
SUMMARY AND CONCLUSIONS

As the research partnership between the federal government and universities evolved, federal agencies developed principles for reimbursing both the direct costs of research and some of the costs of facilities and administration. The reimbursement of these costs has long been the subject of congressional interest. In 1998, Congress asked for an investigation of issues related to this topic. In conducting an analysis of these issues, we have been hampered, in some cases, because the government does not maintain convenient databases from which to extract the requested information. The accessible government data contain information on *negotiated* facilities and administrative rates. Our analysis of these data shows that these negotiated rates have remained about constant for a decade, but we lack data on actual federal outlays for F&A costs. The data we do have are consistent with the findings based on negotiated rates.

Because we have to rely on incomplete data for actual outlays by agencies and receipts by universities, we can only make approximations in these areas. On average, about 31 percent of total true costs appear to be for facilities and administration. The share of federal outlays that pays for F&A costs is between 24 and 28 percent. Based on the difference between these figures, we conclude that universities are sharing in facilities and administrative costs. Overall, we estimate that the federal government does not reimburse between \$0.7 and \$1.5 billion in facilities and administrative costs allocated to federal projects based on negotiated F&A rates. Our analysis indicates that the federal government pays between 70 and 90 percent of the total negotiated amount for F&A costs.

Because universities report a total level of support for research from their own funds of about \$5 billion, it appears that these unreimbursed facilities and administrative costs represent about one-fifth of the university funds devoted to research. The remainder of the \$5 billion amount funds expenses of two types. One type is the universities' sharing in the *direct costs* of some projects, in particular by subsidizing faculty time. The other type of expense is funding for complete research projects by universities. The universities are voluntary

participants in this system. Universities and their faculty are interested in attracting federal research support and have been willing to share in the costs.

Although universities clearly exercise some discretion in deciding how to staff administrative offices and how to construct facilities, many of the costs of facilities and administration derive from requirements in federal, state, and local law. These laws and regulations support a number of objectives, including the desire to protect the health and safety of humans and animals and to promote good stewardship for federal research funding. But they impose real costs.

In terms of the reasonableness of F&A costs in universities, our direct evidence is limited. What evidence we have indicates that the underlying cost structures in universities have lower F&A costs than federal laboratories and industrial research laboratories do. Because of specific limitations on university F&A reimbursement, such as the administrative cap, the actual amount awarded to universities for F&A costs is likely to be even lower than the amount cost structure comparisons would indicate.

Despite concerns about rates, average F&A rates have held steady for a decade. As administrative rates have declined because of the imposition of the administrative cap, facilities rates have increased.

Facilities rates have increased partly because of a change in federal policy that allows the inclusion of interest costs on new construction to be included in rate negotiations. Universities appear to have undertaken modernization especially during the 1990s, increasing research space by 28 percent. Although F&A rates now include more for construction components, the operations and maintenance component of rates has declined, perhaps because newer facilities are more efficient.

Overall, the research partnership between the federal government and universities is widely praised for its contributions to the public welfare. In the context of the total relationship, facilities and administrative costs are a fraction of total costs, although they are very real costs to both universities and the federal government. Some steps can be taken to benefit both partners. Good fiscal stewardship in government and in higher education calls for both partners to agree on a set of rules for reimbursing these costs. Because universities are in a position of making investments in their faculty, other personnel, and facilities that are expected to last for decades, universities have a strong preference for stability and predictability in the rules for cost reimbursement.

If the federal government pressed for greater cost-sharing by universities, it might get more. However, these additional funds would have to come from somewhere. We do not know how universities would finance additional cost-sharing. Universities faced with reduced federal reimbursement for facilities

and administration might follow several strategies. They could reduce other projects within the \$5 billion they already provide for research and allocate more as cost-sharing for F&A costs. As an alternative, universities could slow investments in building new facilities or renovating old ones. Other possible sources of funds for greater cost-sharing on research could come from reducing internal funding for other missions, such as education, public service, or patient care. We lack data to indicate the choices that universities would make. It seems worthwhile to further investigate the options for universities to shift funding and the consequences of those shifts before contemplating major changes in reimbursement of F&A costs.