Fiscal Year 2018 Federal Budget Update

On Tuesday, May 23, President Trump released his fiscal year (FY) 2018 Budget Request, which followed the release of his FY 2018 Budget Blueprint, or “skinny budget” in March. The President’s FY 2018 Budget Request came in at approximately $4.1 trillion and assumes that the economy will see 3 percent in economic growth, well above the 1.9 percent forecast by the Congressional Budget Office. The Budget Request makes a significant number of assumptions, including more than $2 trillion in extra revenue through tax cuts and easing of regulations, that, according to the Administration, would spur economic growth. In addition, the request proposes to eliminate the deficit by 2028.

The Budget Request calls for a $54 billion increase above FY 2017 in base defense discretionary spending, while reducing nondefense discretionary spending by an equal amount in FY 2018, or more than $1.6 trillion over 10 years. The President’s Budget Request breaks the principle of parity between defense and non-defense spending that was established in the Budget Control Act of 2011 and does not address the so-called sequester caps that are currently in place through 2021. And, since the increase in defense spending in the President’s Budget Request exceeds the current limits under the law, Congress would be required to renegotiate new defense and nondefense discretionary spending limits in order to accommodate his Request.

Below is a summary of the President’s FY 2018 Budget Request for higher education, research and health care programs of importance to the university. As more details about the Budget Request becomes available, additional information will be provided.

HIGHER EDUCATION AND STUDENT AID

The FY 2018 Budget Request for the Department of Education (ED) proposes $59 billion in discretionary spending, which is a cut from 2017 of $9.2 billion, or 13.5%. Over the next ten years, if the budget proposals are enacted into law, they would cut $143 billion from college students and borrowers.

Pell Grants

The President’s FY 2018 Budget Request would provide sufficient discretionary funding for the Pell Grant Program to maintain the base award of $4,860. This base amount is necessary to secure the available mandatory add-on funds, which together will result in a maximum grant for the 2018-19 academic year of $5,920. At the same time, while the current funding level is maintained, the budget calls for the cancellation of $3.9 billion in Pell reserve (surplus) funds adding to the deficit-reduction total.

The inflation indexing that was available through FY 2017 is not extended, which will lead to a significant drop in the purchasing power of Pell in the coming years.

Year-round Pell, which was reinstated in the FY 2017 omnibus appropriations bill will continue in 2018.
At UC, nearly 40% of our undergraduates qualify for Pell Grants and they received a total of $377 million from Pell in academic year (AY) 2015-16.

Campus-Based Student Aid Programs
The budget proposes to eliminate the Federal Supplemental Educational Opportunity Grant (SEOG) program, in part to “reduce complexity in financial student aid.” This is a cut of $733 million. At UC, nearly 16,000 students received $11.8 million in SEOG in AY 2015-16.

Federal Work Study would be cut from $990 million to $500 million, a reduction of almost 50%. The proposal would also “reform the poorly-targeted allocation to ensure funds go to undergraduate students who would benefit most,” which would require a legislative change. At UC, nearly 14,000 students received $26 million in Federal Work Study in AY 2015-16.

The President’s budget states that Perkins Loans “will no longer be authorized beginning in fiscal year 2018 and no new loans will be disbursed.” This is unfortunate for schools that continue to lend money to low-income students through strong revolving funds. In AY 2015-16, UC awarded more than $35 million in Perkins Loans to low-income students.

Direct Loans
The President’s Budget Request proposes changes to the Direct Loan Program, which would cut more than $143 billion from the program over the next ten years, significantly impacting low and moderate income students who must borrow to attend college, adding that burden to their cost of education.

The proposals outlined in the President’s FY 2108 Budget Request would:

- Consolidate the federal government’s income-based repayment programs into one plan, which would cut $76 billion. Creating this one plan would result in fewer benefits to many student borrowers. The new option, applying to new borrowers after July 1, 2018, would cap monthly payments at 12.5% of a borrower’s discretionary income (instead of the current 10%) and forgive the remaining balance after 15 years for undergraduates, which is shorter than the current 20 years). For graduate borrowers, loan forgiveness would not take effect until after 30 years of repayment (currently it is 25 years).
- Eliminate all subsidized student loans, a cut of $39 billion. This represents a significant cut to undergraduate borrowers and would have a devastating financial impact on students who go to graduate and professional school because their student loan interest would continue to accrue even when they are still in school.
- End the Public Service Loan Forgiveness (PSLF) Program, which offers debt forgiveness to borrowers who pay on their loan for 10 years while working at a qualifying public service jobs. This is a cut of more than $27 billion.
- Eliminate a monthly maintenance fee paid to guaranty agencies to help maintain their IT systems, support personnel who provide assistance to borrowers, assure enrollment information is accurate and review default claims, among other things. This change could “save” $443 million, but not without peril to the stability and integrity of outstanding federal student loans.

UC does not support these efforts to “simplify” the student loan programs. Restricting beneficial loan repayment options for borrowers, eliminating the in-school interest subsidy for undergraduates and ending the PSLF Program would financially hurt students and their families who will shoulder the added cost of attending college.
Education Research
The President’s Budget Request provides $617 million for the Institute of Education Sciences (IES) programs, which is a slight increase above the $605 million provided in FY 2017.

TRIO Programs
The budget proposes $808 million for TRIO, which is a cut of $142 million from the $950 million in FY 2017. More than $80 million of this amount would result from eliminating two of the TRIO programs: the Ronald E. McNair Post-Baccalaureate Achievement Program and the Educational Opportunity Centers Program.

GEAR UP
The President’s Budget Request for GEAR UP is $219 million. This is $120.8 million below the $339.8 million provided in FY 2017.

Aid for Hispanic-Serving Institutions (HSIs) – Title V
The Budget Request includes $107.5 million for competitive grants to help Hispanic-Serving Institutions expand and enhance their undergraduate academic programs. This is the same amount that was appropriated in FY 2017. The budget proposes the same level of funding for programs, $9.7 million, that promote post-baccalaureate opportunities for Hispanic Americans designed to help them succeed in graduate school. UC has several campuses that serve large percentages of Hispanic students and would be eligible to apply for these funds.

Teacher Quality Partnership Grants
The President’s budget eliminates the $43 million that was available in FY 2017 for Teacher Quality Partnership (TQP) Grants. These funds are used to improve teacher preparation programs and help recruit and retain high quality K-12 teachers. UC supports robust funding for U.S. Department of Education programs to promote teacher quality, spark improvements in computer science instruction, promote preparation of STEM education teachers, support school leader training, enhance professional development and advance innovations in teaching and learning.

Graduate Assistance in Areas of National Need (GAANN)
The President’s Budget Request provides $6 million for GAANN, a cut of $23 million. This is an important program that rewards excellence and innovation in graduate education to assure a continued pipeline of skilled workers in all sectors of the economy, such as business, science, academia and government, as well as qualified professors who will mentor and train the teachers and students of tomorrow. Over the past ten years, UC campuses have received nearly $19 million in GAANN awards.

Title VI, International Education and Foreign Language Studies
Funding for Title VI programs is eliminated.

Child Care Access Means Parents in School (CCAMPIS)
The $15.1 million for CCAMPIS is eliminated.

National Endowment for the Humanities (NEH) and National Endowment for the Arts (NEA)
The Budget Request proposes that funding for the NEH and the NEA be eliminated.
RESEARCH

The FY 2018 Budget Request provides $117.2 billion for federal research and development, a $12.6 billion (16.8%) cut below FY 2017 enacted levels for science, technology and innovation programs. According to the American Association for the Advancement of Science (AAAS), “no administration appears to have proposed cuts to research this large in over 40 years… Given the steep cuts to research funding, federal R&D would ultimately drop to 0.31% of U.S. gross domestic product, representing at least a 40-year low in that metric.”

National Institutes of Health (NIH)
The President’s FY 2018 Budget Request proposes an NIH program level of $26.9 billion, a $7.2 billion cut, which is 21% below the FY 2017 enacted level. According to the Health and Human Services (HHS) Budget in Brief document, the request would result in 1,946 fewer grants in FY 2018. Other sources said the cuts would result in 5,000-8,000 fewer research grants in FY 2018. Major recommendations include:

- HHS proposes a 10% flat indirect cost recovery rate for all NIH grants, beginning in FY 2018.
- Within NIH, the National Center for Advancing Translation Sciences (NCATS) would be funded at $557 million, a $149 million cut below FY 2017 enacted level.
- The Fogarty International Center would be eliminated.
- In addition to the NIH request, $496 million is proposed for CURES Act programs: $300 million for the Cancer Moonshot, $100 million for Precision Medicine, $86 million for BRAIN, and $10 million for Regenerative Medicine.

National Science Foundation (NSF)
The President’s FY 2018 Budget Request proposes $6.653 billion, a decrease of $819 million (-11%) below FY 2017. This funding will support approximately 8,000 new research grants, with an estimated funding rate of 19% for research grant proposals submitted to NSF. According to the agency, NSF funded 8,800 new research grants, with a funding rate of 21% in FY 2016. Among the major accounts: Research and Related Activities would be cut by 10.6%; Education and Human Resources programs would be cut by 14%; and Major Research and Equipment Facilities Construction would be cut by 24.3%. In addition:

- NSF Graduate Research Fellowship and Traineeship programs would be funded at $286.6 million, a cut of 26.2%.
- The Integrated NSF Support Promoting Interdisciplinary Research and Education (INSPIRE) program would be eliminated.
- The NSF contributions to the US Global Change Research Program would be funded at $264 million, a $66.6 million cut below FY 2016 levels. The FY 2017 comparables were not available.

Department of Energy (DOE)
The President’s Budget Request proposes $28.2 billion, which is 9% below FY 2017. Though, funding for the National Nuclear Security Administration (NNSA) would increase by about 8%, and deep cuts are proposed in civilian programs. Major funding proposals include:

- Office of Science: $4.47 billion, a $919 million cut below FY 2017.
- $508 million is proposed for exascale computing in the Office of Science and the NNSA to accelerate the delivery of an exascale computer to 2021, as well as a second machine with a different architecture soon thereafter.
- Energy Efficiency and Renewable Energy (EERE) would be cut by $1.45 billion or 70% below FY 2017.
• ARPA-E and the Advanced Technology Vehicle Manufacturing Program would be eliminated.
• NNSA Weapons Activities: $10.25 billion, which is a $921 million (10%) increase over FY 2017.
• NNSA Nonproliferation Activities: $1.793 billion, which is a $109 million (6%) cut below FY 2017.

Department of Defense 6.1-6.3 Science and Technology programs
The President’s Budget Request proposes $13.2 billion, an $800 million cut below FY 2017 enacted levels for defense basic and applied research programs. Within that amount, $2.2 billion is requested for 6.1 defense basic research, which is a $76 million cut below FY 2017, and a $109 million cut below FY 2016. Historically, defense research at universities has largely been funded through 6.1 basic research accounts. Other major proposals include:
• The request includes $115 million for the eight DOD-led National Network for Manufacturing Innovation institutes.

National Aeronautics and Space Administration (NASA)
The President’s Budget Request proposes $19.1 billion, a $550 million cut below FY 2017. Major proposals include:
• Science Mission Directorate: $5.712 billion, a 1% cut below FY 2017. Within Science, $1.8 billion would be provided for Earth Science, a $191 million cut below FY 2017. Rive Earth Science Missions would be eliminated: PACE, RBI, OCO-3, DSCOVR Earth-viewing instruments, and CLARREO Pathfinder.
• $534 million is requested for the James Webb Space Telescope, maintaining its 2018 launch date.
• Space Technology Mission Directorate: $679 million, an $8 million cut below FY 2017.
• Aeronautics Research: $624 million, a $36 million cut below FY 2017.
• NASA’s Office of Education would be terminated. ($37 million for close-out costs is proposed). Within the office, the Space Grant Program would receive full funding for the “final year of the three-year award for all 52 Space Grant consortia awards.”

US Department of Agriculture (USDA) Extramural Research and Extension
The President’s Budget Request proposes $1.253 billion is proposed for USDA National Institute of Food and Agriculture (NIFA) programs, which is a reduction of $110 million, or roughly 8%. Major proposals affecting the UC research enterprise include:
• Agriculture and Food Research Initiative (AFRI): $350 million for competitively awarded AFRI grants, which is a $25 million cut below FY 2017.
• Capacity Grants (formula funding) programs important to UC’s agricultural research, extension and training missions are proposed to be funded as follows:
  o Hatch Act: $243.2 million, a $500,000 cut below FY 2017.
  o Smith-Lever 3(b)-(c): $300 million, a $600,000 cut below FY 2017.
  o McIntire-Stennis Cooperative Forestry: $28.9 million, a $5 million cut below FY 2017.

Department of Commerce – National Oceanic and Atmospheric Administration (NOAA)
The President’s Budget Request proposes $4.775 billion, a $900 million cut below FY 2017 enacted. Within NOAA:
• The Office of Oceanic and Atmospheric Research (OAR) would be funded at $324 million, which is a $190 million (37%) cut below FY 2017.
• More than $250 million in NOAA coastal and marine management programs would be eliminated.
• The Sea Grant Program would be eliminated.

**Environmental Protection Agency**
The President’s Budget Request proposes $5.7 billion, a 31% cut below FY 2017 enacted. The EPA Office of Research and Development is proposed to take a $233 million cut, and more than 50 EPA programs including the Clean Power Plan, climate change research programs (international and partnership programs) would be eliminated.

**HEALTH AND HUMAN SERVICES**
The President’s FY 2018 Budget Request greatly threatens funding priorities that impact UC Health’s three-part mission of providing clinical care, medical education training and biomedical research. The Department of Health and Human Services would receive $69 billion in discretionary budget authority and $1 billion in mandatory funding to continue to make coverage affordable, drive down costs, improve care, train new health care providers and support medical research.

The President’s FY 2018 Budget Request includes numerous proposals that directly impact UC Health’s clinical care and medical discovery activities.

**Medicaid and Children’s Health Insurance Program (CHIP) Highlights**
The President supports repealing the Affordable Care Act’s Medicaid expansion and restructuring the Medicaid program so benefits are delivered by way of block grants, or per capita cap allotments, provided to the states. If enacted into law, between FY 2018 and FY 2027, the President’s FY 2018 Budget Request would reduce health care benefits delivered to society’s most vulnerable adults and children. Extensive cuts exceeding $800 billion would be made over a ten-year period to the Medicaid and CHIP safety net healthcare programs.

• The Administration seeks to save $610 billion over ten years through restructuring Medicaid services so they are delivered via block grants and/or per capita caps.
• Additionally, the Administration would cut as much as $250 million from Medicaid over the next ten years through its desired “repeal and replacement” of the Affordable Care Act by phasing out the Medicaid expansion. The result would be 14 million or more Americans no longer qualifying for Medicaid health care coverage and consequently, being unable to access health care services.

Furthermore, the FY 2018 Budget Request would reduce funding for the CHIP by $5.8 billion over the next year.

Medicaid and CHIP enrollees comprise a significant percentage of the patient population treated at UC Health system’s five academic medical centers. If implemented, the President’s proposed cuts to Medicaid and CHIP would endanger the health of California’s most vulnerable adults and children and threaten the capacity of UC’s medical centers to serve as safety net hospitals, while also fulfilling their missions of training the next generation of clinicians and making life-saving medical discoveries.
Centers for Disease Control and Prevention (CDC) Highlights
The President’s FY 2018 Budget Request would cut CDC funding by $1 billion. Within the CDC programs experiencing a substantial decline in funding, the National Institute for Occupational Safety and Health (NIOSH) would experience a cut of $138 million from its FY 2017 permitted spending level of $338 million.

Healthcare Workforce Training Highlights
The President’s FY 2018 Budget Request seeks to curtail overall Health Workforce funding that benefits students training to be physicians and nurses by $377 million. The budget proposes cutting the Nursing Workforce Development fund by $146 million and the Training in Primary Care Medicine program by $39 million. The budget justifies this cut by noting that less than half of these programs beneficiaries’ are actually practicing in medically underserved areas.

The President proposes an increase of $21 million to the National Health Service Corp’s mandatory spending. The FY 2018 Budget Request would maintain Children’s Hospital Graduate Medical Education program funding at $295 million, so a total of 6,877 resident full-time equivalents can be trained. The President distinguishes these programs as providing scholarships or repaying educational loans for health professionals that do agree to work in medically underserved areas.

340B Drug Pricing Program Highlights
The President’s FY 2018 Budget Request would fund the 340B Drug Pricing Program at $10 million. This is a reduction from the FY 2017 enacted level of $17 million in budget authority. The Budget Request seeks to update regulatory authority in the 340B Drug Pricing Program to foster program integrity and increase transparency.

Agency for Healthcare Research and Quality (AHRQ)
The President’s FY 2018 Budget Request proposes to eliminate all funding for the AHRQ. The President justifies the agency’s elimination by stating AHRQ has not been authorized since 2005, and NIH already conducts $1.5 billion in health services research.

TAX ISSUES
The FY 2018 budget request provides few details about specific changes the Administration would make to the U.S. tax code that would impact higher education, and instead simply outlined their broad tax goals. Typically, the U.S. Department of Treasury would release the Treasury “Greenbook,” which accompanies a budget request and explains tax proposals in greater detail. As of the release of this summary, there is no indication that the Greenbook will be forthcoming.

For FY 2018, the Administration’s goals for tax reform include: lowered corporate and individual tax rates, fewer tax brackets for individuals, elimination of “loopholes and deductions,” an expanded “standard deduction” for individuals, protections for home owners, charitable giving and retirement savings. In addition, the Administration would eliminate the alternative minimum tax and estate tax, and repeal taxes and mandates related to the Affordable Care Act.