

LEGAL UPDATES

PUBLISHED: MARCH 6, 2013

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Sequestration's Impact on Higher Education

Friday, March 1, 2013, marked the start of \$1.2 trillion in automatic federal spending cuts that were set into motion by the Budget Control Act of 2011. Sequestration brings cuts of approximately 5 percent to domestic agencies, which means funding for many college and university higher-education programs is on the chopping block.

Some sequestration rules are already being applied in financial aid offices. A March 1 electronic announcement from the Department of Education suggests that sequestration affects Title IV Federal Student Aid programs as follows:

Federal Supplemental Educational Opportunity Grants and Federal Work Study: For the 2013-2014 award year, these programs will see approximately 5 percent in cuts.

Stafford and PLUS Loans: Where first disbursements occur after March 1, Stafford Loan origination fees will rise from 1 percent to approximately 1.05 percent, and PLUS origination fees will rise from 4 percent to approximately 4.02 percent.

TEACH and Iraq-Afghanistan Service Grants: Where first disbursements occur after March 1, these programs are also subject to the cuts.

Pell Grants: These are specifically protected for the first year, including the 2013-2014 award year, though they may face cuts in subsequent years.

Other programs are expected to face reductions, including TRIO, GEAR UP and Graduate Assistance in Areas of National Need grants. The release of new campus-specific program aid allocations may take several weeks, though estimates are available.

Key income streams for some schools will also come under the knife. There will be fewer dollars for grants from the National Science Foundation, National Institutes of Health, Centers for Disease Control, National Endowment for the Humanities and other federal programs that sustain research. Schools participating in employment and training programs will see diminished federal support.

Congress has the power to halt sequestration. Negotiations over cuts are likely to continue.

What This Means to You

Sequestration will affect most schools. Pending further guidance and campus-specific allocations, you should:

Determine which, if any, of your programs, students and prospective students the sequestration will affect and consider plans to lessen the impact.

Prepare 2013-2014 award letters to include language that clarifies that amounts for grants, Federal Work Study and loan origination fees may change depending on available federal funding.

Send amended award letters as necessary once notified of 2013-2014 allocations.

We will continue to monitor the status of this developing area of law and legislation.

Contact Information

If you have questions or for more information about the implications of this rapidly developing trend for your institution, please contact your Husch Blackwell LLP attorney, Hayley Hanson at 816.983.8377 or Anne Cartwright at 816.983.8351.

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