Colleagues:

With sequestration triggered today, we wanted to provide you an update on the latest information.

Sequestration — a mechanism for automatic spending cuts — was included in the Budget Control Act of 2011 (BCA) and was originally scheduled to go into effect in January 2013. In early January, Congress and the Administration reached a deal to avert the “fiscal cliff.” The American Taxpayer Relief Act of 2012 (ATRA) postponed the start of the sequester for two months, until March 1, 2013. The deal also included a delay until April 2013 of the start of a 2 percent cut to the Medicare program which also was called for in the BCA.

President Obama and congressional leaders met at the White House this morning. The meeting did not result in a last minute deal to avert sequestration. In addition, both the House and Senate have adjourned for the week. The Senate is scheduled to come back into session on Monday afternoon and the House is expected back for votes on Monday evening.

Next week, the House is scheduled to complete action on the FY 2013 budget by passing a continuing resolution for the remainder of FY 2013 that would include the lower sequestration levels and the funding caps that were included in the BCA. The FY 2013 continuing resolution which keeps the government funded and operational is set to expire on March 27, 2013. There is no indication on when the Senate may complete action on the FY 2013 budget or the funding vehicle they will use.

The President has until 11:59 PM on March 1 to issue the order for implementation of sequestration. The Office of Management and Budget (OMB) will then issue a notice ordering agencies to implement the cuts for the remainder of FY 2013. OMB will simultaneously transmit a report to Congress with those same details.

Some actions are likely to occur immediately such as federal hiring freezes and an impact on those agencies and programs that distribute money on a more intermediary basis. Furlough notices for government employees will begin to rollout in the coming days. (Employees are required to receive word 30 days prior to the first furlough day. Negotiations with represented federal employees are ongoing.) Furloughs of federal employees could impact processing and review of passports and visas, contracts and grants, and loans.

Once OMB releases additional information, agencies will be better positioned to update their guidance and outline how the across the board cuts will be implemented. Some agencies have provided initial information on possible impacts and approaches to sequestration and that information is provided below.

UC FGR will continue to monitor federal agencies and will provide the information to UC Office of the President and the campuses.

As Congress continues to work on the FY 2013 budget, sequestration and begins work on the FY 2014 budget, UC FGR will be working with our campuses to further highlight the impacts of sequestration on the university and to identify our priorities as we move into the FY 2014 budget.

If you have additional questions, please contact Gary Falle at (202) 974-6319.
Preliminary Agency Information and UC Impacts Resulting from FY 2013 Sequestration

OMB DEPUTY DIRECTOR WERFEL MEMO, 2/27/13
"Unless Congress acts to amend current law, the President is required to issue a sequestration order on March 1, 2013, canceling $85 billion in budgetary resources across the Federal Government. Because these cuts must be achieved over the remaining seven months of the fiscal year, the Office of Management and Budget (OMB) estimates that the effective percentage reductions are approximately 9 percent for nondefense programs and 13 percent for defense programs. These reductions will result in significant and harmful impacts to national security and domestic priorities."

The Senate Appropriations Committee website provides links to federal agency statements and letters on the impacts of sequestration: http://www.appropriations.senate.gov/ht-full.cfm?method=hearings.view&id=17d3dc99-c065-4bec-a7c8-cfd374bf41a3

The following is preliminary information we have collected on how sequestration will be handled at six federal agencies that provided the bulk of UC research awards in FY 2011 (NIH, NSF, DOD, DOE, USDA, and NASA) and the Department of Education (ED):

NATIONAL INSTITUTES OF HEALTH (NIH):
(At the 5.1% estimate, NIH faces a $1.6 billion cut from its $30.6 billion budget.)

NIH Director Francis Collins has said that he fears the country could lose a generation of young scientists if the sequester takes effect. In a media call on 2/25/13, Collins is reported to have said that "Hundreds of research grants would go unfunded, […], and so 20,000 highly skilled workers would lose their jobs. He also expects to have to turn away patients from the NIH's clinical center, which allows people who have exhausted their treatment options to participate in clinical trials." (Washington Post)

Per NIH Notice NOT-OD-13-002, issued 10/11/12:

- NIH has held back up to 10% of existing medical research grants, due to the Continuing Resolution and the potential for sequestration. NIH will reduce the final FY 2013 funding levels of non-competing continuation grants and expects to make fewer competing awards.

- Each NIH Institute and Center (IC) has discretion to develop plans to meet sequestration levels -- maximizing the scientific impact, non-competing continuation awards that have already been made may be restored above the current level, but will not likely reach the full FY 2013 commitment level described in the Notice of Award.

NATIONAL SCIENCE FOUNDATION (NSF):
In his February 27, 2013 memo, NSF Director Subra Suresh said that in addressing the 5% across the board sequestration cut, NSF would protect NSF’s workforce and core mission and maintain existing awards, as well as STEM human capital development programs.
Sequestration at NSF is expected to result in about 1,000 fewer new research grants, and that major investments—including facilities—may be required to take reductions on a case-by-case basis.

**DEPARTMENT OF ENERGY (DOE):**
From [DOE Secretary Chu’s letter](https://www.energy.gov/press-release/secretary-chu-secretary-appropriations-committee) to Senate Appropriations Chairman Mikulski and other sources, sequestration is expected to have the following impacts:

- **DOE Office of Science:** severe cuts to the basic science mission, including curtailment of operations affecting 25,000 researchers and operational personnel. Research grants would be reduced in number and size, and the pipeline of support for graduate and post-graduate research fellowships would be constricted.

- For DOE’s national security missions, $900 million in cuts would impact readiness and cause degradation in critical capabilities, including delays and added costs associated with nuclear weapons stockpile activities and nonproliferation activities.

- **ARPA-E** expects to administer cuts against new awards. Existing awards would see no impact from sequestration.

**DEPARTMENT OF DEFENSE (DOD):**
Defense programs are expected to take deeper cuts than non-defense programs (estimates range from 8%-13%). Note: A 9% cut in Defense 6.1 Basic and 6.2 Applied Research (which was roughly $6.9 billion in FY 2012) would be $617 million. (These cuts would include the Army, Navy and Air Force).

The currently available information on defense research impacts is thin. However, sequestration is expected to result in:

- Review “studies” for postponement or cancellation (presumably this includes research grants).

- Contracts could be restructured.

- Furloughs up to 22 days affecting more than 700,000 civilian employees.

- The Office of Naval Research has said that sequestration may require termination of 300 research grants, cancellation of the Defense University Research Instrumentation Program (DURIP) and cuts to in-house “independent” research.

**US DEPARTMENT OF AGRICULTURE (USDA):**
The National Institute of Food and Agriculture administers the USDA’s research, education and extension activities. USDA estimates NIFA reductions of $60 million, and at least 100 fewer grants as a result of sequestration.

**NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA):**
In competed research, NASA expects to reduce new awards by 5%. Ongoing projects started in previous fiscal years would not be affected.
US DEPARTMENT OF EDUCATION (ED):

At present, the Department of Education has not disseminated guidance on how sequestration will be implemented for federal education programs. Below are some highlights on the impact on education programs of particular importance to UC. UC is awaiting additional information on the implementation and whether the Secretary will be granted any flexibility.

In February, Secretary of Education Arne Duncan testified before the Senate about the negative effects of sequestration. He restated that the sequester exempts Pell Grants from across-the-board cuts. This means that grants in FY 2013, which are for academic year 2013-14 (beginning on July 1, 2013), will not be cut. However, because of the lowered spending caps and competing needs in FY 2014, funding for the Pell Grant program is very vulnerable next year and beyond.

Student loans will be affected by a small increase in the origination fee for loans made after the sequester order, which would require adjustments for borrowers getting loans late in the 2012-13 academic year and in school year 2013-2014.

The Supplemental Educational Opportunity Grant (SEOG) would be cut by $37 million and Federal Work-Study will be cut by $49 million. The overall totals for these campus-based programs will be cut by the sequester, but the allocations are made according to the formula in the underlying Higher Education Act (HEA).

In addition, there will be cuts in mandatory funds for the administration of federal financial aid programs, which will affect the servicing of student loans by the servicers that contract with the federal government. Funding for other services, such as FAFSA processing, Pell Grant disbursements, loan originations, and other tasks, may also be reduced.