Guidelines for Indirect (Overhead) Cost Return

New Jersey Institute of Technology

Indirect cost recovery (ICR, also known as Facilities and Administration costs) funds universities for costs of the facilities and administration that support research. These are costs that cannot be recovered through direct charges to grants and other contracts. The use of ICR funds are not restricted to research, and are often also used for non-research related operations of the university.

The Indirect Cost Return policy describes guidelines for “Overhead Return” (OHR) to give back a portion of indirect cost recovery to PI’s, departments, colleges, and centers. These guidelines present a methodology to return a sum of approximately 10% to 15% of the ICR received by NJIT each year for eligible externally funded grants, as described below, which is equitably distributed between PI/Co-PI's, departments, colleges and centers. The plan is formulated by the OHR Return committee to be a sustainable, long-term initiative. The university administration now strongly supports returning a portion of indirect costs as an incentive for faculty research by providing funds for the purchase and maintenance of equipment, travel, and other research expenses. The start date for the proposed OHR plan is FY17 to incentivize research and facilitate distribution of ICR funds in a more transparent manner.

OHR for individual faculty members can play an important role in supporting professional activities in research. Such funds can be used as bridge funds between grants to purchase computers or software, research-related travel to conferences, repair or maintain equipment, purchase chemicals and laboratory supplies, or cover other needs that are often unmet by standard research grants. By providing faculty members with predictable funding that can be used flexibly, NJIT can greatly help its faculty members to achieve the research goals of the 2020 Strategic Vision plan.

NJIT has increasingly promoted and benefited from collaborative and interdisciplinary research. It is felt that the needs of multi-investigator research groups would benefit by a plan for OHR that also involves department, college, and research center funding. With too little pooling of research funds, important common needs of researchers such as shared equipment or computational facilities can go unmet. With too much pooling, local or individual needs can go unmet.

Due to the adverse effects of many years without overhead return to individual investigators, a bridge funding of $200K for FY16 has been set aside for OHR on eligible grants. To maximize the impact of the FY16 allocation, the committee has decided to propose OHR funds be provided to investigators alone in the first year (2016) of this plan. However, the importance of common research needs dictates that pooled funds, in the form of overhead return to colleges, departments, and centers, be a part of this proposal. This is implemented in the proposed plan for FY17 and beyond.
OHR at Peer Institutions

Useful benchmarks or guidelines for the size and scope of an overhead return plan at NJIT can be found in the policies at peer universities. The committee has reviewed overhead return policies at several nearby state universities. For example, Montclair State returns 10% of ICR to individual investigators, 25% to academic departments, 15% to the college, 20% to the Sponsored Research Office, and 30% to the general university fund. CUNY determines the rate of overhead return to the PI based on the ratio of indirect cost recovery to direct costs. If the ratio of the indirect cost recovery to the direct cost is below 20%, no return is given to the researcher or to the Office of Research and Sponsored Programs. If the ratio of the indirect cost recovery to the direct cost is above 20%, then (1/4th) of the base amount above 20% is returned to the PI, (1/10th) of the amount above 20% is returned to the Office of Research and Sponsored Programs. The remaining funds stay in the general university fund. The overhead return policy proposed for NJIT is consistent with the policies at these and other peer institutions.

Impact of OHR

The return of indirect cost funds to investigators, colleges and departments is expected to have a significant effect on research at NJIT. For one, the presence of a program of overhead return will incentivize research and the submission of research proposals. Additionally, overhead return will provide a mechanism to fund the maintenance and operation of research laboratories at NJIT. There currently exist no or few options to pay for the maintenance and repair of research facilities using standard government grants from NSF, NIH, DOD and other agencies. There is a critical need for a process to distribute funds that can be used for this purpose. OHR can provide such a process. In addition, overhead return can help pay for research related travel, student and postdoc stipends, and provide bridge funds to researchers who are between grants.

Guidelines for OHR at NJIT

A variable rate plan is proposed for fiscal years 2017-2020, which includes PI, colleges, and departments/centers in the distribution of OHR of approximately 10% to 15% of ICR received by NJIT each year for external grants with Adjusted Indirect Cost Recovery (AICR) above a certain threshold (as described below). Towards FY16, a bridge OHR plan is presented for $200k of ICR to investigators on eligible grants.

OHR Eligibility

Only those grants that have an Adjusted Indirect Cost Recovery (AICR = ICR - matching funds) percentage above a certain threshold are eligible for overhead return. AICR also accounts for funds lost due to transfer or reallocation of funds to categories that are not eligible for ICR. The threshold percentage is set at 80% of the federally approved ICR rate. Currently the federally approved rate is 53%. This means the threshold for overhead return is at present 42.4% of the AICR. If the federally approved rate for ICR changes, this threshold number will change. All tenure/tenure-track and research professors are eligible for overhead return.
OHR policies

- OHR will occur once per fiscal year.
- The overhead return on each grant is split among P/Co-PIs according to percentage of effort, as specified on the NJIT departmental sign-off form.
- Overhead return funds can be spent on any research related activity, but are not allowed to be used as salary for the PIs/Co-PIs.
- Investigators are expected to make prudent use of the funds to further their research. The unspent money received from overhead returns in a fiscal year may be rolled over to the next fiscal year for up to five fiscal years from the date of inception. However, PI’s are encouraged to use these funds in a timely manner supporting their research initiatives.
- There will be an annual review of overhead return and the research expenditures generated from it by the Research Committee of the Faculty Senate, aided by personnel from the NJIT Budget Office.
- If the overhead return on a grant is not above a set minimum value (suggested to be $100), then the total return on that grant is given to the department of the investigator.

Distribution of OHR

Fiscal Years 2017-2020

To ramp up or slowly increase the amount of indirect cost funds that are available to PI's/Co-PI's, colleges, departments, and centers, the distribution of overhead return starts with 10% for the total baseline AICR $2 million. The distribution of overhead return increases by 1% for each 5% growth in total AICR from this baseline. Here, total AICR refers to indirect cost recovery for all external grants processed through the NJIT Sponsored Research Office. For example, if the total AICR increases by 20% from $2 million to $2.4 million, the distribution of overhead return goes to 14% of individual AICR. The percentage of overhead return is capped at a maximum of 15%.

For example, If the total university AICR increased to $2.1 million in 2017 then the distribution formula for grant j would be:

\[ \text{OHR}_j = \text{AICR}_j \times 0.11 \]  

where AICR\(_j\) is the total adjusted ICR (in dollars) of grant \(j\), and the OHR\(_j\) is the overhead return on grant \(j\). This formula would only be applied to grants that reach at least 80% of federally approved ICR rate.
OHR will be split among college, department/center, and investigators. The college will receive 25% of OHR funds, the department/center 25%, and the investigators 50%. If the proposal is through a center, the overhead return is to the center, rather than the department. For centers, the amount of unrestricted university funds that are received by the center are subtracted from the eligible overhead return funds. Some centers and units are ineligible for overhead return.

**Fiscal Year 2016**

Since the FY16 budget priorities and overall budget have already been set, the Provost and Vice Provost for Research have recommended an initial investment of $200K (generated from existing budget reallocations) as bridge funds for FY16. These funds will be distributed to investigators whose grants are within the AICR eligibility threshold criterion (as defined above). To maximize the impact of the FY16 allocation, only PI's and Co-PI's will receive overhead return, i.e., colleges, departments/centers are excluded in FY16.

The distribution formula for grant j is:

\[ OHR_j = \frac{AICR_j}{\sum_i AICR_i} \times 200,000 \]  

(2)

where OHR\(_j\) is the amount of overhead return on grant j, AICR\(_j\) is the total adjusted ICR (in dollars) of grant j, and the sum is over all grants eligible for overhead return, i.e., those above threshold. The formula (2) is designed so that total amount of overhead return at the university in 2016 is exactly $200,000.