September 29, 2008

Ms. Jennifer Richards  
Executive Secretary, Task Force on Cost Sharing  
National Science Board Office  
National Science Foundation  
4201 Wilson Boulevard, Suite 1220  
Arlington, Virginia 22230

SUBJECT: Request for Public Comment on Use of Cost Sharing in National Science Foundation-Funded Activities

Dear Ms. Richards:

On behalf of the Council on Governmental Relations (COGR), the Association of American Universities (AAU), and the National Association of State Universities and Land-Grant Colleges (NASULGC), please find attached our response to the August 6, 2008 Federal Register Notice request for comments on the use of cost sharing in National Science Foundation-funded activities.

COGR is an association of more than 175 research universities and their affiliated academic medical centers and research institutes. COGR concerns itself with the influence of federal regulations, policies and practices on the performance of research and other sponsored activities conducted at its member institutions. AAU represents 60 leading public and private research universities and is devoted to maintaining a strong national system of academic education. NASULGC’s 218 members are the major public universities and systems in every state of the nation.

On behalf of the COGR, AAU, and NASULGC memberships, we welcome the active approach the National Science Board is taking to address the challenges inherent to managing cost sharing. While we realize that there are no easy solutions, allowing the research community to partner in this discussion will help ensure that any clarifications or policy updates made by the National Science Board (NSB) and the National Science Foundation (NSF) will be more effective and positively received by the research community.

Below are responses to the nine issues listed in the August 6, 2008 Federal Register Notice.
(1) The relationship between cost sharing and NSF program goals.

COGR, AAU, and NASULGC believe that using a broad definition of cost sharing that includes all institutional contributions to the research enterprise, cost sharing does enhance the achievement of NSF program goals. However, voluntary committed cost sharing (i.e., cost sharing specifically pledged in the proposal’s budget or award) represents only a marginal portion of the institutional contribution and therefore, taken by itself, may have little effect on achieving NSF program goals.

It is well established that institutions and their researchers are already providing significant levels of institutional resources to the research enterprise. Data presented by the NSF in the most recent 2007 NSF Survey of Research and Development (R&D) demonstrates that this is the case. The NSF Survey shows that the university’s financial contribution to the research enterprise is the most robust component, exceeding the growth rate of the federal share, and now comprises 20 percent of total R&D expenditures.

The institutional contribution includes activities funded internally, state and local government appropriations, mandatory and voluntary cost sharing, as well as unrecovered indirect costs. What is not captured in the NSF Survey is the growing level of unrecovered costs required to comply with an ever-expanding list of research regulations including export controls, the use of select agents, data and information security, and other significant mandates. The OMB Circular A-21 26-percent cap on administrative cost recovery restricts the recovery of these costs and the NSF Survey has no mechanism to report unrecovered costs that exceed the cap. In effect, universities bear all new and incremental compliance and administrative costs, which further increases the cost sharing contribution to the research enterprise.

We believe that voluntary cost sharing could be eliminated without any detriment to the quality of the research enterprise, and could enhance the enterprise by removing the problems that are associated with voluntary cost sharing.

(2) The relationship between cost sharing and institutional competitiveness in NSF grant funding.

We have listened to many discussions on this topic, and the intuitive conclusion is that those institutions that have less financial resources are at a competitive disadvantage when cost sharing is required or is perceived to be an important factor. However, on an anecdotal basis, there may not be a direct correlation between an institution's financial status and its willingness or ability to commit institutional resources.

Consequently, we believe it would be a mistake to develop policy based solely on the criterion of an institution’s financial status (e.g., using the “top 100 research institutions” as a criterion, which could be the case with the MRI program), and that many considerations above and beyond institutional financial capability impact an institution's ability to provide cost sharing.
(3) The role of cost sharing in the NSF merit review process.

We believe that voluntary cost sharing should not be considered during the merit review process and institutions should be discouraged from making voluntary cost sharing commitments. The mechanism to ensure that voluntary contributions do not impact the merit review process will require several strategies:

a) There must be an ongoing educational initiative, initiated by NSF and reinforced by university leaders, that informs the broad research community that voluntary cost sharing commitments are not considered in the merit review process;

b) In cases where a voluntary cost sharing commitment has been made, NSF should develop a process to make any voluntary contributions invisible to merit reviewers. This might be accomplished by requiring cost sharing commitments to be described on a supplemental attachment that will not be available in the merit review process; and

c) Because voluntary cost sharing will not influence the merit review process, it should not be an auditable category for agency reviews and audits.

Such an approach, most likely, would be supported by the Office of Management and Budget (OMB). In an OMB directive from June 23, 2003 (OMB Memorandum M-03-16, 68 FR 37379), OMB urged funding agencies to make the role of cost sharing clear in their program announcements and to eliminate vague statements that suggest cost sharing will be looked at favorably in the merit review process. That directive states:

If an applicant’s proposed cost sharing will be considered in the review process (as opposed to being an eligibility criterion ...), the announcement must specifically address how it will be considered ...

A specific aim of the OMB directive is to instruct funding agencies to be clear on how cost sharing will be evaluated, so that it levels the playing field:

If an applicant’s proposed cost sharing will be considered in the review process ..., the announcement must specifically address how it will be considered ... If cost sharing will not be considered in the evaluation, the announcement should say so, so that there is no ambiguity for potential applicants.

Therefore, OMB policy states that cost sharing contributions should not be considered by funding agency reviewers, unless the cost sharing is specifically required. While institutions might consider documenting those institutional resources that are in line with the institution’s strategic research plan, those contributions should not be considered in the merit review process. Consequently, because voluntary cost sharing should not influence the merit review process, we recommend that voluntary cost sharing should not be an auditable category for agency reviews and audits (comment (5) includes additional discussion).
(4) The importance of types, sources, and timing of voluntary cost sharing.

Once again, it is our view that voluntary cost sharing can be eliminated without any detriment to the quality of the research enterprise, and could enhance the enterprise by removing the problems that are associated with voluntary cost sharing. However, until that is the case, voluntary cost sharing contributions will continue.

Whether these contributions are in the form of salaries, equipment, unrecovered indirect costs, in-kind cost sharing (e.g. donated property, equipment, expertise, etc.), or other well-defined forms, they represent real and tangible institutional contributions to the research enterprise. While accounting for all of the unique forms of cost sharing can be complex, we believe that any policy change that would restrict the forms of cost sharing (e.g., cash only) would be a major policy error and have significant financial implications for grant recipients.

However, any policy initiative that provides more flexibility is always welcome. First and foremost, we understand that when cost sharing is required, the institution must demonstrate a direct benefit to the project and that it is allowable in accordance with federal cost principles. In addition, there are some situations where a case-by-case review may be appropriate. For example, equipment (directly attributable to a project) purchased before the beginning of the project start-date is currently unallowable as a cost sharing contribution. Providing flexibility to allow costs, in examples such as this one, would be helpful to the research community and would not compromise the intent and goals of cost sharing requirements.

(5) Effort associated with tracking and reporting cost-shared resources.

The 2004 NSB policy, which eliminated program-specific mandatory cost sharing, had a significant and positive impact on reducing the burden associated with tracking and reporting requirements. However, the policy change no longer applies to all NSF programs, or to those grants issued before the change in policy. Institutions continue to track cost sharing, and consequently, continue to experience significant tracking and reporting burdens. Ongoing challenges include:

a) Maintaining off-line, manual cost sharing systems separate from an institution’s primary financial system;

b) Developing specialized accounting methodologies to differentiate how diverse items are tracked (e.g., salaries, equipment, unrecovered indirect costs, in-kind contributions – donated property, equipment, expertise, etc.);

c) Documenting investigator effort to comply with the salary and funding requirements that are unique to NSF; and

d) Negotiating the most fair indirect cost recovery rate because current policy requires voluntary committed cost sharing to be included in the research base, which unfairly reduce an institution’s indirect cost rate.

Each challenge has an associated cost to an institution, which raises other issues related to fair reimbursement of institutional costs. The most notable and quantifiable challenge may be the impact that voluntary committed cost sharing has on an institution's indirect cost rate (i.e.,
facilities and administrative, or F&A rate). While we stated in comment (1) that voluntary committed cost sharing, taken by itself, has little effect on achieving NSF program goals, its influence on the indirect cost rate negatively affects university finances. The impact is two-fold: the institution does not recover indirect costs on voluntary committed cost sharing, and because voluntary committed cost sharing must be included in an institution’s organized research base, the effect is to reduce an institution’s F&A rate. A simple solution that eliminates the requirement to include this form of cost sharing in the organized research base would restore some equity to indirect cost reimbursement.

While we are always concerned about the impact of compliance and regulatory burden, we are cognizant of the importance of good stewardship of federal funds. In fact, the research community takes this responsibility seriously. However, when there is a real opportunity for regulatory burden to be reduced, without compromising stewardship responsibilities and the quality of research, this is an opportunity that should be seized.

Eliminating voluntary cost sharing as an auditable category for agency reviews and audits would be an important and positive action by the National Science Board. To reiterate, the quality of science would not suffer, nor would the institutional commitment to accountability and stewardship of taxpayer dollars. However, the burden associated with tracking and reporting requirements would be reduced dramatically, freeing institutional resources that can be used to focus on other compliance areas.

The policy changes being considered by the National Science Board represent a proactive attempt to address a topic that all federal funding agencies have struggled to address. Several of the complexities associated with accounting for cost sharing were tackled in an OMB Clarification Memorandum from January 5, 2001 (OMB Memorandum M-01-06). This represented an example of a collaborative and productive approach to address difficult issues. In fact, OMB reinforced the collaborative approach by stating: *This clarification is consistent with the recommendation by the National Science and Technology Council (NSTC) to improve the Government-university research partnership.*

Specifically, OMB eliminated reporting requirements associated with voluntary uncommitted cost sharing, defined as “university faculty (including senior researchers) effort that is over and above that which is committed and budgeted for in a sponsored agreement.” We believe extending this concept to voluntary committed cost sharing would be a logical and productive next step.

OMB urged a reevaluation of the impact of the memo: *In the future, OMB and the research agencies will evaluate the impact on committed cost sharing of this clarification memo.* While federal and university officials agree that the OMB memo has been positive for the research community, the current initiative by the NSB could serve as a fresh opportunity to review aspects of the 2001 memorandum.

(6) **The relationship between cost sharing and institutional strategic investment.**

Through our representation of research universities, hospitals, and research institutes, COGR, AAU, and NASULGC have had the opportunity to work with many diverse institutions, and we have found all of them to be diligent and thoughtful in the development of their strategic research plans. Strategic decisions revolve around enhancing the research infrastructure, including
development of personnel, as well as constructing and financing state-of-the-art research facilities and laboratories. Institutions make significant up-front investments in recruiting new investigators and constructing the physical space, without any assurance that federal and other sponsors will fund the projected research initiatives.

We make this point because it demonstrates both the risks and thoughtful approach that institutions undertake when analyzing and implementing their strategic research plans. In turn, the same careful review process takes place when considering cost sharing and the use of institutional resources in all situations where cost sharing and the commitment of institutional resources are applicable.

Unfortunately, when institutions are required to cost share (i.e., mandatory) or believe they need to provide cost sharing to be competitive (i.e., voluntary committed), this will adversely impact their strategic research plans. In effect, both mandatory and voluntary committed contributions can result in commitments above and beyond what the institution had already planned, drawing resources away from other key components of the educational and research mission, including student stipends, student laboratories, and other important activities. While it may be an attractive idea that cost sharing brings additional resources to the research enterprise, serves as a leveraging mechanism, creates institutional buy-in, and promotes sustainability, we maintain that institutions are already committed to investing the appropriate resources in their research programs. Needless to say, additional cost sharing commitments can be a disruptive force to thoughtful planning.

(7) Options for ensuring institutional equity in NSF grant funding when cost sharing is either required or volunteered.

We applaud the thoughtful approach the National Science Board has taken on the topic of cost sharing. However, we are concerned that the rationale for reinstating mandatory cost sharing may have been based on incomplete assumptions and that the reinstatement could have unintended consequences. Furthermore, we maintain that there is little relationship between cost sharing and NSF funding equity, and that discussions related to broadening participation should be separate from discussions related to cost sharing policy.

We believe that there is no direct correlation between an institution's financial status and its willingness to commit institutional resources. This point is of particular importance when considering those institutions that have less financial resources at their disposal. While some of these institutions and their respective state governments may more readily embrace a cost sharing commitment (e.g., due to priorities set by the governor’s office or other governing bodies at the state level), other institutions may be in states where the climate for cost sharing is not favorable.

While the NSB already has submitted a report to Congress evaluating the role of mandatory cost sharing in selected NSF programs (i.e., ERC, I/UCRC, and EPSCoR), the COGR staff has been notified by some member institutions from EPSCoR states that the reinstatement of mandatory cost sharing could be prohibitive for selected universities. It would be an unintended and unfortunate outcome if the reinstatement of mandatory cost sharing resulted in institutions opting out of the EPSCoR program.
(8) Research resources from state providers.

It is difficult to present a uniform response to the level in which state governments, the governors’ offices, and/or the state higher education commissions support federal programs that require a cost sharing commitments. Furthermore, it is equally difficult to standardize a response among multiple state universities within a given state in terms of the extent to which cost sharing is prioritized.

As is the case with the research institutions, COGR, AAU, and NASULGC believe the same holds true for states: there is no direct correlation between a state’s financial status and its willingness to commit resources. For example, among EPSCoR states, there are some states that are committed to leveraging significant state resources, above and beyond EPSCoR requirements. However, other states are not in a position to commit such levels of support. As we wrote in comment (7), we are concerned that the basis for reinstating mandatory cost sharing could have been based on incomplete assumptions, and that the reinstatement of mandatory cost sharing could result in some institutions no longer being able to participate in selected programs.

(9) Research resources from industry providers.

The university and industry partnership is crucial to the ongoing strength and success of the United States research enterprise and we support those NSF programs requiring active participation from industry partners. However, the current economic environment could make it challenging for some industry partners to maintain their financial commitments, despite the fact that both university and industry partners remain committed to the long-term goals of these programs. Consideration of new and creative approaches for defining industry contributions could be a worthwhile endeavor in this difficult economic climate.

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The Council on Governmental Relations, the Association of American Universities, and the National Association of State Universities and Land-Grant Colleges appreciate the opportunity to respond to the National Science Board’s Request for Public Comment. That spirit of cooperation and partnership continues to define our relationship, and we look forward to engaging in further discussions.

Sincerely,

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President, COGR

Robert M. Berdahl
President, AAU

Peter McPherson
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