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National Science Foundation
Office of the Director
Arlington, VA 22230

Notice No. 128

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IMPORTANT NOTICE TO PRESIDENTS OF UNIVERSITIES AND COLLEGES AND HEADS OF OTHER NATIONAL SCIENCE FOUNDATION GRANTEE ORGANIZATIONS

Subject: Revision of the NSF Cost Sharing Policy

On June 11, 1999, NSF issued Important Notice 124, entitled, *Implementation of the New NSF Cost Sharing Policy*. Significant aspects of the policy included:

- NSF-required cost sharing is an eligibility criterion, not a review criterion.
- NSF cost sharing requirements beyond the statutory requirement (1%) will be clearly stated in the relevant program solicitation.
- NSF can require additional cost sharing only when there is tangible benefit to the awardee.
- For unsolicited research projects, only statutory cost sharing will be required. This includes all proposals submitted solely in response to the *Grant Proposal Guide*. In such proposals, and all others not covered by special cost sharing requirements, NSF program officers must follow the current GPG guidance which states that they may discuss with principal investigators the “bottom line” award amount, but may not [re]negotiate or impose cost sharing or other institutional commitments.
- Any negotiations regarding cost sharing will occur within the parameters stated. Further, any reduction of 10% or more from the amount proposed should be accompanied by a corresponding reduction in the scope of the project, unless the program officer, principal investigator, and institution clearly agree that the project as proposed can be carried out at a lesser level of support with no expectation of any uncompensated institutional contribution beyond that formally reflected as cost sharing.

Since its issuance, the cost sharing policy has been widely discussed by the Community, as well as internally within the Foundation, and at meetings of the National Science Board (NSB). The results of these discussions indicate that the basic elements of the policy remain sound. The issues that have surfaced since the policy's issuance relate more to implementation and enforcement. To help address these issues, as well as to offer additional implementation guidance, this Important Notice is being reissued with the following change (this change was approved by the National Science Board at its November 2002 meeting):

- The third paragraph of the “Budget Negotiations” section of the policy is deleted and replaced with the following:

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“In budget negotiations, any reduction of 10% or more from the amount proposed should be accompanied by a corresponding reduction in the scope of the project”.

All other aspects of the NSB policy remain unchanged. The full text of the revised NSB policy statement is available electronically on the NSF website¹.

Cost sharing will continue to be confined to program solicitations generating proposals that provide a tangible benefit to the award recipient(s) (normally beyond the immediate term or scope of the NSF-supported activity). Benefit is defined in terms of capacity building, potential dollar revenues, time frames, or third party users. NSF-funded activities that are characterized by such benefits are awards for infrastructure-building purposes (instrumentation/equipment/ centers/facilities) or for awards where there is clear potential to make profit or generate income (e.g. curriculum development). NSF plans to more closely scrutinize draft solicitations that consider requiring cost sharing, to ensure that the tangible benefit test is clearly met.

In addition, the following guidance relating to cost sharing in NSF proposals is provided:

- NSF legislation continues to require that each grantee share in the cost of research projects resulting from unsolicited proposals. This required amount (set by NSF at 1%), however, should not be reflected on Line M of the proposal budget.
- Unless a program solicitation specifically requires cost sharing, proposers should:
 - **not** include cost sharing amounts on Line M of the proposal budget; or
 - **not** exceed the cost sharing level or amount specified in the solicitation.

In order to retain the concept of an eligibility rather than a review criterion, we plan to modify the FastLane system to ensure that Line M is masked from peer reviewers during the review process.

The revised NSB policy will be effective for budget negotiations occurring on or after April 1, 2003, and will be incorporated as appropriate in the next revision of the NSF *Grant Proposal Guide* and *Grant Policy Manual*. We will issue additional implementation guidance, including updated Frequently Asked Questions, in the near future. In the interim, any questions regarding the policy should be directed to <policy@nsf.gov>.

The National Science Board plans to have additional discussions about the issue of cost sharing at future meetings. We will keep the Community informed of these discussions.

Rita R. Colwell
Director

Supersedes Important Notice 124

¹The full text of the revised policy is available at: <http://www.nsf.gov/bfa/dga/policy/start.htm>.

NATIONAL SCIENCE FOUNDATION
POLICY STATEMENT on COST SHARING

DEFINITION

Cost sharing is defined in OMB Circular A-110. For NSF purposes, and consistent with A-110, it also includes and is synonymous with the term "matching." For NSF, cost sharing should be used with reference only to quantifiable and auditable contributions from non-NSF (and non-Federal) sources to NSF-supported activities. In the case of in-kind contributions, a quantifiable and auditable value must be established.

NSF has a variety of informal ways in which it partners and leverages resources from other sources. While necessary and important in many programs, these do not constitute "cost sharing" as NSF defines the term.

POLICY

In accordance with Congressional requirements, NSF requires that each grantee share in the cost of NSF research projects resulting from unsolicited proposals. These requirements may be met by the recipient through cost sharing a minimum of one percent on the project or by cost sharing a minimum of one percent on the aggregate costs of all NSF-supported projects subject to the statutory requirements. The Grant Proposal Guide (GPG)(Sec. II.C.2.g.xii) and the Grant Policy Manual (Sec. 330) provide additional information as to these requirements.

In addition to the statutory requirements, NSF can require cost sharing when we believe there is tangible benefit to the award recipient(s) (normally beyond the immediate term or scope of the NSF-supported activity). Benefit is defined in terms of capacity building, potential dollar revenues, time frames, or third party users. NSF-funded activities that are characterized by such benefits are awards for infrastructure-building purposes (instrumentation/equipment/ centers/facilities) or for awards where there is clear potential to make profit or generate income (e.g. curriculum development).

PRINCIPLES

NSF-Required (Non-Statutory) Cost Sharing

NSF cost sharing requirements beyond the statutory requirement will be clearly stated in the program solicitation that generates proposals to the program. NSF-required cost sharing is considered an eligibility rather than review criterion. Language will be specific so that eligible institutions will understand the parameters within which cost sharing is expected.

Requirements for cost sharing may take into account the type of institution, institution size, level of other research support, population served, etc.

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Any negotiation with proposers as to the level or amount of NSF required cost sharing will occur either prior to the review process to establish the project's eligibility for consideration or after merit review has been completed to adjust cost sharing to the agreed-upon amount of the award. These negotiations will occur only within parameters stated in the covering solicitation and in accordance with GPG "bottom line" guidance.

Unsolicited Proposals

For unsolicited research and education projects, only statutory cost sharing will be required. This includes all proposals submitted solely in response to the GPG. (Note: some programs have special "flyers," for equipment/instrumentation proposals for example, which reference GPG requirements but have special provisions on cost sharing. For these purposes, such proposals are not submitted "solely" in response to the GPG.)

Budget Negotiations

In GPG proposals, and all others not covered by special cost sharing requirements, NSF program officers must follow the current GPG guidance (III.D.) which states that they may discuss with principal investigators the "bottom line" award amount, but may not [re]negotiate or impose cost sharing or other institutional commitments. "Bottom line" funding amounts should be commensurate with the effort supported.

In "bottom line" budget determinations, only those resources specifically included either as direct or facilities/administrative costs in the budget or formally proposed as cost sharing are assumed to be available for the project. They must be adequate to support the project.

In budget negotiations, any reduction of 10% or more from the amount proposed must be accompanied by a corresponding reduction in the scope of the project.