

June 7, 2017

The Honorable Barbara Comstock  
Chairwoman, Research & Technology Subcommittee  
House Science, Space & Technology Committee  
Washington, DC 20515

The Honorable Darin LaHood  
Chairman, Oversight Subcommittee  
House Science, Space & Technology Committee  
Washington, DC 20515

The Honorable Dan Lipinski  
Ranking Member, Research & Technology Subcommittee  
House Science, Space & Technology Committee  
Washington, DC 20515

The Honorable Don Beyer  
Ranking Member, Oversight Subcommittee  
House Science, Space & Technology Committee  
Washington, DC 20515

Dear Chairs Comstock and LaHood and Ranking Members Lipinski and Beyer:

Thank you for the opportunity to offer the perspective of research institutions on the important topic of facilities and administrative (F&A) costs of conducting federal research, per the House Science, Space and Technology joint Subcommittee hearing you held on this issue on May 24, 2017. We respectfully submit this letter for the hearing record on behalf of the Association of American Medical Colleges, the Association of American Universities, the Council on Governmental Relations, the Association of Public and Land-grant Universities, the Association of Independent Research Institutes and the American Council on Education.

Our associations appreciate the historically strong and bipartisan support Congress has demonstrated for the scientific research our member institutions perform for the federal government. As the Committee on Science, Space and Technology understands well, the partnership between the federal government and research universities that emerged out of World War II has been indispensable to ensuring our nation's security, improving public health, and enhancing our standard of living. This partnership, where the federal government provides resources so that universities will conduct research on behalf of the government, has fueled U.S. global scientific and economic leadership, resulted in major research advances, and helped to train America's most prominent scientists, engineers, and entrepreneurs. Our institutions continue to make stunning advancements, in areas such as cancer immunotherapy, artificial intelligence, materials science, and behavioral economics, all of which depend on specialized support, physical infrastructure, and human capital.

Research institutions also share the Committee's commitment to see that resources available for scientific research are used optimally and most effectively. F&A costs have been included in federal grants since the 1940s, recognizing that institutions incur expenses related to research that may not be directly attributable project by project, but are essential to conducting research. The most commonplace example is that research labs require heat, lights, power, water, a roof, janitors, etc. of course, modern laboratories are far more complex, requiring sophisticated environmental controls, instrumentation, information technology, and state of the art safety and security to protect personnel and surrounding communities. Depending on the field of investigation, F&A requirements become more varied. Biomedical research, for example, which receives the largest share of federal science funding, depends also on research in clinical environments and medical facilities, use of extensive tissue and sample collections, and scores of professionals to ensure compliance with federal, state, and local regulations on human and animal subject research protections, privacy, health and safety, and for management and technical support.

Attributing these expenditures line-item by line-item on every grant would be an arduous, expensive, and inefficient process, both for the federal government and for the grant recipients. For such reasons, the current government-wide policy of reimbursing F&A expenditures as a rate to be applied to a research project's direct

costs based on the audited real costs for such expenses is a practicable, effective, and efficient approach to supporting these necessary expenditures. The first step in determining F&A charges occurs when each institution negotiates the amount it can be reimbursed for F&A expenses with its respective government auditing agency. The F&A rate is based on what the institution has previously expended for research facilities and operating expenses as determined by and outlined in OMB rules to be necessary and reimbursable costs required to conduct research. The method is standardized across nine categories of expense, each of which must be well-documented and justified in the negotiation process. Once an F&A rate is established, that rate is multiplied against the allowable direct charges in the grant (referred to as the “modified total direct cost” or MTDC) and thus the F&A charge is determined. OMB specifically limits how much universities can be reimbursed for administrative costs.

Some have observed that private foundations treat expenses differently. It is necessary to note that comparing federal F&A reimbursement rates to foundation rates is misleading. Many foundations, such as the Gates Foundation, recognize and allow for certain facilities and/or administrative costs to be charged as *direct* line items on each grant. As James Luther of Duke University presented at the May 24 hearing, the foundation rate may apply to a much larger base than the modified total direct cost noted above. The result is that many of the same costs incur, but with different methods for accounting and paying for them, rather than lower costs paid by foundations. Thus, in their approaches to funding research, both private foundations and the federal government recognize the essential role F&A costs play in conducting high quality and cutting-edge research. It is also important to note that institutions accepting foundation funds accept a cost-share, to strategically advance a specific aspect of the research mission, not the research program overall. Additionally, OMB rules prohibit federal funds from subsidizing research costs of non-federally sponsored research activity.

In facilitating advancements in research, institutions also invest substantially over and above the resources received for sponsored research. A 2015 [AAMC study](#) found that on average each medical school invested \$111 million dollars or 0.53 cents for every dollar received for sponsored research to support their research programs.<sup>i</sup> All such expenditures serve to make the conduct of science--and the training and provision of new generations of scientists--possible.

The process for F&A reimbursement also supports the government’s interest to build and sustain a national infrastructure and capacity for scientific research. U.S. universities and independent research organizations are central to this national interest. This infrastructure would wither if F&A reimbursements are reduced, absent some other major source of public funding. We believe that current policies have been spectacularly successful, reflected in the variety, diversity, and quality of U.S. research institutions. Under this system, research institutions assume the long-term risk of investment in facilities and infrastructure. The research institutions, not the government or taxpayer, must bear the penalty if their facilities are unoccupied with qualified scientists able to successfully compete for research grants.

In summary, F&A expenses are a fundamental and inseparable part of the costs of doing research. A cap, such as the one the administration has proposed for NIH grants, would result in real cuts to high-priority research aimed at finding new cures, improving public health, and growing the economy. Without sufficient federal support for F&A, research institutions would be unable to sustain the scientific infrastructure necessary to conduct this cutting-edge research. Additionally, the notion raised during the hearing of a flat rate – lower than most current negotiated rates – would undercut the expenses institutions have incurred and many universities and research institutions would no longer be able to afford to operate extensive research programs, especially as costs rise and alternative funding sources, such as state support, dwindle. A cap or flat rate could well have the unintended long-term consequences of consolidating remaining research programs into fewer institutions by making research

costs prohibitive for smaller and geographically diverse universities and institutions. It could also discourage institutions from pursuing more cutting-edge research requiring specialized facilities.

We are grateful for the Subcommittees' attention and would be happy to answer questions or provide further information.

Sincerely,

Association of American Medical Colleges

Association of American Universities

Council on Governmental Relations

Association of Public and Land-grant Universities

Association of Independent Research Institutes

American Council on Education

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<sup>i</sup> Academic Medicine Investment in Research. Washington, DC: Association of American Medical Colleges. 2015