



**Analysis of the Bush Administration's
Fiscal Year 2009 Budget Request**

*Prepared by The New England Council
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Overview

Last Monday, President Bush released his Fiscal Year 2009 budget. The budget exceeds \$3 trillion in spending authority for Fiscal Year 2009, with deficits expected through Fiscal Years 2011 (\$410 billion and \$407 billion respectively in FY 08 and FY 09). A \$48 billion surplus is projected for Fiscal Year 2012. The President's budget requests \$70 billion in Fiscal Year 2009 to fund the cost of the wars in Afghanistan and Iraq (with no funding beyond FY 09), along with suspending the alternative minimum tax for 1 year at a cost of \$61 billion.

The Congressional Budget Office recently predicted a budget deficit of close to \$219 billion in Fiscal Year 2008, but with Congress likely to increase funding for the wars in Afghanistan and Iraq and the inclusion of a \$150 billion economic stimulus package the budget deficit should be much larger. A deficit of \$400 billion this year or next would represent about 2.9 percent of the U.S. Gross Domestic Product.

Mandatory Health Program Reductions

The President is requesting \$178 billion in Medicare reductions over five years which will reduce Medicare growth to five percent over those five years instead of the seven percent growth expected without legislative action (the request is \$208 billion in overall reductions for mandatory health programs). This request is almost three times as large as the President's proposed growth reductions from last year. The Office of Management and Budget believes that the President's request will reduce the \$34 trillion in unfunded Medicare liability by close to one third over the next 75 years. This reduction is largely achieved by significantly reducing the Medicare reimbursement rate, along with identifying \$43 billion in savings from the Medicare Advantage program.

Medicaid is targeted for growth reductions as well -- \$17.7 billion over the next five years. Without these reductions, the Administration predicts the five-year Medicaid costs to be some \$1.3 trillion. Despite reduction in growth for Medicaid, the President's budget proposes an expansion of State Children's Health Insurance Program, recommending \$19.3 billion in additional funding over five years.

Level-funded Discretionary Programs

The Administration is requesting close to level funding (less than a one percent increase) in non-defense, non-homeland security related discretionary domestic spending, and severely limits similar spending for the next five years. Funding for the Pentagon's base budget is increased by five percent to \$515 billion in Fiscal Year 2009. Overall, discretionary spending would increase by approximately \$988 billion (\$941 billion last year). As indicated, \$70 billion in Fiscal Year 2009 emergency funding is requested for the wars in Afghanistan and Iraq, although no such funding is requested for the future in the five-year budget.

The President's budget saves \$18 billion in Fiscal Year 2009 by eliminating or reducing funding for 151 discretionary programs.

Analysis by Category

Education

Financial Aid

The Department of Education's discretionary budget reaches \$59.2 billion in the President's proposal. Increases in Pell Grant funding account for a significant portion. The Administration requests \$16.9 billion in Pell Grant funding, an 18.5 percent increase. This amount will be used to support an increase in the maximum Pell Grant, from \$4,800 in Fiscal Year 2009 to \$5,400 by Fiscal Year 2012. To achieve this increase, the Administration recommended the elimination of other important higher education grant programs, including Perkins loans, Tech Prep, and Supplemental Education Opportunity grants. The President has requested level funding for TRIO and GEAR UP.

Science, Technology, Engineering, and Mathematics (STEM) Education

The President's budget funds STEM education priorities within the Department of Education, including \$70 million for the training of teachers to teach advanced placement courses in STEM areas, \$95 million for Math Now, and \$10 million for Adjunct Teacher Corps, bringing math and science professionals to high-need schools as teachers. Also, the budget provides \$4 million for the National Science Board and \$790 million for Education and Human Resources (EHR) under the National Science Foundation's budget. The EHR provides programs that promote competitiveness and STEM education through undergraduate and graduate scholarships in STEM fields, support for private-public partnerships in K-12, and providing research opportunities for STEM teachers and students in grades 7-12.

Energy & Environment

Traditional and Renewable Energy Development

"Clean coal" technology, as well as nuclear power, biomass and geothermal energy do well in the President's budget. Through the Advanced Energy Initiative (\$3.1 billion, an increase of \$624 million over FY08), the Coal Research Initiative receives a \$123 million increase to \$588 million over last year. Research funding for cleaner burning coal technologies receive \$818 million overall, up from \$581 million. Nuclear Power 2010, a "program which partners with private industry to demonstrate key regulatory approval processes to encourage investments in new, advanced nuclear plants in the United States," is slated to grow from \$137 to \$241.5 million. The Generation IV Nuclear Energy Systems Initiative (Gen IV), a program of "multinational research and development projects in support of next generation nuclear reactors," sees a decline from \$115 million last year to \$70 million in FY09.

Biomass programs designed to increase the effectiveness of cellulosic ethanol by 2012 see a 14 percent increase to \$225 million. The Solar America Initiative sees a \$12 million decrease to \$156 million; while wind and geothermal see increases (\$50 million to \$53 million and \$20 million to \$30 million respectively). However, hydrogen technology efforts are cut from \$211 million in 2008 to \$146 million. The Administration's budget also proposes eliminating the \$227 million weatherization program.

Low Income Home Energy Assistance Program

While support in Congress continues to build to dedicate additional funding to the LIHEAP program in FY08, the President's budget moves to cut funding for the program down to \$2 billion (including \$300 million in emergency funding) from the \$2.6 billion (\$600 million in emergency funding) Congress allocated in FY08.

Nuclear Waste Disposal Activities (Yucca Mountain)

While Congress continued to reduce funding for the Yucca Mountain facility in Fiscal Year 2008 (\$390 million), the Administration proposes \$495 million (evenly split between "Defense Nuclear Waste Disposal" and "Nuclear Waste Disposal" under the Department of Energy) in funding for the project in the coming year. The Global Nuclear Energy Program, which works to, "to develop and deploy advanced nuclear recycling and reactor technologies," is slated for a \$123 million increase (69 percent) to \$302 million.

Health

National Institutes of Health

The President's budget provides level funding, or \$29.3 billion, for the National Institutes of Health. The Administration proposes removing \$52 million from the \$1 billion budget for the office of the director of the NIH to help fund the institutes' research centers in an attempt to make up for the failure to increase NIH funding overall. Another year of level funding jeopardizes the important research that is conducted at the cutting edge medical research facilities located throughout New England.

Community Health Centers

Community Health Centers (CHCs) provide critical health care services to underserved areas throughout New England, helping reduce health care costs. The Administration requests over \$2 billion for CHCs, which is a slight increase over Fiscal Year 2008 levels. The budget includes \$40 million for existing health centers and funding to create up to 40 new Health Centers in high poverty areas.

Food and Drug Administration

The President recommends an increase of \$130 million, or about 5.7 percent, for the Food and Drug Administration's budget. Given the increased concerns regarding food and drug safety, many find this increase to be insufficient. The budget also includes a path for the FDA to approve follow-on biologics.

Technology

Health Information Technology

The Administration's Health Information Technology (HIT) initiative proposes \$114 million in funding – a \$5 million increase over Fiscal Year 2008 levels. The funds include \$66 million for the Office for the National Coordinator for Health Information

Technology, which supports development of federal HIT activities and initiatives for nationwide advancement of interoperable HIT in coordination with the health sector. It also includes level funding for the Agency for Healthcare Research and Quality (AHRQ) at \$45 million. The AHRQ promotes the development of technologies to improve health care quality, safety, and effectiveness.

National Science Foundation

The Administration provided \$6.85 billion, a 13 percent increase in funding over the Fiscal Year 2008 actual budget, for the National Science Foundation, which includes \$397 million for nanotechnology research and facilities and \$1.1 billion for information technology and supercomputing research.

Transportation

Amtrak

Despite Amtrak's record ridership numbers for Fiscal Year 2007, for the second year in a row the Bush Administration proposes slashing Amtrak's budget. After being funded by Congress at \$1.325 billion in Fiscal Year 2008 (operations, capital improvements, and debt service), the President's budget requests \$800 million for Amtrak -- \$275 million for operations and \$525 for capital improvements. In addition, the budget promotes inner-city passenger rail by including \$100 million for matching capital grants to states to use at their direction. Last fall, the Senate passed a six-year, \$11.4 billion Amtrak reauthorization bill, and the House Transportation Committee is expected to draft and take up a similar measure in the first few months of 2008.

Federal Aviation Administration

The Administration proposes \$688 million to upgrade the FAA's air traffic control capabilities from its existing air navigation system to the Next Generation Air Transportation System, a seemingly critical step to safely and efficiently handle the increase in air travel in the coming years and decades. This funding also includes the ability to hire over 300 new air traffic controllers. Overall, the FAA safety and operations budget is \$11.9 billion, a \$493 million increase.

A 50-cent per flight ticket tax/user fee, a highly unpopular idea in Congress in the last several years, is included to help pay for increases in security operations at the Transportation Security Administration.

Highway Infrastructure Funding

The Federal Highway Administration sees a reduction in its budget, limiting its obligations to \$39.4 billion, down \$1.8 billion from Fiscal Year 2008. The Department of Transportation will see about a 10% cut in its overall budget.

Tax Policy & Financial Services

Promoting Research & Development

The President relied on a permanent extension of the Research & Development tax credit in his revenue numbers starting in 2008 (the R&D tax credit expired on December 31, 2007). The cost of permanently extending the R&D credit (referred to as the "Research and Experimentation" tax credit in the budget) for the 2008-2013 window is \$55 billion.

The Office of Management and Budget summary documents show \$147 billion for government-wide R&D programs, noting that "one out of every seven dollars funded in the discretionary budget" is dedicated to R&D throughout the areas of homeland security, science, IT, energy and the environment. A sliver of those programs include the Department of Commerce's National Institute of Standards and Technology (NIST) which sees an overall decrease in its funding, the majority of which is contained through Industrial Technology Services program (down over 97%). NIST's Scientific and Technical Research Services does see close to a 21% increase (\$93 million over FY08) in funding. The National Science Foundation sees an \$821 million increase in its budget (13.6%) and the Department of Energy sees a \$749 million increase for its \$4.722 billion American Competitiveness Initiative to, "enable scientific breakthroughs with broad impacts on future energy technologies and environmental solutions."

Additional Tax Provisions

The alternative minimum tax is "patched" for only one additional year (2008), at a cost of nearly \$61 billion. Congress dedicated an enormous amount of time at the end of 2007 debating and ultimately passing a one-year "patch" that Congress did not pay for budget-wise. The 2001 and 2003 tax cuts (most of which are set to expire by 2010) for individuals and businesses would be continued at a cost of \$635.5 billion for Fiscal Years 2008 through 2013.

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