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June 13, 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 Independent Research Institutes (AIRI), I write to express our strong opposition to President Trump's fiscal year (FY) 2018 budget proposal to cut funding for the National Institutes of Health (NIH) by \$7.2 billion or 21 percent below FY 2017. Specifically, AIRI strongly opposes the proposed 10 percent cap on facilities and administrative (F&A) costs on NIH grants.

AIRI urges you not to impose this dramatic and harmful change to F&A cost policies on NIH awards, since it would cripple our ability to provide the essential facilities and services on which our scientists depend. Such a change which would significantly decrease the amount of research AIRI member institutes can perform on behalf of NIH and the Department of Health and Human Services. A cap on the F&A reimbursement rate could result in the closure of many independent research institutes as over one third of AIRI member institutes receive more than 50 percent of their research funding from NIH.

AIRI is a national association of more than 80 independent, not-for-profit research institutes that play prominent roles in the biological research enterprise. AIRI member institutes fundamentally differ from universities in that our research missions and flexibility provide an environment that is particularly conducive to scientific creativity and innovation. Independent research institutes are highly productive, research-intensive organizations that receive approximately 10 percent of NIH peer-reviewed, competitively-awarded extramural grants and have had higher than average grant application success rates.

F&A costs are essential research costs. For AIRI members with few other sources of funding, these costs provide essential support for research infrastructure and operating expenses, such as the maintenance of state-of-the-art laboratories and high-tech facilities, data processing and storage, energy and utility expenses, security for dangerous chemicals and microbes, and the administration of a grant throughout its lifecycle. Unlike our partner academic institutions, AIRI member institutes do not have additional sources of non-federal revenue to compensate for reductions in NIH funding. Hence, the proposed cut to NIH funding, and specifically the cap on F&A costs, would irreparably harm independent research institutes, an essential sector of the biomedical research enterprise.

Our nation's nearly 70-year long partnership between the federal government and research institutions is world renowned for its productivity and innovation—and for the tremendous improvements in human health that it has produced through basic and translational research. An essential element of this partnership is government and private research entities sharing the costs of supporting research. These costs cover not just the research but also the people, tools, and infrastructure necessary to conduct the highest quality research for the nation. It is important to note that according to the NIH's own congressional budget justifications, F&A costs on NIH grants have remained constant relative to direct research costs for the past two decades, at less than 28 percent of the total cost of grants, despite increasing federal regulatory and administrative requirements over this period. Complementing this, research institutions contribute more than 24 percent of their own institutional funds to R&D activities—\$16.7 billion in FY 2015, including \$4.8 billion in the form of unreimbursed F&A costs and over \$1.3 billion in cost sharing.

This research partnership has led to an increase in life expectancy and declines in deaths from cancer, heart disease, stroke, diabetes, and other devastating and debilitating diseases. However, in addition to less research being conducted on priority diseases and conditions, the proposed F&A cap would mean some independent research institutes would be forced to close or to halt NIH-funded research, thus consolidating research at fewer, more established institutions in only a handful of states. Additionally, many of the smaller independent research institutes target a specific disease, condition, or life stage, such as infectious disease, aging, diabetes, cancer, and children's health. The closure of independent research institutes would mean the potential loss of the next cure or treatment, as well as the loss of numerous jobs in cities and towns across the country. A diversity of institutions pursuing life-enhancing biomedical research is necessary for the United States to maintain a robust and world-leading medical research enterprise.

The President's budget request notes that research grants from private foundations provide less funding for F&A costs. However, comparing federal F&A rates to those F&A rates used by foundations is misleading. Unlike the federal government, many foundations, including the Gates Foundation, which is specifically referenced in the budget proposal, allow for some F&A costs to be categorized as direct line items on the grant's budget. Thus, foundations are not paying a lower F&A rates, rather, they use different accounting systems to pay many of the same costs. Foundations typically allow many expenses such as facilities, utilities, data storage, project management, regulatory compliance, and communications related expenses to be charged directly to the grant, whereas these costs are considered indirect costs by the federal government under the rules established by the U.S. Office of Management and Budget and applied to all federal agency grants including those awarded by the NIH. With their approach to research funding policies, both the federal government and private foundations recognize the essential role F&A costs play in conducting high quality and cutting-edge research.

Capping F&A costs on NIH grants at 10 percent would cripple the research enterprise and our nation's ability to produce cutting-edge research that saves lives and advances health and well-being would falter. Notably, it likely would result in the closure of many independent research institutes dedicated to pursuing cures and treatments for devastating diseases and conditions. AIRI strongly opposes the proposed \$7.2 billion cut in NIH's proposed budget and urges you to fully fund the agency and not implement a cap on F&A costs.

Sincerely,



Cary E. Thomas
President
Association of Independent Research Institutes