



MEMORANDUM

TO: VSE Faculty

FROM: Kimberly Goodwin-Slater, Director of Finance
Arthur Pyster, Associate Dean for Research

SUBJECT: Distribution of Recovered Indirect Funds and Additional Research Support

DATE: April 5, 2019

Background.

Recovered indirect funds, often referred to as Facilities and Administration or F&A, (hereafter just called “indirect”) are a significant source of investment funds for the VSE research enterprise. A few examples (not intended to be inclusive) of how VSE uses indirect generated from grants and contracts (hereafter called “sponsored awards”) are:

- The VSE Dean pays for faculty startup packages, leased research space, and for most research center/lab renovation and furniture as well as paying for a portion of sponsored award cost share. Because we are growing so rapidly, those costs add up to millions of dollars annually.
- Departments supplement stipends for GTAs and GRAs to make more competitive offers; they pay for a portion of sponsored award cost share; and pay for conference travel for faculty who lack sponsored research funds and personal indirect funds to do so.
- Individual faculty often cover travel not directly chargeable to a sponsored award or provide bridge funding for GRAs when there is a gap in sponsored award coverage.

Additionally, the VPR cost shares core lab equipment that VSE faculty and students use and provides seed funding for university centers that we lead and in which we participate.

The standard indirect rate applied to sponsored awards for on campus research is 57% based on negotiations between Mason and the federal government (a lower rate is normally applied for off-campus research). This rate is renegotiated periodically and has tended to rise over the years. However, the actual amount of indirect generated on average is actually much less than the 57% would suggest. We sometimes accept a lower indirect rate if the sponsor has a formal policy that limits indirect costs. In some cases, we may decide to include some or all of our indirect as cost-share when required by a sponsor or to be competitive in a proposal. When we subcontract work

to other universities or companies, we only collect indirect on the first \$25,000 of the subcontract value independent of the size of the subcontract. Some cost categories, such as equipment and tuition, do not generate indirect. Hence, change in the amount of indirect generated correlates less with change in research expenditures than might be expected.

The fundamental model for distributing indirect within VSE and elsewhere in Mason has not changed much over many years. Some of the weaknesses in that model have become more pronounced over time, triggered in part by rapid growth in the university's research portfolio, as reflected in its now 3-year old stature as an R-1 research university.

Three weaknesses in indirect distribution that have been voiced by VSE faculty, department chairs, center directors, and the Dean focus on: (i) concerns about "unfair" distribution among different stakeholders; (ii) a sense of "competition" between departments and centers over indirect distribution, which can discourage faculty participation in centers; and (iii) insufficient indirect to bridge gaps in sponsored award funding for research faculty, staff, and students. The first two points are linked: the second concern reflects a desire on the part of both department chairs and center directors to receive their "fair" share of indirect.

In the past year, movement in how the university manages recovered indirect has helped address some weaknesses:

- Last fall, the university issued a new guideline on distributing indirect which stated that in multi-unit sponsored awards, the PIs/Co-PIs will determine the indirect split between units because the PIs/Co-PIs are in the best position to make that determination.
- Beginning in FY19, a new budget model was enacted that incentivizes growth in indirect. This new model is analogous to the incentive model for E&G funds that was implemented 3 years ago. VSE now has a target for how much indirect we should generate annually. Note this target is for indirect, not for expenditures. That target was set at the \$5.3M total indirect VSE generated in FY17, which ended on June 30, 2017. We generally receive 35% of indirect up to that target. VSE will receive 80% of indirect above the target. The target will be revisited periodically.

Despite this progress, significant weaknesses in the model for distributing indirect funds remain.

By university policy, VSE normally receives 35% of the total indirect generated on a sponsored award, which is divided between the dean's office, relevant departments and centers, and participating faculty. The remaining 65% goes to the central university administration and the provost. When other units are involved in a sponsored award, VSE's indirect percentage is reduced, reflecting the split between those units.

As mentioned above, Mason has a new policy that will allow VSE to keep 80% of the indirect above the target set by the university. Because our indirect continues to grow, we should be able to take advantage of that new policy. However, indirect growth is much slower than growth in research expenditures, primarily because we are issuing a large number of subcontracts which generate very little indirect. Nevertheless, we anticipate indirect growth each year and are working to retain more research in-house to strengthen our research enterprise and increase our indirect.

This summer, VSE should receive 80% of the indirect earned in FY19 above our target. Those funds are largely slated to pay for competitive faculty startup packages, space and equipment expansion, extra funding for centers and departments to invest, and bridge funding for research

faculty, staff, and students. We also hope to expand proposal preparation support, program management support for large projects, and center administrative support. The dean will provide more information about these planned expenditures in subsequent communication. Each year, we will revisit the priorities for the additional indirect.

In this memo, we describe the new model that is being implemented to distribute indirect within VSE. This model attempts to directly address competition between departments and centers and to provide stronger incentives for departments, centers, and faculty to grow their research portfolios. This model takes into account feedback provided by many faculty members on three earlier drafts and additional data we collected from other universities.

To help inform our efforts, we looked at how other universities distribute indirect, and unsurprisingly, it is difficult to understand individual university practices or to see many common patterns. There is dramatic variation in percentages given to central administration, schools/colleges, departments, centers, and PIs across universities. Moreover, the percentages only tell part of the story. Universities vary widely in what they expect each party to fund. For example, some universities follow our practice in which the dean bears faculty startup costs. One university splits faculty startup costs between the department and the dean, with most funding coming from the dean. Another university splits startup costs equally between the VPR, dean, and department. We also collected current information from 12 universities about how much indirect PIs/Co-PIs receive. We are sure there are exceptions, but this is what they reported as usual practice:

- 10%: GWU
- 7%: VCU (but they expect to change that shortly down to approximately 0%)
- ~5.5%: ODU
- 5%: Penn State
- 0%-5%: UVA
- 3%: University of Illinois
- 0%: Virginia Tech, Syracuse, University of South Carolina, University of North Carolina, North Carolina State, Georgia Tech

Mason's common practice of giving approximately 10% of indirect to PIs is an outlier.

Design Objectives for New Model.

The new model has eight primary design objectives:

1. Eliminate conflict between centers and departments on the indirect percentage split
2. Incentivize departments, centers, and faculty to grow their research portfolio and generate more indirect that can be invested in our research enterprise
3. Provide a base level of funding for center operations
4. Provide greater transparency into the dean's, departments' and centers' strategies to grow research
5. Be easy for everyone involved to understand

6. Create a standard way to provide some bridge funding for research faculty, staff, and students
7. Provide departments and centers additional resources to invest in faculty research
8. Build confidence among center directors, department chairs, and faculty that this approach is an improvement over the current distribution model.

Summary of New Model.

The following table summarizes the new model, which is explained in more detail in the subsequent sections of this memo, complete with examples.

Table 1. VSE Indirect Distribution

<i>Recipient</i>	<i>% Indirect when Research Managed by Department</i>	<i>% Indirect when Research Managed by Center</i>	<i>Explanation</i>
PI/Co-PIs	8% to 12%	8% to 12%	Tiered 1% increase for each additional \$100K of indirect
Department	6%	6%	Department % is constant
Center		8% to 12%	Tiered 2% increase for each additional \$400K of indirect; center also receives annual base funding from dean that is not dependent on individual research awards
Dean	21% to 17%	13% to 5%	Dean's share is what is left from 35%

Faculty Indirect.

1. Faculty members will receive 8% during the fiscal year and will receive any additional funds owed them after the fiscal year ends. If a department wishes to have, as a matter of general practice, a different split between itself and the PI/Co-PIs, it can request a waiver from the dean.
2. Percentages and criteria to reach higher tier levels will be revisited periodically, but the minimum percent return to PI/Co-PIs will not be reduced below 8% through FY22.
3. Note the percent return to PI/Co-PIs is well above what nearly all universities we surveyed provide their PIs. Giving substantial indirect to PI/Co-PIs is a strength of Mason's support to faculty. Yet, distribution to individual faculty must be balanced against having sufficient funds to make costly investments in space, equipment, cost-share, start-up packages and other support as we rapidly grow our research enterprise. This new distribution model balances between the two needs.

Center Funding.

1. The funds to support a center will be the combination of base funding from the dean and indirect received on center-managed sponsored awards.

2. Most of the ongoing funding for a center is expected to come from external funds, primarily sponsored research. However, when a new center begins, the dean will guarantee a base level of support for the period of the center's initial charter. That base level will be negotiated between the dean and the center director and will take into account the mix of operational costs, investments, and the need for a center to hold a reserve for unanticipated expenses.
3. The dean and center director may revisit base funding whenever extraordinary circumstances demand; e.g. if the center wins a very large sponsored award or one which has unusual security requirements, its base operations may require more funding than originally anticipated. Perhaps, a center may go after a large strategically important sponsored award for which we waive some or even all indirect. In those cases, the dean may decide to provide a one-time boost in center support or raise the base level of funding.
4. When a center's charter is renewed, the center director and the dean will jointly determine whether base funding will continue and at what level.
5. In some cases, the PI/Co-PI of a sponsored award is a research faculty member who is associated with a center but not with a department. In that case, the funds that would have gone to the department had the faculty member belonged to a department will instead remain with the dean.

Example 1 in Which All Faculty are from VSE and Award is Managed by A Department.

As an example of the new model, consider a hypothetical NSF sponsored award that involves two VSE faculty: Vadim Sokolov in the SEOR Department and Bob Simon in the CS Department. Suppose the following facts:

1. Simon is the PI, Sokolov is the Co-PI, and the CS Department manages the award.
2. The award generates \$200K in indirect. Simon and Sokolov agree to split the PI/Co-PI portion of the indirect equally.
3. Simon is credited with another \$90K in indirect from a separate DoD grant during the year.
4. Sokolov has no other indirect during the year.

Table 2 shows how recovered indirect would be distributed.

Table 2. VSE Indirect Distribution

<i>Recipient</i>	<i>% Indirect on Awards During Academic Year</i>	<i>Extra Indirect at End of Academic Year</i>	<i>Total \$ Received on All Awards</i>
Simon	8% of \$190K total indirect on NSF and DoD awards	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$16.1K
Sokolov	8% of \$100K indirect on NSF award		\$8K
CS Dept	6% of \$190K total indirect credited to Simon on both awards		\$11.4K
SEOR Dept	6% of \$100K indirect credited to Sokolov on NSF award		\$6K

<i>Recipient</i>	<i>% Indirect on Awards During Academic Year</i>	<i>Extra Indirect at End of Academic Year</i>	<i>Total \$ Received on All Awards</i>
Dean	21% of \$290K total indirect on both awards	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$60K

Example 2 in Which All Faculty are from VSE and Award is Managed by a VSE Center.

Consider Example 1 again but suppose instead the NSF award is managed by the C4I&Cyber Center rather than by the CS Department. Further suppose the center is credited with \$500K in indirect from other awards that do not involve either Simon or Sokolov and that none of the PIs/Co-PIs of those other awards are credited with more than \$100K. Table 3 shows the indirect distribution.

Table 3. VSE Indirect Distribution

<i>Recipient</i>	<i>% Indirect on Awards During Academic Year</i>	<i>Extra Indirect at End of Academic Year</i>	<i>Total \$ Received on All Awards</i>
Simon	8% of \$190K total indirect on NSF and DoD awards	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$16.1K
Sokolov	8% of \$100K indirect on NSF award		\$8K
CS Dept	6% of \$190K total indirect on NSF and DoD awards		\$11.4K
SEOR Dept	6% of \$100K indirect on NSF award		\$6K
PIs on other C4I Grants	8% of \$500k indirect		\$40k
Depts of PI on other C4I Grants	6% of \$500k indirect		\$30k
C4I&Cyber Center	8% of \$700K indirect on NSF and other awards that center manages	VSE dean pays center 2% of \$300K indirect above \$400K threshold	\$62K
Dean	13% of \$700K indirect on all awards managed by C4I&Cyber Center 21% of \$90K indirect on Simon's DoD award managed by CS	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold VSE dean pays C4I&Cyber 2% of \$300K indirect above \$400K threshold	\$103K

The C4I&Cyber Center also has annual base funding from the dean available to support execution of all its research awards plus investments and reserve. Suppose some of the sponsored awards put unusual security requirements on the C4I&Cyber Center that were not anticipated when Mark Pullen, the C4I&Cyber Center Director, negotiated base funding for the center. Further suppose

the center’s reserve is inadequate to support those additional security requirements. Pullen could negotiate with the dean to receive additional funding on either a one-time basis or as an increase in the annual base amount.

Example 3 in Which the PI is from VSE, the Co-PI is from Another Unit, and the Award is Managed by a VSE Department.

Consider Example 1 again but suppose the Co-PI for the NSF award is not Sokolov, but a faculty member from COS. Table 4 shows the indirect distribution.

Table 4. VSE and COS Indirect Distribution

<i>Recipient</i>	<i>% Indirect on Awards During Academic Year</i>	<i>Extra Indirect at End of Academic Year</i>	<i>Total \$ Received on All Awards</i>
Simon	8% of \$190K total indirect on NSF and DoD awards	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$16.1K
COS Faculty	Per COS policy	Per COS policy	Per COS policy
CS Dept	6% of \$190K total indirect on NSF and DoD awards		\$11.4K
COS Faculty Dept	Per COS policy	Per COS policy	Per COS policy
VSE Dean	21% of \$190K total indirect credited to Simon on both awards	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$39K
COS Dean	Per COS policy	Per COS policy	Per COS policy

VSE distributions would be unaffected by the participation of a COS Co-PI. COS distributions would be determined by COS policy.

Example 4 in Which the PI is from VSE, the Co-PI is from Another Unit, and the Award is Managed by a University Center.

A university research center is one whose primary sponsor is the VPR, who typically provides multi-year base funding for it. Such a center is multi-disciplinary and is co-sponsored by two or more academic units who may also provide base funding.

Consider Example 3 again but suppose the NSF award is managed by a university research center rather than by a VSE department or center. Suppose the NSF award is the only one managed by the center in which VSE faculty participate as PI/Co-PI. Table 5 shows the indirect distribution.

Table 5. VSE, COS, University Center Indirect Distribution

<i>Recipient</i>	<i>% Indirect on Awards During Academic Year</i>	<i>Extra Indirect at End of Academic Year</i>	<i>Total \$ Received on All Awards</i>
Simon	8% of \$190K total indirect on NSF and DoD awards	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$16.1K
COS Faculty	Per COS policy	Per COS policy	Per COS policy
CS Dept	6% of \$190K total indirect on NSF and DoD awards		\$11.4K
COS Dept	Per COS policy	Per COS policy	Per COS policy
University Center	VSE gives 8% of \$100K indirect on NSF award Per COS agreement		\$8K from VSE Per COS agreement
VSE Dean	13% of \$100K indirect on NSF award managed by University Center 21% of \$90K indirect on Simon's DoD award managed by CS	VSE dean pays Simon 1% of \$90K indirect above \$100K threshold	\$31K
COS Dean	Per COS policy	Per COS policy	Per COS policy

VSE distributions would be unaffected by the participation of a COS Co-PI or by management through a university center. COS distributions would be determined by COS policy and by their agreement with the university center.

Bridge Funding.

1. Most research faculty and staff work in centers, a practice we expect to continue, but departments have the option to hire research faculty and staff as well.
2. The dean will maintain a central pool of funds to support bridge funding of research faculty, staff, and students, independent of whether they work in a center or a department.
3. Bridge funds will be limited, and a center director or department chair must apply to the dean for access to them. Individual faculty, staff, and students may apply indirectly to the fund through their center director or department chair. The dean will review the application with the chair or director, considering the funding currently available to the department or chair. The specific criteria and process the dean will use to decide how to spend bridge funds will be published and transparent.

Transition to the New Model.

Projects already underway and proposals that have been submitted but not yet awarded reflect the current model, not the new one described here. Through the end of FY20, VSE will transition to the new model as reflected in Table 6:

Table 6. Transition to the New Model

<i>Date</i>	<i>Which Model Can Be Proposed</i>	<i>Which Model Can Be Used After Award</i>
Through June 30, 2019	Can propose old or new at PI/Co-PI discretion	Can use old model if old was proposed or use new model instead if PI/Co-PIs prefer
July 1, 2019 through June 30, 2020	New only	Can use old model if old was proposed or use new model instead if PI/Co-PIs prefer
July 1, 2020 onward	New only	New only

1. When a project converts from the old to the new model, the PI/Co-PIs must renegotiate the indirect split among themselves.
2. Only indirect generated on projects that follow the new model will be counted towards achieving higher tier levels for additional indirect to be distributed to PIs/Co-PIs and centers.
3. The decision to convert from the old model to the new model must be made by the following deadlines:
 - a. Existing Awards: No later than June 1, 2019
 - b. New Awards: Within 30 days of award