



June 14, 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:

On behalf of the Association of Public and Land-grant Universities (APLU), I write to express strong opposition and concern over the administration's FY2018 budget proposal to cut \$7.2 billion, or 21 percent, from the National Institutes of Health (NIH) current funding level. To help achieve this drastic reduction in NIH funding, the budget proposes to cap facilities and administrative (F&A) payments on NIH grants at 10 percent. F&A expenses are real costs of research. Such a significant cut to F&A would cripple the research enterprise and dramatically diminish our nation's ability to conduct cutting-edge research that saves lives and advances health and well-being.

This change to F&A cost policies would significantly decrease the amount of research scientists at our member institutions could perform on behalf of NIH and the Department of Health and Human Services. And, in short order, these cuts also would greatly curtail the number of institutions able to conduct research for the government.

APLU's membership includes public research universities and land-grant institutions in every state in the country. Our member campuses and state university systems are committed to increasing degree completion and academic success, advancing scientific research, and expanding engagement. Annually, APLU's 195 U.S. member campuses enroll 4 million undergraduates and 1.2 million graduate students, award 1.1 million degrees, employ 1.1 million faculty and staff, and conduct \$40.8 billion in university-based research.

The partnership between the federal government and research universities that emerged out of World War II is a significant reason our country is the envy of the world and the global innovation leader. This partnership – whereby the federal government, through competitively awarded grants, funds research that universities conduct on behalf of the nation – has yielded major scientific advances, including tremendous improvements in human health, and has helped train America's most prominent scientists, engineers and entrepreneurs. This system has built a United States that is the world's leader in medical research and innovation.

Recognizing that institutions incur essential research expenses that may not be directly attributable project by project, the government has included F&A costs in federal grants since the 1940s. Some of the most commonly cited examples of these F&A costs are the utilities such as heat, lighting, water, and power needed to operate a lab. But F&A costs cover much more than that. Modern laboratories require sophisticated environmental controls, instrumentation, high-speed information technology, and

state of the art safety and security to protect personnel and surrounding communities. Research funded by the NIH often depends on use of extensive tissue and sample collections, and scores of professionals to ensure compliance with federal, state, and local regulations on human and animal subject research protections, privacy, health and safety, and for management and technical support. All these F&A costs are essential research costs. No entity – not universities nor industry nor the government itself – could conduct quality research without incurring these important research infrastructure expenses.

A justification provided in the administration’s budget request for the proposed F&A cut is that private foundations provide grantees with lower F&A cost payments than the federal government and a 10 percent cap would better align the government with philanthropic foundations on this front. However, the comparison of federal F&A rates to foundation F&A rates is erroneous and misleading. The federal government’s rules are strict about what can be categorized as a “direct” expense and what must be categorized as F&A. Many foundations, on the other hand, allow for certain costs to be categorized as “direct” which the government does not allow, such as facilities, utilities, data storage, project management, regulatory compliance, and communications related expenses. Foundation F&A rates, therefore, are not markedly lower than federal government rates; rather, foundations use different accounting systems to pay many of the same costs. Importantly, both the current federal government system and private foundations recognize the essential role of F&A expenses in conducting high quality and cutting-edge research.

The budget’s proposed cut to F&A would have wide-ranging and adverse impacts on our nation’s public research universities. F&A costs are real and our universities have limited funding sources to cover them, especially in light of dwindling state appropriations. Certainly, increasing tuition to cover these proposed federal F&A cuts is not a viable option. Charitable donations to the institutions already help public and land-grant universities contribute significantly to the costs of research, including the subsidization of F&A expenses that are not fully covered by the government. A reduction in federal F&A cost payments would simply exacerbate current financial pressures and ultimately result in the inability of many of our member institutions to accept research awards from, and conduct research on behalf of, federal agencies.

The bottom line is that the proposed 10 percent cap on F&A costs would result in fewer universities conducting less research on priority diseases and conditions, as numerous institutions would be unable to further subsidize medical research or pursue innovative and cutting-edge science. Moreover, as universities discontinue the research they perform for the government, the education of the future workforce in biomedical and other scientific and engineering fields at those institutions would be significantly curtailed. The current system has ensured that scientists and students at universities across the United States are involved in the pursuit of life-enhancing biomedical research. This is necessary for our country to maintain its robust and world-leading medical research ecosystem. The proposal to cut federal F&A payments would dismantle this treasured enterprise.

I urge you to reconsider this proposal. Please let me know if I can provide additional information or connect you with any of our universities for further discussions on this important matter.

Sincerely,



Peter McPherson
President
Association of Public and Land-grant Universities