

Date: February 28, 2013

Subject: Federal Budget Sequestration Update

On Jan 1st, Congress approved legislation to avert the fiscal cliff (see our [previous brief](#) for background). The American Taxpayer Relief Act (ATRA) (PL112-240) increased tax rates only for individuals earning over \$400,000 and couples earning over \$450,000, preserved funding for Pell Grants and extended the American Opportunity Tax Credit for five years. Additionally, the bill postponed the mandatory spending cuts—known as “sequestration”—by two months and used some of the new tax revenues to reduce the amount to be cut by \$24 billion. The original sequester required under the Aug 2011 Budget Control Act (PL 112-25) would have cut spending by \$109 billion beginning Jan 2nd. Now, as modified by the ATRA, the sequester will cut spending by \$85 billion starting Mar 1st. While cuts will be smaller, the impact for FY13 will be higher because the cuts must now be applied to only seven months instead of nine (the federal fiscal year ends on Sept 30th). **Thus, although the \$85 billion reduction equates to a 5.1 percent cut for nondefense discretionary programs and an 8 percent cut for defense, the condensed timeframe means the impact will actually be closer to 9 percent and 13 percent respectively in FY13—higher percentages than those under the original sequester.**

Sequestration will take effect Mar 1st. Several pieces of legislation have been introduced to either delay, modify, or turn off the sequester, but none have garnered sufficient support from the deeply divided Congress. Congress generally agrees, though, that they will have a better opportunity to “fix” the sequester in the next few weeks. This is in part because Congress is facing the expiration of the current continuing resolution (CR) on Mar 27th. The three working-week window between the sequester deadline and the CR expiration gives Congress and the White House time to reach an agreement to fund the government for the rest of FY13 as well as deal with the automatic cuts. However, some of the effects will certainly be felt before then. Many federal agencies will likely see 14-day furloughs for employees and layoffs for new hires. **The late March debate will, at most, provide agencies with more direction as to which programs must be preserved and/or cut—essentially determining the way in which sequestration occurs, not whether it occurs.**

Potential Impacts on the UW

Immediate effects of the sequester are difficult to predict and, as effects may change with time, long-term impacts are even harder to estimate. Most attention is currently turned to FY13, but it is important to remember that sequestration is mandated for ten fiscal years in total—through FY21. Even if Congress protects some programs from drastic cuts, an overall reduction in federal spending will occur over the next decade. Planning ahead will be crucial to our success.

Research: Federal agencies that provide research grants and contracts to the UW are expected to receive cuts of 5.1 percent for FY13. However, the actual cuts will be larger since they are condensed to the second half of the fiscal year. **The sequester could thus reduce the UW’s federal grant and contract support by an estimated \$75M to \$100M during FY13.** Overall, the UW will likely see revisions to existing awards (except those from NSF, discussed below), fewer new awards, delays in funding and receipt of award notices and contracts, less frequent requests for funding applications and proposals, and possible reductions in approvals of carry-forward requests. The UW community is encouraged to remain cautious and conservative in spending federal awards and in planning for future federal funding.

- **National Institutes of Health (NIH):** The NIH will likely reduce funding levels of non-competing continuation grants and make fewer competing awards. The NIH may not be able to reach full FY13 commitment levels for continuation awards that have already been made. NIH Institutes and Centers will announce their individual plans to meet new budget levels. However, these cuts are already being observed: principal investigators are receiving sharply reduced awards, compared to committed levels, forcing universities to make up the difference or find savings elsewhere.
- **National Science Foundation (NSF):** The NSF issued an [Important Notice](#) stating that they intend to make the necessary FY13 reductions with “as little disruption as possible to established commitments.” They anticipate that

the total number of *new* research grants will be reduced by approximately 1,000 for the remainder of this fiscal year. The good news for existing grants is that all continuing grant increments in FY13 will be awarded as scheduled, and there will be no impact on existing NSF standard grants. The same intent applies to annual increments for cooperative agreements, though overall funding constraints may require reductions to certain major investments.

- **Other:** Other funding agencies have issued statements that provide generic information about impending cuts and reductions in service. Many are still trying to determine how they will implement the required budget cuts.

Build America Bonds (BABs): The Office of Management and Budget initially estimated that BAB payments would be cut by 7.6 percent in federal FY13. After passage of the ATRA, the Center on Budget and Policy Priorities estimated that BABs would only be cut 5.3 percent. Adjusting these two estimates to reflect only seven more months in FY13, the UW estimates that it will receive \$500,000 to \$700,000 less in BABs subsidy payments between now and Sept 30th.

Financial Aid: Pell Grant funding is protected from the first year of the sequester, but not the remaining nine years; therefore we may eventually see changes to the program. The UW is projected to lose about \$33,000 in work study funds for 2013-14. The only other impact will be on students or parents who have taken out Stafford Loans as the mandatory origination fee is expected to increase slightly from 1 percent to 1.076 percent. Although details are still coming out, it appears that for 2012-13, the increase would only apply to loans with a first disbursement after Mar 1st.

Potential Impact on Washington State

To compel Republicans to prevent the impending \$85 billion cuts, the White House released [a report](#) detailing how the sequester could affect programs in every state. The report estimates the impact on Washington this year will include:

Area	Estimated Funding Reductions and/or Consequences
Teachers and Schools	\$11.6M less for primary and secondary education <ul style="list-style-type: none"> ➤ 160 teacher and aide jobs will be put at risk ➤ 11,000 fewer students will be served ➤ 50 fewer schools will receive federal funding
	\$11.3M less for education for children with disabilities <ul style="list-style-type: none"> ➤ 140 teacher, aide, and staff jobs will be put at risk
Work-Study Jobs	Funding reduction not described <ul style="list-style-type: none"> ➤ 440 fewer low income students will receive financial aid ➤ 180 fewer students will receive work-study jobs
Head Start	Funding reduction not described <ul style="list-style-type: none"> ➤ 1,000 fewer children will receive Head Start services
Clean Air and Water	\$3.3M less to protect clean water and air quality
	\$0.9M less in grants for fish and wildlife protection
Military Readiness	\$173.4M less in gross pay <ul style="list-style-type: none"> ➤ 29,000 civilian defense employees will be furloughed
Public Health	\$0.6M less to respond to public health threats
	\$1.7M less to help prevent and treat substance abuse <ul style="list-style-type: none"> ➤ 3800 fewer admissions to substance abuse programs
	\$0.2M less for Washington’s Department of Health <ul style="list-style-type: none"> ➤ 4,300 fewer HIV tests

For more information about the sequester and to monitor ongoing developments related to federal budget reductions, please visit the UW’s Federal Relations blog at: www.washington.edu/federalrelations/.