



A Summary of President Barack Obama's Fiscal Year 2013 Federal Budget Proposal

Prepared by The New England Council

**98 North Washington Street, Suite 201
Boston, MA 02114
(617) 723-4009**

**331 Constitution Avenue, NE
Washington, DC 20002
(202) 547-9149**

www.NewEnglandCouncil.com

FISCAL YEAR 2013 ADMINISTRATION BUDGET SUMMARY

OVERVIEW

Last Monday, February 13, 2012, President Barack Obama delivered his fiscal year (FY) 2013 federal budget to lawmakers on Capitol Hill, asking for \$3.803 trillion in spending for the upcoming budget year which begins on October 1, 2012. This spending level is up slightly from the \$3.796 trillion expected in the current fiscal year. Under the proposed budget, the deficit is projected to drop below \$1 trillion for FY13 to a level of \$901 billion – a decrease from the \$1.327 trillion the Administration expects for FY12 – as receipts are expected to be \$2.902 trillion.

The White House anticipates deficits will decrease further in the years ahead, dropping to a level of \$575 billion in fiscal year 2018 – and representing 2.7 percent of GDP in that year – before rising again to \$704 billion by FY22. For the coming fiscal year, the President's budget maintains the discretionary spending caps of slightly more than \$1.04 trillion that were enacted in the Budget Control Act of 2011 (Public Law 112-25). The White House anticipates roughly \$1 trillion in deficit reductions over the next ten years due to a cap on spending. The White House couples this savings with an additional \$3 trillion in deficit reduction for a total deficit reduction savings of \$4 trillion. The President's budget also assumes more than \$1.5 trillion in increased revenues that may be able to be used as a portion of that deficit reduction.

FINANCIAL SERVICES

The President's budget proposal calls for increased spending in a number of agencies responsible for the implementation of the Dodd-Frank financial services reform measure, most particularly the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC).

The SEC would receive roughly a 19 percent boost, compared with the current year, with funding of \$1.57 billion. This funding level supports the hiring of more than 600 new staff members, who are expected to emphasize compliance and enforcement issues. Other funding priorities in this budget version would target systems development such as auditing and data collection.

The CFTC would receive \$308 million under the President's budget proposal, which would represent an increase of 50 percent over the current year budget of \$205 million. The major focus of this proposed allocation would, again, be increased staffing capabilities. The budget proposal also included a call for legislation to fund the CFTC in the future through user fees.

Though the funding for Consumer Financial Protection Bureau remains independent of the regular appropriations process, the President's budget proposal makes pointed note of the value of that newly active agency. It does not sidestep the recent appointment controversy, saying "To ensure that consumers are protected, the President appointed Richard Cordray to head the CFPB," the budget asserts. "Without a Director, the CFPB could not fully supervise non-bank financial institutions...this meant that tens of millions of Americans were left unprotected from falling prey to many of the harmful practices that contributed to the worst financial crisis since the Great Depression."

HEALTHCARE

In the President's budget proposal, the Department of Health and Human Services (HHS) would receive \$76.4 billion - \$300 million more than it received in 2012. The Centers for Medicare and Medicaid Services (CMS) would receive approximately \$1 billion more than was appropriated in 2012, about \$864 million of which would go toward implementation of the 2010 healthcare reform law, according to Administration officials. Funding for the implementation of the 2010 healthcare reform law would be maintained, with the exception of the Prevention and Public Health Fund, which would have its funding reduced by \$4.5 billion over ten years. In addition, the Preventive Health and Health Services Block Grant program would be eliminated entirely in favor of the Prevention and Public Health Fund and a new Consolidated Chronic Disease Program which merges several disease-specific funding streams. State Innovation Waivers would be issued beginning in 2014, three years earlier than currently scheduled. The waivers allow states to opt out of requirements of the healthcare reform law if they can demonstrate that their proposal provides equivalent and affordable insurance coverage for an equal number of residents without increasing the federal budget.

The budget request calls for a combination of higher Medicare premiums for "those beneficiaries who can most afford them" and reduced payments to providers and drug manufacturers for a total of \$364 billion in anticipated healthcare savings over ten years. These are the same recommendations that President Obama incorporated into last year's proposal to reduce the deficit by \$3 trillion. Under a plan to extend Medicaid drug discounts to Medicare, drug manufacturers would be required to provide \$156 billion in discounts to low-income seniors over the next ten years, on top of the \$80 billion they agreed to provide under the 2010 healthcare reform law. High-income seniors would begin paying higher Medicare premiums beginning in 2017, to save a projected \$28 billion through 2022. Medicare payments to long-term care hospitals and nursing homes would be reduced by about \$63 billion over ten years. Federal payments for graduate medical education would be incrementally reduced each year beginning in 2014, for a total of \$9.7 billion in savings over ten years. The proposal also includes a pledge to work with Congress toward a "permanent, fiscally responsible" resolution to Medicare's sustainable growth rate (SGR) for physician payments, although it does not detail any specific strategies.

The Food and Drug Administration (FDA) would get a \$654 million funding increase under the budget proposal, including \$10 million to expand its oversight of food and drugs imported from overseas and China in particular. In addition to the funding increase, the President's budget plan calls for new user fees to support enhanced food safety measures contained in the Food Safety Modernization Act and to allow for faster expanded approval of generic drugs.

Funding for medical research through the National Institutes of Health (NIH) would be maintained at the current level of \$30.7 billion, although changes to the grant-making process are intended to allow the NIH to distribute 7 percent more grant money with the same amount of appropriated funds. In addition, more funding would be concentrated at the National Center for Advancing Translational Sciences and an initiative to expand Alzheimer's disease research. The Centers for Disease Control and Prevention (CDC) would have its funding cut by \$664 million to about \$5 billion under the President's proposal.

TECHNOLOGY

The President's budget proposal includes a total of \$140.8 billion for research and development, with non-defense R&D increasing by 5 percent over his requests for fiscal year 2012. Included in the \$7.4

billion budget request for the National Science Foundation (NSF) is \$203 million for clean energy and \$110 million for cybersecurity research. Other research project priorities include advanced manufacturing, wireless communication, as well as science and math education. Some \$66 million in funding would be cut from “lower-priority programs” under the proposal.

President Obama would increase the funding for both the Federal Communications Commission (FCC) and the Commerce Department’s National Telecommunications and Information Administration (NTIA) versus fiscal year 2012 to free up spectrum for use by wireless internet devices. The Administration is also renewing its call for increased authority for the FCC to conduct spectrum auctions to redistribute unused spectrum and levy fees on spectrum license holders. The Administration estimates that the auctions could raise \$21 billion in revenue, with an additional \$4.8 billion over the next decade from licensing fees. This is a much more generous estimate than that of the law to extend the payroll tax holiday and unemployment benefits, which included a provision authorizing the FCC’s spectrum auctions and predicted that they would raise around \$15 billion. The FCC’s total proposed budget for FY2013 is \$346.7 million, up from the \$339.8 million appropriated in FY2012. The NTIA would receive \$46.9 million under the proposed FY2013 budget, including \$27 million to oversee broadband access grants, up from \$45.5 million it received in FY2012.

ENERGY

The President’s budget for the Department of Energy comes in at \$27.2 billion for fiscal year 2013, which is a 3.2 percent increase over last year’s funding level. Of that funding, the President has set a priority for such fields as “clean energy, research and development to spur innovation, and advanced manufacturing.”

The budget proposes that the Office of Energy Efficiency and Renewable Energy (EERE) receive more than \$2.3 billion in order to conduct research and development and promotion of advanced energy technologies. The goal of EERE is to ultimately transfer the activity they conduct to the private sector for commercial use in such things as motor vehicles and buildings. The increase would represent a more than \$500 million jump over the fiscal year 2012 allocation.

The Office of Science would receive an increase of nearly \$120 million, putting it at level of funding close to \$5 billion under the President’s proposed budget. The Office of Science funds and conducts a variety of research and development, including at the various National Labs around the country, in areas such as basic energy sciences, fusion, nuclear energy and physics.

To help pay for a portion of the President’s priorities, the Administration calls for the elimination of oil and gas industry tax breaks which White House officials estimate could bring in about \$40 billion over 10 years, and which could be redirected toward clean energy investments. However, if recent history is any indicator, moving forward on this “pay for” is a lightning rod of controversy, as Republicans in Congress have time and again rebuffed efforts to use this offset, saying eliminating it will only shift the cost to consumers. The White House and Congressional Democrats have repeatedly countered that mature industries such as these do not need the subsidies.

The President’s budget does contain a substantial cut to the Low Income Home Energy Assistance Program (LIHEAP). Those who utilize LIHEAP the most – seniors and low-income families – would see a decrease of roughly \$500 million under the President’s budget proposal, down from \$3.5 billion to \$3.02 billion in funding for fiscal year 2013. Funding for LIHEAP has been as high as \$5.1 billion as recently as

2010. The New England Congressional delegation is nearly unanimous in terms of supporting a higher level of funding for LIHEAP, and all will likely do what they are able individually and collectively to ensure LIHEAP receives the maximum benefit possible.

Coming in at slightly more than \$15 million over last year's amount, the President's budget contains \$1.053 billion for the Nuclear Regulatory Commission (NRC), of which the NRC projects \$924.8 million will be in the way of offsetting licensing fees. As such, a net appropriation of \$128.5 million is expected for the agency. The NRC expects to spend approximately \$810 million on the licensing and safe operation of both old and new nuclear reactors. As in recent years, the NRC budget contains no funding to establish a permanent waste repository at Yucca Mountain to reflect the Obama Administration's policy of decommissioning the facility. The budget does request \$232.3 to be allotted towards the NRC's regulation and oversight of nuclear materials and waste.

ENVIRONMENT

The President's proposed budget for the Environmental Protection Agency (EPA) is \$8.34 billion for fiscal year 2013, or approximately \$105 million less in discretionary funding than the current fiscal year. The proposal includes a total of \$2.025 billion for both the clean water and the drinking water state revolving funds, however that represents a total drop of \$359 million between the two programs. Also, the President's plan drops funding for the Superfund program by \$38 million to \$1.17 billion. The state and tribal grant program would receive a boost of approximately \$113 million under the budget. Of the funds available under the state and tribal grant program, an increase of \$66 million would be used to help states meet stricter air quality standards, while a \$27 million increase in water pollution mitigation grants would be added to the \$238 million from the current fiscal year.

TRANSPORTATION

Over the years, President Obama has consistently stated that he wants to work with Congress on a long-term re-authorization of our nation's surface transportation programs. In his budget, the President proposes an allocation of \$476 billion over six years to revitalize America's transportation network. According to the budget document "the Budget uses savings from ramping down overseas military operations to fully offset the President's six-year surface transportation proposal." The budget calls for a six year \$47 billion overall package (\$2.7 billion in 2013) designed to upgrade high-speed passenger rail corridors and improve intercity passenger rail service. While it is unlikely that the President's six year bill will pass in Congress in 2012, the White House has expressed its support for a two-year, \$109 billion short-term extension program as proposed by the U.S. Senate.

Overall, the Department of Transportation's fiscal year 2013 spending plan comes in at nearly \$74.5 billion. That represents a \$1 billion increase in overall funding for the federal highway program, to a total of \$42.5 billion, and a \$200 million increase in transit funding, to a total of more than \$10.8 billion for FY13. The President also has proposed the creation of a national infrastructure bank to fund projects of national importance, and which has had strong backing among lawmakers in the New England region.

It also proposes \$3.2 billion for grants to help transit agencies repair or replace bus and rail transit assets to improve efficiency and safety. In addition, the budget plan devolves some 55 different federal highway programs into a more manageable five programs. Further, it calls for \$1 billion for the Next Generation Air Transportation (NextGen) system, which will integrate a GPS-like air traffic control modernization effort and provides \$214 million in spending for the Essential Air Service program. The

budget also drops funding for the airport grants program to \$2.4 billion, but allows large and medium hub airports to make up the more than \$1 billion difference if Congress passes a bill allowing for the increase of passenger facility charges.

The President's budget also contains a new fee geared towards the business aviation community. Under the Administration's plan, a \$100 per flight surcharge would be levied on those who operate within controlled U.S. airspace but excludes "military aircraft, public aircraft, piston aircraft, air ambulances, aircraft operating outside of controlled airspace, and Canada-to-Canada flights." As such, the business jet community believes they are being exclusively targeted.

One major provision in the budget would add \$50 billion in immediate 2012 federal funding for critical infrastructure improvement projects, including roads, bridges, transit, rail, and airports. This includes \$26 billion for critical highway repairs, an additional \$1 billion for the NextGen system, and \$2 billion for Amtrak upgrades.

TAXES

The President's budget proposal includes various revenue initiatives, some of which are familiar refrains from years past. Among them, the President would extend the so-called "Bush tax cuts" at the end of 2012 for individuals earning up to \$200,000 and families earning up to \$250,000. The cuts would expire for those at higher income levels. The proposal also would increase taxes on dividends to 39.6 percent from the current 15 percent. The capital gains tax would increase under the Administration's plan to 20 percent, and the estate tax rate would rise to 45 percent (from 35 percent) with a \$3.5 million exemption instead of the current \$5.1 million. The proposal also limits the amount that higher earning individuals can deduct for certain items, such as donations to charity and for mortgage interest. Further the President proposes instituting the so-called "Buffet Rule" where households that earn more than \$1 million pay a minimum 30 percent effective tax rate.

HIGHER EDUCATION

The \$1.7 billion increase to the Education Department's budget is a notable exception in the President's otherwise restrained federal budget proposal. Key funding provisions include \$30 billion to prevent layoffs among teachers (including \$5 billion in competitive grants to promote teacher-quality initiatives), \$30 billion to improve school facilities around the country, and \$850 million for the K-12 Race to the Top grant program – \$300 million more than the program received for FY2012.

The Administration also plans to increase the maximum Pell Grant award amount by \$85 to a total of \$5,635 through the 2014-2015 academic year. The total funding request for Pell is about 13 percent less than was appropriated in fiscal year 2012 due to a forecasted surplus in mandatory funding. Funding for major formula grants would remain level: \$14.5 billion for Title I grants for districts serving low-income students, \$11.6 billion for special education grants to states, and \$536 million for the School Improvement Grant program. Funding for the TRIO (\$840 million), GEAR UP (\$302 million), and Supplemental Educational Opportunity Grant (\$735 million) programs would remain at their fiscal year 2012 levels.

Several of the funding priorities in the \$69.8 billion total Education Department budget request were announced by the Administration as part of a plan to improve and expand access to higher education, including \$8 billion over three years for the Community College Career Fund. This joint job-training

initiative with the Labor Department would expand on existing programs, particularly the Trade Act Assistance Community College Career Training Program, to train workers for in-demand fields and promote cooperation among the business, academic, and public sectors. For-profit colleges would not be eligible to receive funding through the new job-training programs. Additionally, the Career and Technical Education program, set to expire in 2013, would be reauthorized at just above its current funding level of \$1.1 billion. The new Race to the Top for College Affordability and Completion competitive grant program as part of the Administration's drive to incentivize cost-containment among colleges would receive \$1 billion in new funding. A \$55 million "First in the World Fund" would support colleges using technology and innovation to "encourage productivity and efficiency." The funding for campus-based aid would increase across the board, with \$1.1 billion for federal work study and \$8.5 billion for the Perkins Loan Program. As described in the President's January 24 State of the Union speech, the funding formula for those programs would be adjusted to reward colleges for serving low-income students and keeping net costs down. Other previously-mentioned proposals include making the American Opportunity Tax Credit for college costs permanent and delaying for a year the increase in the Stafford student loan interest rate, currently scheduled to double from 3.4 percent to 6.8 percent this summer.

Efforts to advance education programs were not without their trade-offs, however. In an effort to keep costs down, the budget proposal would have undergraduate students lose eligibility for federal student loans after being enrolled full-time for three years in the case of an associate's degree, or six years for a bachelor's degree. The previously announced request to make the American Opportunity Tax Credit permanent would be coupled with a 28 percent cap on itemized tax deductions, including charitable donations. Thirty-eight small Elementary and Secondary Education Act (ESEA) programs aimed at specific goals would be consolidated into 11 wider funding initiatives. The President also wants to take about \$620 million from a \$2.5 billion fund currently used to help states reduce class sizes and for teachers' professional development and redirect it to competitive teacher-quality grants.

Several education and research programs at other federal agencies would also receive funding increases under the President's plan. Funding for the National Science Foundation (NSF) would increase by about 5 percent to \$7.4 billion, and the National Endowment for the Humanities would increase from \$146 million to \$154 million. The Head Start program, funded through the Health and Human Services Department, would receive about \$85 million more than in fiscal year 2012, for a total of \$8 billion. Within the \$140.3 billion budget request for the Department of Veterans Affairs (VA) is \$79.3 billion for education benefits, pensions, and other mandatory programs received, for an overall 13 percent increase. The VA would also coordinate Obama's Veterans Job Corps initiative with other federal agencies to expand employment opportunities for veterans, particularly those returning from Iraq and Afghanistan. The budget proposal would provide \$1 billion over five years for the effort.

POSTAL SERVICE

The President's budget assumes a decrease in mail delivery from six days a week to five days a week. In addition, the proposal would allow postal rates to increase in order to more evenly coincide with the costs of mail delivery. The postal service also would be able to restructure their retiree health benefit system so it would no longer need to be "pre-funded." Further, the proposal would "give back" to the postal service nearly \$11 billion in retirement benefit overpayments to the federal employee retirement system. Though designed to be self-sufficient, the Postal Service has continued to struggle financially. Indeed, even the 2011 holiday season was not enough to stem \$3.3 billion in fourth quarter losses.

TRADE

The International Trade Administration (ITA) under the Department of Commerce would receive \$517 million under the president's budget, representing an increase of more than 13 percent from current year funding. The ITA fosters and promotes U.S. exports in overseas markets, and works to enhance trade enforcement efforts. The funding is also meant to boost a program known as SelectUSA which seeks to bring investment capital to our nation's shores.

CONCLUSION

Since the President's is the first budget proposal up for debate, by default it gains all the initial scrutiny, both good and bad. As with most budget documents that arrive on Capitol Hill from the White House, President Obama's fiscal year 2013 budget will likely generate more discussion than action among Senators and Representatives – each of whom have their own distinct ideas as to how federal funds should be disbursed. Because 2012 is an election year, some have alluded that there is a political characteristic not just to this budget submission, but in the opposition to the various aspects of it. As such, each party will draw from this budget document what suits them to make their own policy statements and rhetorical arguments. Nevertheless, at the end of the day, it will still be up to Congress to put together a final budget, and that may indeed contain some of the President's proposals.

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