Chapter Seven

ISSUE 5: OPTIONS TO REDUCE OR CONTROL THE RATE OF GROWTH OF FEDERAL F&A REIMBURSEMENT RATES

Chapter One presented data that show universities share substantially in the costs of research supported by the federal government. The federal government awards about $15 billion to higher education institutions for research. The institutions provide about $5 billion more in funds, some of which pays for facilities and administrative costs on federal awards. Chapter Three reviewed available data on total costs and concluded that facilities and administrative costs represent about 31 percent of total research costs at universities. Chapter Two used two methods to estimate the amount of F&A costs actually paid by the federal government. This share is between 24 and 28 percent of federal outlays, lower than the 31 percent of total costs that these true costs represent. Based on the difference in these figures, we concluded that universities are sharing F&A costs. Universities might share even more of these costs if federal support were reduced. We do not know the mechanisms universities use now to share these costs or those they might use if federal support were reduced. These mechanisms could include supporting some research costs with other funds, such as state appropriations, private gifts, endowments, or tuition revenue.

Chapter Four showed that overall negotiated F&A reimbursement rates remained constant over the 1988–1999 period. Although we do not have comprehensive data on actual reimbursements for F&A costs, available evidence shows that negotiated rates have remained steady. Therefore it does not seem likely that actual reimbursements are increasing as a percentage of research awards.

There is substantial variation in agency experience in paying for F&A costs. Some agencies appear to operate successful programs with caps on F&A costs, such as USDA. Chapter One noted that universities find it easier to share costs when the federal agency mission is closely aligned with other university funders, such as state governments. The USDA has this characteristic. Of its $1 billion budget for research activities, most is for agricultural extension services,
which require state or university matching. The federal government defines its share of the program as omitting facilities and administrative costs; these costs are paid by the matching funds. USDA’s budget for competitive research project grants is just $84 million and is subject to congressional limitations on F&A costs. Universities appear to find funds to share the F&A costs on this $84 million.

Would it be advisable to extend these provisions to other agencies? It would be more difficult for universities to share F&A costs at the same level with NIH, whose total outlays to universities are $8 billion. In contrast to USDA, most of NIH’s outlays to universities, $7 billion, goes for competitive research project grants. Biomedical research does not share the history of state funding for agriculture and is not therefore positioned to attract as much cost-sharing. Thus USDA is able to attract good proposals paying lower costs than NIH. USDA officials are concerned that limits on F&A costs may discourage some scientists from competing for grants. If the USDA were seeking to fund a larger competitive research grant program, this concern would be even more significant.

Even if other sources were tapped to create more supplements to the NIH $7 billion in research project grants, the social consequences could be undesirable. Universities might reduce support for other functions, such as education, or reduce investments in new and renovated facilities.

Although a fundamental change in the philosophy of reimbursing F&A costs is not under consideration, several options for further moderating F&A rates have been recently considered, and some of them have been implemented. Most special studies have now been eliminated. Special studies for libraries have been allowed, but the data show that overall negotiated rates for libraries have remained modest and almost constant. OMB considered benchmarking to manage the costs of new facilities that will be used in federal research. But because of the inherent difficulties in developing standard cost templates for research facilities that span a wide variety of needs, OMB selected a different approach. Circular A-21 now requires that major facilities be subject to a review of reasonableness, including comparison of costs with relevant construction data and a review as part of the Circular A-133 audit.

With the cap on administration in place, questions may be raised about controls applied to the facilities portion of F&A rates. The trend data indicate that there has been about a two percentage point increase in negotiated rates for facilities over the past decade. Negotiated rates for operations and maintenance have actually decreased, while infrastructure rates have increased. It appears that the increases in infrastructure rates stem from modernization of research buildings through renovation and new construction. Some of this modernization may have been encouraged by the allowance of interest
expenses for research facilities, beginning in 1982. The survey data cited in Chapter Five indicate that universities have increased research facility space by 28 percent and substantially upgraded the average capability of their research space.

Ultimately, how much the federal government should provide for these infrastructure costs is a question of policy. But if the federal government reduces support for infrastructure, universities may well opt not to construct new facilities or modernize old ones. In this case, universities will have less capacity to pursue scientific research.

There may be other options for reducing federal outlays for F&A costs. If universities could reduce their costs, the government would be able to spend less without adverse effects on other programs. Chapter Six reviewed a broad spectrum of laws and regulations that contribute to both facilities and administrative costs. Streamlining the requirements imposed by law and regulation would enable universities to lower their costs and the federal government to reduce outlays for facilities and administrative costs.