



April 5, 2017

- **The Secretary of HHS, in a March 29 appropriations hearing, expressed concern that 30% of NIH grant money is used for indirect expenses, suggesting that the money goes for something other than research.**

Federal funding for research includes:

- Direct costs – personnel, supplies, equipment and travel; and,
- Facilities and administrative costs (F&A; also referred to as research operating or indirect costs) – the cost of research facilities, compliance, and the administration of a grant throughout its lifecycle.

These costs cannot be viewed separately; together they represent the total cost of performing research.

F&A costs are those research operating costs incurred by all awards. Research institutions provide the physical space where research is conducted. This includes construction and maintenance of advanced research facilities and the resources necessary to conduct research. F&A costs also cover utilities, internet, data storage, libraries, housing for research animals, hazardous waste disposal, insurance, security, human resources, accounting, and other compliance and oversight activities. The Federal government funds only that portion of F&A costs, including the costs of research space, incurred in conducting federal research. The mechanism for reimbursement is a negotiated F&A rate between the federal government and each individual research institution to ensure appropriate costs.

Administrative or compliance costs include financial management, including accountability for research time charged to federal awards, management of grant budgets, financial reporting, and purchasing; human protection programs and institutional review boards for human subjects research; institutional animal care and use programs for animal research; radiation and chemical safety and biosecurity; implementing and tracking federally required training and education; managing potential conflicts of interest; adhering to export controls; ensuring timely and accurate reporting of research progress; and financial closeout; all requirements for conducting federal research. The institution, as the grantee, takes on the responsibility and risk of a grant, and provides both the facilities and compliance support necessary for the investigator to conduct research.

F&A costs on Federal awards have remained relatively constant for the past two decades at less than 28% of the total cost of Federal awards. That stability has occurred despite [ever-increasing](#) federal regulations and reporting requirements that require additional compliance activities. According to federal data, research institutions contribute more than 24% of their institutional funds to research & development (R&D) activities – \$16.7 billion in FY15 – including \$4.8 billion in the form of unreimbursed F&A and over \$1.3 billion in cost sharing. Federal spending on higher education R&D has continued to decline and was just under \$37.9 billion in FY 2015, or 55% of R&D.

- **At least one member of Congress and the press have noted that foundations and other private organizations pay much less overhead.**

F&A rates negotiated with the federal government follow rules established by OMB, defined in 2 CFR Part 200. F&A rates charged to non-federal sponsors are not expected to comply with federal accounting rules. For example, rates charged to industry and other non-federal sponsors are charged to the entire contract amount (versus the lesser “modified” amount used for federal awards, which excludes costs such as graduate tuition and equipment). These awards may also reimburse for costs not allowed under federal rules.

Private foundations and charitable organizations often place limitations on F&A reimbursement. Research institutions accept these awards when such sponsors support mutual research and service aims for which funding opportunities are limited. A number of federal programs, such as NIH career and training awards also place limitations on F&A reimbursement (restricted to 8%) with the rationale that these programs are less F&A intensive than others. When considering how different sponsors structure their F&A reimbursement method, it is important to note that research institutions are never fully reimbursed for their F&A outlays; this is in sharp contrast to private industry that is not subject to the same limitations. Still, research institutions enthusiastically participate in supporting the research enterprise.

To prevent inequity to federal sponsors when non-federal sponsors impose limitations on F&A reimbursement, OMB rules require that a university calculate its F&A rate by allocating F&A costs across all research, not just federally-sponsored research. This results in a single research F&A rate, which represents the cost of conducting all sponsored research and ensures that the federal government does not subsidize the F&A costs for research sponsored by private foundations, nonprofits, and charitable organizations.

- **One recent press report noted that a 2013 Government Accountability Office report raised concerns about universities building more research space than needed due to the influence of indirect cost funding available to them and similar concerns were raised by “critics” in a separate article.**

When research institutions consider building new research space, the institution alone assumes the risk. Facilities may include space for instruction and clinical applications. Federal reimbursement is restricted to the space devoted to federally funded research and negotiated every few years. The institution always is responsible for paying all costs associated with operating a research building, and subsequently, is reimbursed through F&A reimbursement only for those costs associated with space used for federal research activities.

As indicated by Sally Rockey, former NIH Director for Extramural Research in her [September 2015 presentation](#) on indirect cost rates, Federal funds for research and NIH funds have been flat for many years. As a result, campus buildings are often not fully devoted to research. There are also fewer investigators conducting research and therefore fewer F&A reimbursements. Dr. Rockey suggests that concerns about building more research space than needed were “something of the past.”

- **A recent article questioned whether taxpayers should be covering utility bills at university labs, particularly those with large endowments.**

The Federal government funds only the portion of utilities and lab costs that are used for federal research. The costs are determined as part of rate negotiations that take place between the federal government and individual universities every few years. Attempts to establish these costs for each individual grant would be prohibitively time-consuming for both the government and the university and would increase costs. Further, Federal funding doesn’t fully cover even those costs apportioned to federal studies with universities spending \$4.8 billion in the form of unrecovered indirect costs and over \$1.3 billion on cost sharing in FY15 alone. Although these figures apply to all research, the federal government, as a primary funder of basic and biomedical research, would account for the largest share of unreimbursed costs.

The partnership established between the federal government and academic research institutions decades ago allows for significant cost efficiencies in the use of federal funds. The cost to the federal government to operate and staff its own facilities would be significantly higher than the cost of reimbursing only the share of costs specific to federally funded research at academic institutions. The current approach when combined with competitive peer review, ensures that the government has a wide range of cutting edge institutions with the best new ideas for which to allocate funding. The government is unbound from maintaining its own facilities and personnel and the associated obligations and risk.

With respect to endowments, the majority of universities do not have large endowments. Severe cuts to F&A costs would make it impossible for most institutions to conduct research and would disproportionately affect public institutions. Federal research relies on a large ecosystem of institutions with diverse resources. Proposed cuts to F&A would allow only a handful of institutions to conduct research, resulting in dearth of facilities, researchers and students available to conduct research. For those institutions that have endowments, use of those funds are typically restricted by donors.

- **It has been suggested in press that F&A incentivizes universities to increase overhead costs and has contributed to administrative bloat.**

Federal funding doesn't fully cover even those costs apportioned to federal studies, with universities spending over \$4.8 billion in the form of unrecovered indirect costs and over \$1.3 billion on cost sharing in FY15 alone. This is largely due to a cap on administrative costs put in place in 1991. Since that time there has been a significant increase in federal regulations and reporting requirements (see Figure 2.3 below from the National Academies report *Optimizing the Nation's Investment in Academic Research*) that have and will necessitate the hiring of additional administrative staff to comply.¹ Per the Academies report, citing work from FASEB, "in the 1990s, the federal government promulgated approximately 1.5 new or substantially changed federal regulations and policies per year that 'directly affect[ed] the conduct and management of research under Federal grants and contracts.' In the past decade (2003-2012), this number has increased to 5.8 year." Between January 2016 and January 2017, at least nine new federal regulations and requirements were implemented.² Despite this significant increase in federal regulations, F&A reimbursement has remained relatively constant at approximately 28% of the total award.

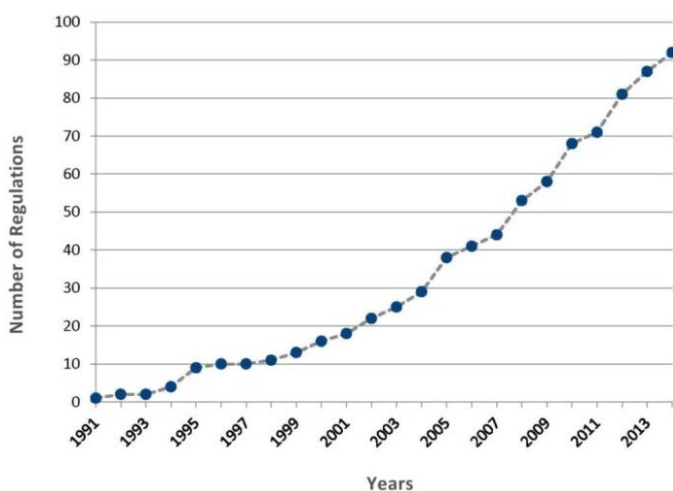


FIGURE 2-3 Cumulative number of regulatory changes applicable to research institutions (since 1991^a). SOURCE: Courtesy of the Federal of American Societies for Experimental Biology, 2015. Based upon data selected by the Council on Governmental Relations.

¹ *Optimizing the Nation's Investment in Academic Research: A New Regulatory Framework for the 21st Century*. The National Academies Press. 2016. Retrieved from: <https://www.nap.edu/catalog/21824/optimizing-the-nations-investment-in-academic-research-a-new-regulatory>

² Federal Regulatory Changes, Since 1991. Council on Governmental Relations. Retrieved from: http://www.cogr.edu/sites/default/files/RegChangesSince1991_012417.pdf