



Federal Relations

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TO: UW System Colleagues

FROM: Kris Andrews
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RE: Overview of the Obama Federal Budget Proposal Released February 26, 2009

President Obama outlined his \$3.6 trillion fiscal 2010 budget request on Thursday for federal spending stretching out over a decade. Obama's full, detailed budget will be submitted in April. In the meantime, House and Senate Budget committees will now begin to draw up Fiscal 2010 budget resolutions.

Agriculture (\$26 Billion – an increase of 6% from 2009)

The Agriculture Department budget calls for initiatives that President Obama talked about during his campaign, including increasing aid to rural areas and reining in federal funding for corporate farmers and large crop insurance companies.

The budget calls for spending \$1.3 billion in loans and grants to increase broadband capacity in rural communities and would put \$70 million toward competitive research grants that would, among other things, fund professional development for teachers in rural areas.

The budget would also phase out direct payments to farmers with annual sales revenue of more than \$500,000. It would limit the amount of federal money that commodity farmers receive when, for example, prices fall below expected market rates. Obama also addressed his campaign pledge to help end childhood hunger by 2015 by adding \$1 billion to food and nutrition programs.

Commerce (\$13.8 Billion – an increase of 48% from 2009)

Almost all of the new money -- \$4 billion – in the Commerce Department budget would go toward completing the 2010 Census (Wisconsin is expected to lose a seat in the new census).

The administration expects the widespread data-collection effort to require the hiring of half a million people. The proposal is on top of \$1 billion allocated under the stimulus package.

Obama is requesting \$1.3 billion for the National Oceanic and Atmospheric Administration to improve weather prediction and monitoring, as well as sustainable management of ocean resources and marine fisheries. The budget provides full funding for NOAA's climate change research.

The Economic Development Administration would receive \$100 million for regional planning and matching grants and for a new network of incubators to encourage entrepreneurship in economically distressed areas.

Corporation for National and Community Service (\$1.1 Billion – an increase of 3% from 2009)

The President's budget proposes \$1.13 billion for the Corporation for National and Community Service, an increase of \$261 million from 2009.

The Obama budget makes a substantial investment in national service, setting the program on a path for expansion to 250,000 slots.

The administration creates a new Social Innovation Fund (SIF) to leverage private funds, as well as invest in and scale up innovative non-profits and solutions to address the nation's most pressing social problems.

The administration also invests in engaging more retiring Americans in service, harnessing their skills and knowledge.

The administration expands service-learning in the nation's schools, including resources for Learn and Serve America, which supports programs in schools, higher education institutions and community-based organizations that engage students, their teachers, and others in service learning.

Defense (\$664 Billion – an increase of 1% from 2009)

Defense Secretary Robert M. Gates said he would have to "make some hard choices" as a result of the proposed Pentagon budget, and he reiterated that the spigot of defense spending that opened after the Sept. 11, 2001, terrorist attacks is closing.

Still, Gates said that given the economic crisis, he had expected the budget to grow only at the pace of inflation and that instead, "we've done somewhat better than that."

Gates said the "constrained economic environment" led to the request for a 2.9 percent pay increase for troops, compared with the 3.5 percent boost requested last year.

The estimated war budget is \$130 billion, lower than the \$144 billion requested for 2009. The new war supplemental would shift some routine defense expenditures – such as the cost of growing the Army and the Marine Corps, care for the wounded, and technology to defeat roadside bombs – into the Pentagon base budget.

The budget document contains no information on funding for basic research at the Department of Defense.

Education (\$47 Billion – a 12.8% increase from 2009)

Obama is seeking to expand federal funding for preschool, create new performance pay programs in public schools and both increases and overhauls financial aid for college students.

The plan reflects his ambition for the United States to claim the world's largest proportion of college graduates by 2020. It would support the creation of Promise Neighborhoods, in which

schools and community organizations would collaborate to provide broad support to families and children in high-poverty areas to increase academic achievement.

With regard to higher education specifically:

- The budget would end the federally guaranteed student loan program, which provides subsidies to private lenders. Instead, the loans would be issued directly by the government – moving all student loans to a direct lending model, a change the administration estimates would save about \$4 billion a year. The administration is also proposing to simplify the student aid application process.
- The budget would increase Pell grants for the neediest college students to a maximum of \$5,550 by 2010-11 and seek to establish a secure funding stream for the program, linking the top award to inflation. The administration proposes indexing Pell Grants to the Consumer Price Index plus 1% in order to address inflation. In addition, the administration proposes to make the Pell Grant program mandatory by mandating that the program be funded at statutorily-required levels.
- The budget proposes recapturing and expanding the Perkins Loan program to allow all institutions of higher education to participate in the program. These loans will be available to low-income students to help cover the “gap” between available aid and cost of attendance. The proposal also includes increasing funding over the next five years from the current \$1 billion to \$6 billion and the fund would transition from an institutionally-administered program to a federally managed revolving fund, while expanding to provide more awards. *This change could, however, result in the loss of administrative cost allowance and the recapture of Perkins funds from institutions, including state funding that had been provided through Fund 107 when no match was required.*
- The budget also includes a focus on college completion via a new five-year, \$2.5 billion Access and Completion Incentive Funds to support innovative state efforts that help low-income students succeed and complete their college education.
- While the budget does not outline detailed spending levels for most student aid programs, Department of Education officials stated during a conference call that there would be no cuts to student aid in the President’s complete Fiscal Year 2010 budget proposal.
- The recently passed stimulus package created the American Opportunity Tax Credit, which expands on the HOPE Credit by implementing a \$2,500 tax deduction for education expenses and authorizes up to 40% of this amount to be refund to tax filers without a tax liability. The administration’s budget would make this credit permanent.

In public elementary and secondary schools, the plan would fund efforts to improve teacher training, design better tests and improve struggling schools.

Energy (\$26 Billion – a decrease of less than 1% from 2009)

No specific funding details are provided regarding investments in the Department of Energy, Office of Science. The document does, however, emphasize the important role that basic science must play in developing alternative energy sources and emphasizes that the Office of Science will be provided with substantially increased support.

The document also states that the budget “expands graduate fellowship programs that will train students in critical energy-related fields.”

The Obama administration plans to abandon a controversial and long-deadlocked plan to bury nuclear waste in Nevada’s Yucca Mountain.

In its budget outline, the administration also tipped its hand on a cap-and-trade proposal for limiting greenhouse gas emissions, forecasting \$78.7 billion in revenue beginning in fiscal 2012 and \$645.7 billion over the next 10 years.

Of that revenue, \$15 billion a year would be set aside for “clean energy technologies,” and the rest would be devoted to expanding the earned-income tax credit for low- and middle-income workers under a program called Making Work Pay. Additional funding will also be provided for smart grid technologies and transmission system expansion and upgrades.

The budget plan underlines the surge in Energy Department spending in the stimulus package. The stimulus act pumps \$38.7 billion for renewable energy into the department, nearly 1 ½ times the department’s entire previous annual budget. In addition, the department has an unused \$7.5 billion appropriation to give out \$25 billion in loans to companies devising advanced vehicle technologies.

But the budget outline envisions the surge in Energy Department spending as a one-time event. The request for non-stimulus spending by the department would drop to previous levels in fiscal 2010 and 2011.

Environmental Protection Agency (\$11 Billion – an increase of 35% from 2009)

The nearly \$3 billion boost proposed for the Environmental Protection Agency highlights the revitalized role the agency will play under a Democratic president.

The budget – the largest in the EPA’s nearly 40-year history – includes a \$19 million increase for the government’s greenhouse gas emissions inventory and other activities that produce data to guide a climate-change bill, something Obama has identified as one of his top legislative priorities.

The budget also allocates \$3.9 billion for 1,000 clean-water and 700 drinking-water projects. And it proposes reinstating the Superfund excise taxes that expired more than a decade ago, a move that would generate more than \$1 billion a year to help clean up some of the country’s most toxic sites.

Further, the budget calls for \$475 million to create a new Environmental Protection Agency-led “Great Lakes restoration initiative” that will work toward cleaning up contaminated sediments, reducing existing pollution sources and stemming the inflow of invasive species into the lakes.

Health and Human Services (\$77 Billion – a decrease of 2% from 2009 – for discretionary programs (non-Medicare/Medicaid))

Most of the Health and Human Services budget comprises two mandatory programs: Medicare, at \$453 billion next year, and Medicaid, at \$290 billion. Obama is attempting to use his budget to begin restructuring the U.S. health-care system. The blueprint would create a 10-year, \$634 billion reserve fund to expand health insurance, improve the quality of care and modernize the system. It is estimated that achieving universal coverage could cost \$1 trillion over 10 years.

About half of this money would come through health spending reductions and changes that would affect drugmakers, hospitals and managed care providers.

In addition, the economic stimulus act pumps \$22.4 billion into federal health programs over the next two years.

For the first time, the budget would dedicate money -- \$211 million -- to autism research. It also would allocate about \$5 million a year to family planning efforts through Medicaid.

Obama is proposing a major policy change through the Food and Drug Administration, allowing Americans to buy prescription drugs from other countries.

Homeland Security (\$43 Billion – an increase of 6% from 2009)

The Department of Homeland Security's budget includes few new initiatives and would barely increase under Obama's proposal, though some big-ticket items were funded by the recently passed stimulus package.

DHS is the only Cabinet department whose discretionary funds are forecast to drop annually after this year through 2014. The loss is supposed to be offset by phasing in a per-ticket airline passenger security fee after 2012, a proposal that Congress has repeatedly killed.

Obama included \$368 million to sustain the Border Patrol at a planned 20,000 agents and carve out more money, \$1.4 billion, for Immigration and Customs Enforcement programs to deport illegal immigrants who commit crimes.

Housing and Urban Development (\$48 Billion – an increase of 18% from 2009)

The Department of Housing and Urban Development's budget would set aside \$4.5 billion for the 35-year-old Community Development Block Grant (CDBG) program designed to help rehabilitate housing and invest in the economic development of primarily low-income neighborhoods. The CDBG funding formula would be revised to allocate more funding to distressed neighborhoods.

Obama also requested \$1 billion to create the Affordable Housing Trust Fund that aims to help the poor buy and rent homes. Approximately \$1.4 billion will be allocated to the HOPE for Homeowners program, which helps families refinance their mortgages into new 30-year and 40-year loans with lower payments.

A voucher program that enables 2 million families a year to rent in neighborhoods of their choice would receive more funding, as would the owners of 1.3 million affordable rental units who need money to maintain their buildings.

The proposal would also fund efforts to combat mortgage fraud, enforce fair-housing rules, encourage energy efficiency, and redevelop public and assisted housing.

Interior (\$12 Billion – an increase of 6% from 2009)

The Interior Department budget would direct more money to renewable energy and parks.

The plan includes more than \$50 million to promote renewable energy projects on federal land and water. It also would provide more than \$130 million in additional funding to address the impact of climate change.

The budget includes \$100 million for the National Park Service, along with \$25 million to leverage private donations for park projects. The budget would also create a dedicated fund to address catastrophic wildfires.

Interior's budget is notable for how it envisions the raising of about \$31.5 billion over 10 years – by cutting federal subsidies to oil and gas companies and by imposing an excise tax to compensate for oil revenue the government did not collect in the 1990s.

Justice (\$27 Billion – an increase of 4% from 2009)

The budget represents the first glimpse of how the Obama administration will seek to reorient the Justice Department, whose resources and attention have been devoted for years to counterterrorism, sometimes at the expense of street-level law enforcement.

National security remains the president's "highest priority," and his budget would allot \$8 billion for the FBI and \$88 million for the Justice Department's National Security Division, which prosecutes alleged terrorists and collects intelligence to defuse threats.

Attorney General Eric H. Holder Jr. has emphasized a renewed commitment to civil rights and battling business fraud, and the budget would give prosecutors \$145 million to strengthen the enforcement of laws barring racial, religious and gender discrimination.

Officials also would have \$6 billion for the Bureau of Prisons and \$109 million to create programs to help inmates transition out of prison and into jobs and drug-free lifestyles.

The budget would provide a separate pool of money to begin to hire 50,000 more police officers nationwide.

Labor (\$13 Billion – an increase of 5% from 2009)

The Labor Department would update unemployment insurance, toughen workplace safety and wage enforcement, create new retirement incentives for low-wage workers and step up job training under the budget submitted by the Obama administration.

Some of the new money would fund changes in unemployment insurance that would make extended benefits available more quickly to workers who have been out of a job for longer than six months. The spending plan also envisions a stronger effort to police overpayment of unemployment benefits; a problem that the administration said cost \$3.9 billion last year. The budget increase also would enhance job training programs aimed at helping low-wage workers and ex-offenders acquire marketable skills.

The administration wants employers to automatically enroll workers in direct-deposit individual retirement accounts in an effort to reduce the number – estimated to be half the workforce – who lack retirement plans to supplement Social Security. The proposal also would provide a 50 percent match for the first \$1,000 of retirement savings set aside by families earning less than \$65,000 a year.

National Aeronautics and Space Administration (\$19 Billion – an increase of 5% from 2009)

NASA would maintain its back-to-the-moon trajectory with a little extra funding in its tank under its proposed budget.

The new money would keep intact the plan, proposed by President George W. Bush and authorized by Congress, to return astronauts to the moon by 2020. The budget also calls for a robust program of unmanned space exploration, and a “global climate change research and monitoring system” that would use satellites to collect data on global warming.

But the money would not be nearly enough to close a looming gap in NASA’s ability to put astronauts in orbit. The agency plans to shut down the space shuttle program at the end of 2010, and Obama’s budget sticks to that schedule. The Constellation program with its new rockets and new capsule for taking astronauts into orbit and to the moon, will not be ready until about 2015. In the meantime, the United States will depend on Russia for rides to the international space station.

National Endowment for the Humanities

The budget document contains no information on Fiscal Year 2010 funding for the National Endowment for the Humanities.

National Institutes of Health

The Obama administration budget document is silent on the National Institutes of Health as a whole; however, it does state that the National Cancer Institute would receive approximately \$6 billion in Fiscal Year 2010 as part of a multi-year effort to double funding for cancer research.

National Science Foundation (\$7 Billion – an increase of 1% from 2009)

The Obama administration provides very few details about the proposed budgets for research agencies. For the National Science Foundation, however, it would receive approximately \$7 billion in Fiscal year 2010 and under the administration’s projections, the agency would see healthy increases in the out-years, including \$7.2 billion in Fiscal Year 2011, and \$8.5 billion in Fiscal Year 2012.

Within this budget, the National Science Foundation would seek to start the process of tripling the number of Graduate Research Fellowships that are made available to the brightest graduate students and Faculty Early Career Development programs. The budget also proposes to double funding for basic research over 10 years.

Small Business Administration (\$700 million – unchanged from 2009)

Within the budget, the Obama administration provides \$28 billion in loan guarantees to expand credit availability to small businesses, supports \$1.1 billion in direct disaster loans; supports resources for non-credit technical assistance programs for entrepreneurs; improves targeting of federal contracting opportunities for small business; and provides increased funding for core agency systems and human capital.

State (\$52 Billion – an increase of 10% from 2009)

Putting dollars behind Obama’s commitment to promote diplomacy and development overseas, the budget proposes an increase in funding for the State Department and foreign aid programs. Funding would almost double over five years.

The department was usually one of the few agencies to see funding increases under President George W. Bush, largely because of a dramatic expansion in foreign aid, but Obama proposes to

go even further. The budget says the plan would put the United States on a path to double foreign assistance. In particular, the administration wants to expand the funding that Bush initiated to thwart AIDS and malaria and seeks to boost nonmilitary assistance to Afghanistan and Pakistan.

Beyond foreign aid, the budget would launch a multiyear effort to increase the number of Foreign Service officers at the State Department and would bolster staffing at the U.S. Agency for International Development, which was cut during the Bush years.

Reflecting Obama's interest in preventing the spread of nuclear weapons, the budget also would expand funding for nonproliferation and counterproliferation programs.

Transportation (\$73 Billion – an increase of 3% from 2009)

The Transportation Department budget includes new money for high-speed rail and air traffic control systems, reflecting Obama's emphasis on alternatives to highways.

The proposal includes the first installment in a five-year, \$5 billion program of grants to states for construction of high-speed rail networks. The money would come on top of \$8 billion in the economic stimulus package that is also dedicated to high-speed and intercity rail projects, which have gained little traction in the United States.

The administration says the money "marks a new federal commitment to give the traveling public a practical and environmentally sustainable alternative to flying or driving."

The budget also includes \$800 million for improvements to the nation's antiquated air traffic control system, including upgrading from ground-based radar to satellites, and an additional \$55 million for subsidies maintaining air service to rural communities.

The administration said it would explore options such as "road pricing," which allows cities to levy fees to limit traffic at peak times.

Treasury (\$13 Billion – an increase of 5% from 2009)

A \$600 million increase in the Treasury Department's budget would beef up management of the financial rescue package, efforts to collect delinquent taxes and help for underserved neighborhoods.

The budget proposal also accounts for the cost of a request for more rescue funds for the financial system. The administration plans for a \$250 billion loss on such an initiative, calling it a "contingent reserve" that would be present only if the administration asks for more aid for the financial system.

"As events warrant, the administration will work with the Congress to determine the appropriate size and shape of such efforts, and as more information becomes available the administration will define an estimate of potential costs," the budget plan said.

The Treasury would use its additional funds to hire professional financiers to help with the agency's financial stability plan and to increase oversight of the program. It also will boost enforcement at the Internal Revenue Service to collect unpaid taxes, which are estimated at about \$300 billion every year.

Finally, the Treasury plans to double funding for its Community Development Financial Institutions fund, which helps lenders in local communities provide loans to small businesses and consumers in underserved neighborhoods.

Veterans Affairs (\$56 Billion – an increase of 11% from 2009)

Obama proposed an 11 percent increase in the Department of Veterans Affairs budget, following through on a campaign pledge to expand veterans' access to health care.

The proposed budget would expand eligibility for VA health care to non-disabled veterans earning modest incomes. The plan is estimated to bring more than 500,000 underserved veterans into the system by 2013, although veterans' advocates say about 1.8 million veterans currently lack health insurance.

The budget would provide additional funding for programs that help returning Iraq and Afghanistan veterans with post-traumatic stress disorder and traumatic brain injuries. Other extra funding would help upgrade the VA information technology system to enhance electronic medical records and more quickly process disability claims; expand services to homeless veterans and veterans in rural areas; and better implement the new post-9/11 GI bill.

The administration budgeted about \$1 billion more to VA than even veterans' advocacy groups wanted.

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(Compiled from analysis of The Washington Post; The Associated Press; Office of Management and Budget, "A New Era of Responsibility;" CQ Budget Tracker; AAU, NASULGC and AASCU briefs and with the assistance of Kris Frederick in the UWSA Office of Budget and Planning)