Subject: Indirect Cost Cap on Basic Research

Language/Provision: Sec. 8105 of the House bill would limit reimbursement of indirect costs under a basic research contract, grant, cooperative agreement, or similar arrangement to 20 percent of the total direct costs under the agreement on “programs of mutual interest” between the Department and outside research organizations. The accompanying House report states that “the Committee learned that the percent of basic research funding allocated to Department and research organizations’ overhead costs has grown to unwarranted levels.”

DoD Position: The Department urges the conferees to delete this provision. An indirect cost cap is artificial, arbitrary, and unjustified. It likely will reduce DoD access to world-class research needed to maintain the future technological superiority of the U.S. military.

The cap is unjustified for several reasons. Both direct and indirect costs are real costs of performing research that are distinguished only by the ability of an organization’s accounting system to attribute each cost to a specific research project. An indirect cost is one that cannot be attributed to a specific project because it supports the research enterprise as a whole or is a general cost of doing business. Absent evidence of systemic overcharging of the Government by research institutions (e.g., from their federally required financial audits), there is no rational basis to question the legitimacy of the indirect costs charged to DoD basic research.

By prohibiting DoD reimbursement of its fair share of an organization’s allowable indirect costs, section 8105 could inappropriately compel an organization to consider charging non-federal customers to cover costs of DoD programs (e.g., in the case of a research university, through tuition charges to students and parents). It likely will lead some research organizations to forego DoD research awards and accept support only from other agencies and non-federal sponsors, impeding the Department’s access to new knowledge and understanding critically needed to generate future military technology.

Based on the best available data, indirect costs average about one-third of the research dollar in research organizations and a little less in universities—a 1996 study found indirect costs to be 31% of total costs in universities, 33% in federal laboratories, and 36% in industry. The cap in section 8105, which is relative to the arbitrarily selected total direct costs rather than the OMB-defined government-wide Modified Total Direct Cost, would cut reimbursement to about half what Government-wide rules currently allow under DoD and other federal agencies’ awards. There is no basis for that substantial reduction to legitimate research costs. If there were, there would be no basis to discriminate—as section 8105 does—either between DoD and other federal agencies or between basic and other research. Such pinpoint selection of only DoD basic research from the universe of Government R&D funding does not appear to have a business case basis. If upheld, this provision would single-out some portion of $1.4B of basic research R&D from DoD’s $78B R&D total for FY08.

The Statement of Administration Position on this bill opposes section 8105’s imposition of artificial, arbitrary caps on indirect costs of basic research.

The Department strongly urges the conferees to delete the provision.