Notice

A publication of the
Academic Senate,
University of California
Volume 24, No. 1, November 2000

NEWS FOR THE UC FACULTY

UCLA Engineer Is New Vice Chair of The Statewide Senate

The universitywide Academic Senate has a new Vice Chair. On September 1, Chand R. Viswanathan, a Professor of Electrical Engineering at UCLA, began his 2000-2001 term as Vice Chair of the Senate's Assembly and its executive committee, the Academic Council. Elected by vote of the Assembly last May in Los Angeles, Viswanathan (known by his friends as "Vis") will succeed in fall 2001 to the position of Chair of the Assembly and Council — the most important offices in the systemwide Senate. Viswanathan will serve this year alongside current Assembly and Council Chair Michael Cowan of UC Santa Cruz.

Viswanathan brings to the Academic Council a long record of University and Senate service. He headed the UCLA division of the Academic Senate in 1997-98 and currently sits on the systemwide Senate's UC Merced Task Force. His UCLA Senate experience also includes service on numerous committees, including Teaching, Graduate Council, the ad hoc Committee on Senate Restructuring, and a recent two-year term as chair of UCLA's Conflict of Interest Committee.

At the departmental level he has served on academic committees such as Course and Curriculum, and Budget. Involved in the formation of the systemwide California MICRO Program, he served as director and chair of its executive committee. In addition to Senate service, he has managed to accumulate substantial administrative experience, serving as UCLA's Assistant Dean of Graduate Studies from 1974 to 1977, and as chair of the Electrical Engineering Department from 1979 through 1985.

Now a naturalized U.S. citizen, Viswanathan (pronounced vis-wah-NAH-than) received his undergraduate education in India. He then traveled to UCLA where he earned his M.S. in 1959 and Ph.D. in 1964.

Ever since those years of graduate study he has remained at UCLA. First recruited as a junior faculty member in 1962, he advanced through the ranks to become full professor in 1974.

Viswanathan's research focuses on

(Please See: Chand, Page 2)

A Complicated Money Trail: Indirect Costs And the Funding of University Research

It's a subject so complex that it regularly confuses faculty and has been known to befuddle a chancellor or two. Yet it's a subject of great importance to the University of California: an estimated $312 million worth of importance this year, just from the federal government. The subject is indirect costs, also known as overhead expenses, also known as facilities and administration costs.

Universities such as UC support research in numerous "indirect" ways and are reimbursed, by research sponsors, for the costs of this support. This reimbursement is referred to as indirect cost "recovery," and the money it provides pays for lots of things at research universities. At UC, such funds pay for the merit increases and cost-of-living adjustments that UC faculty and staff get each year. They also pay for an increasing number of campus research buildings through so-called "Garamendi funding." Beyond this, in the form of the University's well-named "opportunity funds," recovered indirect dollars fund an enormous number of UC campus initiatives: direct grants for faculty research, start-up packages for new faculty, lab equipment, capital support, and seed money for collaborative research proposals, to name just a few uses.

Any system that results in large amounts of money changing hands is bound to generate disagreements, but the indirect cost recovery system has generated more than its share. Nationally, some members of Congress have believed for years that indirect costs are too high and that they are growing. Meanwhile, faculty and administrators from a given institution have often found themselves on opposite sides of the question: How high should our indirect rate be? Administrators want to recover all the costs they can, while faculty believe that their chances of getting grant funding go down as their institution's indirect rates go up. (The theory behind this is that granting agen-

(Please See: Indirect Costs, Page 2)

The University's Labor Contract with Its Teaching Assistants: A Q&A for UC Faculty

In the spring of 2000, University of California academic student employees (ASEs) ratified a labor contract agreed to by UC and the United Auto Workers. Through the date of its expiration, in September 2003, the contract will govern the terms of employment for UC's Teaching Assistants and other ASEs.

The questions and answers that follow are intended to address concerns UC faculty may have about how the contract stands to change the working relationship between faculty and ASEs. This group of questions and answers is taken from a longer list that can be found at http://www.ucop.edu/senate/contract.html.

1. Q. Who is covered under this contract?

A. Though it is convenient to speak of "the contract," the University actually has eight contracts with the United Auto Workers — one for each campus except UCSF. All eight contain the same language, with one major exception: job titles covered under the contracts differ from campus to campus. Across the system, the contracts cover the following ASEs: Teaching Assistants and "Associates in __,"; Teaching Fellows at all campuses except San Diego and Santa Barbara; Readers, and Tutors (including Remedial Tutors) at all campuses except UC Santa Cruz; Special Readers at UCLA; and Community Teaching Fellows at UC Berkeley and UC Davis. If a campus does not use one or more of these titles, it is not obligated to begin doing so under the contract. Although Graduate Student Researchers ("Research Assistants" at UC Davis) are academic student employees, they are not covered under the contract.

2. Q. Will provisions in the contract require any major changes in the way faculty interact with ASEs?

A. Despite some significant changes,

(Please See: UC's Labor, Page 3)

Chand Viswanathan Is New Vice Chair of The Statewide Senate

(Continued from Page 1)

semiconductor electronics, specifically the physics and modeling of devices. In the past few years he has carried out research on low temperature electronics, thin oxide integrity, device characterization, defect studies, and very large scale integration (VLSI) devices. He has published more than 180 papers and has received numerous awards in connection with his research. The Institute of Electrical and Electronic Engineers (IEEE) Centennial Medal Award was given to him in 1984 for his contributions in research, and he subsequently was selected as a Fellow of IEEE for his contributions to the theory of metal oxide semiconductor devices.

In teaching and education, Viswanathan has been honored through several awards for excellence, including the UCLA Senate's Distinguished Teaching Award. He received the Western Electric Fund Award for excellence in engineering education and was awarded the Engineering Alumni Association's Distinguished Faculty Award. In 1997 he received national recognition from the IEEE, which awarded him the annual Outstanding Undergraduate Teaching Award.

Viswanathan points to UC's system of shared governance as the cornerstone of the University's excellence. He believes that shared governance, through the agency of the Academic Senate, offers faculty the "unique opportunity to have a voice in the operation and administration of the University." As the Vice Chair of the Academic Council and the Assembly, he looks forward to "serving with dignity ... forcefully and tactfully presenting the Senate's views," while engaging the challenging issues confronting the University, including "allocation of budget resources, intellectual property rights in the context of web-based instruction, impact of the explosion of digital technology in teaching and research, the tidal wave and its impact on the growth of the campuses, faculty welfare, and diversity in the faculty and student body."

His overarching goal for the next several years is to ensure that the faculty is fully involved and represented in the decisions of the Senate "so that the excellence and reputation of the University of California are not only maintained but also enhanced."

Indirect Costs: How Costs Are Figured, Rates Are Set, and Recovered Money Is Distributed

(Continued from Page 1)

cies want to fund research, not indirect costs, and will therefore be inclined to put their research dollars where indirect rates are low.) Finally, there is the debate that takes place within research campuses about how indirect money should be distributed once it is recovered.

Recent studies have shed light on several of these questions. Academic research published last year indicates that there is no relationship between indirect rates and the likelihood of getting grants funded, at least for faculty at major research universities. Meanwhile, a Congressionally mandated RAND study released this summer found that university indirect rates are not rising and are something of a bargain: They are relatively low and leave universities footing the bill for expenses that arguably should be charged to the federal government. (See links to these reports at the end of this story.)

It would be surprising, however, if these studies constitute the last word on the indirect cost issues they address. By their nature, indirect costs invite dispute.

What Are Indirect Costs?

The essential concept behind indirect costs is simple. The federal government and other research sponsors fund individual research projects. Institutions such as UC incur costs in facilitating this research. There are the costs of the buildings that researchers work in, the costs of employees in contracts and grants offices, the costs of janitors and light bulbs and libraries. None of these costs, however, can be attributed to a given research project. *This* project did not necessitate *that* janitor, but a portion of the janitor's work is necessitated by federally funded research. The idea is that research sponsors should pay not only for the *direct* costs of the research — for lab assistants and research expeditions and so forth — but for at least part of the indirect costs as well, meaning the buildings and light bulbs and janitors.

Indirect costs are diffuse costs by definition, then, and this is one of the factors that makes for complications and disagreements along the indirect money trail. There is, first of all, the matter of determining what a university's research support costs are. Then there is the matter of negotiating with the federal government about reimbursement for these costs. (There is corporate and private sponsorship of university research, of course, but rates agreed to by the federal government tend to fix the rates for other sponsors as well.) Finally, there is the question of where the indirect cost money goes within an institution once it is recovered. What follows is a simplified explanation of what happens at all three stages of the indirect cost process.

Calculating Costs and Rates

Calculating a campus' research costs is no simple matter, as can be seen from an example provided by the Office of the President's Jorge Ohy, who oversees federal indirect rate negotiations for UC. Say UC has one of its multi-purpose buildings at which teaching and research and some student services are carried out. Say the building costs $10 million and is regarded as having a 50-year life-span. This means it is generating costs by depreciating at the rate of $200,000 per year. But, through indirect cost recovery, the federal government is reimbursing the University for the costs it has incurred in building this research structure.

Now, what portion of a given year's $200,000 is attributable to federally funded research? To find out, each campus must carry out a "survey of space usage." It must ask departments what they are using each room for in every building and then allocate depreciation room by room. If a given room's square footage accounts for $1,000 of the building's annual depreciation, and that room is being used for research 90 percent of the time, then that room will provide $900 in indirect research costs to UC.

This general principle is applied to the myriad functions a campus carries out, with the general question always being: How much of the cost of x is attributable to federally funded research? (Some idea of the reach of indirect costs can be grasped from the fact that a portion of each chancellor's salary is counted as an indirect cost.) At the end of the day, what each campus generates is a number — call it the institutional support of research number. Ultimately, this number is one of two that UC needs to establish an indirect cost *rate* for a campus.

The campus next needs to know how much allowable direct research funding it spent in a given year — how many federal dollars its researchers spent that went toward the lab assistants and research expeditions. Once it has this direct re-

(Please See: Indirect, Page 5)

Johnson Award Goes To Senate Activist Fred Spiess of UCSD

Every two years, UC's Universitywide Academic Senate honors one or more of its own when it presents the Oliver Johnson Award for Distinguished Leadership in the Academic Senate. This year the award was given to Fred Spiess, an emeritus Professor of Oceanography at UC San Diego's Scripps Institution of Oceanography.

Spiess currently chairs the statewide Senate's Task Force on UC Merced, which is responsible for organizing nearly every aspect of faculty governance at the fledgling campus. The panel is involved in educational planning, selection of the founding deans, even the organization of student services.

Speiss' UCM Task Force work is, however, merely the latest major Senate task he has undertaken in an enormously long string of them. Among other jobs, Spiess has been Chair of the San Diego Senate Division and Chair of the statewide Senate's Academic Council. His divisional Senate work stretches back to the 1960s, when he took part in the formulation of UCSD's policy on conduct of classified research. Since then, he has chaired UCSD's Graduate Council and Planning and Budget committees (among others) and served on the systemwide counterparts to these committees as well.

Spiess has a longer history with the University of California than even this would indicate. He is a 1941 graduate of UC Berkeley, and received his Ph.D. from Berkeley in 1951, both degrees coming in physics. In between degrees, he was in the World War II Submarine Service of the U.S. Navy, which awarded him both the Silver and Bronze Stars for combat. He came to the Scripps Institution in 1952 and served as its Director in 1964-65. He has been an emeritus professor at Scripps since 1990, but is still engaged in an active research program that often takes him to sea for weeks at a time.

The Senate award that Spiess received was established in 1996 by former Academic Council and UC Riverside Senate Chair Oliver Johnson, who provided a gift whose earnings are used to honor a UC Senate member. Spiess' selection as this year's Johnson Award recipient was announced at the May meeting of the Universitywide Assembly. Spiess becomes the third recipient of the award, joining Carlton Bovell of UC Riverside and Elliot Brownlee of UC Santa Barbara.

UC's Labor Contracts with Its TAs: Questions and Answers for UC Faculty

(Continued from Page 1)

much that is important to faculty remains the same. Decisions about the content of courses, who teaches them, and how they are taught remain solely under the control of the faculty. With respect to selection of ASEs, the University retains discretion over who is selected for a given position, how that ASE is selected, and who the ASE's faculty member or supervisor is. Campuses may continue to select TAs, Readers and Tutors on the basis of academic needs. Neither ASEs nor the union have any rights under the contract to participate in or otherwise affect such decisions.

Though these elements of the working relationship remain the same, other aspects of the relationship will change. There will be changes at most campuses in areas such as appointment notification, job posting, training, and workload. The questions and answers that follow address issues in a number of these areas. For a full accounting of what is different, the contract can be found at the website: http://www.ucop.edu/humres/contracts/ase/asecontract.html.

3. Q. Why should most faculty care about this contract? Faculty and TAs often work together informally. Is it likely that student employees will now start instigating formal actions, such as grievance or arbitration procedures?

A. The administration and Academic Senate hope that collegiality will remain at the center of the working relationship between faculty and TAs. The terms of the contract must be adhered to, however, and, setting aside workload issues, the contract allows the union to file grievance actions in a number of areas with or without the participation of individual ASEs. The grievance process may require department chairs to undertake an investigation of the issue at hand; if the grievance is not satisfactorily resolved through this investigation, higher-level university administrators then may become involved. The last step in the process is arbitration, with an outside arbitrator having subpoena powers that can require faculty to participate.

In general, disagreements over issues covered in the contract can be grieved and arbitrated, meaning that either an ASE, a group of ASEs, or the union may file a grievance. However, the operative phrase here is issues *covered in the contract*. There are no articles of the contract covering faculty prerogatives regarding the content of courses, who teaches them, and how they are taught. This same thing is true of the process by which students are selected for ASE positions. Even within the contract, there are sections that are not grievable and arbitable. Complaints relating to ASE workload go through a complaint resolution process in which the ultimate decision is made by members of the Academic Senate rather than by an outside arbitrator (see question 7, below).

Workload Issues

4. Q. Workload assignments usually are made before the academic term begins. Is this an issue faculty should be looking at carefully because of the new contract?

A. Yes. Faculty who will be supervising teaching assistants should evaluate the workload the TAs will be assigned over the course of a term. Under the contract, workload is measured in work assigned — that is, how many hours UC can reasonably expect it will take a TA to complete an assignment. A 50-percent TA should be assigned a workload of no more than 220 hours per quarter (or 340 hours per semester). The workload assigned for any one week should not exceed 40 hours and the number of hours that a TA can be assigned over 20 hours per week cannot exceed 50 hours in a quarter.

If a TA is assigned a workload of more than 20 hours in one week, then another week must have a lighter load so that the total does not exceed the 220- or 340-hour limit. Faculty should review their syllabi and map out the expected requirements for the term until they are satisfied that the workload they are assigning will fit within these parameters. These workload provisions do not apply to an ASE who is the instructor of record for a course; in such a case one course generally is equivalent to a 50 percent-time position.

5. Q. Do these parameters apply to Readers or Tutors?

A. No. Readers and Tutors are required under the contract to be paid on an hourly basis. Workload for Readers and Tutors is measured by how many hours UC may reasonably expect a Reader or Tutor to take to do the work.

6. Q. What if a TA is reasonably assigned 220 hours of workload but takes longer to get the work done?

A. Unless a complaint is resolved in a

(Please See: TA Labor, Page 4)

TA Labor Contracts: Questions and Answers for UC Faculty

(Continued from Page 3)

student's favor through the process outlined directly below, that individual is paid only for the 220 hours assigned.

7. Q. May ASEs seek outside arbitration if they disagree with the University's assessment of how long it takes to complete the work?

A. If an ASE has a complaint about the assignment of workload or the amount of time it took to complete an assignment, such a dispute is not handled through the filing of a grievance, nor is it subject to a decision by an outside arbitrator. ASEs with workload issues must follow a set of dispute resolution procedures that confer final authority over disputes to members of the Academic Senate. The procedures should produce speedier decisions than could be achieved through standard grievance and arbitration processes.

8. Q. What are the procedures for resolving disputes over workload?

A. An ASE submits a complaint in writing to a department head and, if not satisfied with the decision, has the right to have the department head's decision reviewed by a Chancellor's designee. This process produces a decision within about three weeks of receipt of the complaint.

Either the employee or the Union may appeal the decision of the Chancellor's designee to a Dispute Resolution Panel, consisting of two members of the campus Academic Senate — one selected by the University and one selected by the Union. If the two-member Panel cannot reach a decision, a third panel member is chosen jointly by the two-person panel. This third member is chosen from a standing list of 20 members of the Academic Senate systemwide. Everyone on this list must have "experience as a neutral in labor-management dispute resolution." The 3-member panel's decision is final. Complaints appealed to the Dispute Resolution Panel must be decided no more than 30 days from the date an appeal is filed.

Appointments of ASEs

9. Q. Under the contract, does there have to be a letter of appointment for every academic term?

A. Written notification is required for each appointment during the academic year; such notification can be conveyed in a letter, by email, or in any other written fashion. If the appointment is for more than one term, a single notification is sufficient to cover all quarters or semesters of that appointment.

10. Q. What other appointment information is required to be provided to teaching assistants in writing?

A. Unless it was included in the appointment notification, the following supplemental appointment documentation must be provided to each ASE (with the exception of Readers and Tutors): faculty or supervisor name, class assigned, work location, and required duties.

11. Q. What if the supervisor in charge of the course decides to change a course by, for example, adding another quiz or adding more discussion time?

A. If the supervisor makes a significant change affecting the ASE, the ASE must be informed, though not necessarily in writing, prior to the time the change is implemented. Examples of significant changes may include adding or subtracting a midterm, altering the timing of grading assignments, and requiring additional weekly office hours.

12. Q. If an ASE receives and accepts a position and it is canceled, what is UC's responsibility to that individual?

A. The person must be provided either a different appointment at the same compensation level or with equivalent compensation. Compensation includes any fee or Graduate Student Health Insurance Program (GSHIP) remissions that would accompany the original appointment. The person does not have to be appointed in a bargaining unit classification, but could receive a fellowship, another source of funding, or a graduate student researcher position (a "research assistant" at UCD).

ASE Evaluations

13. Q. Does a faculty member who is supervising ASEs have to provide the ASEs with evaluations of their performance?

A. No. It is up to the University to decide whether evaluations should be done. If a department or faculty member opts to do a written evaluation, an ASE has a right, upon request, to be given the criteria by which the supervisor will assess the ASE. The contract does not require the development of assessment criteria for oral evaluations.

14. Q. If an ASE believes an evaluation is inaccurate or wishes to have the evaluation changed, what recourse does this employee have under the contract?

A. The University has the sole right to determine the content of an evaluation. An ASE has the right to review any employment evaluation and to append material to the personnel file. An ASE does not have the right to have the evaluation modified or removed, with one exception: If the employment file contains "factual, non-evaluative material" that is incorrect, the ASE is entitled to have that material corrected. This includes factual, non-evaluative information that may reside in a supervisor's evaluation of the employee. If the ASE and supervisor disagree as to what is a fact, the ASE may grieve and, if the issue is not resolved, the union may ask for arbitration.

15. Q. Can a faculty member fire a poorly performing TA?

A. An ASE can be disciplined or dismissed for just cause. There is a clearly laid-out process described in the contract that provides for a notice of intent to terminate, the right to respond to such a notice, and a subsequent notice of action to terminate. As with any action, keeping written records of warnings notices sent to an ASE is very important.

Posting of ASE Positions

16. Q. What job posting responsibilities does the University have under the contract?

A. By March 15 each year, the campus must post, on a central website, an estimate of the number of positions that will be available in each department or hiring unit for the coming academic year. It is not necessary to post specific courses or course names. Nothing prohibits the website from having additional information, such as number of TAs planned for a specific course, but such information is not required. Information and materials may, in addition, be provided by the hiring unit by other means — via departmental websites, for example.

Fee Remissions and Health Insurance

17. Q. Will TAs be getting full fee remissions, following the signing of this contract?

A. Yes, but not until the third year of the contract. Fee remission will be set at 75 percent effective July 2000, 85 percent effective July 2001, and 100 percent effective July 2002. "Fee remission" means educational and registration fees. Neither professional school fees, local campus fees, nor any other fees are part of this arrangement. All graduate student ASEs who are registered and appointed at 25 percent-time or greater are eligible to participate in UC's fee remission program and Graduate Student Health Insurance Program (GSHIP). Health insurance remission constitutes 100 percent of the premium required by the campus GSHIP.

Indirect Costs: Calculating Costs and Negotiating a Rate

(Continued from Page 2)

search number in hand, it will divide it into the institutional support of research number to get the indirect rate. To simplify, suppose a campus spent $10 million in allowable direct federal research funding in a given year and that its institutional support of research costs were $4.8 million for that same year. Dividing indirect costs by allowable direct spending provides an indirect rate: 48 percent in this case. Once this rate is agreed to, for every allowable research dollar that federal agencies provide to researchers on a campus, they would need to provide an additional 48 cents to the *institution* for its support of the research.

A critical word in this, however, is *allowable* direct research funding. As it happens, some direct research expenditures generate little or no indirect costs and thus have to be removed from the rate-setting calculation. Consider a single research project that gets federal funds for a lab assistant on the one hand and a $50,000 laser on the other. The lab assistant is going to generate not only direct costs, in the form of salary, but lots of indirect costs as well, such as the need for space and for payroll and human resources personnel. The laser, by contrast, may generate only purchasing and electricity costs. Because of such differences, the federal government has decreed that it will not pay indirect costs for certain categories of direct research expenditures. The two most important of these categories are equipment, as in the example, and work of $25,000 or more done for a research project by an outside contractor.

Such expenses are thus factored out of the indirect cost calculation and the effect is not trivial. The RAND study of indirect costs found that 75 cents of every dollar of federal research expenditure goes to the direct costs of research, with the remaining 25 cents going to indirect costs. Of the 75 cents in direct funding, however, 16 cents are accounted for by "excluded" costs — such as those for the laser — leaving 59 cents of direct costs that count in the rate-setting equation.

Think what this would mean for a given campus if its figures mirrored the national averages. Its *real* indirect rate — the ratio of indirect dollars received to direct dollars received — is only 33 percent (25 / 75). But, as commonly expressed, its indirect rate is 42 percent (25 / 59). Faculty often wonder how "overhead" can eat up 40 or 50 cents for every research dollar received. The answer is that overhead's claim on the research dollar actually is considerably less.

When excluded expenditures have been removed from total direct research funding, what remains is known as modified total direct costs (MTDC) — the research "base" that serves as the denominator in the indirect rate calculation.

Negotiating a Rate

With MTDC and indirect research support costs in hand, a campus is ready to propose an indirect rate to the federal government. In UC's case, a separate rate proposal is prepared for each campus and submitted by the Office of the President to the Department of Health and Human Services' regional office in San Francisco. DHHS fills the role of UC's "cognizant office" because the National Institutes of Health, which are part of DHHS, are by far the largest federal funders of UC research. Once UC and DHHS agree on a rate for a campus, that rate will be in effect for three to five years. Four UC campuses — Berkeley, Los Angeles, San Francisco, and San Diego — prepare their own proposals for DHHS, while the other five campuses rely on the Office of the President for this purpose, after having supplied UCOP with figures on research support costs and MTDC.

Following submission of a rate proposal, UC begins a process of negotiation with DHHS about what rate a campus will have. Universities "negotiate" with federal agencies over these rates, however, in the same way that drivers negotiate with police officers about traffic tickets: All the cards are held by the government, which not only sets the rules about what will be reimbursed, but decides how to interpret those rules.

One of the government's rules sets an arbitrary limit on cost reimbursement. In 1991, the federal Office of Management and Budget (OMB), whose "circulars" govern indirect rates with the force of law, decreed that *administrative* research support costs would henceforth be capped at 26 percent of MTDC. Thus, irrespective of how much registrar, accounting, or departmental staff may contribute to the federally funded research enterprise, the cost of their work will only be reimbursed up to the 26-percent limit. Eric Vermillion, UC San Francisco's Assistant Vice Chancellor for Budget and Finance, says his campus has calculated it loses about $5 million per year on unreimbursed administrative costs. (The situation is exacerbated by the fact that campus and departmental computer costs are regarded as "administrative," and thus subject to the cap.) This does, however, leave the *facilities* portion of indirect costs uncapped. In calculating rate proposals, then, campuses submit actual facilities costs and capped administrative costs.

When all of this has been taken into account, the numbers for a campus may indicate that it is due a rate increase, perhaps of several percent. (Rate increases are particularly likely if a campus has been building research infrastructure.) What a campus is seemingly due in the way of increases and what the government will grant are two different things, however.

"We know we will not get what we propose," says UCOP negotiator Jorge Ohy. "If a campus has a 50 percent rate and we propose 55 percent, we know we're not going to get that." This will be so even if DHHS does not challenge a campus' figures about its direct awards and indirect expenditures. UC campus rates have slowly risen over the years, but not in lock-step with the demonstrable costs of supporting research.

"We do not recover all of our costs," says Wayne Kennedy, until August UC's Senior Vice President for Business and Finance (and the UC administrator whose signature goes on all the indirect cost agreements). This phenomenon is not unique to UC, but exists generally across the country. The RAND study found that universities are recovering between 70 and 90 percent of the indirect costs associated with federally sponsored research, meaning the universities are picking up the tab for the balance of these costs.

What all this adds up to is that there is not even a pretense that universities are fully reimbursed for the costs they undertake in supporting federally funded research. Rather, research institutions simply get what they can from the government in the way of reimbursement. Because universities are in the research business, they have been willing to enter into this arrangement with the federal government. The curious thing about the resulting partnership, however, is that it has at its core a set of rules that are completely controlled by only one of the partners.

Distributing Recovered Funds

Money recovered from research sponsors comes directly to UC's campuses, with each recovered dollar tied to an MTDC expense. Take, as an example, a biology lab at Santa Barbara that needs more glassware for a funded project.

(Please See: Indirect, Page 6)

Indirect Costs: Distributing Recovered Indirect Money

(Continued from Page 5)

When UCSB accounting is notified of this expense, its computers will apply UCSB's indirect rate to the glassware purchase price, after which a bill will be sent to the research sponsor for both the glassware and its related increment of overhead. Table 1 shows how much indirect cost recovery UC's campuses generated in 1998-99, along with their indirect rates.

UC campuses hold the indirect money they recover until the end of the fiscal year, at which point most of it is sent to the Office of the President. This transfer sets in motion the process of distributing the recovered funds. Figure 1 shows how the distribution process worked for the funds recovered by one campus (San Diego) during the 1998-99 academic year.

The process is so complex because, in university budgeting, it makes no sense to have each recovered indirect dollar go to pay for an indirect expense. In this, indirect cost budgeting bears comparison with household budgeting. A person who took money out of savings to lend to a friend would not insist that, when the money is paid back, it could go nowhere except the savings account. It might be more convenient to pay savings back from other income sources. Thus it is with indirect expenses. The result, however, is that a lot of money earmarked "indirect recovery" is on the table at universities, a fact that engenders disagreements.

Garamendi and Off-the-Top Funds

The first claim on UCSD's $63 million in 1998-99 indirect money went to buildings it is paying for with Garamendi funding, whose details will be covered in the next issue of *Notice*. Of the $57 million that remained once the $6 million in Garamendi funding was removed, 20 percent went to "off-the-top" recovery, with 94 percent of this off-the-top money going to UCSD and the remaining 6 percent going to the Office of the President. These funds are as close as the University comes to a dollar-for-dollar payback of indirect expenses with indirect income; off-the-top money pays for functions that support sponsored research, such as contracts & grants offices, accounting, and budgeting operations.

UC General Fund

Of the $45.7 million that remained in UCSD's recovered funds once Garamendi and off-the-top funds were removed, 45 percent went to something called the Universitywide Opportunity Fund, while 55 percent went to the UC General Fund. Both funds have been the source of much misunderstanding and disagreement at UC over time.

Take, first, the University General Fund. There is a widespread assumption that indirect money that flows into this fund goes to the State of California and then returns to UC as part of its state-funded budget. Not so says UC's Vice President for Budget, Larry Hershman. Though this money once did serve as an "offset" to the state budget, it never was actually returned to the state and doesn't even serve the offset function anymore.

"It's like any other kind of University money," says Hershman. "If we get more

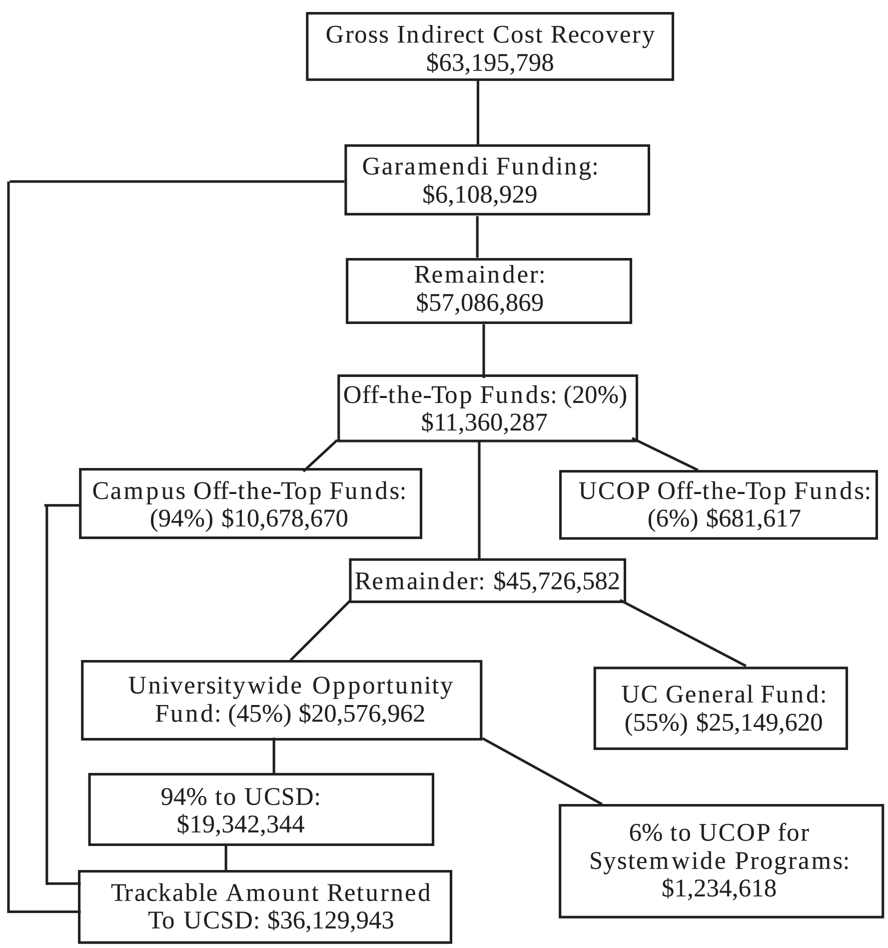
(Continued on next page)

Table 1: UC Campus Indirect Cost Rates and Dollars Recovered, 1998-99

UCB	50.4%	$41.3 million
UCD	44.5%	25.4 million
UCI	50.4%	19.8 million
UCLA	52.0%	67.6 million
UCR	47.0%	4.8 million
UCSD	51.5%	63.2 million
UCSF	47.5%	57.8 million
UCSB	46.0%	16.2 million
UCSC	48.5%	6.3 million

"Dollars recovered" refers to indirect cost recovery from federal contracts and grants.

Figure 1: Flow of Federal Indirect Cost Recovery Funds, UC San Diego, 1998-99



Source: UCOP Office of Financial Management

Indirect Costs

(Continued from previous page)

of it, it's ours." The state expects UC to partly fund itself, Hershman notes, and indirect funding is part of this picture. To sharpen the point, imagine that UC indirect cost recovery somehow doubled next year, to $600 million. Would this increase result in the state *reducing* its appropriations to UC? Hershman says no; the increase would be UC's to use as it sees fit.

Dollars flow into UC's General Fund from a number of sources, but indirect recovery is the largest single source, narrowly exceeding non-resident tuition. As UC has arranged its budget, it is the increase in recovered indirect money that pays for the yearly "cost increases" on the campuses, meaning merits, COLAs, and general inflationary adjustments. But what would happen if recovered dollars failed to go up in a given year? "That problem would be the University's to deal with," says Hershman.

For years, UC's General Fund has been a kind of black box for the campuses insofar as indirect dollars were concerned: Campuses know how much they put into the fund from their indirect recovery. Traditionally, however, once this money entered the fund it ceased being tracked by source. A concomitant of this was that, for all the campuses knew, there was no relation between what they generated in indirect recovery and what they got back in General Fund support.

This is changing at the margins. The first 4.5 percent or so of *increases* that a campus generates in indirect recovery each year must go toward paying for campus cost increases, Hershman notes. In recent years, however, UCOP has been sending back to the campuses any additional money they recover beyond the 4.5-percent increase, with each campus getting to keep such "overages" as it generates. This year, for the first time, UC will begin tracking these appropriations as formal budget items.

The Opportunity Fund

As Figure 1 shows, indirect recovery also results in a "universitywide opportunity fund" component, which received $20.5 million from UCSD's 1998-99 indirect recovery. Such opportunity money once was a source of considerable disagreement within UC, but this fight now appears to be a matter of history. Note that 94 percent of the universitywide opportunity money was returned to UCSD in

(Please See: Indirect, Page 8)

Notes from the Chair: Undergraduates in the Equation

During the coming academic year, the Academic Senate will be paying close attention to several key elements in what might be called the human equations of the University of California. Last April's issue of *Notice* focused on one such element, namely the challenges involved in hiring 7,500 ladder-rank faculty over the next decade. In the present column, I'd like to focus on another of UC's elements: our undergraduate students.

"Tidal Wave II" continues to challenge all of us. Absorbing and educating nearly 50,000 additional undergraduates during the next decade is an awesome task; ensuring that these students reflect the state's economic and ethnic diversity makes the job more difficult yet. Several recently developed tools will help.

- On September 11, Governor Davis signed a law that dramatically expands the Cal Grant program. Beginning with the 2000-01 academic year, graduating high school seniors and community college transfer students who meet the necessary grade and financial requirements will be assured of significant financial aid. Students can use these grants to attend UC, CSU, or a private California university. The University will certainly want to encourage high-achieving high school and community college students to take advantage of these augmented Cal Grants. The program strengthens our ability to reach out to talented students who have not previously believed that college is within their financial reach.
- The Partnership Agreement, signed last spring by the Governor and UC, includes a provision that the State will fund all UC students attending summer sessions at the same level as it funds students enrolled during the regular year. This augmented funding is scheduled to be phased in over the next three years. Key to this agreement is UC's commitment to ensure a significant expansion of summer enrollments and greater involvement of UC faculty in summer instruction. At both the individual campus and systemwide levels, the Academic Senate will be working closely with administrators this year to develop policies and strategies that will ensure expanded, high-quality summer instruction.
- In September, President Atkinson proposed an additional tool to help UC meet its undergraduate obligations, a tool targeted in particular at students from high schools, generally in lower-income communities, that presently send few of their students to UC. The "dual pathway" he proposed, if approved by the Senate and Regents, would increase incentives for top-ranked students at these schools to make themselves eligible for transfer to UC by attending community colleges and achieving strong grades in the appropriate courses. I have asked all campus Divisions of the Academic Senate, as well as the appropriate statewide Senate committees, to review the proposal. Central to the review process, of course, will be the Senate's Board of Admissions and Relations with Schools (BOARS). I am confident that BOARS and the other Senate agencies will give the proposal a searching scrutiny, with particular attention to the dual goal of enhancing UC's outreach efforts while maintaining a high-quality undergraduate student body.

The enrollment tasks ahead of us would be challenging enough if UC only had to accommodate a surge of undergraduate students in the coming decade. As it happens, however, we must add enough *graduate* students during this period to increase their proportion in the total student mix — a topic I will turn to in the next issue of *Notice*.

—Michael Cowan, Chair
Academic Council

Indirect Costs: How Should Recovered Funds Be Distributed?

(Continued from Page 7)

1998-99. This percentage is uniform across the campuses; every campus gets 94 percent of its opportunity money returned to it. But this was not always the case. To cite extreme examples, as late as 1994-95, UC San Francisco got to keep only 78 cents of every dollar it generated in opportunity funds, while UC Santa Cruz received $1.53 for every dollar it generated. In other words, UCOP was redistributing opportunity fund income across the campuses, with UCSC, UCR, and UCSB the main beneficiaries of this system and UCSF, UCSD, UCLA, and UCB the main losers in it.

Hershman says this practice did not come about because UC had a conscious policy of providing subsidies to developing campuses. Rather, it was simply the result of "ad hoc budgeting" over the decades.Beginning with David Saxon, UC's presidents started to equalize the return across the campuses. The 94-percent figure was reached under President Atkinson, who had been a vigorous opponent of the redistribution system when he was chancellor at San Diego.

Opportunity Fund Distribution

So how are opportunity funds distributed once they have been sent to a campus? UC has as many answers to this question as it has campuses. In general, chancellors have great discretion in how they distribute these funds, but chancellors have often OK'd formulas for the distribution of at least a part of the money. San Diego, for example, apportions a little more than half its opportunity and off-the-top funds to three entities: the campus library, the Academic Senate's Committee on Research and three vice chancellors — of academic affairs, health affairs, and the Scripps Institution of Oceanography. (The vice chancellors receive the funds in accordance with the generation of indirect recovery by their units and pass along a small amount of what they get to deans.) Other funds are earmarked for "central administration," with a small portion of these funds going to a chancellor's discretionary fund.

At UC Irvine, meanwhile, most opportunity funds go into a chancellor's discretionary fund and are then used to support campus priorities — currently new buildings and graduate student support. Only the *increase* in funds realized since 1996 is distributed by formula to other locations: 50 percent to the schools and colleges that generated the additional recovery, 30 percent for research infrastructure (via the Vice Chancellor for Research) and 20 percent for administrative support.

Faculty often assert that some indirect funds ought to go not just to the schools that generated grant funding, nor just to the departments that did, but to faculty themselves as well, in accordance with how much grant money they captured. Because of the complexities of indirect costs and University budgeting, this issue is probably unsolvable as a logical matter, but one school of thought sees things this way. Indirect costs are real costs; thus recovered indirect money is not "free money," but rather must go toward paying for research-support expenses, only part of which are covered by indirect reimbursement. Under this view, the amount of money that a school, department, or faculty member is "owed" under the indirect system is not even zero; it's less than zero since indirect recovery doesn't pay for all indirect expenses.

A contrary view is that state funding changes the whole basis of the discussion. Richard Attiyeh, UC San Diego's Vice Chancellor for Research, notes that the State of California builds research infrastructure for UC and pays for some UC research directly. Because of state funding, some portion of recovered indirect money can be accurately characterized as discretionary money that has been generated by research. In such a situation, schools, departments, and individual faculty would have something of a claim on indirect money.

Whether or not such a claim exists, another view goes, universities ought to return indirect money down the organizational line purely as a matter of building the research enterprise. The assumption here is that financial incentives work: units or individuals will be more inclined to pursue an activity — getting grant funding in this case — to the degree that they are rewarded for their efforts.

In the next issue of *Notice*: Garamendi Funding. The RAND report noted in the story can be found at: http://www.rand.org/publications/MR/MR1135.1/. For the research concerning the effect of indirect rates on grant awards, go to the URL: http://papers.nber.org/papers/6976.

Notice

is published four times during the academic year for the University of California faculty by the Academic Council of the universitywide Academic Senate.

Michael Cowan, Chair
UCOP, 12th Floor, 1111 Franklin Street
Oakland, California 94607-5200

David Krogh, Editor
(510) 987-0162
david.krogh@ucop.edu

Jeannene Whalen, Contributing Writer
jeannene.whalen@ucop.edu

Notice is available on the World Wide Web at: www.ucop.edu/senate/notice