

Office of the President

TO MEMBERS OF THE COMMITTEE ON FINANCE:

DISCUSSION ITEM

For Meeting of January 22, 2014

UPDATE ON THE FEDERAL BUDGETS FOR FEDERAL FISCAL YEAR 2014 AND FEDERAL FISCAL YEAR 2015 AND THE IMPACT ON THE UNIVERSITY OF CALIFORNIA

The Federal Partnership

The federal government provides support for the University in three primary ways: student financial aid, federally funded research, and federally funded health care programs. In 2012-13, UC is estimated to receive more than \$8 billion in total federal support for the University’s educational, research, and health care enterprises.

Federal funds are the University’s single most important source of support for research. The University of California is a leader among American universities receiving research awards. It is estimated that UC researchers annually attract nearly ten percent of federal research grants.

The Budget Control Act of 2011 and Sequestration

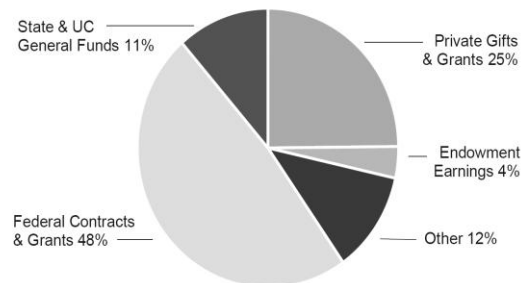
Sequestration – a mechanism for automatic spending cuts – was included in the Budget Control Act of 2011 (BCA) as a fallback plan to reduce federal spending. Sequestration was put into effect on March 1, 2013. The BCA mandated cuts to defense and non-defense discretionary funding, and some mandatory programs including Medicare, totaling \$109.3 billion in each year from 2014-2021. A significant number of UC

Estimated 2012-13 Federal Support for UC and UC Students (Dollars in Millions)

<u>Program Support</u>	
Research Grants and Contracts	\$2,122.8
Indirect Cost Recovery	\$713.8
DOE National Laboratory Operations	\$848.5
DOE Laboratory Management Fees	\$40.3
Other Contracts and Grants	\$217.1
<u>Student Financial Aid</u>	
Pell Grants	\$349.1
Other Undergraduate Grants and Scholarships	\$11.4
Graduate Fellowships and Scholarships	\$90.5
Student Loans	\$1,127.6
Work-Study	\$35.2
<u>Patient Care</u>	
Medicare	\$1,600.0
Medicaid	\$962.3
Estimated Total Federal Support	\$8,118.6

Source: University of California “Budget for Current Operations” Budget Detail, 2014-15.

2012-13 Direct Research Expenditures by Fund Source



Nearly 75% of research funding is derived from federal agencies and private sources.

Source: University of California “Budget for Current Operations” Budget Detail, 2014-15.

programs, including student financial aid, research, and graduate medical education, rely on funding from the discretionary side of the federal budget. Cuts of the magnitude included in the BCA would have a profound negative effect on UC's priorities.

For more than two years, UC actively opposed the implementation of sequestration and called for its repeal. Through meetings with the California congressional delegation as well as key committees, UC worked to highlight the negative impact that sequestration had on the University. In mid-September, UC sent a [letter](#) to all members of the California congressional delegation calling for the repeal of sequestration, the completion of the FY 2014 budget and for strong funding for UC's priorities.

Funding for UC's research has been particularly affected. While the data are still preliminary and do not yet account for the final quarter of the federal fiscal year, UC appears to have experienced a significant drop in 2012-13 federal research funding, due to sequestration and federal budget instability. These impacts are consistent with trends reported by other institutions across the country. Thus far, the University has seen:

- A \$345 million drop in federal research awards for FY 2012-13, or roughly 12 percent below the amount awarded in FY 2011-12.
- There were 4.7 percent fewer National Institutes of Health (NIH) research awards and over nine percent fewer National Science Foundation (NSF) research awards in 2012-13; and,
- The average research award is smaller, and is not keeping pace with inflation.

Update on the FY 2014 Federal Budget

To end the federal government shutdown that began on October 1, 2013 Congress adopted a continuing resolution to keep the government open until January 15, 2014 and agreed to develop a broader budget agreement by December 13, 2013 that would fund the federal government for the remainder of FY 2014. (Federal fiscal year 2014 began on October 1, 2013.)

On December 10, the House and Senate Budget Committees announced an agreement, the Bipartisan Budget Act of 2013, which passed Congress and was signed into law by the President on December 20.

The budget agreement increases discretionary spending by \$63 billion over the next two years and increases the total federal budget from \$967 billion in FY 2013 to \$1.012 trillion in FY 2014 and to \$1.014 trillion in FY 2015. To pay for the higher spending levels and to place the sequester on hold for two years the Act identifies multiple changes to programs as offsets, including some changes in the loan program for nonprofit student loan servicers. UC did not have any objections to these offsets. The Act also includes an extension of the two percent spending reduction in Medicare, including funding for graduate medical education, until 2023, as an offset to pay for the higher spending levels. UC was disappointed that this cut was extended to 2023 and will continue to advocate against the ongoing sequestration of Medicare spending.

The legislation passed by the House and Senate includes a number of other provisions that affect the University's health system. The legislation includes a three-month delay, through March 31, 2014, of the physician payment cut scheduled under the Sustainable Growth Rate (SGR). It also provides a modest, 0.5 percent increase in reimbursements. Lawmakers in both the House and Senate expect to resume work on a permanent repeal of the SGR early next year. In addition, the legislation includes a provision to eliminate the Medicaid Disproportionate Share Hospital (DSH) payment cuts for FY 2014 and to delay the FY 2015 reductions – FY 2015 cuts will now be added to the scheduled cuts in FY 2016. In order to pay for this, DSH cuts will be extended into 2023. UC was supportive of these provisions but will continue to advocate for relief from both Medicare and Medicaid DSH reductions.

Action moves to the Congressional Appropriations Committees

The Bipartisan Budget Act of 2013 sets top-line federal funding levels so it is not yet determined how exactly UC's higher education and research priorities will be affected in the FY 2014 budget. It is now up to the appropriations committees to set spending levels for all the federal agencies and programs, including the science agencies, the Department of Education and the Department of Health and Human Services. However, by setting the top-line funding level higher than required under the Budget Control Act of 2011, this budget agreement reduces the potential cuts UC was anticipating in education and research for FY 2014.

This puts appropriators on track to pass an omnibus appropriations bill with detailed spending plans for federal agencies by the second week of January before the current continuing resolution expires on January 15, 2014. The House and Senate Appropriations Committee chairmen have already begun negotiations on how the \$1.012 trillion for FY 2014 will be divided among the 12 appropriations bills. While the sequestration cuts taken in FY 2013 will not be restored, in the aggregate, the appropriations committees will have resources sufficient to provide FY 2014 funding at levels that replace 87 percent of the FY 2013 cut in non-defense discretionary programs. This will help fund discretionary programs important to UC such as research and Pell Grants, among others. This deal should prevent the need for more cuts to the Pell Grant program in the near term. It should allow for the reversal of damaging cuts to other student aid programs such as Work Study, and should open the possibility of increases to NIH and NSF.

The University is engaging with the appropriations committees, members of the California congressional delegation, as well as its partners in the higher education, research, and health care communities to advocate for strong funding for programs important to UC. On December 19, UC President Napolitano sent a letter to the California congressional delegation urging their continued efforts to ensuring that strong federal funding is appropriated for UC's federal priorities. (A copy of the letter is attached.)

UC's Advocacy on the FY 2014 Budget

The University of California has been active in urging Congress to support UC's federal budgetary priorities and repeal sequestration.

- On November 14, UC President Napolitano and the Chancellors sent a letter to the California congressional delegation urging Congress to repeal the sequester and to

complete a FY 2014 budget that strongly supports UC's federal research and education priorities. A copy of the letter is available [here](#).

- Representative Gloria Negrete McLeod (CA-35) spearheaded a California delegation letter signed by more than a dozen members urging the conference committee to support funding for education and research. UC Office of Federal Governmental Relations (UC FGR), working with the government relations office for the California State University, sent a joint letter to the California congressional delegation urging their cosigning of the letter. A copy of the letter is available [here](#).
- Related to health care budgetary concerns, the University of California, along with each of the ten campuses, have on numerous occasions urged Congress and the Administration to pass a FY 2014 budget and protect medical research supported by the National Institutes of Health (NIH) and expressing concern over the impact of sequestration, specifically as it pertains to biomedical research. Copies of these letters can be found [here](#) and [here](#). UC FGR also reached out to Senators Boxer and Feinstein, requesting their ongoing support for NIH funding. Both senators, along with 33 of their bipartisan colleagues, sent a letter to the Senate Budget Conferees, requesting that they maintain a strong commitment to funding for the NIH.
- UC FGR also launched a webpage dedicated to highlighting the impact sequestration and the reductions in federal budgetary spending have had on the University. The webpage includes UC-produced letters; fact sheets; testimony of UC experts in congressional hearings; information from national associations; California, national and UC news stories; and additional informational resources. The website can be accessed [here](#).

Budget Outlook for Federal Fiscal Year 2015

The budget agreement that was signed into law in December 2013, set the amount for discretionary spending for both FY 2014 and FY 2015. The budget agreement increases discretionary spending to \$1.014 trillion in FY 2015. UC is optimistic that having the House and Senate agree on a budget for FY 2015 will allow the appropriations cycle to occur through regular order and will return some semblance of normalcy to a budget process that has been broken for a number of years. UC's Office of Federal Governmental Relations, in coordination with the UC Office of the President, the campuses and the National Laboratories, has begun to identify UC's FY 2015 budget priorities. In late winter these priorities will be submitted to the California congressional delegation and the appropriations committees. Throughout the FY 2015 budget process, UC will be advocating for the highest possible funding levels for its priorities.

(Attachment below)



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December 19, 2013

Members of the California Delegation

In November, the University of California Chancellors and I wrote to encourage you and your Congressional colleagues to support enactment of a federal budget agreement that repeals sequestration and protects education, research, and health-care programs that are critical to the University of California. Now that a budget agreement is in place, UC urges your continued efforts with the appropriations committees to ensure that strong federal funding is appropriated for programs vital to the University's education, research, and health-care missions, as well as to our nation's economic competitiveness and quality of life.

In April, UC provided your office with the University's appropriations funding priorities for FY 2014, with the request to provide the highest possible funding levels for federal student aid programs; research programs of the Department of Energy, National Science Foundation, the Departments of Defense and Agriculture, NASA and others; and health-care, including National Institutes of Health programs. An electronic copy of these priorities is available at [www.ucop.edu/federal-governmental-relations/ files/sequestration/uc-federal-priorities-fy14-and-falle-letter.pdf](http://www.ucop.edu/federal-governmental-relations/files/sequestration/uc-federal-priorities-fy14-and-falle-letter.pdf).

Through a strong partnership with the federal government, UC is educating the workforce, advancing scientific breakthroughs in research, providing world-class medical training, and generating economic growth through new jobs, start-up companies and spinoff industries. It is critical that our nation maintain these investments to ensure that California's and our nation's economic prosperity continues to grow.

Again, thank you for your continued efforts throughout the budget process and for your support of the University of California. If you have questions, please do not hesitate to be in touch with Associate Vice President for Federal Governmental Relations Gary Falle. He can be reached by email at Gary.Falle@ucdc.edu or by telephone at (202) 974-6319.

Yours very truly,

A handwritten signature in cursive script that reads "Janet Napolitano".

Janet Napolitano
President

cc: Senior Vice President Dooley
Associate Vice President Falle