

COGR

an organization of research institutions

COUNCIL ON GOVERNMENTAL RELATIONS

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June 12, 2017

The Honorable Mick Mulvaney
Director, White House Office of Management & Budget
725 17th St., NW
Washington, DC 20503

The Honorable Thomas Price
Secretary, U.S. Department of Health and Human Services
200 Independence Ave., SW
Washington, DC 20201

Dear Director Mulvaney and Secretary Price,

The Council on Governmental Relations (COGR) is an association of 190 research universities, affiliated academic medical centers, and independent research institutes. Our Members conduct over \$60 billion annually in research and development activities and play a major role in performing research on behalf of the Federal government and the National Institutes of Health (NIH). COGR brings a unique perspective to regulatory and cost burden and focuses on the influence of federal regulations, policies and practices on the performance of research.

In May, COGR representatives joined officials from the University of South Carolina (USC), the Medical University of South Carolina (MUSC), Clemson University, and several association groups in a meeting with Director Mulvaney's staff to discuss proposed cuts to the National Institutes of Health (NIH) budget and the facilitates and administrative (F&A) costs that support NIH awards. As those officials explained, such cuts would have devastating impacts on our Nation's ability to perform health and biomedical research that leads to advances in medical treatments and cures.

Facilities and Administrative Costs are Real Costs of Research

F&A costs are an integral part of the cost of conducting research which cannot be performed in the absence of specialized facilities and laboratories, utilities, high-speed data processing and storage, human and animal research review boards, radiation and chemical safety activities, and other infrastructure and compliance activities required for the conduct of federally funded research. F&A reimbursement for costs incurred by institutions for the conduct of federal awards is implemented through a process that is tightly regulated and audited by the Federal Government to ensure that the government funds only that portion of costs that are attributable to the performance of federally funded research.

This reimbursement is subject to restrictions which, when combined with growing federal requirements, result in significant unreimbursed F&A costs; \$4.8 billion in FY15 according to the latest federal data. Universities, medical centers and research institutions are struggling to sustain this level of support even at current F&A rates. The reductions proposed in the President's FY18 budget would result in the closure of research programs and significant reductions in the conduct of research at U.S. institutions, unable to make up for tens of millions of dollars in annual research operating costs per institution through other sources such as tuition or state appropriations. At universities, medical centers, and independent research institutes the impact would be immediate and dire.

Federal Government vs Foundation Reimbursement

In the President's budget request, the Gates Foundation is cited as a basis for establishing a 10 percent F&A limitation. The Gates Foundation policy for reimbursing F&A costs allows for some costs, such as laboratory and space-related costs, data processing, and certain administrative costs to be categorized as direct line items on the grant's budget in addition to reimbursement for F&A (indirect) costs. Further, unlike Federal Government reimbursement, Gates Foundation reimbursement on F&A is allowable on the full cost of the award and any subawards. All of this allows for much more equitable rates of reimbursement than a 10 percent rate implies. With respect to federal awards, under OMB rules (2 CFR Part 200) these costs are recovered through the F&A rate and cannot be charged as direct costs to grants and contracts.

While we appreciate the desire to identify budget savings for the Federal Government, F&A costs are real and necessary costs of research and reductions in F&A reimbursement would have the effect of shutting down research programs across the country. COGR's perspective on how to proceed is three-fold:

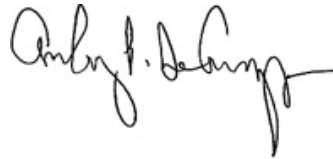
- 1) The current system for reimbursing F&A is relatively effective both for institutions and the federal government. As partners in federally funded academic research our members provide significant cost-sharing support for the research enterprise, while a reliable level of federal F&A reimbursement allows for university outlays for the conduct of this research.
- 2) The Gates Foundation model, by reimbursing costs that normally are F&A costs as direct costs as well as applying F&A to the full cost of the award (including these direct costs), is a unique model that would be challenging for NIH to implement and is unlikely to result in cost savings. As COGR has done significant analysis in this area over the past 5 decades, we'd be happy to meet with OMB and HHS leaders to discuss this further.
- 3) While we strongly oppose the proposed cuts to research through reductions in F&A reimbursement or otherwise, any change to the current system should be delayed for at least two years until responsible due diligence is engaged, such that all stakeholders understand the impact such changes would have on the research enterprise.

Our nation's 70-year long partnership between the federal government and research universities is world renowned for its productivity and innovation—and for the tremendous improvements in human health that it has produced through basic and translational research. NIH-funded research

has led to an increase in life expectancy and declines in deaths from cancer, heart disease, stroke, diabetes, and other devastating and debilitating diseases. The U.S. is the global leader in medical research, basic scientific research, and innovation which has led to significant economic benefits, job growth and advances in healthcare that benefit all Americans. Stable and consistent funding of the entire spectrum of research infrastructure and activities is necessary to maintain our Nation's standing.

COGR would welcome the opportunity to meet with you and other key OMB and HHS officials to continue this discussion and to address issues and concerns in a manner that would be productive for all stakeholders.

Sincerely,

A handwritten signature in black ink, appearing to read "Anthony DeCrappeo". The signature is fluid and cursive, with a long, sweeping tail on the final letter.

Anthony DeCrappeo

President