



1111 Franklin Street
Oakland, CA 94607-5200
Phone: (510) 987-9074
Fax: (510) 987-9086
<http://www.ucop.edu>

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Members of the California Delegation

The federal government is a critical and valued partner in helping the University of California to achieve its historic mission of teaching, research, and public service. Federal funds support scientific research grants, need-based student financial aid, and health education, training and clinical care programs. With sequestration scheduled for implementation on March 1, I ask for your redoubled efforts in working with your Congressional colleagues and the Administration to reach agreement to avoid these cuts that will have a significant impact on UC students and researchers.

I attach for your information a fact sheet on the impact of sequestration across the University of California system.

UC is California's third-largest employer, a leader in education, research, and health care, and a strong economic engine for the state and the nation. The federal government is the University's single largest source of support for competitive research, accounting for more than half of UC's research expenditures. Federal funding to the University's research enterprise supports more than 14,500 full-time jobs across California. Federal funds from the National Institutes of Health, National Science Foundation, Department of Defense, NASA, National Oceanic and Atmospheric Administration, USDA, and the Department of Energy, among others, support UC researchers who are actively engaged in working to solve many of our nation's most difficult scientific, technological and healthcare challenges. Sequestration will reduce funding for each of these key federal agencies, jeopardizing jobs and advances in research.

UC students receive more than \$1 billion in federal financial aid. This funding is critical to ensuring that all Californians have access to higher education regardless of income. While Pell Grants are protected from sequestration in fiscal year 2013, important financial aid programs including Supplemental Education Opportunity Grants, Federal Work Study, TRIO and GEAR UP will be cut under sequestration. UC believes that parents and students must have the necessary financial information they need to make sound decisions about their educational future, but the unstable budget situation at the federal level makes this extremely difficult.

In addition, while Medicaid is exempt from sequestration, Medicare program spending would be cut by 2 percent per year between FYs 2013 and 2021. Cuts of this magnitude to the Medicare program would have a negative impact on the University's academic

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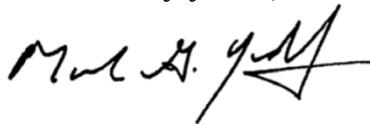
medical centers, faculty physicians, biomedical researchers, medical students and, ultimately, the communities and patients we serve.

The University of California urges the Congress and the President to reach an agreement that will stop the sequester and ensure that federal research and educational funding is not indiscriminately harmed. As our nation's economy recovers, we must not cut funding to the education and research programs that are moving California and our nation forward.

If you have questions about the sequester's impact on the University of California, please get in touch with Gary Falle, Associate Vice President for Federal Governmental Relations. He can be reached by email at Gary.Falle@ucdc.edu or by telephone at (202) 974-6319.

With best wishes, I am,

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mark G. Yudof". The signature is fluid and cursive, with a large, sweeping flourish at the end.

Mark G. Yudof
President

Attachment

cc: Provost Aimée Dorr
Executive Vice President Peter Taylor
Senior Vice President Dan Dooley
Associate Vice President Gary Falle

Fact Sheet: Impacts of Sequestration on the University of California

SEQUESTRATION OVERVIEW

Sequestration — a mechanism for automatic spending cuts — initially was scheduled to take effect in January 2013. This process was included as a fallback plan in the Budget Control Act of 2011 (BCA), which increased the debt limit, cut \$1 trillion in discretionary appropriations (through lower annual spending caps over nine years) and directed a "super committee" to identify an additional \$1.2 trillion in cuts to federal programs over the period of FY 2013-2021. The committee failed to reach an agreement, thus triggering sequestration to carry out the additional \$1.2 trillion in cuts.

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, including the start of a 2 percent cut to the Medicare program which also was called for in the BCA. ATRA also reduced the overall amount of the sequester for FY 2013 with other offsets. So, rather than a potential across-the-board impact of approximately 8 percent on non-defense discretionary accounts (such as National Institutes of Health, National Science Foundation and the Department of Energy Office of Science), the current forecast is in the range of 5-6 percent.

Although the overall percentage cut due to sequestration is forecast to be lower, the delay in implementation means that a smaller portion of the year's funding is available to absorb the cut. **The impact of the cuts on non-defense discretionary accounts on an annualized basis could be as dramatic as the original sequestration estimates prior to the passage of ATRA — 9.4 percent for defense discretionary and 8.2 percent for domestic discretionary.**

While some members of Congress and others assert that a 5-6 percent across-the-board cut can be managed, it is important to understand the sequestration cuts in the larger context. Due to the Budget Control Act of 2011, federal discretionary funding already has been cut by more than \$1 trillion over nine years. (The amount rises to \$1.5 trillion if the discretionary funding cuts imposed by the FY 2011 Continuing Resolution are included.) Furthermore, there are eight more years of additional discretionary cuts under sequestration (totaling another \$1 trillion) unless it is turned off. **While a 5-6 percent cut in one year may not sound devastating to some, it MUST be viewed in the context of cuts already adopted.**

To date, little information is available on how the Office of Management and Budget (OMB) will provide guidance to federal agencies for implementing the cuts, if the sequester occurs on March 1. However, it is anticipated that federal agencies will have some discretion in doing so. Because of these unknowns, it is difficult to quantify and fully gauge the impacts of sequestration on funding to UC in FY 2013.

UC'S ADVOCACY

UC Federal Governmental Relations continues to advocate aggressively with Congress and the Administration. Our message is:

- **Congress and the Administration should stop sequestration.**
- **Congress already has reduced discretionary spending by more than \$1 trillion over nine years through lower annual funding caps for programs important to UC.**
- **Sequestration, especially the across-the-board mechanism, would arbitrarily affect all programs critical to advancing our nation's economy.**
- **An unstable fiscal future jeopardizes research and inhibits students and parents from making wise financial decisions about their participation in higher education.**
- **UC strongly encourages Congress and the President to reach an agreement to avoid the devastating impact that sequestration would have on students, scientific research, health care and the economy.**

POTENTIAL IMPACT OF SEQUESTRATION ON UC

UC is an economic engine for California and the nation. Through a strong UC-federal partnership, we educate the workforce, advance scientific breakthroughs through research, provide world-class medical training and health-care services, and generate economic growth through new jobs, start-up companies and spinoff industries. Sequestration would seriously damage UC's ability to carry out these critical missions and further fuel the economic recovery of California and the nation.

Federal Research

UC researchers are among our nation's leading recipients of funding from the National Institutes of Health, National Science Foundation, USDA, NASA, Department of Defense and Department of Energy and other research agencies, all of which are subject to sequestration. Funding cuts will disrupt UC researchers' ability to contribute scientific discoveries and innovations, reduce support for graduate and postdoctoral students, and damage job creation and economic recovery in our state and nation.

The latest available quarterly financial data from UC's Office of the President shows a 22 percent drop (\$320 million) in federal funds awarded to UC as compared with the same period in the previous year:

- The total dollar amount for federal research awards was down 25 percent year over year. Awards issued by NIH, the Department of Energy, USDA and NASA showed the greatest decline.
- There were 23 percent fewer research awards; and,
- The average research award was smaller.

Other research institutions across the country are experiencing similar reductions. As a result, it seems clear that budget uncertainty is causing federal agencies — at least temporarily — to conserve cash and alter their funding practices in anticipation of reduced research budgets in the future. Unless sequestration is averted and the budget situation stabilizes, agencies will have little recourse but to continue to scale back the funding that fuels scientific innovation and discovery on UC campuses that are so important to our economy and quality of life.

Student Financial Aid

Under current sequestration proposals, the Pell Grant program is not subject to cuts in FY 2013, which means there will be no cuts in the 2013-14 academic year. However, the program could face deep cuts in FY 2014-2021 due to the lower annual funding caps, as well as a significant funding shortfall in FY 2014, both of which would have devastating effects on the nearly 80,000 UC students who receive Pell Grants. Cuts to other important education programs, such as Supplemental Education Opportunity Grants (SEOG), Federal Work Study, TRIO, GEAR UP, graduate and international education, and teacher preparation programs also will occur under sequestration. In addition, students will see an increase in the interest rates and origination fee charged for new federal student loans taken after July 1, 2013. These combined losses will increase the cost of education for UC students and limit availability of other key educational opportunities.

UC is greatly concerned that an uncertain fiscal future for federal financial aid programs is a significant issue for students and parents who are making difficult and critical decisions about higher education. Students and parents need to know that there is strong and sustained financial aid for their entire academic future.

UC Health System

The UC Health System clinical services and medical education missions rely heavily on Medicare and Medicaid funding to provide world-class health services to thousands of Californians. While Medicaid is exempt from sequestration, Medicare program spending would be cut by 2 percent per year between FYs 2013 and 2021. Cuts of this magnitude to the Medicare program would have a profound negative impact on the university's academic medical centers, faculty physicians, biomedical researchers, medical students and, ultimately, the communities and patients we serve.

OUTLOOK

A deal between the Administration and Congress still may be struck to avert the start of the sequester. Because the Continuing Resolution for FY 2013 appropriations funding expires on March 27, 2013, it is possible that the need to prevent a government shutdown presents an opportunity to reach agreement on funding and address the sequester for FY 2013 prior to it having much, if any, impact.

The President's FY 2014 Budget Request is expected to be released in March, and the House and Senate each plan to adopt Budget Resolutions by the mid-April deadline. The FY 2014 budget process also could provide a framework to find alternative savings to further delay or completely offset the impact of the sequester. For this to happen, the Administration, the Republican-led House and Democratic-led Senate must resolve their differences on spending levels, revenues and entitlement reforms. Presently, there is no consensus on these broader budget issues.

CONTACT INFORMATION

For additional information about the sequestration process and how it will negatively impact the University of California, please contact Gary Falle, UC associate vice president for Federal Governmental Relations, at (202) 974-6319 or at Gary.Falle@ucdc.edu.