April 19, 2013

TO: Members, University Budget Committee

FROM: UBC Subcommittee on F&A Funds

SUBJECT: Concept for Redistribution of F&A funds

The University Budget Committee established a subgroup to review distribution of Facility and Administration (F&A) funds across campus. The subcommittee consisted of:

Sherman Bloomer, Director, Budget Office
Cyril Clarke, Dean, College of Veterinary Medicine
Rich Holdren, AVPR, Research Office (Chair)
Russ Karow, Head, Crop and Soil Science, College of Agricultural Sciences
Jim Lundy, Executive Associate Dean, College of Engineering
Scott Reed, Associate Vice Provost, Outreach and Engagement
Vince Remcho, Interim Dean, College of Science

Background:
Through the extramural funding success of our faculty and staff, the University recovers F&A dollars from federal, state and private research grants and contracts. These funds are calculated based on real and actual costs that are incurred during the process of conducting research but are not uniquely attributable to specific projects. In FY12, the university recovered approximately $36 million in F&A and currently distributes these funds in a formulaic manner as follows:

4% to OUS (Chancellor’s Office);
8% Research Equipment Reserve Fund (mandated by our federally negotiated rate);
4% Building Use Credits (mandated by our federally negotiated rate);
~31% returned to colleges to cover administrative costs;
$3,125,000 (~8.6%) to support Centers and Institutes
$ 768,000 (~2.3%) Library
6.9%+ Support Provost Initiative Hires
34.2% Returned to the state Education and General (E&G) Fund
~1% reserved for disallowed costs

While the F&A funds are in all respects E&G dollars, a widely held faculty perception is that the funds earned through extramural research should be reinvested specifically in the research enterprise. By allocating the F&A funds back to colleges or into the E&G pool, many faculty apparently feel that there has been insufficient accountability for the reinvestment of the dollars into those functions or facilities that were used to generate the dollars. For that reason, the
subcommittee was charged to review the distribution of F&A funds in regard to the justification for and transparency of the process, and whether other models of distribution should be considered.

**Results:**
One of the concerns noted by the Subcommittee is that the use of recovered F&A dollars is not transparent to the campus community. While the F&A costs are paid as reimbursement for costs incurred, there is no link between the costs actually incurred and how the University choses to invest the F&A dollars recovered from research activities.

Financial information provided by the Budget Office shows that F&A funds recovered from sponsored research are markedly less than the actual cost of supporting the University’s research mission. To maintain research operations, which is a critically important mission of OSU, E&G funding is allocated to cover these expenses. Therefore, any adjustments in distribution of F&A distribution will have collateral effects on other operations funded using E&G funds. Nevertheless, the Subcommittee believes that the research mission of the University occupies such a high priority in its strategic planning that consideration should be given to adjusting distribution of F&A funding to allow investments in our current faculty and facilities, and to support future research development. Recognizing the importance of investments made at the college level, particularly in professional development of research faculty, the Subcommittee felt that a careful examination should be undertaken of the overall E&G budget and budget process to determine how the following recommendations might best be accomplished.

**Recommendations:**
Based on these discussions, the Subcommittee makes the following recommendations:

1. To achieve greater transparency, the Budget Office will publish a report itemizing the allocation of E&G funding to individual University research functions, including:
   - distribution of total F&A funds;
   - additional E&G funding received from sources other than F&A reimbursements and allocated to support research functions; and
   - estimated total cost of maintaining research operations.
2. To achieve greater transparency, each OSU administrative unit is asked to share with unit members, at least on an annual basis, how F&A funds are being used within the unit and are encouraged to engage in regular conversations about the use of funds within the unit.
3. Given the clear need for investments in research support and research capacity beyond what OSU is currently doing, the Subcommittee recommends that the distribution of E&G funds (including the F&A component) be adjusted to create an investment pool focused on the needs of faculty, including:
   - repair, renovation, and expansion of key shared-use research facilities;
   - a matching fund to be used for large, multi-unit proposals that significantly extend the research capabilities of the university; and
   - an annual laboratory infrastructure renovation fund of $2M