

A
A
U

Association of American Universities

October 6, 2003

Subcommittee on Research Business Models
National Science and Technology Council
c/o Michael J. Holland
Office of Science and Technology Policy
1650 Pennsylvania Ave, NW
Washington, DC 20502

To Members of the Subcommittee:

We are writing as members of a subcommittee of the Association of American Universities, which represents 60 leading public and private research universities in the US. Our subcommittee concerns OMB Circular A-21, and we wish to respond to your August 6 *Federal Register* notice soliciting information for your examination of “the business relationship between federal agencies and research performers with the goal of improving the performance and management of federally sponsored basic and applied scientific and engineering research.”

We share your goal of improving the performance and management of federally-sponsored research. Indeed, AAU research universities value the long-standing partnership between research universities and the federal government. This partnership has produced tremendous benefits, including the generation of new knowledge and discoveries that have improved the public health, helped secure our nation, and created jobs.

An important aspect of this partnership is the shared responsibility for supporting the costs of university infrastructure utilized for federally sponsored research. As you know, the process established to allocate research costs fairly is the facilities and administrative (F&A) rate mechanism, governed by OMB Circular A-21. *Universities believe that the principle of full cost reimbursement is vital for this partnership to be successful, and that the time has come for research cost reimbursement policies to be brought into alignment with this sound business principle – since OMB and agency practices have deviated from it in recent years.*

When federal agencies do not adequately reimburse universities for the F&A expenses attributable to research, universities must pay for them by taking resources away from other research and education obligations. The RAND study entitled “Paying for University Research Facilities and Administration,” released in the spring of 2000, showed that based upon negotiated rates, universities are only reimbursed for between 70 and 90 percent of the F&A costs associated with federally sponsored research. A 2002 analysis by the Council on Governmental Relations (COGR) showed that this under-recovery results from a mix of OMB policies and agency practices.

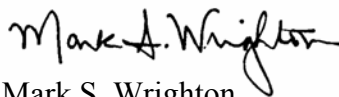
Recent evidence indicates that the under-recovery situation is getting worse, not better. A new COGR study (which we have attached to this letter) concludes that universities' costs of complying with federal requirements are escalating rapidly over time – the average increase in these expenditures ranges from approximately \$1.8 million per campus in 2000 to an estimated \$4.1 million in 2005. These compliance cost increases are for such things as human subjects protection, conflict of interest reviews, disposal of hazardous waste, monitoring of health and safety requirements in labs, Medicare billing, and more recently, HIPAA and SEVIS. As these costs have increased, the gap between F&A reimbursements, which are limited by Circular A-21's 26% cap on administrative costs, and actual campus administrative expenses, has grown wider. As COGR's study concludes, "continued increases in these substantial compliance costs cannot be borne by the universities without impairing the research enterprise."

Within the context of the principle of full cost reimbursement, universities therefore seek: a) relief from the 26% cap on reimbursement of administrative expenses; b) access to increased reimbursement of university utility expenses under the Utility Cost Adjustment for all institutions; c) the removal of agency policies which result in reimbursement at less than negotiated rates; and d) F&A rates that are negotiated fairly, with due attention paid to the documented, audited costs incurred by universities.

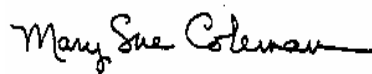
As a subcommittee of AAU university presidents and chancellors, we therefore respectfully request that the Subcommittee on Research Business Models carefully examine the evidence contained in the attached COGR report, and adopt the principle of full cost reimbursement of F&A costs.

We would be pleased to answer any questions you may have about this letter, or the attached analysis. We can be contacted through Nils Hasselmo, AAU's president, who can be reached at 202-408-7500.

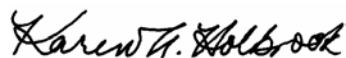
Cordially,



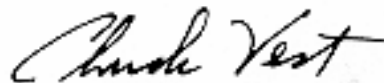
Mark S. Wrighton
Chancellor
Washington University in St. Louis
Chairman, AAU Subcommittee on A-21



Mary Sue Coleman
President
University of Michigan
A-21 Subcommittee Member



Karen Holbrook
President
The Ohio State University
A-21 Subcommittee Member



Charles M. Vest
President
Massachusetts Institute of Technology
Chairman, AAU Costs of Research Cmte.