



# The University of North Carolina

General Administration  
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North Carolina  
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North Carolina  
at Pembroke

University of  
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April 8, 2013

Dear Colleague:

On behalf of the UNC Federal Relations team, I write to share information about the federal government's continued implementation of "sequestration," the Fiscal Year (FY) 2013 federal appropriations bill and how both will impact UNC institutions. Please feel free to share this document with anyone that shares a mutual interest in this subject.

In the fiscal 2013 appropriations package passed in late March 2013, Congress reduced spending levels enough to avoid an additional \$7.8 billion in automatic across-the-board cuts beyond the existing sequester that began March 1. The bill's \$1.043 trillion discretionary-spending total reflects small across-the-board rescissions, ranging from 0.1 percent to 2.5 percent, in order to reduce security and non-security funding to their fiscal 2013 cap levels. However, that spending total is being reduced this year to \$984 billion as a result of separate across-the-board reductions resulting from the \$85 billion fiscal 2013 sequester.

## How Did We Get Here?

As you know, the "The American Taxpayer Relief Act of 2012 (ATRA)," signed by President Obama on January 2, 2013, partially addressed long-term federal fiscal challenges known as the "fiscal cliff." The "fiscal cliff" is a catch-all term for a combination of lingering and unresolved federal fiscal triggers for increased tax liability for individuals and spending reductions for federal agencies to include:

- tax cut extensions, including the Bush-Obama tax cuts for individuals and the Alternative Minimum Tax patch;
- across-the-board spending cuts through sequestration to most discretionary programs as directed by the Budget Control Act of 2011;
- expiration of measures delaying the Medicare Sustainable Growth Rate from going into effect (the "doc fix"), as extended by the Middle Class Tax Relief and Job Creation Act of 2012 (MCTRJCA);
- expiration of the 2% Social Security payroll tax cut, most recently extended by MCTRJCA;
- expiration of federal unemployment benefits, as extended by MCTRJCA; and
- new taxes imposed by the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010.

ATRA made most of the Bush-Obama tax cuts permanent with the exception of the higher tax rates for upper income individuals scheduled to become effective on January 1, 2013. Perhaps the most important modifications were to postpone, but not cancel, any potential sequestration of FY 2013 federal funds. The legislation:

- postponed the sequester, originally scheduled for January 2, 2013, until March 1, 2013,
- postponed the enforcement of the statutory limits on discretionary spending for FY 2013 (i.e., through a sequester), originally scheduled for 15 days after Congress adjourns to end a session, until March 27, 2013.
- reduced spending reductions in the FY 2013 sequester by \$24 billion
- reduced the statutory limits for FY 2013 and FY 2014 by a total of \$4 billion and \$8 billion, respectively.
- did not address federal spending levels or debt control of any significance and instead “punted” the hard choices into 2013 for further negotiations and legislation.

On March 1, 2013, sequestration went into effect and resulted in across the board cuts for FY 2013 to federal agencies:

- a 5.1% reduction in most non-defense discretionary programs,
- a 7.3% cut in discretionary defense programs
- a 5.3% cut in affected mandatory programs other than Medicare.

Although ATRA limited the size of the cuts to occur in the remainder of FY 2013, the cuts will be implemented over a shorter period of time – seven months of the remaining FY 2013 (March 1, 2013 – September 30, 2013). According to the Office of Management and Budget (OMB) this has the effect of increasing the real percentages of cuts to 9 percent for non-defense programs and 13 percent for defense programs.

### **How Will the University of North Carolina Be Affected?**

**UNC General Administration estimates that UNC systemwide research and sponsored program expenditures have the potential to be reduced by nearly \$48 million for the remainder of FY 2013.**

Most federal agencies continue to devise implementation plans for the cuts. The overall impact on federal research funding flow will not be fully realized until later in the year. Unfortunately, in some cases you won't know you are affected until you are affected. UNC Chapel Hill's Vice Chancellor for Research has a website that provides information to their campus community on the sequester's impact on research funding. Information and updates are available for your review at <http://research.unc.edu/sequestration/index.htm>. Also, attached to this memo is a more detailed analysis of impacts on programs of interest to the UNC system.

Some student financial aid programs (SEOG, Work Study) will see reductions and Stafford and PLUS loan origination fees will increase. **The Pell grant program is unaffected by the sequester in FY 2013.** In fact, previous concerns that the Pell grant program would experience a budget shortfall are no longer relevant. The Congressional Budget Office reports that the Pell

program will have \$9.2 billion left over in FY 2013. Congress could fund the program at current annual appropriation levels in FY 2014. Currently, the total program cost is \$36 billion, with \$23 billion from annual appropriations -- for 2014 and adequate mandatory funds to meet the program's needs. The shortfall for 2015 is \$1.4 billion - much smaller than the \$8.7 billion previously projected by CBO.

During the month of March 2013, Congress approved, and on March 26<sup>th</sup> the President signed, the FY 2013 discretionary spending funding bill and narrowly avoided a government shutdown. The Congress contemplated additional sequester changes (program increases and decreases) but ultimately held to the across the board cuts originally established. **The bill locks in sequester cuts to defense and non-defense discretionary programs for FY 2013. You should expect a 5.1% decrease in federal funding for FY 2013 programs.**

It should also be noted that federal funding reductions to the state in general will put pressure on the state's ability to sustain other programs (early childhood, justice, environmental, etc.) thereby putting pressure on the overall state budget to "backfill" federal support for these programs.

### **Congressional Multi-Tasking Gets Complicated**

In addition to sequestration and finalizing the FY 2013 spending bill, both the House and Senate passed **FY 2014 budget resolutions** in their respective chambers. The differences between the two budgets are significant and unlikely to be reconciled. Unless the House and Senate agree to a compromise concurrent resolution for the FY 2014 budget, appropriators will proceed to establish spending levels for the various appropriations bills and associated federal programs.

On April 10, President Obama will release his FY 2014 budget. FY 2014 appropriations action will follow the path of process, procedure, and politics of the past couple of years. Congress and President Obama will continue to approach short-term and long-term decisions "out of sequence." This approach puts tremendous pressure on all parties to consider everything to be "on the table" in the context of another debt ceiling vote or "must pass legislation" in order to avoid devastating consequences like government shut-downs, federal workforce lay-offs, and delayed payments on current federal government spending obligations.

Federal fiscal instability and irregular budgeting process is the new normal. However, the pain associated with Washington gridlock might be unbearable enough that both Republicans and Democrats choose a path to compromise. Greg Sargent of the *Washington Post*, recently wrote that the President and the Democrats face a difficult question: "Which is worse, indefinite sequestration or a grand bargain that includes serious entitlement cuts?" There is some soul searching happening right now on the "best of the two bad options."

The best time for a compromise deal to occur is the summer of 2013 when the next debt ceiling vote approaches. Republicans could offer a package of entitlement cuts that looks a lot like what President Obama has already proposed – plus some of what they know he would reject. How the president responds will signal whether or not we see more years of sequestration and deep, painful cuts or if there is light at the end of the tunnel. A bargain is still within reach. It is possible that the two sides could accomplish entitlement reform, raise \$300 billion or more in new revenue, coupled with the 2012 tax hikes and some measure of the sequestration cuts.

As directed by the UNC Board of Governors in February 2013, the UNC Federal Relations team's (including campus representatives to the Federal Relations Council) chief advocacy message remains unchanged:

**The Board of Governors of the University of North Carolina (“The Board”) believes that federal investments in student financial aid and research programs and infrastructure are fundamental to our national security, economic recovery and prosperity.**

**Further, the Board urges Congress to avoid sequestration and enact responsible fiscal policy that achieves budget savings in entitlement and discretionary spending and through tax reform to ensure the long-term viability of federal programs that invest in America's future.**

As UNC institutions begin to feel the impacts of these cuts on campus, please let your federal relations officer or me know. We need current examples of the impact so that we may share real-world scenarios with the North Carolina Congressional Delegation.

Thank you for your patience and perseverance. Please contact me or any member of the Federal Relations team if you have additional questions or concerns. As information becomes available we will continue to keep you updated.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kimrey Rhinehardt". The signature is written in dark ink and is positioned above the printed name.

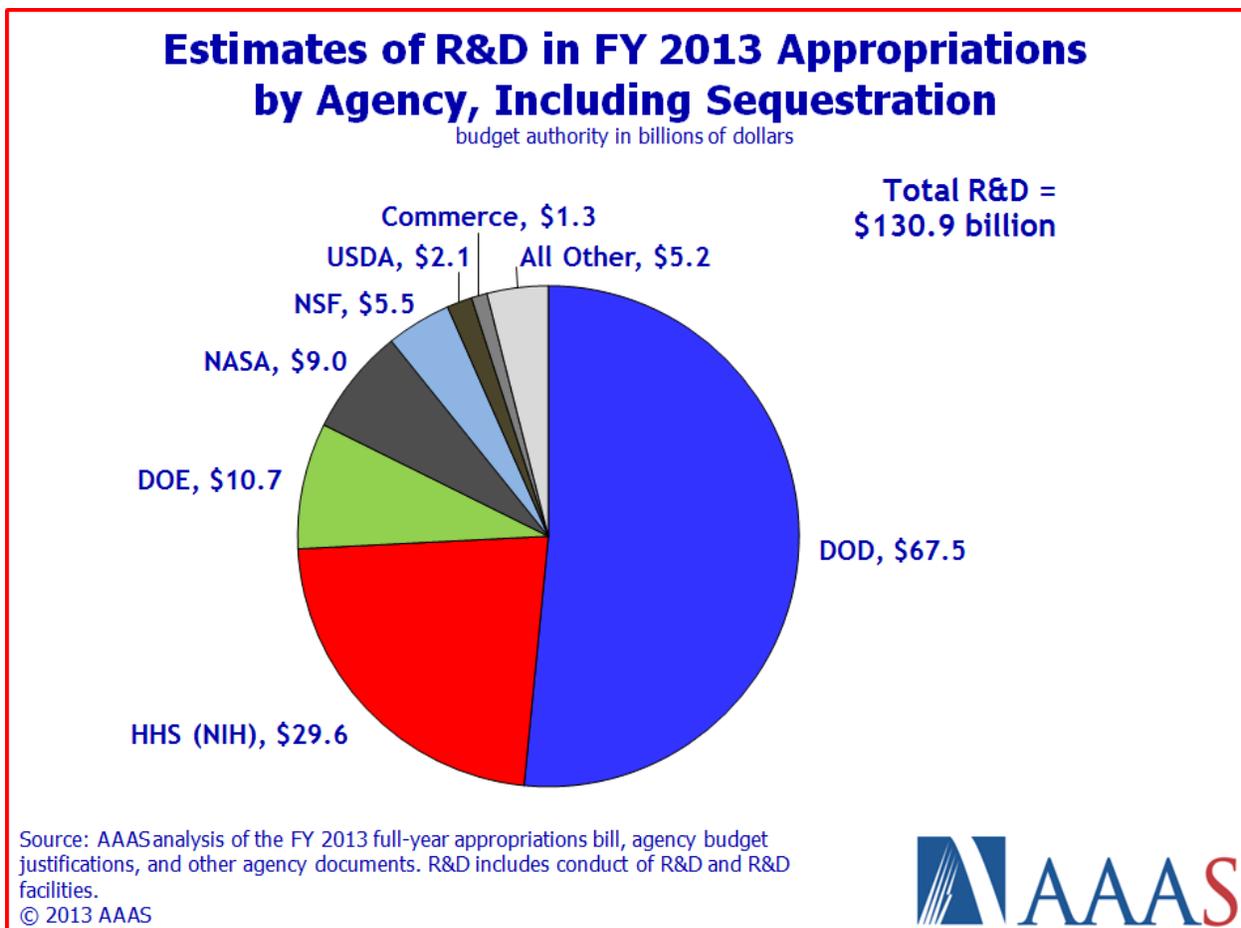
Kimrey Rhinehardt

The University of North Carolina  
Federal Relations Analysis  
Monday, April 8, 2013

**Sequester and FY 2013 CR Impact**

**Research Funding**

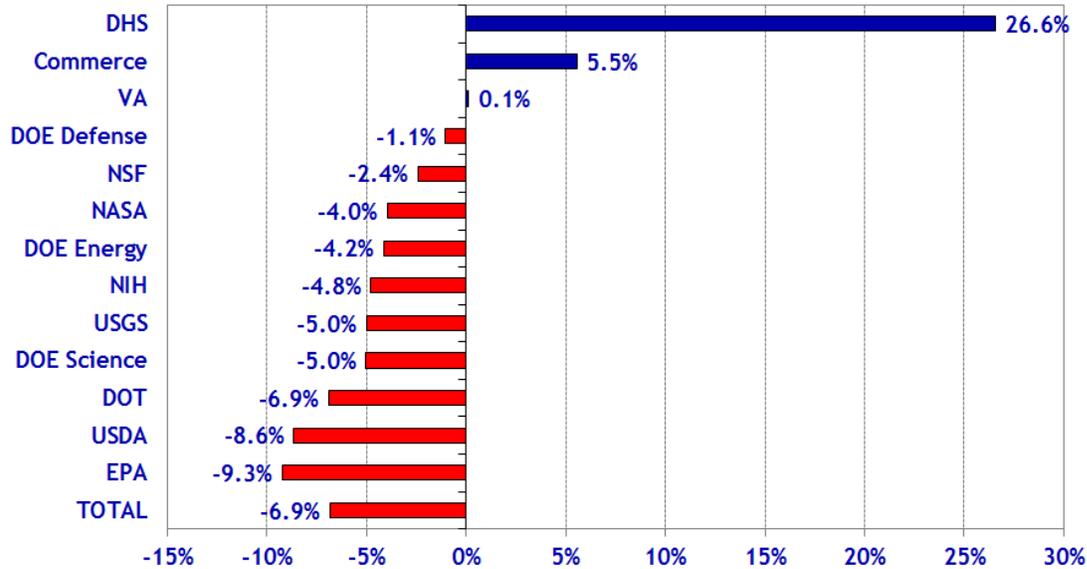
The sequester has serious consequences for federal research funding, namely at the National Institutes for Health and the National Science Foundation. The final FY 2013 funding bill included program and funding changes for several research agencies and programs with some changes occurring through budget “anomalies<sup>1</sup>.” The Association for the Advancement of Science (AAAS) and National Journal produce high-quality charts and are included in this analysis.



<sup>1</sup> Congress, the President, and agencies sometimes negotiate for the inclusion of “anomalies” to the formulas and restrictions in a Continuing Resolution (CR), to accommodate what they perceive as exceptional circumstances for an agency, program, or policy. Anomalies typically are included to prevent what some or all stakeholders and parties to CR negotiations perceive as major programmatic, operational, or management problems that would be caused if an otherwise “cookie cutter” approach were used to provide funding at a uniform rate and with uniform restrictions. However, when measured against the typical coverage of interim CRs, anomalies tend to be rare.

## Estimates of Changes in R&D, via Agency Appropriations and Sequestration

percent change from FY 2012



Source: AAAS analysis of the FY 2013 full-year appropriations bill, agency budget justifications, and other agency documents. R&D includes conduct of R&D and R&D facilities. Note: inflation is expected to reach 1.7% between 2012 and 2013.  
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### Estimated R&D Cuts Under Adjusted Sequestration\*, FY 2013-2017

(budget authority in millions of constant 2012 dollars)

	2013	2014	2015	2016	2017	Total Cut	5-Year Percent
<b>Dept of Defense</b>	-5,749	-6,818	-6,696	-6,585	-6,495	-32,344	-8.7%
<b>HHS</b>	-1,541	-2,429	-2,333	-2,241	-2,155	-10,699	-6.9%
NIH	-1,487	-2,343	-2,251	-2,162	-2,079	-10,322	-6.9%
<b>Dept of Energy</b>	-686	-944	-916	-889	-865	-4,299	-7.7%
<b>Natl Sci Foundation</b>	-278	-438	-421	-404	-388	-1,929	-6.9%
<b>NASA</b>	-465	-733	-704	-676	-650	-3,229	-6.9%
<b>Dept of Agr</b>	-115	-182	-175	-168	-161	-801	-6.9%
<b>Dept of Commerce</b>	-63	-98	-95	-91	-87	-434	-6.9%
<b>Dept of the Interior</b>	-39	-62	-60	-57	-55	-273	-6.9%
<b>EPA</b>	-28	-44	-43	-41	-39	-195	-6.9%
<b>Homeland Security</b>	-31	-48	-46	-44	-43	-212	-6.9%
<b>Total R&amp;D Cut</b>	<b>-8,995</b>	<b>-11,796</b>	<b>-11,488</b>	<b>-11,196</b>	<b>-10,939</b>	<b>-54,415</b>	<b>-7.9%</b>

\*Adjusted sequestration under the American Taxpayer Relief Act (H.R. 8), which reduced the cuts for FY 2013, but left future year cuts unchanged.

Source: AAAS estimates of R&D, based on CBO and OMB analyses of the Budget Control Act. Constant dollar conversions based on OMB's GDP deflators from the FY 2013 budget.

**FY 2013 Congressional Action on R&D by Agency**  
(budget authority in millions of dollars)

	FY 2011		FY 2012		FY 2013		FY 2013		FY 2013		FY 2013		Change FY 12-13		
	Actual	Estimate	FY 2012	FY 2013	Conference	Bill	Change Request	Amount	Percent	Amount	Percent	Sequester	Estimate*	Amount	Percent
							Amount					Amount		Amount	
<b>TOTAL R&amp;D (Conduct of R&amp;D and R&amp;D Facilities)</b>															
Defense (military)	79,112	74,464	72,572	73,209	73,209	637	0.9%	-1,255	-1.7%	67,499	-5,073	-7.0%	-6,966	-9.4%	
Health and Human Services	31,183	31,143	31,250	31,208	31,208	-42	-0.1%	65	0.2%	29,647	-1,603	-5.1%	-1,496	-4.8%	
National Institutes of Health	29,831	30,046	30,051	30,109	30,109	58	0.2%	63	0.2%	28,604	-1,447	-4.8%	-1,442	-4.8%	
All Other HHS R&D	1,352	1,097	1,199	1,099	1,099	-100	-8.4%	2	0.2%	1,044	-155	-12.9%	-53	-4.8%	
Energy	10,673	11,019	11,903	11,351	11,351	-552	-4.6%	332	3.0%	10,655	-1,248	-10.5%	-364	-3.3%	
Atomic Energy/Defense	4,081	4,281	4,691	4,594	4,594	-97	-2.1%	313	7.3%	4,236	-455	-9.7%	-45	-1.1%	
Office of Science	4,461	4,463	4,568	4,462	4,462	-106	-2.3%	-1	0.0%	4,239	-329	-7.2%	-224	-5.0%	
Energy Programs	2,131	2,275	2,644	2,295	2,295	-349	-13.2%	20	0.9%	2,180	-464	-17.5%	-95	-4.2%	
NASA	9,099	9,399	9,602	9,502	9,502	-100	-1.0%	103	1.1%	9,027	-575	-6.0%	-372	-4.0%	
National Science Foundation	5,494	5,614	5,872	5,767	5,767	-105	-1.8%	152	2.7%	5,478	-394	-6.7%	-136	-2.4%	
Agriculture	2,135	2,331	2,297	2,242	2,242	-55	-2.4%	-89	-3.8%	2,129	-168	-7.3%	-202	-8.6%	
Commerce	1,217	1,203	1,443	1,404	1,404	-39	-2.7%	140	11.1%	1,334	-109	-7.6%	70	5.5%	
NOAA	629	581	651	658	658	7	1.2%	78	13.4%	625	-25	-3.9%	45	7.7%	
NIST 1/	532	555	655	619	619	-36	-5.6%	64	11.5%	588	-67	-10.3%	33	5.9%	
Transportation	954	945	1,106	926	926	-180	-16.3%	-19	-2.0%	880	-226	-20.4%	-65	-6.9%	
Homeland Security	760	617	813	822	822	9	1.1%	205	33.2%	781	-32	-3.9%	164	26.6%	
Veterans Affairs	1,160	1,166	1,166	1,166	1,166	0	0.0%	2	0.1%	1,166	0	0.0%	2	0.1%	
Interior	757	796	863	736	736	-127	-14.7%	-61	-7.7%	699	-164	-19.0%	-98	-12.3%	
US Geological Survey	640	675	727	675	675	-51	-7.0%	0	0.0%	642	-85	-11.7%	-34	-5.0%	
Environ Protection Agency	582	568	576	542	542	-33	-5.8%	-25	-4.5%	515	-61	-10.5%	-53	-9.3%	
Education	362	392	398	392	392	-6	-1.5%	0	0.0%	372	-26	-6.4%	-20	-5.0%	
Smithsonian	259	243	243	182	182	-61	-25.2%	-61	-25.2%	173	-70	-29.0%	-70	-29.0%	
All Other	621	606	891	612	612	-279	-31.4%	6	0.9%	581	-310	-34.8%	-25	-4.1%	
<b>Total R&amp;D</b>	144,368	140,565	140,993	140,058	140,058	-935	-0.7%	-507	-0.4%	130,935	-10,058	-7.1%	-9,630	-6.9%	
Defense R&D	83,193	78,745	77,263	77,803	77,803	540	0.7%	-942	-1.2%	71,734	-5,529	-7.2%	-7,011	-8.9%	
Nondefense R&D	61,176	61,820	63,730	62,255	62,255	-1,475	-2.3%	436	0.7%	59,201	-4,530	-7.1%	-2,619	-4.2%	

\*AAAS sequester estimates for FY 2013 apply percentage cuts provided by the Office of Management and Budget's March 1 report to Congress. R&D estimates are based on OMB R&D data, *Budget of the United States Government FY 2013*, agency budget documents, and the Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act of 2013, which passed the Senate on March 20 and the House on March 21.

Note: The projected GDP inflation rate between FY 2012 and FY 2013 is approximately 1.7 percent. All figures are rounded to the nearest million. Changes calculated from unrounded figures.

1/ Discretionary only. Does not include \$1.2 billion in proposed mandatory spending for public safety and manufacturing R&D.

## **Special Note about the Research Agencies and Programs of Interest**

**National Science Foundation (NSF):** The Senate included an amendment that broadly restricts the ability of the NSF to approve any grants involving political science unless the agency can certify them "as promoting national security or the economic interests of the United States."

### **US Department of Agriculture (USDA)**

Agricultural Research Service (ARS): Funding is reduced by approximately \$55 million and will directly affect cooperative research agreements. Cooperative research agreements will be subject to some level of reduction based on the financial viability of each ARS location to conduct ongoing in-house research after salaries and other fixed costs are taken into consideration.

## **The Department of Education (ED)**

The Department of Education's (ED) FY 2013 operating plan will be released by April 25. ED's data reporting requirements remain in place. Here is what we know now.

**Formula Grant Programs:** Within the twelve largest formula grant programs, programs with advanced appropriations will receive their entire cut in the July 2013 allocation. This will only affect the 2013-14 academic year.

**FY 2012 Grants:** Funds will not be cut. The plan is to cut new grants and contracts. Competitive grants will not be cut, and continuation grants from multi-year grants are not subject to cuts.

## **Pell Grants, Federal Loans, and Other Grants**

**Pell Grants:** Pell grants are protected under for FY 2013, but it is not clear what will happen to the grants in subsequent years if sequestration continues.

**Stafford Loan Origination Fees:** Will be increased for new loans disbursed after March 1. Stafford loan original fees will increase from 1% to 1.051% on the loan principal, resulting in less direct loan funding to the student.

**PLUS Loan Origination Fee:** Will be increased for new loans disbursed on or after March 1. The origination fee will increase from 4.0% to 4.24% on the loan principal, resulting in less direct loan funding to the student.

**TEACH Grants:** It is unclear what will happen to these grants, but they will affect any disbursements made on or after March 1, 2013 (We are awaiting further information from the Department of Education about this program).

## **Campus-Based Aid**

Using ED's institutional-level formula elements for the 2013-14 tentative campus-based allocations, the National Association of Financial Aid Administrators (NASFAA) has created a spreadsheet (attached) that estimates campus-based reductions on an institutional basis for both the Federal Work Study and Federal Supplemental Educational Opportunity Grant programs as a

result of the impending sequester. This cut does not affect the level of base guarantees; only fair share increases are reduced. These numbers are estimates and should be considered as such.

Supplemental Educational Opportunity Grants (SEOG): Cut by \$37 million. Estimates show that around 1,150 fewer low income students in North Carolina will receive SEOG funds.

Federal Work Study: Cut by \$49 Million. Statewide estimates from the Department of Education show that around 890 fewer students will receive federal work-study opportunities.

### **College Access Funding**

College Access Challenge Grants: Grants will be cut by 5.1%.

GEAR-UP: Grants will be cut by 5.1%.

TRIO: Grants will be cut by 5.1%.

Elementary and Secondary Education Act (ESEA): Allocations will be sent out in late April or Early May. The sequester will not affect any of the hold harmless, maintenance of effort or supplement not supplant provisions in ESEA.

### **Department of Defense (DOD)**

Due to sequestration, DOD faces \$46 billion in spending cuts and the FY 2013 bill provides DOD with limited flexibility in implementing the cuts. DOD is still determining how the bulk of the cuts will be implemented. In a recent news conference, newly-confirmed Secretary of Defense Chuck Hagel announced that DOD will cut back base operating support, reduce training for non-deployed units and implement furloughs of 14 days for DOD civilians. Secretary Hagel acknowledged that budget contraction is natural when the United States draws down from conflicts. However, Chairman Martin Dempsey of the Joint Chiefs of Staff indicated that DOD will experience the steepest cuts (while not the deepest) in the history of the United States.

DOD Tuition Assistance for Service Members: Two weeks ago the Marine Corps, Army, Air Force, and the Coast Guard announced a suspension of Tuition Assistance (TA) payments for service members. These funds are used by service members to pursue a higher education to enhance their careers and promotion status. Fortunately, Senators Kay Hagan (D-NC) and James Inhofe (R-OK) sponsored the successful amendment to restore TA for the duration of FY 2013.

**FY 2013 Congressional Action on DOD R&D by Military Departments and Agencies**

(budget authority in millions of dollars)

	FY 2013																	
	FY 2011		FY 2012		FY 2013		FY 2013		Change Request		Change FY 12-13		With		Change Request		Change FY 12-13	
	Actual	Estimate	Budget	Conference	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Sequester*	Amount	Percent	Amount	Percent	
<b>Research, Development, Test, and Evaluation (RD&amp;E)</b>																		
Army	9,760	8,760	8,949	8,657	-293	-3.3%	-104	-1.2%	7,981	-968	-10.8%	-779	-8.9%					
Navy	17,866	17,793	16,943	16,752	-191	-1.1%	-1,041	-5.9%	15,445	-1,498	-8.8%	-2,348	-13.2%					
Air Force	27,421	26,740	25,481	25,311	-170	-0.7%	-1,429	-5.3%	23,337	-2,144	-8.4%	-3,403	-12.7%					
Defense Agencies	20,895	19,355	18,095	18,726	631	3.5%	-630	-3.3%	17,265	-829	-4.6%	-2,090	-10.8%					
Operational Test & Evaluation	192	188	185	224	38	20.7%	36	18.9%	206	21	11.2%	18	9.6%					
<b>Total RD&amp;E</b>	<b>76,688</b>	<b>71,902</b>	<b>69,654</b>	<b>69,669</b>	<b>15</b>	<b>0.0%</b>	<b>-2,233</b>	<b>-3.1%</b>	<b>64,235</b>	<b>-5,419</b>	<b>-7.8%</b>	<b>-7,667</b>	<b>-10.7%</b>					
Defense Health Research (6.2)	1,206	1,267	673	1,307	634	94.2%	40	3.2%	1,205	532	79.1%	-62	-4.9%					
Chem Agents and Muni Destr (6.2)	393	407	647	647	-1	-0.1%	240	59.0%	596	-51	-7.9%	190	46.6%					
Office of Inspector General (6.2)	0	5	0	0	0	..	-5	-100.0%	0	0	..	-5	-100.0%					
Navy Defense Sealift Fund (6.4)	18	48	43	49	6	14.6%	1	1.3%	45	2	5.7%	-3	-6.6%					
Military Construction	90	105	79	71	-8	-9.5%	-34	-31.9%	66	-13	-16.6%	-39	-37.2%					
Military Personnel	717	731	1,476	1,466	-10	-0.7%	735	100.5%	1,351	-125	-8.4%	620	84.9%					
<b>Total DOD R&amp;D</b>	<b>79,112</b>	<b>74,464</b>	<b>72,572</b>	<b>73,209</b>	<b>637</b>	<b>0.9%</b>	<b>-1,255</b>	<b>-1.7%</b>	<b>67,499</b>	<b>-5,073</b>	<b>-7.0%</b>	<b>-6,966</b>	<b>-9.4%</b>					

\*AAS sequester estimates for FY 2013 apply percentage cuts provided by the Office of Management and Budget's March 1 report to Congress.

R&D estimates are based on OMB R&D data, *Budget of the United States Government FY 2013*, agency budget documents, and the Department of Defense, Military Construction and Veterans Affairs, and Full-Year Continuing Appropriations Act of 2013, which passed the Senate on March 20 and the House on March 21.

Note: The projected GDP inflation rate between FY 2012 and FY 2013 is approximately 1.7 percent.

All figures are rounded to the nearest million. Changes calculated from unrounded figures.

## **Capital Projects**

**Build America Bond (BAB):** The program was created in 2009 as part of the American Recovery and Reinvestment Act (ARRA) and expired at the end of 2010. Issuers were given the option to issue BABs as tax-credit bonds, where investors receive tax credits, or direct-pay bonds, where issuers receive subsidy payments from the Treasury equal to 35% of their interest costs. UNC institutions issued bonds under this program to finance campus projects supported by student fees or student housing rental payments. BAB payments will be cut by \$171 million. The Internal Revenue Service recently released guidance that BABs and other direct-pay bond subsidies will be reduced by 8.7%. The IRS will notify issuers of these bonds if a portion of their payments are subject to sequestration cuts. The direct-pay bonds, QSCBs were the most issued and will receive the biggest cut in subsidy payments under the sequester. QSCBs, which can be issued by states and large, local educational agencies to finance school construction, have \$820 million of sequestrable payments that will be cut by \$42 million, according to the Office of Management and Budget.

**Long-Term Federal Government Fiscal Outlook**  
**Source: Congressional Budget Office (CBO)**

**Bottom Line Up Front: In spite of increased revenues, entitlement spending on health care (Medicare, Medicaid, Subsidies for Health Insurance) and Social Security is responsible for the decline in all other federal spending.**

Following a recent hearing, CBO was asked by a Member of Congress: “Based on historical trends of revenue and spending, is the primary driver of deficits over the next ten years historically high spending?” Here was their answer:

*Under current law, deficits during the 2014–2023 projection period will average 3.3 percent of GDP, CBO projects, similar to the 40-year average of 3.1 percent. In those projections, the deficit initially declines from 5.3 percent this year to a low of 2.4 percent in 2015 and follows an upward trend thereafter, reaching 3.8 percent by the end of the projection period.*

*CBO projects that revenues will average about 19 percent of GDP during the coming decade under current law, above their 18 percent average of the past 40 years. CBO also projects that outlays will average 22 percent of GDP over the next 10 years under current law, above their 21 percent average of the past 40 years. Thus, both outlays and revenues are projected to be higher than their historical average shares of the economy’s total output.*

*CBO expects that, under current law, **outlays will be above their historical average primarily because the aging of the population, rising health care costs, and a significant expansion in eligibility for federal subsidies for health insurance will push up spending for Social Security and the major federal health care programs (Medicare, Medicaid, and the subsidies to be provided through insurance exchanges).** Such spending is projected to equal 10.9 percent of GDP during the coming decade, compared with a 40-year average of 7.2 percent. In addition, with federal debt held by the public much larger relative to GDP than it has been in the past, net interest payments are projected to equal 2.5 percent of GDP, compared with a 40-year average of 2.2 percent.*

*Other broad categories of spending are expected to represent smaller shares of GDP than they have been in the past: Mandatory spending other than for Social Security and the major health care programs is projected to average 2.6 percent of GDP, compared with a 40-year average of 3.0 percent; defense spending is projected to average 3.0 percent of GDP, compared with a 40-year average of 4.7 percent; and nondefense discretionary spending is projected to average 3.0 percent of GDP, compared with a 40-year average of 4.0 percent.*