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June 28, 2017

The Honorable Mick Mulvaney
Director, White House Office of Management and Budget
725 17th Street, 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 University of California San Diego (UC San Diego) community comprised of 35,000+ students, 30,000+ full and part-time academic and staff employees, and 200+ active local UC San Diego-related companies, I write to address the Administration's proposal in the FY 2018 budget to establish a 10 percent cap on facilities and administrative (F&A) expenses for National Institutes of Health (NIH) research. The bottom line is that there would be extensive, unintended consequences with respect to loss of American jobs, loss of economic prosperity, loss of life changing discoveries, and loss of grooming the next generation of American discoverers and entrepreneurs who have been the foundation of the biotechnology, life sciences, communications and information technology community that is prominent in the San Diego region.

The sustained compact between the U.S. government and American research universities nationwide for over the past 60 years has assured U.S. national security and technological leadership in fundamental legacy fields – and in new fields that weren't even imagined 60 years ago, such as precision medicine. Maintaining this trajectory of world-class discovery, impact and American job creation requires not only the brilliant minds, but also the foundational underpinning of infrastructure and research support services.

F&A costs are an essential element of the cost of conducting research which cannot be performed in the absence of specialized facilities and laboratories, utilities, high-speed data processing and storage, human and animal research review boards, radiation and chemical safety activities, and other infrastructure and compliance activities required for the conduct of federally funded research. For example, UC San Diego has several large instrument facilities which require campus support (F&A) on the order of \$100,000 per year to cover technician costs for several years, until the facilities are fully operational and can be sustained through recharge (user fees). Specifically, our 3D cryo-electron microscopy (cryo-EM) is a unique tool for the visualization of macromolecular complexity. This tool is

enabling new developments that are leading to an explosion of new studies in microscopy allowing researchers to view molecules, many of which are reaching resolutions that could only be dreamed of just a few years ago. Applying a 10 percent F&A cap could result in the mothballing of these facilities which are critical to a variety of research and medical fields. These facilities are transformational by providing new insights into diseases which can be revolutionary in the diagnosis and treatment of patients.

At UC San Diego, as well as most research universities nationwide, our F&A costs are competitive in the open marketplace. Our industry partners view university-based research as a critical element of their R&D portfolios. They depend on American research universities like UC San Diego to a much larger extent today than in the past, as they have shut down their own research labs and the requisite investments. As such, they pay overhead rates comparable to the federal government. In 2016, industry partners sponsored over 1,200 research agreements with UC San Diego totaling approximately \$145 million, paying the approved 55 percent rate which is the approved federally negotiated rate between UC San Diego and HHS (our cognizant agency) in order to access the university research infrastructure and services needed to support the federal projects.

If the proposed F&A cap of 10 percent were to be enacted, UC San Diego and the region would see both measurable and immeasurable impacts. For example, we expect UC San Diego would see a reduction in NIH research awards by ~ \$99 million per year. This translates into the following impacts on jobs and the economy in the San Diego region:

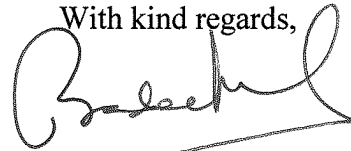
- UC San Diego employees: over 890 jobs could be eliminated
- UC San Diego students: more than 600 students (undergraduate, graduate, and post-doctorate) would no longer receive support, impeding their education and professional development
- Regional economic impact: \$195 million loss to the San Diego region
- Regional Job Impact: 1,700 regional jobs could be lost due to reduced NIH funding

We anticipate that UC San Diego researchers, driven by financial constraints imposed by a 10 percent cap, would withdraw from competition for a large part of sponsored research. Given that UC San Diego currently receives \$480 million per year from NIH, a cap on the F&A would contribute to a serious erosion of U.S. leadership in health sciences research to the detriment of human health and economic growth in our country.

We take our responsibility as a public institution dedicated to a joint focus on research and education very seriously. We see our collaboration with the U.S. government as essential to maintaining a globally competitive U.S. workforce. The long-standing partnership between the U.S. government and universities is manifested by the Federal government's investment in American research (people and facilities) at American universities. This investment provides U.S. taxpayers with life-saving and groundbreaking results in critical health areas such as cancer, Alzheimer's, diabetes, stroke and cardiovascular disease. At UC San Diego, we have hundreds of faculty supported in large part by NIH funding, who train over 2,800 postdoctoral researchers, graduate and undergraduate students annually in biosciences, public health and related fields. Additionally, if these universities were unable to compete because of the constrained reimbursements of real costs, and the federal government had to invest in development of replacement facilities, operations, and expertise in health care business and economic analysis, the result would require a large investment by the federal government to replace this workforce and infrastructure currently provided by American academic research institutions.

In closing, the proposal to cap F&A costs at 10 percent would have tangible, damaging effects at UC San Diego and at hundreds of campuses nationwide. We are already receiving reports of decreased student applications for health science training programs which runs counter to the NIH's recent emphasis on early career researchers. Following this path will, without exception, adversely impact the Administration's goals of American job creation, increased economic competitiveness, and global leadership. We strongly urge you to consider an F&A model that sustains and enhances the unique relationship forged decades ago between the federal government and American research universities to meet national needs, foster innovation and efficiencies, create American jobs and improve the quality of life for the American people.

With kind regards,

A handwritten signature in black ink, appearing to read 'Pradeep K. Khosla', written in a cursive style.

Pradeep K. Khosla
Chancellor