 percent already allocated directly to PIs by the University. It is also expected that colleges will have an even greater capacity to leverage research investments provided by the University to stimulate

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strategic, campus-wide initiatives and to collaborate and encourage interdisciplinary activity across colleges.

The new IDC allocation formula will establish more consistency and equity in how IDC is distributed to PIs and colleges on sponsored research contracts and grants awarded to Texas A&M University. In cases where a University faculty member in COALS, COE, or Vet Med must submit a grant through the University (e.g., when a funding agency requires proposal submission by a degree-granting institution), IDC will be allocated using the formula outlined in the new model (i.e., 15 percent directly to the PI(s), 35 percent directly to their respective college). In cases where presidential exceptions (to University rule 15.01.01.M5) allow University faculty to submit grants through AgriLife or TEES, distribution of any earned IDC remains outside the University's purview and is therefore governed and distributed by the respective state agencies.

According to the new distribution model, Texas A&M University will now retain 35 percent—down from the previous 40 percent—of IDC earned on all sponsored research contracts and grants submitted through the University to fund a Strategic Investment Fund. This modest reduction will reduce the total central funds available for matching, startup, facilities and equipment, and strategic investments, and thus demand that the University grow even more focused and efficient in its use of these resources. However, the expectation is that returning a larger fraction of the IDC to colleges and PIs will generate greater long-term research success for the University and, as a consequence, create more resources for University-wide investment in research growth.

The remaining share of total IDC (15 percent) will fund the costs of grants administration. The best current estimate for costs to support the management of sponsored contracts through The Texas A&M University System Office of Sponsored Research Services (OSRS) is 15 percent of earned IDC. As such, a flat 15 percent of IDC returned from all grants to Texas A&M University will go directly to fund grants management at OSRS. This is a reduction from the 20 percent previously needed to fund grants management on contracts and grants prior to the creation of OSRS, creating savings available for more direct investment in the research enterprise. With the allocation of this 15 percent from the University's total IDC return, the cost of grants management will become a shared expense of colleges and faculty submitting grants in the name of Texas A&M University—and thus consistent with the goal of supporting and developing a truly comprehensive research university. To sustain and encourage interdisciplinary research activity, the new IDC allocation policy will also include a

process for more directly supporting University centers and institutes. Under the new allocation formula, when a Board of Regents-approved University center or institute is substantially involved in a sponsored contract or grant, the University will redirect five percent of any earned IDC from its Strategic Investment Fund to the respective center or institute, if colleges with participating PIs agree to match the contribution with a total of five percent. With a match from the colleges, a center or institute would thus receive 10 percent of IDC, while 15 percent would continue to go directly to PIs and the allotments to the University and colleges would each drop to 30 percent.

### **Implementation of the New University IDC Allocation Formula**

Implementation of the IDC allocation formula outlined above will be administered retroactively to include the final six months of FY12. This retroactive implementation of the new IDC distribution formula will ensure that PIs, departments, and colleges realize immediate benefits. As FY12 comes to a close, the Division of Research will work with business offices across the University and in the colleges to make the appropriate allocations for the second half of FY12. The division will also coordinate with college business offices to establish the accounts and processes necessary to facilitate the new IDC distributions seamlessly and efficiently, including the creation of the required faculty accounts for PIs. We will consult with appropriate individuals and organizations as implementation issues (e.g., the distribution of IDC to co-PIs) emerge in this transition.

Texas A&M University's new IDC allocation approach is intended to support the continued growth of groundbreaking research and scholarship across the University, helping deliver and invest resources in ways that can even more effectively move the institution toward its *Vision 2020* goal of becoming a top 10 public research university. In this way, it complements other initiatives by the University to be strategic and efficient in considering where we invest and how we become more efficient—including initiatives like the Texas A&M University Institute for Advanced Study, the Division of Research's Planning Grant Program, and significant improvements to research compliance, development, and administration. Even as we continue to face times of fiscal restraint at the state and federal levels, these activities and programs, including this new IDC distribution formula, demonstrate an even stronger commitment by University administration to support and fuel Texas A&M's research enterprise.

Like all of these and other initiatives, the new IDC allocation model will be open for review and reconsideration as we

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collectively and critically assess the relative gains and successes in the years ahead. Ideas for improvements and enhancements from the Texas A&M research community are welcome and encouraged. We may find, for example, that more or different efforts are required to assure seamless and efficient interdisciplinary collaborations among faculty. In the meantime, this model will be considered the default practice for IDC distribution for all sponsored research grants and contracts awarded to Texas A&M University and serve as a basis for future discussions.