

OPENING STATEMENT
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of the Subcommittee on Research and Technology

Committee on Science, Space & Technology
Subcommittee on Oversight
Subcommittee on Research & Technology
“Examining the Overhead Cost of Research”
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Thank you, Chairwoman Comstock and Chairman LaHood, for calling this hearing. This is an important oversight topic and I thank our panelists for being here to share their perspectives.

There has always been some discussion within the research community about federal reimbursement for costs incurred by organizations that conduct research funded by the federal government, that is, work essentially done on behalf of the government. While most agree that direct costs for this research should be fully reimbursed by the federal government, opinions diverge when considering the extent of reimbursement for indirect costs, or overhead.

Overhead costs incurred by universities provide the services that make cutting edge research possible, such as electricity, chemical and radiation safety, libraries and research facilities, financial accounting, data storage and internet access, and many others. Indirect costs also include the support necessary to comply with the high administrative burden that comes with federal research funding. I have worked on this committee to reduce some of this administrative burden and there is more bipartisan work we should do on this. The bottom line is that indirect cost reimbursement is essential to American universities' capacity to execute their research as well as train the next generation of scientists and engineers that our country needs.

NSF is not the cognizant agency for indirect cost negotiations for universities. However, universities account for approximately 90 percent of the total amount budgeted by NSF for indirect costs each year. We may address NSF's role in setting rates for non-profits and small businesses, but the bulk of this debate centers around major research universities.

There are many strictly enforced controls and regulations on reimbursement for indirect costs.

One such control is that indirect cost reimbursements are based on modified total direct costs rather than total direct costs, excluding expenses such as graduate student tuition and equipment purchases, which are not expected to require extensive facilities or administrative support. As a result, indirect cost reimbursement rates as a percentage of total direct costs are much lower than the more commonly-stated negotiated rates. According to *Nature* magazine, the average negotiated rate is 53 percent, but the average reimbursed rate is only 34 percent. I think it's important that we're all on the same page about exactly what these rates mean, and that we don't let large numbers mislead us.

Some have expressed concern that administrative inefficiencies and conflicts of interest have led to rising indirect costs. The evidence does not seem to bear this out. Based on Mr. Neumann's testimony, GAO has not found that to be the case for NSF. GAO has expressed concern about possible rising rates at NIH, but NIH disputes GAO's analysis.

Some of our top universities believe that the government is not paying them a fair amount for the research they conduct. It's my understanding that for every federal dollar a university is awarded for research, the university contributes 30-40 cents of its institutional funds to make that research possible. At the University of Illinois, in FY 2016, only 76% of actual indirect costs incurred on NSF grants were reimbursed, meaning that the university contributed \$9.1 million of its own funds to close the indirect cost gap for its NSF grants alone.

Annual university subsidies amounting to hundreds of millions of dollars nationwide clearly demonstrate a willingness on behalf of research universities to contribute their own resources to the research conducted at their institutions. Sometimes, these subsidies even support the research infrastructure that NSF, as part of its mission, aims to provide. For example, the University of Illinois is home to the Extreme Science and Engineering Discovery Environment, an NSF-funded user facility that supports other universities, research facilities, and NSF-funded projects around the country and the world. As with all NSF-funded projects at the U of I, the facility's overhead costs are partially subsidized by the university, representing a contribution by the university to the national research infrastructure.

Universities undoubtedly benefit from hosting prestigious research programs that enable them to recruit preeminent scientists and top students and spin off local companies and jobs. Yet it is hard for me to understand the argument by some that universities are making a profit. All of the evidence I have seen suggests otherwise. Furthermore, federally funded research is a public good. I consider it a win-win that it also benefits local economies.

These are good debates to have and critical questions to address when talking about the health of the partnership between the federal government and research universities. I think we can all agree that we want this partnership to succeed at producing research that remains the envy of the world for many years to come.

Thank you, again, to our witnesses for being here. I look forward to your testimony and a fruitful discussion on this important issue. I yield back the balance of my time.