

## APPENDIX C

### ABRIDGED HISTORY OF FEDERAL AND NSF COST SHARING POLICIES

Cost sharing has been an important issue for the National Science Foundation (NSF) since the Bureau of the Budget (predecessor of the Office of Management and Budget [OMB]) requested assistance in setting uniform policies for indirect cost reimbursement for research grants from Federal agencies on September 15, 1954. At its May 1955 meeting, the National Science Board (Board) unanimously approved a recommendation that “in supporting research conducted in institutions of higher learning, agencies of the Federal government, if requested, reimburse these institutions for accountable indirect costs associated with those direct costs of research supported.” When grantee institutions are not permitted a full reimbursement of indirect expenses associated with otherwise funded Federal research activities, their un-recovered costs constitute cost sharing. The Comptroller General issued an opinion on January 27, 1956 disallowing the “payment of overhead based on a stipulated percentage of direct labor or other costs . . . in lieu of reimbursement of the actual costs of overhead” for military research grants because the Armed Services Procurement Act prohibited a cost-plus-a-percentage-of-cost system. On June 29, 1957, the first statutory limitations on indirect costs for research grants were approved as part of the Labor-Health, Education, and Welfare-related agencies FY 1958 appropriations act (P.L. 85-67). This act stated that “none of the funds provided . . . shall be used to pay a recipient of a grant for the conduct of a research project an amount for indirect expenses in connection with such project in excess of 15 per centum of the direct costs.” On September 10, 1958, the Bureau of the Budget issued Circular A-21, which described the first government-wide principles for determining operation and maintenance expenses for research grants.

On September 5, 1962, Congress approved P.L. 87-638, allowing the payment of predetermined fixed percentage rates for the calculation of indirect costs in research and development contracts (including grants) with educational institutions. This law overcame the Comptroller General’s 1956 opinion disallowing cost-plus-a-percentage-of-cost systems. On October 3, 1962, the Independent Offices Appropriations Act, 1963 (P.L. 87-741) imposed the first statutory cap on the amount of indirect costs associated with NSF research grants that could be reimbursed by the agency. Indirect costs incurred in excess of the cap – set at a flat 20 percent – would constitute a cost share to be borne by the research funding recipient.

Concerns about the indirect cost reimbursement ceiling led Congress to revisit the issue in 1965. On August 16, 1965, a new provision of the Independent Offices Appropriations Act, 1966 (P.L. 89-128) superseded the 20 percent indirect cost reimbursement cap with more general language indicating that “none of the funds provided herein shall be used to pay any recipient of a grant for the conduct of a research project an amount equal to as much as the entire cost of the project.” On September 22, 1965, NSF clarified the meaning of the legislative change in Important Notice No. 7. Important Notice No. 7 indicated that in most cases, educational institutions would be required to contribute at least five percent of the NSF contribution to a sponsored research project’s cost. One method of fulfilling this requirement would be the payment of faculty salaries. The notice indicated that the requirement could be satisfied with contributions of any cost elements of the project, “but should be more than a token contribution.” Solidifying the new policy, NSF issued Important Notice No. 11 on January 24, 1966, specifying that cost sharing obligations would be considered satisfied by the payment of all or part of faculty academic year salaries, provided that

the payment came from non-Federal funding and constituted more than a token contribution. The Bureau of the Budget's Circular A-74, effective on March 1, 1966, clarified the change for all Federal agencies and indicated that "applicable institution[s] must share in . . . research costs on more than a token basis."

At its May 1966 meeting, the Board was briefed by the NSF Deputy Director on the implementation of the Circular A-74 cost sharing requirements. Concern was expressed that there was no clear set of uniform cost sharing principles, no reporting requirements, and no uniform Federal practices. The issue was assigned to the Board's Committee II for further study; in September 1966, that committee reported that cost sharing and indirect cost policies were being administered satisfactorily. On May 18, 1967, the NSF Director presented a proposal to the Board to simplify the cost sharing system by allowing institutions to choose between the present cost sharing system (participation in costs on more than a token basis) and a new system with a set floor of five percent of total costs for cost share of all funded projects at the institution for a given time period, with a one percent floor on individual projects. The Board unanimously authorized the Director to proceed with this proposal.

At the Board's May 1970 meeting, the NSF Director presented a plan to the Board to modify NSF cost sharing policy by permitting an average cost sharing procedure as an optional accounting mechanism. Under this procedure, the percentage of cost sharing could be averaged over several projects, provided that each project had at least a "token" cost share. The Board unanimously authorized the Director to proceed with this proposal, and NSF subsequently issued Important Notice No. 31 describing the new policy on September 3, 1970. On March 31, 1971, Bureau of the Budget Circular A-100 (subsequently designated Federal Management Circular [FMC] 73-3) was issued to replace the seemingly vague cost sharing requirements of Circular A-74. Circular A-100 required that for educational institutions, cost sharing should "normally" be at least one percent of the total project costs and in "many cases" should be less than five percent. In "some cases," such as for the payment of faculty salaries or when equipment acquired through the research project added significant value to the institution for educational activities, higher cost sharing requirements would be appropriate. The Circular allowed for the amount of cost sharing by an institution to be determined by the aggregate of all of a Federal agency's projects at that institution, with relatively high contributions on some research projects offset by relatively low contributions on others. Additionally, the Circular required recipients of Federal research grants to maintain records of research project costs paid by the Federal Government and contributed as cost sharing by the grantee institution.

In 1976, OMB issued Circular A-110 (2 CFR § 215.23), setting forth uniform administrative requirements for grants and agreements between the Federal Government and institutions of higher education, hospitals, and other non-profit organizations. This document defines types of allowable cost sharing and the method by which in-kind cost-shared contributions must be valued, but provides no guidance as to appropriate circumstances for or levels of cost sharing. NSF cost sharing policies have historically been and remain today consistent with Circular A-110.

On February 27, 1980, NSF issued Important Notice No. 81, indicating that cost sharing would be satisfied by a contribution of one percent on each and every project at a grantee institution or on the aggregate total costs of all projects requiring cost sharing. At its September 1980 meeting, the Board was advised that OMB was considering changes to cost sharing requirements because universities were facing difficulties

in documenting faculty costs. On June 23, 1981, OMB rescinded FMC 73-3, removing the Federal requirement for cost sharing at least one percent of total project costs in most cases. NSF continued to consider the one percent level of cost sharing mandated by FMC 73-3 a statutory requirement for unsolicited proposals until NSF Congressional appropriations language ceased to include that requirement in early 2007.

During the 1990s and early 2000s, discussions about cost sharing focused on ambiguities in the application of NSF cost sharing policy, the indirect cost rate cap, financial constraints on Federal agencies and grantee institutions, and the burden of tracking and auditing cost-shared resources. On June 11, 1999, the Board approved a new NSF cost sharing policy ([NSB-99-92](#)); NSF subsequently issued Important Notice No. 124. Important Notice No. 124 listed the following key aspects of the new policy: (1) Cost sharing is an eligibility, not a review, criterion; (2) NSF cost sharing requirements beyond the statutory one percent requirement will be clearly stated in the program solicitation; and (3) only statutory cost sharing will be required for unsolicited proposals.

At its November 2002 meeting, the Board revisited its 1999 policy. That meeting addressed audit concerns related to documentation and satisfaction of cost sharing obligations, undue burdens placed on institutions, inequities among institutions, and friction among administrators and researchers. The Board revised its cost sharing policy statement to clarify enforcement of the provisions of the 1999 cost sharing policy statement regarding budget negotiations. The Board issued a new cost sharing policy statement ([NSB-02-188](#)), stating that in budget negotiations, any reduction of 10 percent or more from the amount proposed should be accompanied by a corresponding reduction in the scope of the project.

At the request of NSF, the Board again revisited NSF cost sharing policy at its October 2004 meeting. On October 14, 2004, the Board eliminated NSF program-specific cost sharing requirements and required only the statutory one percent of sharing for unsolicited proposals. This revision eliminated cost sharing as an eligibility requirement for grant proposals, but did not impact statutory cost sharing requirements. On June 1, 2007, the statutory one percent cost sharing requirement for unsolicited proposals was eliminated for NSF awards from Congressional appropriations language. This most recent revision to NSF cost sharing policy effectively eliminated cost sharing NSF-wide and for all NSF grants.

At the Board's annual retreat in February 2007, the Chairman of the Committee on Strategy and Budget (CSB) questioned the impacts of the Board's 2004 cost sharing policy revision after hearing concerns from some Board Members about possible unintended consequences of the change. In response, an *ad hoc* Task Group on Cost Sharing was formed; the Task Group was engaging in a timely study of the issue when the America COMPETES Act (P.L. 110-69) formally directed the Board to evaluate NSF cost sharing policy. The America COMPETES Act also mandated that NSF implement mandatory cost sharing in the Major Research Instrumentation Program and the Robert Noyce Teacher Scholarship Program.

In February 2008, the Board issued *Report to Congress on Cost Sharing Policies at the National Science Foundation* ([NSB-08-17](#)), focusing specifically on the issues raised by Congress. This report recommended, for immediate implementation, a suite of targeted changes to NSF cost sharing policy.

