



Federal Relations

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TO: UWSA Colleagues

FROM: Kris Andrews, Assistant Vice President for Federal Relations

A handwritten signature in black ink, appearing to read "Kris Andrews".

RE: Fiscal Year 2010 Federal Budget

OVERVIEW

The Fiscal Year 2010 Federal budget reflects worsening deficit estimates, which now stand at \$1.841 trillion for Fiscal Year 2009 (\$89 billion more than February) and \$1.258 trillion for Fiscal Year 2010 (\$87 billion more than February).

The budget introduced by President Obama proposes \$3.6 trillion in outlays and \$2.3 trillion in revenues, with a Fiscal Year 2010 deficit of \$1.258 trillion. The budget includes deficit reduction from reducing war costs; allowing tax cuts for high income earners to expire; and closing corporate “loopholes.” At the same time, the budget proposes to invest heavily in education, energy, and health initiatives.

While the Administration proposes program cuts, it is estimated the cuts would not actually reduce total federal spending for Fiscal Year 2010 or reduce projected deficits. Instead, the cuts would free up funds for other programs considered to be more effective and/or a higher priority for the Administration. The proposed reductions are very small in budgetary terms, amounting to only one-half of 1 percent of federal spending. Historically Congress has resisted many of the cuts. One such proposed cut is the elimination of federal subsidies for private lenders to service student loans, and applying the savings to increase Pell Grants by \$3.6 billion in 2010 (for more information, see “General Highlights”).

The Administration continues to focus on scientific research. President Obama, speaking at the National Academy of Sciences in late April, pledged to commit at least 3 percent of the gross domestic product to research and development. The Administration has reaffirmed its commitment to double the budget of the National Science Foundation, the Department of Energy Office of Science, and the National Institute of Standards and Technology by Fiscal Year 2016. Also proposed is an effort to triple the number of graduate fellowships in science to help spur innovation.

GENERAL HIGHLIGHTS

Higher Education: The 2010 budget proposes to provide Pell Grants as an appropriated entitlement, with the maximum award inflated annually based on the consumer price index plus 1 percentage point. To implement this, the budget proposes to amend the Higher Education Act (HEA) to clarify that Federal Pell grants are an entitlement to the individual and remove the eligibility limits created by the College Cost Reduction and Access Act. The budget request includes \$28.7 billion for Pell Grants in 2010, supporting a maximum award of \$5,550. However, the actual cost of this policy over the adjusted baseline is reduced by the \$7.523 billion of remaining budget authority provided by the American Recovery and Reinvestment Act (ARRA), as well as the funds previously provided in the College Cost Reduction and Access Act. After the HEA is amended to create the appropriated entitlement, the only costs applied to subsequent appropriations bills providing the budget authority would be for any changes from the award levels established in the HEA.

The Administration also proposes to end the Federal Family Education Loan Program (FFELP) and proposes to originate all new federal student loans after July 1, 2010, through the Direct Loan (DL) program. In order to handle the new loan volume, the budget calls for the Department's student aid administration budget to increase by \$27 million to \$870 million in Fiscal Year 2010.

The 2010 budget proposes to modernize and expand the Perkins Loan program so more colleges can participate and more students receive access to greater aid. Under this proposal, annual loans to students would increase to \$6 billion from the current \$1 billion. Rather than operating through institutional revolving funds (including Federal Capital Contributions), under the proposal Perkins Loans would be delivered using the same method as Pell Grants and Direct Loans, and would be serviced by the same private-sector companies servicing Direct Loans and FFEL loans acquired by the Department. Loan volume would be allocated among degree-granting institutions using a method to be determined in consultation with Congress.

The Administration intends for this new formula to encourage colleges to control costs and offer need-based aid to prevent excessive indebtedness. It may also reward schools that enroll and graduate students from low- and middle-income families. Schools would have discretion with regard to student eligibility. Perkins Loan borrowers would continue to be charged the current 5 percent interest rate; interest would accrue while students are in school. Other terms and conditions and loan maximums would be the same as the current unsubsidized Stafford Loan program. As current Perkins Loan borrowers repay their loans, schools would remit the Federal share of those payments to the Department of Education. Schools would retain their own share of the revolving funds, as well as amounts sufficient to cover the costs of the various Perkins Loan forgiveness provisions. Schools would be free to use their returned share for any purpose.

The budget calls for a new mandatory five-year, \$2.5 billion college access and completion fund. Funds would go primarily to states to improve graduates rates among high-need students. States would be given the flexibility to fund and support programs.

The budget also makes permanent the New American Opportunity Tax Credit (\$2,500 American Opportunity Tax Credit provision in the Recovery Act).

Global Warming and Investments in Renewable Energy: The Obama Administration proposes selling carbon emission allowances through auction as part of a “cap and trade” system to cut greenhouse gases dramatically by 2050. Sale of the emission allowances (estimated at \$624 billion over 10 years) would be used to pay for \$15 billion per year in renewable energy investments and offsetting the cost of making the stimulus bill’s middle class tax cuts permanent (the theory being that the tax cuts will help to offset price increases resulting from higher utility costs).

Health Care Reform: The budget proposes to spend at least \$635 billion over 10 years on health care reform aimed at controlling costs and expanding coverage. Health reform would be paid for by (1) making \$309 billion in reforms to Medicare and Medicaid; (2) placing a 28% cap on the tax deductions that upper-income earners can claim (instead of the current 35%); and (3) new tax enforcement measures and loophole closers.

Tax Proposals: For taxpayers with incomes over \$250,000, the Bush tax cuts would be allowed to expire. The top rate would jump from 35% to 39.6%; the tax on capital gains would jump from 15% to 20%, and the tax on estates worth more than \$3.5 million would be taxed at the current rate of 45%. Also, the earnings of hedge fund managers would be taxed as normal income, rather than the lower 15% capital gains rate. These provisions would generate more than \$600 billion in revenues over 10 years.

For all other taxpayers, the budget would extend the Bush tax cuts, including the 10, 15, 25, and 28 percent brackets, the child tax credit, and marriage penalty relief, at a cost of more than \$2 trillion over 10 years (including debt service). The budget would also make permanent the stimulus bill’s annual \$800 per family tax cut at a cost of \$504 billion over 10 years (paid for by new “cap & trade” revenues).

Defense Spending: For the Fiscal Year 2010 defense budget (excluding war costs), the budget proposes 4 percent increase over Fiscal Year 2009 levels.

TARP/Financial Stabilization: The budget includes a \$250 billion “placeholder” for further efforts to infuse capital into shaky banks, although Congress did not accommodate additional TARP funds in the Fiscal Year 2010 Budget Resolution.

SELECTED DEPARTMENT/AGENCY HIGHLIGHTS

Given the sheer size of the President’s 1374-page budget request, it is difficult to effectively summarize all of the ramifications on federal departments, agencies, and programs. The following departments and agencies are of particular importance to the institutions of the University of Wisconsin System and were highlighted in the UW System Federal Priorities publication earlier this year. To view the President’s full budget request, please visit:

<http://www.whitehouse.gov/omb/budget/>. To view the UW System Federal Priorities, visit: <http://www.uwsa.edu/govrel/federal-priorities/2010/FederalBinderFY2010.pdf>.

Departments:

- **Department of Agriculture** – Agriculture research and education would be funded at \$622.9 million (a decrease of approximately \$68.2 million), primarily as a result of reductions in “special grants.” Extension activities would see an increase of nearly \$13 million to \$487 million, while integrated activities as a whole would be level-funded at \$56.9 million. The budget calls for significant increases for Institution Challenge Grants and the Secondary/Two-year Postsecondary program, and would create a new “Improved Rural Quality of Life Grants” program. The budget provides for loans and grants to increase broadband capacity and improve telecommunication service and education and health opportunities in rural areas.

Funding for the following key programs is maintained at FY2009 levels:

- Smith-Lever Act Formula Grant – \$289 million.
 - Hatch Act Formula Grant – \$207 million.
 - McIntire-Stennis Formula Grant – \$28 million.
 - National Research Initiative (renamed the Agriculture and Food Research Initiative by the 2008 Farm Bill) – \$202 million.
 - Expanded Food and Nutrition Education Program – \$66 million.
- **Department of Commerce** – The budget supports economic competitiveness by promoting innovation in U.S. manufacturing, deploying broadband, and advancing measurement science, standards, and technology. The budget expands economic development through the promotion of regional innovation clusters and the creation of a national network of public-private business incubators.
 - National Institute of Standards and Technology (NIST)
 - Hollings Manufacturing Extension Partnership (MEP) – The President’s budget proposes \$124.7 million in FY2010, an increase of \$14.7 million above FY2009. This increase will allow NIST to focus on 1) increasing manufacturers’ adoption and application of renewable energy technologies and the development of new products, and 2) supporting energy efficient production and reducing manufacturers’ environmental impact and related costs by promoting the development of new, environmentally-focused materials, products and processes.
 - Technology Innovation Program (TIP) – TIP is slated to receive \$69.9 million in FY2010, an increase of \$4.9 million (7.5 percent) over FY2009. The program will continue its focus on supporting development of cutting-edge technologies to address societal challenges. TIP support for collaborative high-risk, high-reward technology development projects aims to attract a critical mass of talent in industry, academia, and

government to address important national challenges that can be addressed through advances in technology.

- National Telecommunications and Information Administration (NTIA) – Through the Broadband Technology Opportunities Program (BTOP), the NTIA plans to award more than \$1 billion in grants for broadband deployment in FY2009 (authorized by the ARRA) and approximately \$3.5 billion in FY2010. Rules for applying for those funds are expected to be available in June 2009.
- National Oceanic and Atmospheric Administration – The President’s budget will maintain funding for the National Sea Grant College Program at FY2009 levels. The program’s funds are awarded on a competitive, peer-reviewed basis. The University of Wisconsin Sea Grant College Program, administered by the UW-Madison Sea Grant Institute, receives nearly \$2 million in federal funding annually.
- **Department of Education** – The cornerstone of the Obama Administration’s higher education policy was discussed above under “General Highlights.” Other areas of interest to UW System institutions and students include:
 - Federal Supplemental Educational Opportunity Grant – The FY2010 budget includes \$757 million for SEOG, which would generate \$959 million in new aid to 1.3 million students (FY2008 & FY2009: \$759 million).
 - Federal Work Study Program – The FY2010 budget includes \$980 million for Work-Study, which would generate \$1.2 million in new aid to nearly 800,000 students (FY2009: \$1.181 million).
 - Fund for the Improvement of Postsecondary Education – The budget includes \$47 million for FIPSE (FY2009: \$134 million). The discrepancy between FY2009 and FY2010 funding levels is due to earmark funding.
 - GEAR UP – The FY2010 budget proposal includes \$313 million for GEAR UP (FY2009: \$313 million).
 - Improving Teacher Quality Grants-SAHE – The President has requested \$2.949 billion for Improving Teacher Quality State Grants (FY2009: \$2.722 billion).
 - National Science and Mathematics Access to Retain Talent Grant & Academic Competitiveness Grant – The budget includes \$915 million for SMART and ACG grants (FY2009: \$740 million).
 - ACG Grant levels are \$750 for first-year students and \$1,300 for second-year students. SMART grant levels are \$4,000 for both third- and fourth-year students.
 - In 2010, the Administration proposes to cancel \$511 million in unobligated balances. Remaining balances are sufficient to meet estimated demand in these programs through the 2010-2011 academic year, when the authorizing statute specifies the program will sunset.
 - Strengthening Institutions Program – The FY2010 budget includes \$84 million in funding for the Strengthening Institutions program (FY2009: \$80 million).

- Teaching American History Grant Program – The budget includes \$119 million in funding for the Teaching American History program (FY2009: \$119 million).
- TRIO Grants – The budget sustains TRIO funding for FY2010 at \$313 million (FY2009: \$313 million).
- **Department of Energy (DOE)** – The budget request reflects the President’s pledge to double the federal investment in basic research at the DOE over ten years. The Office of Science budget increases nearly 4 percent with a request of \$4.941 billion. The Basic Energy Sciences division request is \$1.685 billion, a 7.2 percent increase.

The Energy Department’s budget proposes a new cross-agency program, Energy Innovation Hubs, to be funded at \$280 million. DOE hopes to fund 8 multi-disciplinary Innovation Hubs, under initial five-year grants, with a projected total of \$35 million in grants the first year, to conduct research and development in the following areas: Solar Electricity, Fuels from Sunlight, Batteries and Energy Storage, Carbon Capture and Storage, Grid Materials, Devices, and Systems, Energy Efficient Building Systems Design, Extreme Materials, and Modeling and Simulation. Universities will be eligible to lead a Hub, which would be multi-partner (universities, national labs, and industry) endeavors.

The budget request states that the agency will continue to support the current 46 Energy Frontier Research Centers, but does not call for a new solicitation. The agency will also continue to fund the Advanced Research Projects Agency-Energy with a budget request of \$10 million for administrative purposes.

In addition, the budget request launches a new K-20+ science and engineering education initiative, RE-ENERGYSE, with a \$115 million budget request. Of note for higher education, the initiative would provide funding for graduate research fellowships, training grants to universities to establish multidisciplinary clean energy education programs, and grants for expanded energy-related research opportunities for undergraduates. The Office of Science’s Workforce Development for Teachers and Scientists program would complement the RE-ENERGYSE initiative, with a request of \$20.6 million, an increase of 52 percent.

- **Department of Health and Human Services (HHS)** – In addition to laying the groundwork for health care reform, President Obama’s budget request seeks to direct funding toward supporting disadvantaged children and families, strengthening the health professions workforce, and investing in important research.
 - Compassion Capital Demonstration Fund (CCF) – The FY2010 budget requests no funds for the Compassion Capital Fund (FY2009 request was \$48 million). The request instead includes \$50 million for the Strengthening Communities Fund, created with an initial appropriation of \$50 million by the ARRA.
 - Health Resources and Services Administration Programs
 - Advanced Education Nursing Program – The FY2010 budget request maintains funding at FY2009 levels (\$64.438 million requested).

- Scholarships for Disadvantaged Students Program – The budget includes a total request of \$52,842,000 that will support an estimated 17,089 disadvantaged students (\$7 million increase over the FY2009 omnibus appropriations bill). The increase will provide support to 1,284 additional students and the average award amount will increase. In FY2010, approximately 100 students will receive awards larger than the FY 2008 average award amount. These awards would be targets to extremely financially disadvantaged students who would not be able to attend a health professions school unless they had this increased award amount.
 - Nursing Workforce Diversity Grants – The President’s budget request maintains funding at FY2009 levels (\$16.107 million requested).
 - Area Health Education Center (AHEC) Program – FY2010 budget request maintains AHEC funding at FY2009 levels (\$32.540 million requested).
 - National Institutes of Health – The budget request includes \$30.76 billion for NIH. This represents a \$442 million, or about 1.5 percent, increase over the FY2009 level. This request includes funding for strategic priorities such as cancer research (first of an eight year plan to double funding), autism research (a department-wide initiative, with the Centers for Disease Control and Prevention, and the Health Services Administration), nanotechnology safety research (through the National Institute of Environmental Health Sciences), and new efforts in bioethics (through the Office of the Director).
- **Department of the Interior** – The President’s budget request creates a new education and job opportunities program for young people through expanded environmental activities. It also includes funds for new programs to encourage young people to hunt and fish responsibly.
 - U.S. Geological Survey – In FY2009, the USGS received an estimated amount of \$1.04 billion. Under the budget proposal, the agency would receive approximately \$1.10 billion in FY2010.
 - State Water Resources Research Institute Program – FY2010 budget requests \$6.5 million for the State Water Research Institutes program (FY2009: \$6.5 million).
 - Upper Midwest Environmental Science Center – The President’s FY2010 budget maintains funding for the Upper Midwest Environmental Science Center at FY2009 levels (\$3.638 million requested).
- **Department of Labor** – With \$13.3 billion for the Department of Labor, the President’s FY2010 budget provides support for workforce training programs, with an emphasis on green technologies training.
 - Employment and Training Administration (ETA) – The FY2010 budget request for ETA is \$10.477 billion, which is approximately \$1 billion above the FY2009 omnibus level. Additionally, \$4.5 billion was appropriated in February 2009 through the ARRA.

- **Department of State** – The President’s budget request increases the federal commitment to international education programs.
 - Bureau of Educational and Cultural Affairs – The FY2010 budget includes \$ 633.243 million for educational and cultural exchange programs operated by the Bureau of Educational and Cultural Affairs (FY2009: \$538 million). Specifically, the budget requests \$361 million in FY2010 for academic exchanges, including the Fulbright Program and Benjamin Gilman International Scholarship Program (an increase of \$48 million over FY2009).

Agencies:

- **Corporation for National and Community Service** – The budget makes a substantial investment in national service, setting the program on a path for expansion to 250,000 slots; creates a new Social Innovation Fund to invest in and scale up innovative non-profits and solutions to address the nation’s most pressing social problems; engages more retiring Americans in service, and expands service-learning in the nation’s schools, helping students become contributing citizens and community members through service.
 - AmeriCorps*VISTA – The President’s budget funds 5,983 full-time members and 1,687 Summer Associates in FY2010. The budget also includes an increase in the amount of the education awards, and links future increases in award amounts to the maximum Pell grant awards.
- **Corporation for Public Broadcasting (CPB)** – The FY2010 budget proposes to continue supporting the CPB through advance appropriations, and includes \$440 million in the budget for FY2012 (for FY2011, appropriations of \$430 million were enacted in 2009).
 - The CPB budget includes \$36 million in additional FY2010 funding for digital conversion grants to public television broadcasters.
- **Environmental Protection Agency (EPA)** – The budget includes funds to accelerate the restoration of the Great Lakes. The 2010 budget includes a new \$475 million inter-agency initiative to address regional issues that affect the Great lakes, such as invasive species, non-point source pollution, and contaminated sediment.
 - The EPA FY2010 budget also requests \$9.038 million for environmental education programs (funded in FY2009 at \$8.979 million).
- **National Aeronautics and Space Administration (NASA)** – The Administration is seeking a total of \$18.7 billion for the agency, an increase of approximately 5.1 percent over the amount included in the FY2009 omnibus appropriations bill.
 - The FY2010 budget requests \$28.4 million for the NASA Space Grant Program (FY2009 enacted: \$40 million).

- **National Science Foundation (NSF)** – The FY2010 budget calls for \$7.045 billion in funding for the NSF, an overall increase of 8.55 percent over the FY2009 appropriations level of \$6.49 billion (which does not include ARRA funding). NSF received a one-time appropriation of \$3.0 billion from the ARRA, raising its overall FY09 appropriation to \$9.49 billion.

Within the total FY2010 request, the following funding is proposed:

- Research & Related Activities – \$5.853 billion.
- Major Research Equipment and Facilities Construction – \$117 million.
- Education and Human Resources – \$973 million.

For details on the NSF budget request, new research program directions, and plans to increase graduate research fellowships from approximately 1,200 to 1,600, please go to: http://www.nsf.gov/news/news_summ.jsp?cntn_id=114809&govDel=USNSF_51.

- **Small Business Administration (SBA)** – The FY 2010 SBA budget request reflects a focus on helping small businesses and entrepreneurs meet the challenges of the current economic climate.
 - Small Business Development Centers (SBDCs) – As SBA’s largest non-financing program, SBDCs meet the needs of more than 600,000 business clients annually. SBDCs deliver management and technical assistance, economic development and management training to existing and prospective small businesses through cooperative agreements with universities and colleges and government organizations. The President’s budget request includes \$114.775 million for Small Business Development Centers (FY2009 enacted: \$ 124.655 million; FY2008 actual: \$111.481 million)