



EXECUTIVE VICE PRESIDENT—
CHIEF FINANCIAL OFFICER

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February 12, 2019

**CHANCELLORS
VICE PRESIDENT HUMISTON**

As you may recall, over the past few years we have been working in collaboration with the California State University (CSU) system to implement indirect cost rates (IDC) for the recovery of facilities and administrative costs for funding from the State of California agencies. During initial discussions in 2016, UC established a base rate of 25% of the Modified Total Direct Costs (MTDC). We anticipated that the rate would increase by 5% over a span of 4-1/2 years.

The first escalation of IDC for State of California agencies would have been in effect on July 1, 2018. However, in consultation with you last January and with the endorsement of President Napolitano, we agreed to delay the escalation of IDC for most State of California agency sponsored projects for one year.

On July 1, 2019, the first escalation of IDC from 25% to 30% MTDC is expected to be applied to on-campus agreements from all State of California agencies except for the California Department of Food and Agriculture (CDFA). Off-campus activities will remain at 25% MTDC.

In a letter from February 13, 2017, CDFA Secretary Karen Ross and I agreed to a separate rate schedule for funding that originates from CDFA. Starting on July 1, 2019, IDC on funding originating from CDFA increases to 20% MTDC. Special provisions have been made for IDC for funding from Marketing Orders and Commodity Boards.

CSU has agreed to follow our course with regards to these escalations.

The commitment to gradually increase indirect cost recovery for agreements from State of California agencies is part of our larger effort to fully recover the costs of extramural projects conducted at the University. Recovering the full cost of a project ensures that we maintain our infrastructure and the quality of our research and training. UC and CSU simply cannot subsidize these costs.

With a new administration in Sacramento, I believe there is an opportunity to make the case for a longer-term strategy to bring greater certainty on indirect costs recovery. I will be addressing the issue in our budget negotiations in the coming months, and I will work with CSU to coordinate our approach.

As we continue our engagement with the State of California on this important issue, I will look to you for guidance and assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Nathan Brostrom".

Nathan Brostrom
Executive Vice President and Chief Financial Officer