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Fiscal Year 2011 Administration Budget Summary

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OVERVIEW

Earlier this week President Obama sent his Fiscal Year 2011 federal budget request to Capitol Hill, asking for \$3.834 trillion in federal spending in Fiscal Year 2011 up from the \$3.721 trillion anticipated in the current fiscal year. The White House budget blueprint estimates projected deficits of \$1.56 trillion in FY10 (an increase over the \$1.4 trillion in FY09), \$1.27 trillion next year, and in its long-range forecasts sees annual deficits bottoming out at just over \$700 billion in 2014. Over the next decade, the budget anticipates the federal government incurring an additional \$8.5 trillion in debt. The deficit totals as a percentage of the overall economy are expected to shrink from 10.6% in 2010 to 8.3% next year, and fall to 3.6% in 2018. However, the gross federal debt is expected to grow from \$15.1 trillion at the end of 2011 to \$25.8 trillion in 2020.

In an effort to stem the increase in deficits, the President proposes a freeze in discretionary spending outside the homeland security, defense, and veterans accounts for three years. Budget estimates call for about \$441 billion in non-security discretionary program in FY11. The White House budget includes plans to spend \$100 billion in the short-term for job creation – a far more modest number than the jobs bill passed by the House of Representatives in late 2009 but higher than the top-line numbers being rumored for any Senate bill. The budget outline calls for \$150 billion in 2011 and \$34 billion in 2012 to combat the 10% unemployment rate and foster economic growth.

The President's budget numbers come with a caveat – Administration support for a Fiscal Commission that is charged with “balancing the budget excluding interest payments on the debt by 2015,” and which the White House projects will “stabilize the debt-to-GDP ratio at an acceptable level once the economy recovers.” The budget blueprint recognizes the health of the overall budget picture and the magnitude of the changes mandated by the Commission will depend greatly on the overall health of the economy. The White House expects the unemployment rate to average 10% for 2010, and shrink to 9.2%, 8.2%, and 7.3% in the coming years.

Overseas military operations in Iraq and Afghanistan/Pakistan would remain relatively constant with the President asking for \$160 billion next year and an additional appropriation for FY10, which will bring the current year total close to \$170 billion.

The submission of the President budget begins a busy period in Congress as it pertains to federal spending. A number of House and Senate committees will be hearing from Administration witnesses in the coming weeks to gauge the reasoning for the White House's budget request and publically support/oppose the President's budget decisions. Typically

budget approval by both chambers takes place in mid- to late-March. It is important to remember the President does not sign or veto the Congressional budget (which also cannot be filibustered in the Senate).

In order to condense as broad a cross-section of the budget as possible into a manageable format, on a few occasions we summarize a number of accounts under broader headers. The entire Administration budget request (and summary documents) can be found at <http://www.whitehouse.gov/omb/> with account-by-account totals for various policy initiatives.

ENERGY/CLIMATE CHANGE

The \$28.4 billion Department of Energy budget provides for \$4.7 billion in clean energy resources including:

- \$302 million for solar energy;
- \$220 million for biofuels and biomass;
- \$325 million for advanced vehicle technologies;
- \$231 million for energy efficient building programs; and
- \$545 million for “clean coal” and carbon sequestration technologies

In addition, the Department outlines a goal to “double renewable energy capacity (excluding conventional hydropower) by 2010.” This commitment is echoed by the Dept. of the Interior budget which includes budget increases for the review and permitting of renewable energy projects on federal lands with a goal of 9,000 megawatts of new solar, wind, and geothermal energy on Interior-managed lands by the end of 2011.

Increases in the reliability and safety of the national electric grid is emphasized in the budget outline, including, among other programs, \$185 million for the creation of “an independent national energy sector cyber security organization to institute research, development and deployment of tested and validated technology and software controls to protect the bulk power electric grid and the integration of smart grid technology.” The Department’s budget request states can accomplish this goal “by investing in research, development and demonstration of smart-grid technologies that will spur the transition to a smarter, more efficient, secure and reliable electric system. The end result will promote energy- and cost-saving choices for consumers, reduce emissions, and foster the growth of renewable energy sources.”

The Administration is calling for a deficit-neutral reserve fund to handle revenue from an expected nationwide cap-and-trade greenhouse gas emissions reduction plan. The budget earmarks any revenue (which it does not specify) from such a plan for compensating “vulnerable families, communities, and businesses during the transition to a clean energy economy. Receipts will also be reserved for investments to reduce greenhouse gas emissions, including support of clean energy technologies, and in adapting to the impacts of climate

change, both domestically and in developing countries.” In his previous budget outline, the President assumed \$646 billion in revenues from such a program over the next 10 years.

Saying it “is not a workable option and that the Nation needs a better solution for nuclear waste disposal,” the Administration has zeroed out funding for the development of a unified nuclear waste storage facility at Yucca Mountain. The budget announces “the [Energy] Department will discontinue its application to the Nuclear Regulatory Commission (NRC)” to construct the Yucca facility and, as expected, turn its attention to the creation of a Blue Ribbon Commission announced by the Administration in late January. In its termination notice, the Administration noted “The President has made clear that the Nation needs a better solution...such a solution must be based on sound science and capable of securing broad support, including support from those who live in areas that might be affected by the solution.” Termination of the program represents a \$197 million savings over FY2010.

While effectively terminating the Yucca Mountain project, the Administration does provide \$36 billion in new Energy Department loan guarantees (for a total of nearly \$55 billion) for the development of new nuclear power facilities. The outline states the loan guarantees will “encourage new nuclear facilities and a range of renewable energy projects that reduce greenhouse gases and pollutants, while simultaneously creating jobs and contributing to long-term economic growth.” In addition, the Department is committed to “loan guarantees for two nuclear power facilities to add new low-carbon emissions capacity of at least 3,800 megawatts during 2010.”

The structure of the Low Income Home Energy Assistance Program is modified by the creation of a “trigger” that will automatically provide additional federal resources to the program when energy costs exceed a certain ceiling or economic conditions worsen. The budget includes a base \$3.3 billion in funding for FY11, a sharp decrease from the \$5.1 billion in federal assistance the program has enjoyed the last two years. However, the trigger is estimated to provide an additional \$2 billion in 2011 and \$6.5 billion over the next decade. The White House believes the trigger is a more effective mechanism for the program “to be more responsive to volatile energy markets and to increased demand for energy assistance during times of economic hardship.”

The Administration finds another \$36 billion in savings in the energy sector by eliminating or modifying 8 oil and gas tax preferences that the White House details are “costly to the American taxpayer and do little to incentive production or reduce energy prices.” The changes would net \$2.6 billion in FY2011, and grow to \$36.5 billion over the next decade. The most costly of these changes would be a repeal of the domestic manufacturing tax deduction for oil and natural gas companies, a \$17.3 billion change over 10 years. The Administration justifies the changes saying “repealing fossil fuel tax preferences helps eliminate market distortions, strengthening incentives for investments in clean, renewable, and more energy efficient technologies.”

The National Park Service's Save America's Treasures and Preserve America grant programs are targeted for elimination. Although they only received \$30 million in FY10, many New England historic places have benefitted from the matching grant programs. The White House hopes elimination of the programs can allow the NPS to "focus resources on managing national parks and other activities that more closely align with its core mission," and claim "the programs have not demonstrated how they contribute to National historic preservation goals."

FINANCIAL SERVICES/TAX PROVISIONS

The Administration proposes raising \$90 billion in revenue by imposing a fee on the nation's largest financial institutions with over \$50 billion in assets. Dubbing it a "financial crisis responsibility fee," the Administration assumes \$8 billion in revenue from the fee annually from 2011-2012, \$9 billion annual from 2013-2018, and \$10 billion annually the following 2 years. Specifically, the blueprint targets "firms with assets in excess of \$50 billion for banks, thrifts, bank holding companies, insurance and other companies that own depository institutions." The fee is "approximately 15 basis points applied to the firm's covered liabilities," and is targeted to "offset the costs of the Troubled Asset Relief Program (TARP) and ensure that support provided to the financial sector through TARP does not add to the national debt." The future of TARP is "directed toward assisting homeowners threatened with foreclosure and small businesses needing access to affordable credit."

The budget outline includes resources to double tax incentives for small businesses to begin individual retirement accounts for their workers, and includes \$10.4 billion over the next ten years to encourage companies to provide individual retirement options.

The Terrorism Risk Insurance Program is targeted for the elimination of \$378 million in federal subsidies over the next five years, saying "these subsidies are no longer necessary given the robust private market for such insurance, and domestic terrorism insurance policies are now sufficiently available and affordable to meet demand."

Tax Provisions

Research and Development Tax Credit – As he did in his FY2010 budget outline, the President calls for the Research and Development tax credit (listed as the research and experimentation credit) to be made permanent. While the credit expired on Dec. 31, the Administration seeks to revitalize the credit for the current year, and make it permanent moving forward at one-year cost of \$5.3 billion in FY11 and a ten-year cost of \$82.6 billion.

Making Work Pay Tax Credit—One of the hallmarks of the economic stimulus bill, the Administration proposes continuing the Making Work Pay Tax Credit through 2011 at a cost of \$30 billion.

Income – Following through on a proposal floated by the White House at several points during 2010, the budget blueprint calls for a one-time \$250 payment to be made to Social Security

recipients. Because economic struggles held down inflation in 2009, Social Security recipients did not receive a cost-of-living-adjustment in their 2010 Social Security payments.

The budget blueprint seeks to allow tax cuts for families earning over \$250,000 (or individuals over \$200,000) annually to expire and imposes a 20% tax rate on “capital gains and dividends for those taxpayers” with upper incomes.

Healthcare

The proposed \$81.3 billion budget for the Department of Health and Human Services includes \$25.5 billion to support state Medicaid programs with a six-month extension of the American Recovery and Reinvestment Act’s temporary increase in federal Medicaid funding. New projects under Medicare and Medicaid would evaluate reform possibilities, focusing on the most effective in raising quality of care, lowering costs, and improving beneficiary education. In addition, the President’s budget proposal assumes an end to scheduled increases in provider reimbursement rates. Several budget proposals aim to reduce fraud in Medicare, Medicaid, and the Children’s Health Insurance Program (CHIP), including \$250 million in new funding to expand a joint effort with the Department of Justice to prevent fraud and enforce standards. Over \$150 million in new funding would be shared between DHS and the Justice Department to prevent illegal drug use and support addiction treatment programs.

The budget proposal includes several initiatives for research. \$286 million would go toward medical research under the Agency for Healthcare Research and Quality, with the goal of higher-quality, evidence-based healthcare. Funding for biomedical research at the National Institutes of Health (NIH) will prioritize genomics, global health, and translational research, as well as research to support healthcare reform. Cancer research, including 30 new drug trials to begin in 2011, would receive over \$6 billion, and \$222 million would go for research, treatment, and other services related to Autism Spectrum Disorders. In line with the President’s pledge to develop a national HIV/AIDS strategy, prevention and treatment programs would be expanded, with testing initiatives focused on high-risk groups and increased funding for the Ryan White program to provide support services for low-income individuals living with HIV/AIDS. In order to encourage the use of Health Information Technology including electronic health records, federal grants and adoption incentives from ARRA would be augmented by \$110 million to coordinate research and policy development.

The Administration’s emphasis in primary and preventative care is reflected in the 2011 budget. \$2.5 billion would assist health centers in providing primary and preventative care to underserved populations, including the uninsured. This boost in funding is expected to extend care to 2 million more patients through 25 more health centers than were served with funding from ARRA. Several efforts, including a \$79 million initiative aimed at rural areas and \$169 million for the National Health Service Corps (NHSC) would increase access to higher-quality care in underserved populations. Under NHSC, primary health professionals would be eligible to have a portion of their student loan debt forgiven in exchange for a commitment to work in an

underserved area; the requested funds would add 400 clinicians to the ranks of the NHSC in 2011.

ARRA funding for the Head Start and Early Head Start programs which allowed the programs to reach out to an additional 64,000 children and families would be supplemented with \$989 million from the budget proposal. In anticipation of a reauthorization and expansion, the proposal allots an additional \$1.6 billion for the Child Care and Development Fund. The Caregiver Initiative, which helps families caring for aging relatives in their homes, would receive \$103 million.

The Food and Drug Administration (FDA) would receive \$4 billion in program resources to fortify food and drug safety systems and to facilitate the entry of safe and effective generic drugs and biologics to consumer markets. Total funding for the development of medical defenses and countermeasures for attacks and threats, including an influenza pandemic, would be increased to over \$400 million. These funds will join the \$7.65 billion appropriated by Congress in June 2009 in response to the spread of the H1N1 virus.

Education

President Obama emphasized workforce development and reform in his \$49.7 billion budget proposal for the Department of Education. A new Partnership for Workforce Innovation with the Department of Labor would test and validate strategies for improving services under the Workforce Investment Act and help coordinate innovation grants, including \$60 million for education services for adult learners and those with disabilities. In an effort to control spending, 38 competitive funding education programs would be collapsed into 11 and 6 discretionary programs would be eliminated. Funding would build on previous economic stimulus efforts to reform early learning programs for those aged 0-5, including a new Early Learning Challenge Fund administered by the Department of Health and Human Services.

K-12 programs would receive a \$3 billion increase, including \$900 million for School Turnaround Grants, with an additional \$1 billion in funding contingent on Congress' overhauling the Elementary and Secondary Education Act (ESEA), or No Child Left Behind. Together, this would be the largest increase to ESEA funding ever requested, and would be used primarily for teacher effectiveness reforms and to prepare students for higher education and career training.

The President's Race to the Top program would receive \$1.35 billion on top of the original \$4 billion in competitive grants to sponsor comprehensive reform in states and school districts. In addition, a new program would provide \$950 million for reforms related to recruiting, training, and rewarding effective teachers; and \$490 million would go toward fostering effective charter schools.

The \$1.8 billion Supporting Student Success Initiative aims to create a learning environment to foster success, and includes \$210 million in dedicated funding for Promise Neighborhood, which integrates school reform with family and community support services.

Enhancing STEM (science, technology, engineering, mathematics) education is a key component of the Administration's plan to develop a skilled workforce and ensure that current students are prepared for higher education. \$300 million in grants will go to help states develop and implement new practices to improve teaching and enhance learning in science and math. Building on funding from the economic stimulus bill, the Investing in Innovation program would be expanded by \$500 million to evaluate the effectiveness of different approaches to student learning. \$150 million of these funds will be dedicated to improve teaching and enhance learning in the STEM fields, and the DOE will partner with the National Science Foundation to identify the most effective improvements to STEM education.

After increasing the Pell Grant to \$5,350 under the stimulus plan, the 2011 budget proposes to raise the maximum award to \$5,550 permanently, with plans for dedicated funding to have the limit grow faster than the rate of annual inflation. The federal government would take full charge of federal student loans, ending subsidies to private lenders in an effort to save costs. In an effort to make higher education more accessible and affordable, the Administration plans to further simplify the Free Application for Federal Student Aid and reduce student loan payments to 10 percent of a student's discretionary income, with debt forgiveness after 20 years or 10 if the student chooses a career in public service. The creation of the American Graduation Initiative would support community college efforts to increase graduation rates, and contribute to the President's goal of having the highest number of new college graduates in the world by 2020.

Transportation

President Obama pledges to work with Congress toward a long-term authorization of national surface transportation programs with a sustainable financing plan. In the short term, the Administration recommends a reauthorization of current programs until March of 2011.

The Department of Transportation's \$77.6 billion proposed budget also includes:

- \$4 billion for the creation of a new National Infrastructure Innovation and Finance Fund which would invest in high-value regional and national projects. Grants and loans would be given directly to fund individual projects, rather than being awarded to states or localities.
- A \$200 million increase in funding for the federal highway program, to a total of \$41.3 billion, and a \$70 million increase in transit funding, to a total of \$10.8 billion.
- \$30 million for a new federal transit safety program within the Federal Transit Administration (FTA) would make closed system rail transit subject to federal safety regulations.
- An increase in Next Generation Air Transportation (NextGen) funding by more than 30 percent to \$1.14 billion to modernize air traffic control systems.

- \$527 million for the DOT's contribution to the President's inter-agency Partnership for Sustainable Communities, which emphasize livability in community development. This amount would be added to \$150 million in planning grants from the Department of Housing and Urban Development and \$10 million in technology assistance from the Environmental Protection Agency.
- \$1 billion for "promising and transformative" high-speed rail projects on top of the \$8 billion in grants announced last month. This request is consistent with the President's 5-year, \$5 billion pledge for high-speed rail in the 2010 budget.

MISCELLANEOUS PROVISIONS

The Department of Commerce budget ensures that the Patent and Trademark Office has "full access to its fees collections," and is requesting a surcharge on patent fees in order to provide "additional resources to decrease the current backlog of patent applications and increase the efficiency of the USPTO processes." Overall budget increases at PTO "will be used to hire additional patent examiners, continue improvements to USPTO's information technology infrastructure , and improve intellectual property protections worldwide."

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