

THE NEW ENGLAND COUNCIL

Yesterday, President Obama released an outline of his Fiscal Year 2010 (FY10) budget priorities and the Administration's estimates of the overall government spending for the next ten years. Although many of the programs considered a priority by The New England Council were not specified, I wanted to take this opportunity to summarize a few of the Administration's priorities as they relate to Council interests. When President Obama's detailed budget is released in late April, the Council will provide a more comprehensive summary, as we have in past years.

Many of the summary materials released today include references to funding contained in the American Recovery and Reinvestment Act (the economic stimulus bill), which the Council summarized for members earlier this week. In addition, since Congress has yet to pass many of the FY09 funding bills (although it is expected to be finalized as early as next week), we are unable to provide an accurate FY09-to-FY10 comparison of programmatic funding.

Overview

The budget tables presented today show the President sending a proposed \$3.552 trillion Fiscal Year 2010 budget to Congress in April, with an FY09 federal deficit of \$1.752 trillion. The President, who has pledged to cut the deficit in half by the end of his first term, projects a deficit reduction to \$533 billion in FY13 (about a 70% reduction of the expected FY09 deficit). Compared to the size of the overall U.S. economy, the current fiscal year's deficit will be about 12.3% of our national gross domestic product (GDP), falling to about 3% of GDP in FY13. The sharp reduction in deficits would in large part be supported by the expiration of federal spending directed by the economic stimulus bill and the Troubled Assets Relief Program, an expected reduction of military operations in Iraq, and an income tax increase on wage earners with salaries of \$200,000 or more. Approximately \$1.36 trillion of the FY10 overall budget is dedicated to programs funded through discretionary spending.

In the past several weeks, the Obama Administration has emphasized it will not use budget strategies favored by the previous administration which made accurate long-term budget scenarios difficult to define. For example, those strategies used extremely low "placeholder" figures for the cost of Iraq and Afghanistan operations, then funded those operations through supplemental and emergency appropriations (which operate outside traditional budget constraints). In addition, domestic priorities such as annual patches to the alternative

minimum tax were left out of revenue expectations in prior years, and non-emergency priorities were funded in emergency appropriations legislation, something the Obama Administration has pledged it will not continue.

Health Care

One of the most noteworthy items in the Administration's budget outline is the creation of a \$634 billion Health Reform Reserve Fund to, "finance fundamental reform of our health care system that will bring down costs and expand coverage." In addition, "the Budget calls for an effort beyond this down payment, to put the Nation on a path to health insurance coverage for all Americans." Specific programs identified in the budget for funding are the National Institutes of Health (\$6 billion for cancer research), additional funding for health information technology infrastructure development, \$73 million to expand rural health quality and access, and a number of Medicare and Medicaid reforms.

Energy

Following on a number of priorities in the recently-passed economic stimulus bill, the Administration's proposed budget evidences a strong commitment to the creation of conventional and renewable energy. It would provide a loan guarantee component to promote transmission and renewable energy programs, and funding for carbon capture and sequestration technology for low-carbon coal emissions.

The Office of Science at the Department of Energy is in line for budget increases for climate science activities, and under the Department of Commerce, the National Oceanic and Atmospheric Administration is slated for \$1.3 billion for climate and weather monitoring capabilities.

Unfortunately, the Administration appears to be clamping down on funding for the Yucca Mountain nuclear waste repository as its licensing process continues, saying, "The Yucca Mountain program will be scaled back to those costs necessary to answer inquiries from the Nuclear Regulatory Commission, while the Administration devises a new strategy toward nuclear waste disposal."

Funding for the Low-Income Home Energy Program, which received unprecedented increases in the continuing resolution last fall (to over \$5 billion), is targeted for \$3.2 billion in FY10 -- still a significant increase over FY08 funding.

On the revenue side of the ledger, the budget assumes additional revenue from the creation and implementation of a cap-and-trade climate change initiative. Both Senate Environment and Public Works Committee and the House Energy and Commerce Committee leaders have expressed their determination to move climate change bills through their respective panels in the coming months. The budget summary materials state that, "the Administration will work expeditiously

with key stakeholders and Congress to develop an economy-wide emissions reduction program to reduce greenhouse gas emissions approximately 14 percent below 2005 levels by 2020, and approximately 83 percent below 2005 levels by 2050. This program will be implemented through a cap-and-trade system.” The Administration budget would spend about \$15 billion of the additional revenue annually, starting in FY12, on clean energy technology and over \$60 billion on tax cuts.

Higher Education

The maximum award in the Pell Grant program is bumped up to \$5,550 for the 2010-2011 school year. In addition, the Administration references the struggles the Pell Grant program has experienced in keeping up with the economy so, “The Administration will index Pell grants to the Consumer Price Index plus 1 percent in order to address inflation.” The budget strives to find ways to simplify student aid application process as well. The Perkins Loan program is also reformed and modernized.

The budget also seeks to change the way subsidies in the student loan program are determined, “The Administration will instead take advantage of low-cost and stable sources of capital so students are ensured access to loans, while providing high-quality services for students by using competitive, private providers to service loans. The approach in the Budget, originating all new loans in the direct lending program, saves more than \$4 billion a year that is reinvested in aid to students.”

Financial Services

In addition to calling for increased accountability and transparency in the operations of the Troubled Assets Relief Program, \$250 billion is dedicated as a “placeholder for potential additional financial stabilization efforts.” The \$250 billion reserve is predicted to support approximately \$750 billion in the purchase of toxic assets from struggling financial institutions. Summary materials are careful to specify that, “The existence of this reserve in the Budget does not represent a specific request. Rather as events warrant, the Administration will work with the Congress to determine the appropriate size and shape of such efforts.”

Technology

The National Institute of Standards and Technology is in line for funding increases for, “the Nation’s technology infrastructure by funding advanced measurement and standards development,” and \$70 million is set aside for the Technology Innovation Program. Under the Department of Agriculture, \$1.3 billion in loan and grant capabilities is specified to, “increase broadband capacity and improve telecommunication service and education and health opportunities in rural areas.”

Transportation

A \$5 billion grant program would be created to encourage the development of high-speed rail over the next five years. Under the President's proposed budget, the Federal Aviation Administration would benefit from \$800 million for the satellite-based Next Generation Air Transportation System, designed to improve the safety and efficiency of our air traffic control system.

Tax Policy for Individuals and Small Businesses

The proposed budget would reset a number of tax provisions for individuals earning over \$200,000 or couples earning over \$250,000. The budget anticipates a total of about \$204 billion in additional revenue from the following provisions through FY14:

- Reinstating the 36% and 39.6% tax rates
- Limiting itemized deductions
- Setting a 20% tax rate on capital gains

Beyond the upper-income earner provisions, a number of interesting economy-wide tax provisions are listed in the budget, including:

- Eliminate capital gains taxation on small businesses
- Make research and experimentation tax credit permanent
- Expand net operating loss carryback

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