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Memorandum by City Manager's Office

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Betsy Shotwell

**SUBJECT: FY 2009 PROPOSED FEDERAL
BUDGET – IMPACT ON SAN JOSÉ**

DATE: February 29, 2008

Approved: _____

Christine S. Shippy

Date: _____

2/29/08

INFORMATION

President George W. Bush released his federal \$3.1 trillion budget for FY 2009 on February 4. This memorandum highlights the major potential impacts of the President's Budget on the City of San José. If adopted, the proposed federal budget would negatively affect programs and services in the Community and Economic Development service area, public safety, and energy as detailed further in the attached, "Funding Summary of Federal Programs Affecting San José" (Attachment A).

The City's federal lobbyist firm of Patton Boggs, LLP, has provided the attached comprehensive analysis (Attachment B) of the proposed federal budget as it relates to local government funding and priorities.

Additional information will be provided as Congressional action, either in separate authorizing legislation, or through inclusion in appropriations bills, becomes known.

Betsy Shotwell

BETSY SHOTWELL

Director, Intergovernmental Relations

Attachments:

A. Funding Summary of Federal Programs Affecting San José

B. President's FY 2009 Budget Proposal – Patton Boggs' Analysis Related to Local Government Funding and Program Priorities

C: Council Appointees
Senior Staff

FUNDING SUMMARY OF FEDERAL PROGRAMS AFFECTING SAN JOSE

Proposed 2009 Federal Budget Includes Steep Cuts to CDBG Funds

The President's proposed budget proposes severe cuts to the Community Development Block Grant (CDBG) program, decreasing CDBG formula grants from the FY 2008 level of \$3.593 billion to \$2.934 billion, a nearly 20% reduction. This could potentially result in a \$2 million cut in San José CDBG funds. Additionally, the budget document notes that the Administration is again proposing to restructure HUD programs, including a new formula for allocating CDBG funds and the elimination of the brownfields redevelopment program, the Section 108 program, and the rural housing and economic development program. The restructure plan also proposes a Challenge Grant Fund, a competitive grant program that would "provide incentives to communities to invest in projects more strategically." In past years, the President's restructuring proposals would have transferred \$200 million from formula grantees to the 'competitive grant program.' Congress has rejected the 'competitive grant program' proposal for each of the last two years. Historically, the City of San José has opposed efforts to change the CDBG Program.

Public Safety

From Patton Boggs report, the President's proposed budget proposes dramatic cuts in Department of Justice funding to local and State activities, seeking about \$20.3 billion in discretionary spending, a 12.3% reduction from FY 2008. The budget directs more funding to federal law enforcement agencies, such as the FBI while eliminating core local programs like the Byrne Justice Assistance Grant and the Community Oriented Policing Services (COPS) program funded in FY 2008 at \$170.5 million and \$251 million, respectively. In total, seventy state and local law enforcement assistance programs would be consolidated into four grant programs and would be cut by more than 65%.

Funds previously earmarked to support local law enforcement efforts in addressing community problems have been shifted to address national preparedness issues. With the loss of federal funding support, many of the Police Department's innovative and ground-breaking programs will suffer. The Department will be unable to maintain its efforts related to new and developing technologies, whether it is new crime analysis linking software or less-lethal weaponry, unless alternate funding sources are identified.

In the past, the Police Department relied on federal grant funds to purchase new equipment and explore new ways to address crime problems in the City. The proposed reductions will impact the way the City is able to plan and provide for equipment upgrades and new purchases which in turn, will require the City to begin a plan to identify new funding sources.

Urban Areas Security Initiative (UASI)

UASI provides grants to large metropolitan areas to enhance overall security and preparedness levels to prevent, respond, and recover from acts of terrorism. The Department of Homeland Security's Office of Grants and Training allocates funding according to threat and risk calculations. The Patton Boggs report cites that "the *proposed* budget maintains relatively level funding for high-threat urban areas grants at \$825 million, up slightly from \$820 million in FY 2008 appropriations, and eliminates the \$15 million carve-out to nonprofits... Implications of recent changes in UASI program structure for local funding receipts are not yet clear, other than a certain dilution of funding for Tier 2 designees with the addition of 14 new eligible localities."

Even though the Bay Area UASI is a Tier 1 entity, staff tends to believe that effective spending for UASI grants will actually decrease because other Homeland Security grants, like the Law Enforcement Terrorism Prevention Program (LETPP), have been consolidated into the UASI and "internal earmarks" for LETPP have been recommended for inclusion in prospective UASI grant guidance. Because of the many factors pending in Washington, D.C., as described in the attached report (e.g., Presidential election year), it is difficult to formulate a position on the issue this early in the session.

Transportation

The President's proposed federal fiscal year 2009 budget requests \$63.4 billion for transportation programs. The Administration's budget proposal falls short in meeting the funding guarantees authorized in the Safe, Accountable, Flexible, and Efficient Transportation Equity Act – A Legacy for Users (SAFETEA-LU). SAFETEA-LU legislation, signed into law on August 10, 2005, set minimum obligation levels for highway and transit by fiscal year. These guaranteed funding levels were set as a method to separate budget categories for highway and mass transit discretionary spending, and to establish a budgetary "firewall" between each of those programs and all other discretionary programs. The Administration's budget provides \$39.4 billion for highways in FY 2009, \$1.8 billion less than the SAFETEA-LU guarantee and \$10.1 billion for public transit.

Both highway and transit organizations have voiced concerns regarding the loss of critical transportation funding. Of concern to both the American Public Transportation Association (APTA) and the American Association of State Highway Transportation Officials (AASHTO) is the Administration's plan to transfer an estimated \$3.2 billion dedicated for public transportation to address the shortfall in the Highway Account of the Highway Trust Fund. The shift of critical transit funding to meet the needs of the Highway Account accelerates the looming shortfall in the Mass Transit Account, as well as delays by a year the need to address the issues of ensuring sufficient revenues to the Highway Trust Fund to sustain highway programs at current levels.

The budget proposes to cut Amtrak funding to \$880 million a 40 percent cut from appropriated levels in FY 2008. The majority of funding (\$525 million) would be reserved for uses in the

Northeast Corridor and the remainder would be provided as grants that show improved operating performance. An additional \$100 would be provided as matching grants to States for intercity passenger rail projects.

Federal Aviation Administration (FAA)/Airport Improvement Program (AIP):

Funding the Airport Improvement Program at the level contained in the reauthorization bill passed by the House and the draft bill under consideration in the Senate is very important to the Airport. The Administration proposes to reduce AIP funding by \$765 million from the current funding levels and by over \$1 billion from the levels in the House and Senate bills. It is important to understand that AIP funding is federal funding used at local airports to fund federal infrastructure priorities for the national air transportation system (e.g., runway and taxiway construction, expansion or rehabilitation, runway lighting and other airfield security, noise mitigation, firefighting facilities and equipment, etc.). To the extent AIP funding is reduced, local airports will need to use a greater portion of their Passenger Facilities Charges (PFCs), which is locally-generated revenue, to fund federal infrastructure priorities.

The Administration is proposing an increase in the PFC ceiling from the current \$4.50 to \$6. (The House bill proposes \$7 while the Senate bill is thus far silent on the issue.) While the President's Administration recommends a ceiling of \$6, City staff does not believe a \$6 ceiling is sufficient to offset the combined effects of:

1. The deflated value of the current PFC;
2. The proposed reduction of AIP funding for large and medium hub airports like SJC;
3. Increased capital costs faced by airports like SJC.

In an October 2006 information report to the City Council, City staff noted the escalation in local construction cost had led to bids exceeding the Engineer's estimate by 15 to 20 percent. According to a study conducted by Airports Council International (ACI), the \$4.50 PFC was now worth only \$2.86 in 2007 dollars if the effects of construction cost escalation are applied. To fully recapture the value of the \$4.50 PFC, the ceiling would have to be raised to \$7.50.

The Administration's proposals to reduce AIP funding, combined with a possible (not certain) PFC increase in the range of \$6, could place the Airport in the position of spending a significantly larger percentage of its locally-generated revenue on federal infrastructure priorities at the cost of addressing more specific needs at SJC. That situation could be greatly exacerbated if there is little or no increase in the PFC ceiling level.

To avoid having local revenues re-directed to federal priorities, the City should support full funding of the Airport Improvement Program and an increase to at least \$7 in the PFC ceiling.

Water Resources/Flood Control

The **Army Corps of Engineers** provides planning, designing, building and operating water resources and other civil work projects, such as flood control, to local jurisdictions. The

President’s FY 2009 budget proposes to reduce the Corps’ funding to \$4.74 billion. The table below displays the amount of funding for each major project in San José that the Santa Clara Valley Water District (SCVWD) has requested in FY 2009, and the amount of funding that is included in the President’s FY 2009 proposed budget.

Proposed Federal Funding for Flood Protection Projects in San José

Project	FY 2009 Request	FY 2009 Proposed by Administration
Guadalupe River Flood Project	\$ \$10 million	\$ 0
Upper Guadalupe River Project	\$ 8.3 million	\$ 0
Coyote/Berryessa Creeks	\$ 1.6 million	\$ 950,000
Upper Penitencia Creek Project	\$ 262,000	\$ 191,000
Coyote Creek Watershed Study	\$ 100,000	\$ 0

The **South Bay Area Water Reclamation and Reuse Program** receives monies from the Bureau of Reclamation as part of the Title 16 authorization of the 1992 Central Valley Project Improvement Act (PL102-575) and the 1996 Reclamation Recycling and Water Conservation Act. The Bureau is authorized to contribute up to 25% of eligible costs of the multi-phase project, or about \$100 million of an estimated \$400 million total cost. The President’s FY 09 budget proposes \$250,000 for the South Bay Area Water Reclamation and Reuse program while the SCVWD and the City joint request is \$8 million. For FY 2008 the joint request with the SCVWD was also \$8 million and \$984,000 was appropriated.

Workforce Investment Act (WIA) Block Grant

Patton Boggs reports that “once again the budget seeks dramatic cuts in discretionary spending for workforce development, including a total of \$1 billion from various job training programs under the Workforce Investment Act (WIA), building off the \$250 million rescission enacted in FY 2008.” The budget also includes prior proposals to consolidate programs – the House and Senate have passed different versions of these proposals, but have not reached an agreement so no similar action is expected in the current session.

Our local system continues to struggle with the large demand for our services and the shortage of funding to support the need. The San Jose Silicon Valley Workforce Investment Network (SJSVWIN) served over 110,000 people last year, despite a funding decrease of approximately 10%. We anticipate a further 15% to 20% decrease this coming year, and yet the numbers of people accessing our service continue to increase. We anticipate serving over 130,000 people during this year. People are looking for career changes, first time workers (youth, first generation immigrants) are coming to the SJVWIN centers, and as certain industries are growing, others continue to shed jobs.

Energy Programs

The President's budget would increase total Department of Energy spending by 4.7 percent over FY 2008, for a total of \$25 billion, but most of the increase would go toward funding nuclear weapons systems. Impacts to City programs are detailed below:

- Reduction in funding for the Low Income Home Energy Assistance Program (LIHEAP) which impacts low income wage earners.
- Decreases funding for the Energy Star Program (EPA) which the City uses for technical assistance (particularly through the Portfolio Manager, a program to track energy usage of facilities).
- Includes no funding for the Energy Efficiency and Conservation Block Grant (EECBG) program. The budget ignores the recently enacted \$2 billion authorization of the EECBG to local and state governments, a potential resource for improvements to city facilities.
- The Administration has essentially proposed reduction or elimination of funding for some energy efficiency and renewable energy projects and programs to increase funding for other nuclear, coal, and ethanol-related programs. Any reductions in the renewable program will have an effect on city program.
- Eliminates the \$286 million national weatherization program to help low-income households achieve greater energy efficiency and cost savings.



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MEMORANDUM

To: City of San Jose
From: Patton Boggs LLP
Date: February 4, 2008
Subject: President’s FY2009 Budget Proposal – Analysis Related to Local Government Funding and Program Priorities *(subject to update/revision)*

This memorandum analyzes the President’s FY2009 budget proposal, focusing on issues typically of interest to local governments. The memo highlights relevant policy, program, and funding reforms in the budget, and assesses some local impacts, opportunities, and prospects for action. Most aspects of the FY2009 budget proposal will be deemed “non-starters” by congressional leadership and appropriators.

Program-specific highlights are summarized under eleven topical categories:

- (1) Homeland Security page 3
- (2) Law Enforcement and Public Safety page 6
- (3) Transportation page 8
- (4) Housing and Homelessness..... page 10
- (5) Community / Economic Development page 12
- (5) Employment and Workforce Development page 13
- (6) Health page 15
- (7) Human Services page 16
- (8) Education page 18
- (9) Environment and Water Resources page 20
- (10) Recreation and Heritage Resources..... page 22
- (11) Energy page 23

Memo content was prepared based on information from White House and agency briefings, analysis of published budget-related materials, agency contacts, and other sources.

FY2009 BUDGET OVERVIEW

The President's budget principally is a policy document that serves as a reference point for consideration by Congress as it prepares to make its own funding and program decisions. The final appropriations levels passed by Congress often deviate substantially from the Administration budget. In many instances, the President's budget may lower costs and create offsets for new efforts by suggesting cuts to popular programs that Congress supports and can be fully expected to continue. Proposed programmatic changes and new initiatives will require Congressional action, either in separate authorizing legislation or through inclusion in appropriations bills, and the detail on several of the proposals is not yet available.

In this case, given the lame-duck status of the President and the draconian domestic spending cuts included in the budget, Congress likely will dismiss most aspects of the FY2009 proposal.

Consistent with prior years, the President's FY2009 budget reflects actual or effective cuts in most discretionary domestic spending areas affecting local governments. The total proposed budget is \$3.1 trillion, of which nearly \$987.5 billion is for discretionary programs subject to annual appropriations decisions. However, the increase in discretionary program spending primarily is tied to a 7.5% increase in the core Defense budget (unrelated to war spending) and a 16.5% increase for the State Department, together comprising nearly two-thirds of that discretionary total.

Meanwhile, non-security domestic spending is held level at about \$393 billion, a 0.3% increase over FY2008 appropriations and below the rate of inflation. Large-scale gency funding cuts include Transportation by 26%, Justice by 11%, and the Corps of Engineers by 15%. The budget again seeks to eliminate or substantially reduce about 150 discretionary programs, generating savings of \$18 billion in FY2009 (*full list not yet available*). The budget proposes further savings of nearly \$100 billion over the next five years through new limits on health insurance entitlement (or "mandatory") spending programs, about \$178.2 billion from Medicare and another \$17.4 billion from Medicaid; such proposals are very unlikely to receive serious consideration during this election year.

On tax measures, the budget again anticipates extension of tax cuts enacted in 2001 and 2003, including reduced capital gains and dividend rates and estate tax repeal, costing \$374 billion over the next five years and \$1.62 trillion over the next decade.

Overall, the President's budget continues to project a \$61 billion surplus in 2012, but only through use of questionable budget omissions and assumptions. The budget does not reflect any war spending beyond \$70 billion in partial costs for FY2009, compared with \$200 billion actually requested in FY2008. It also assumes no future Alternative Minimum Tax (AMT) fix generally resolved through annual legislation to prevent progressive creep of AMT into lower tax brackets, thus artificially inflating projected Federal receipts. Finally, it assumes flat funding in domestic discretionary programs for three years, and the untenable Medicare and Medicaid program reforms.

The budget advances various policy and operational changes in public safety, housing, community development, workforce development, and other programs through which municipalities receive

significant funding, or where use of resources is substantially determined at the local level. Nearly all of these policy concepts were advanced in prior budget proposals, some dating back to FY2003, such as changes to workforce development funding mechanisms. Others are prior concepts scaled back to pilot projects, or alternative approaches to previous reform efforts, such as Community Development Block Grant formula adjustments.

With regard to earmarks, the budget again recommends cutting both the number and costs by 50%, and proposes a line-item veto authority that must overcome the Constitutional objections raised during multiple efforts at enactment in prior Administrations. This follows the President signing Executive Order 13457 that directs federal agencies to ignore future earmarks not included in bill text, versus the long-standing practice of including them in conference reports. The legal validity and future viability of such an approach in a new Administration is highly questionable.

In response to the budget and the FY2008 experience with the President forcing cuts through veto threats, the Senate Majority Leader and others now have publicly suggested that a final appropriations package may need to be delayed until 2009 and the next Administration.

HOMELAND SECURITY

Despite an overall 7.6% increase in proposed funding to the Department of Homeland Security, the amounts directed to core local programs, either directly or via state-passthrough, actually decrease by more than \$1.6 billion, or more than 40%. The Administration cited an \$11 billion backlog in unexpended balances from prior year appropriations, especially in State grants, as justification for reducing funding levels.

However, proposed funding for high-threat urban areas from which large cities receive the vast majority of their funding remains steady. Cuts primarily are centered on State homeland security grants, port and transit programs, firefighter support, and the new interoperable communications program. In general the budget cuts are consistent with those sought in FY2008, which Congress rejected in favor of raising amounts in most targeted programs. That precedent combined with recent bipartisan statements by congressional appropriators and authorizers indicate the budget proposals will be disregarded again.

Notable increases in the \$50.5 billion DHS budget primarily are allocated to federal agency responsibilities like enhanced immigration and border security enforcement. Investments include \$442 million to add border patrol agents, as well as more funding toward automated immigration compliance systems for employers, acquisition of bioterrorism sensor technologies, deployment of enhanced travel document checking programs, and federal agency cybersecurity protection.

- **Urban Area Security Initiative (UASI)**. The budget maintains relatively level funding for high-threat urban area grants at \$825 million, up slightly from \$820 million in FY2008 appropriations and eliminating the \$15 million carve-out to nonprofits. This reflects a fundamental change in approach from the President's Budget proposal last year, which sought to cut UASI funding by 20%, and previously rumored reductions. With resolution of competitive

risk-based funding distribution system set in the 9/11 Commission implementation bill last year, the proposal does not seek statutory modifications and simply continues the approach set for now pending FY2008 UASI applications. Many of provisions previously included in appropriations were codified in the authorizing statute, such as allowance of certain personnel costs and limits on construction projects. Implications of recent changes in UASI program structure for local funding receipts are not yet clear, other than a certain dilution of funding for Tier 2 designees with the addition of 14 new eligible localities.

- **State Homeland Security Grant Program (SHSGP).** The budget dramatically cuts SHSGP funding to \$200 million, down from \$950 million in FY2007, a 79% reduction. In FY2008, the budget proposal sought a 63% cut, which Congress strongly rejected. The budget also eliminates the \$60 million carve-out for Operation Stonegarden, which funds federal-state-local collaborations on border issues in 14 states. As in the UASI program, with passage of the 9/11 Commission implementation bill, the budget drops other historical SHSGP policy proposals, such as further lowering the guaranteed State distribution to 0.25% or modifying the risk-based funding allocation formula.
- **Law Enforcement Terrorism Prevention Programs (LETTP).** Consistent with the new 9/11 Commission implementation bill authorization and FY2008 appropriations, LETTP was consolidated into the UASI and SHSGP funding with the requirement that 25% of those sources be dedicated to law enforcement terrorism prevention-oriented planning, organization, training, exercise, and equipment activities. Thus the LETTP consolidation was reflected in the near-doubling of SHSGP funding in FY2008, and in the proposed cuts for this year.
- **National Security and Terrorism Prevention Grant (formerly Buffer Zone Protection).** The budget seeks \$110 million for competitive grants to local and State agencies for national priorities as determined by DHS. The budget proposes to consolidate separate grants for REAL ID implementation and Buffer Zone Protection for nationally-significant critical infrastructure; each program was funded at \$50 million in FY2008. Thus, the proposal primarily provides greater flexibility to DHS in shifting allocations to either of those activities.
- **Transportation and Infrastructure Protection.** The budget omits the previously proposed consolidation of various grants related to protection of specific transportation sectors, reflecting a final victory for the functional interests concerned about which might benefit in a cross-sector competition. Rather, the budget seeks separate funding for ports, rail and mass transit, intercity buses, and commercial trucking line-items consistent with FY2007 funding levels, totaling \$405 million, cut by about 50% from the \$827.5 million appropriated in FY2008 –
 - Port Security - \$210 million, reduced from \$400 million
 - Transit Grants in UASI areas - \$175 million, reduced from \$400 million and eliminating a \$25 million carve-out for Amtrak.
 - Intercity Bus - \$12 million, increased from \$11.5 million

- Trucking Industry Security - \$8 million, *reduced from \$16 million*
- **Emergency Management Performance Grants.** Formula funding to States and localities for emergency response activities is held level at \$200 million for the third straight year. The budget did not renew proposals to limit use for personnel salaries or prioritize terrorism response activities, as was proposed and rejected in prior years.
- **Citizen Corps.** The budget proposes to continue level State formula funding for Citizen Corps at \$15 million.
- **Urban Search & Rescue.** For the second consecutive year, the budget does not seek to eliminate Urban Search and Rescue teams, but proposes \$25 million, a reduction from \$32.5 million in FY2008, nearly covering the full projected costs of maintaining core capacities. The budget also preserves the new explicit limitation capping administrative costs at about 6.5% of the proposed appropriation.
- **Metropolitan Medical Response System Grants.** As usual, the budget continues to propose elimination of MMRS funding, down from \$41 million in FY2008. The program supports 124 localities in planning, training, and exercises for response to a mass casualty event.
- **Firefighter Assistance Grants.** The budget again seeks to cut direct competitive assistance for local fire departments to \$300 million, compared with \$750 million total in FY2008 (\$560 million to Firefighter Grants for equipment, facilities, and training; and \$190 million to SAFER Grants for hiring and retention). The budget also reiterates the intention for the peer-review process to prioritize applications that enhance terrorism response, but expands to consideration of other major incidents.
- **FEMA Pre-Disaster Mitigation Grants.** The budget reduces pre-disaster mitigation funding to \$75 million, down 33% from \$114 million in FY2008, for competitive grants financing planning and small-scale implementation projects, with a minimum 25% non-federal match.
- **Interoperable Communications.** The budget does not seek funding for new interoperable systems grants as authorized by the 9/11 Commission implementation bill, appropriated at \$50 million in FY2008.
- **Securing the Cities Initiative.** The budget proposes unspecified amounts to continue implementation of a program to detect radiological and nuclear materials in and around major cities, building on a two-year demonstration in the New York region. The program was funded at \$10 million in FY2008. The Domestic Nuclear Detection Office will work with high-risk States and localities to develop and execute regional strategies, especially major transportation system vulnerabilities.
- **Bioterrorism Preparedness Activities.** The budget requests \$609 million for State and local bioterrorism preparedness from the Department of Health and Human Services, a \$137 million

decrease from the FY2008 appropriation. The budget also requests \$362 million for Hospital Preparedness Cooperative Agreement Grants, down from \$423 million in FY2008.

- **Environmental Homeland Security Initiatives.** The budget proposes \$35.2 million for Environmental Protection Agency homeland security funding efforts related to critical water infrastructure. Principally focused on research activities, the budget includes \$22.6 million for the Water Security Initiative (formerly Water Sentinel) and Water Alliance for Threat Reduction to promote implementation of early warning of a water contamination event for systems serving more than 100,000 people. It also again includes level funding of \$5 million for States to work with water and wastewater systems on planning, training, and monitoring, particularly targeting small systems. In addition, the budget seeks \$54.6 million to enhance EPA's internal capacity for incident response.
- **Aviation Security / Transportation Security Administration (TSA).** Overall, TSA is slated for a slight budget increase to \$5.29 billion for aviation security, up from \$4.8 billion in FY2007, including nearly \$3.19 billion for aviation screening operations. For Explosive Detection System (EDS) procurement and installation, the budget allocates a total of \$736 million compared with \$544 million in FY2008. Of this amount, \$250 million is mandatory money from the Aviation Security Capital Fund reauthorized in the 9/11 Commission implementation bill. Unlike prior years with supplemental appropriations drawn from general funds, the remaining \$486 million is proposed from a new, temporary four-year surcharge to the Passenger Security Fee of \$0.50 per enplanement, with a maximum increase of \$1.00 per one-way trip or up to \$6.00, with fees deposited in Aviation Security Capital Fund. This approach would require statutory authorization, and a coalition of airline, travel, business, and labor groups strongly opposed prior efforts to increase the fee

LAW ENFORCEMENT AND PUBLIC SAFETY

Following on the trends of recent years, the budget proposes dramatic cuts in Department of Justice funding to local and State activities, seeking about \$20.3 billion in discretionary spending, a 12.3% reduction from FY2008. The budget directs more money to federal law enforcement agencies, such as a 9% increase for the FBI and 4% for the Drug Enforcement Administration, while eliminating core local programs like the Byrne Justice Assistance Grant and COPS program, funded in FY2008 at \$170.5 million and \$251 million, respectively.

Once again, the budget proposes another major reform to DOJ grants by consolidating 70 individual local and State funding programs into four purely competitive grants. The aggregate amount sought for the combined programs is \$865 million, down more than 56% from approximately \$2 billion provided for aggregate programs in the FY2008 appropriation.

Realistically, current congressional leadership will not support program modifications or major funding reductions in line with the budget proposal. Nevertheless, congressional supporters ultimately may not be able to dedicate as much funding as they prefer, based on experience the

FY2008 cuts in the Justice Assistance Grant that were forced by the President's effective hard line approach on maintaining his overall austere budget numbers.

Specific budget recommendations include --

- **Violent Crime Reduction Partnership Initiative.** The budget again proposes a new competitive grant program providing \$200 million for multi-jurisdictional task forces involving local, State, and Federal agencies to help communities experiencing spikes or very high rates in violent crime. Funding and technical assistance will be provided to investigate and combat violent crime, including drug trafficking and gang activity.
- **Byrne Public Safety and Protection Program.** The budget provides \$200 million for new competitive grants, consolidating Justice Assistance Grants, Byrne Discretionary Grants, Weed and Seed, drug courts, prison rape prevention, and other programs that received about \$1 billion in FY2008, a cut of more than 65%. The amount is a greater cut than the FY2008 budget proposal of \$350 million. Activities targeted for support include –
 - Project Safe Neighborhoods initiative participation to reduce violent crime;
 - substance abuse response through drug courts, residential treatment for prisoners, methamphetamine cleanup and enforcement, prescription drug monitoring programs;
 - law enforcement information sharing;
 - forensic science utilization and DNA backlog reduction;
 - victims of human trafficking services;
 - prisoner re-entry initiatives; and
 - crime victim services.

In addition, the budget separately proposes \$4 million for Community Policing Development technical assistance, but seeks elimination of the general community-oriented policing services and law enforcement technology grants funded at \$587 million in FY2008.

- **Child Safety and Juvenile Justice Program.** The budget provides \$185 million for a new competitive grant that consolidates the Juvenile Justice and Delinquency Prevention program, Juvenile Accountability Incentive Block Grants, Youth Mentoring, G.R.E.A.T., and other programs receiving a total of about \$384 million in FY2008. Funded activities would include efforts to reduce juvenile delinquency and crime; enhance school safety; protect children from sexual exploitation and Internet predators; and improve the overall juvenile justice system. The new request represents a cut from \$280 million sought in the FY2008 budget proposal.
- **Violence Against Women Grants Program.** The budget seeks \$280 million, reduced from \$400 million in FY2008. Funds will be distributed in competitive grants for efforts to prevent and prosecute domestic violence, dating violence, sexual assault, and stalking, and to support related victims' services. The amount is a cut from the \$370 million proposed in the FY2008 budget request.

Other key DOJ local and State funding decisions involve on immigration-related efforts, including new incentives for local enforcement of immigration laws and elimination of reimbursements for incarcerating illegal aliens.

- **Immigration Enforcement Support to States and Localities.** The budget includes \$10.67 million for work with local and state law enforcement officers under the 287(g) program to partner with federal officials in immigration enforcement, about half the amount proposed in the FY2008 budget request. That total includes \$2.67 million for training and certification of approximately 200 officers, and \$8 million toward improved information technology for participating jurisdictions.
- **State Criminal Alien Assistance Program (SCAAP).** For the sixth time, the Administration budget proposes to eliminate the program that helps to offset local and State government costs of incarcerating illegal immigrants for crimes unrelated to their immigration status. Typically financed between \$350 million and \$400 million annually, this funding loss seriously impacts localities with large immigrant populations, particularly large municipalities in States in the southwest, southeast, and northeast. A coalition of affected States and localities, typically involving California, New York, Texas, and Florida, successfully fends off deep reductions.

TRANSPORTATION

Overall, the budget proposes \$63.4 billion for federal transportation programs, an 8% reduction from FY2008. Significant emphasis again is placed on flexible, discretionary congestion mitigation initiatives, as the Urban Partnership Initiative and Corridors of the Future program.

- **Congestion Relief Initiative.** Citing local and state government interest in the new Urban Partnership and Corridors of the Future programs, the budget again proposes to redirect \$175 million in expired unobligated earmark balances from ISTEA for a further congestion reduction initiative focused on variable tolling, transit, and technology solutions. In addition, the budget proposes that 75% of all discretionary program funding be designated for competitively-selected congestion relief projects. Unlike FY2008, the budget does not propose newly appropriated dollars. Of the reprogrammed total, \$100 million would fund projects in localities comparable to the Urban Partnerships initiative, with 20 new applications pending for selection in late February 2008. The remaining \$75 million would finance Corridors of the Future implementation projects along parts of Interstates 5, 15, 10, 69, 70 and 95, competitively designated in September 2007 as nationally significant. Given congressional opposition to DOT implementation of the Urban Partnership effort and limits subsequently placed on use of FY2008 discretionary funds for those purposes, only a very narrow financing proposal seems remotely viable.
- **Federal-Aid Highways.** The budget request seeks \$39.4 billion in obligation limitation for the Federal-Aid Highway Program, approximately \$1.8 billion less than in FY2008. Because gasoline tax revenue for the Highway Trust Fund is not keeping pace with SAFETEA authorized funding levels, the budget seeks to “borrow” \$3.2 billion from mass transit funding

accounts for FY2009. The total highway budget includes \$6.6 billion for the Surface Transportation Program (STP) supporting a broad range of highway and transit-related projects; \$5.2 billion for Interstate Maintenance; \$4.5 billion for bridge replacement and rehabilitation; \$1.8 billion for the Congestion Mitigation and Air Quality Improvement Program; and \$1.3 billion for the Highway System Improvement Program (HSIP) to address infrastructure safety. In addition, the Transportation Infrastructure Finance and Innovation Act (TIFIA) Program is funded at \$122 million to stimulate private capital investment in transportation infrastructure with loans, guarantees, and lines of credit for up to one-third of cost of large, regionally significant construction projects.

- **Federal Transit Program.** The budget proposes \$10.1 billion for the Federal Transit Administration (FTA), \$644 million above the FY2008 enacted level. This amount includes \$6.2 billion for Urbanized Area formula grants; \$164.5 million for Job Access and Reverse Commute formula grants; \$984 million for bus and bus-related capital projects; and \$51.5 million for purchase of clean fuel buses and related facility improvements (natural gas, biodiesel, hybrid-electric, fuel cell, etc.). It also includes \$1.6 billion for capital investment grants in fixed-guideway and non-fixed guideway projects, covering 15 existing, two pending, and several proposed New Starts Full Funding Grant Agreements, plus \$200 million for existing and anticipated Small Starts projects.
- **Amtrak.** The budget again proposes \$900 million for intercity passenger rail, with only \$800 million to Amtrak, a 40% reduction from \$1.3 billion appropriated in FY2008. The budget reserves the bulk of Amtrak funds, \$525 million, for capital investments along the Northeast Corridor, and eliminates operating subsidies that accounted for \$475 million in FY2008. The remaining \$275 million for Amtrak is budgeted for DOT grants based upon applications demonstrating efficiency and savings gains to be achieved, creating a greater incentive to improve operating performance. The budget seeks to use the additional \$100 million for capital matching grants to States for intercity passenger rail projects, enabling States rather than Amtrak to undertake rail infrastructure projects that address their transportation priorities.
- **Federal Aviation Administration (FAA) / Airport Improvement Program (AIP).** Pending movement on the FAA reauthorization bill stalled in Congress, in part because of disagreements over how to redistribute system financing between new general and commercial aviation fuel and ticket charges, the budget unrealistically assumes enactment of the Administration's original reauthorization proposal to apply new user fees, an approach rejected in the past. For the third year in a row, the budget recommends \$2.8 billion for AIP, a cut of \$765 million from FY2008 funding levels, for airport planning and development. Under current law, a number of problematic formula cuts are triggered if AIP funding is not at least \$3.2 billion, such as reducing the AIP minimum entitlement to \$650,000 from \$1 million and halving primary entitlements. In the past, Congress has provided enough funding to avoid these automatic cuts and should be receptive to a higher amount.
- **FTA/Research & University Research Centers.** The budget recommends \$59.6 million for transit research programs primarily targeting the development of solutions to improve public

transportation and reduce congestion. However, the account also includes \$3.3 million for the clean fuels and electric drive bus deployment program proposed in FY2007 to promote increased deployment of new low-emission technology, particularly hybrid-electric buses.

HOUSING AND HOMELESSNESS

Overall, the budget for the Department of Housing and Urban Development (HUD) seeks \$38.5 billion in discretionary spending, a 2.8% hike over FY2008 appropriations, with the more money for broad affordable housing and homelessness initiatives. Those increases again are linked to renewed proposals for deep cuts in the Community Development Block Grant and other popular programs.

In addition to total program funding levels, the budget advocates for action on Federal Housing Administration (FHA) reforms in the pending House-Senate conference on H.R. 1852 and S. 2338. Specific proposals include elimination of the 3% minimum downpayment and increases in conforming loan limits to enable FHA financing in various high-cost areas of the country where the cost of new construction exceeds the current caps; a one-year increase also is part of the House-passed economic stimulus package. Furthermore, the budget proposes administrative implementation of risk-based financing for FHA-backed loans that allow interest to fluctuate based on buyer credit ratings, an approach rejected in the Senate bill but accommodated by the House.

- **Section 8 Housing Choice Voucher Program.** The budget provides \$16 billion in total resources to support the voucher program, an increase of \$336 million above the FY2008 enacted budget; however, \$1.4 billion is set aside for housing agency administrative fees, offset by a \$50 million reduction in tenant protection vouchers.
- **Public Housing Operating and Capital Funds.** The budget requests \$4.3 billion for operating subsidies, a \$100 million increase over the FY2008 appropriation. However, the budget also cuts capital grant subsidies to just over \$2 billion from approximately \$2.4 billion. Within the capital fund, the budget renews a funding request for the Resident Opportunities and Supportive Services (ROSS) grants as a relatively level set-aside of \$38 million.
- **HOME Investment Partnership.** The budget proposal again seeks \$1.97 billion for the affordable housing block grant, a \$263 million increase over FY2008 appropriations. That amount includes a \$50 million carve-out for the American Dream Downpayment Initiative, five times the amount appropriated in FY2008. It also eliminates the \$50 million set-aside for housing counseling assistance within the HOME program and establishes that as a separate function, effectively further increasing the available HOME funding dedicated to finance actual housing development.
- **Housing Counseling Assistance.** The budget a separate account for housing counseling for homeownership preparation, location of affordable rental housing, and avoidance of predatory lending practices. At \$65 million, the budget proposes \$15 million more than FY2008 appropriations.

- **Self-Help Home Ownership Opportunity (SHOP)**. The budget seeks \$39 million for grants to non-profit organizations that provide “self-help” housing, an increase of \$12.5 million over FY2008. The program requires homebuyers to contribute at least 100 hours of their own labor to construct homes, akin to Habitat for Humanity projects.
- **Housing for Persons with AIDS (HOPWA)**. The budget again requests \$300 million for the HOPWA formula grant program for long-term housing, level funding from FY2008. In addition, HUD plans to revisit a legislative proposal for the program formula to take into account the number of people living with AIDS and regional housing cost differentials versus the current distribution by the cumulative number of AIDS cases. These formula revisions follow the Ryan White CARE Act reauthorization approach; high-incidence metropolitan areas and States would continue to receive 90% of funds by formula, with the remainder awarded competitively.
- **Housing for the Elderly and Housing for Persons with Disabilities**. Again, the budget seeks to substantially reduce both programs for the elderly and disabled, cutting Section 202 Housing for the Elderly by 32% to \$540 million and Section 811 Disabled Housing by 27% to \$160 million. Within the Section 202 program, the budget requests \$80 million for service coordinators for the elderly, an increase of \$20 million over FY2008. The Administration again proposes leveraged financing demonstration projects for both programs, seeking set-asides of \$15 million for Section 202 and \$10 million for Section 811 and to facilitate mixed-finance projects that use Low Income Housing Tax Credits or otherwise promote private investments.
- **HUD-Veterans Affairs Supportive Housing (VASH)**. The budget requests a \$75 million to add 9,800 vouchers dedicated to permanent housing and case management services for homeless veterans with substance abuse and mental health problems. Congress also appropriated \$75 million in FY2008.
- **HOPE VI**. As the Administration has proposed for the past six years, the budget again eliminates HOPE VI funding to rehabilitate or replace dilapidated public housing. Congress consistently rejects the elimination and funded the program at \$100 million in FY2008 and \$99 million in FY2007. In addition, the House passed a bill (H.R. 3524) in January 2008 to renew the program for eight years, and the Senate likely will begin to consider a companion measure within the next several weeks. Although issues with that authorization remain, such as possible requirements for one-to-one replacement of demolished units, continued funding for the program is virtually assured.
- **Homeless Assistance Grants**. The budget proposes further increases to address homelessness, seeking \$1.636 billion, an increase of \$50 million over FY2009. The budget directs that 30% of these funds be targeted to permanent supportive housing for the chronically homeless. For the fourth year, the Administration seeks to consolidate three competitive programs -- Shelter Plus Care, Supportive Housing, and Section 8 Moderate Rehabilitation Single Room Occupancy -- into a single “Continuum of Care” grant program, as well as up to

\$50 million to finance Samaritan Initiative supportive housing linked to services; the aggregate amount in the consolidated existing competitive programs does not appear to decrease.

- **Hurricane Disaster Assistance Continuation.** The budget provides for \$39 million to continue housing aid to persons displaced by Hurricanes Katrina and Rita, maintaining the program through expiration in March 2009.
- **Lead-Based Paint Reduction.** The budget cuts grants to localities for lead-based paint abatement to \$116 million, a 20% reduction from \$145 million in FY2008.

COMMUNITY / ECONOMIC DEVELOPMENT

The budget recycles some prior funding reductions and restructuring of federal community and economic development activities. These changes include the annual proposed cut in Community Development Block Grant funding and call for fundamental formula reform, as well as elimination of or reductions to other federal economic development programs.

- **Community Development Block Grant (CDBG).** For the CDBG formula grant program, the budget proposes \$2.93 billion, down from \$3.59 billion in FY2008 (discounting the additional \$206 million in FY2008 earmarked projects not distributed by formula). In addition, the FY2009 budget request repeats legislative proposals for reforms of the CDBG allocation formulas, as first proposed in 2006. These reforms purport to target funds at “higher-need” areas by modifying the definition and weight of criteria for poverty, female-headed households, overcrowding, and housing stock age, following Alternative #4 in the HUD report released in February 2005 (www.huduser.org/Publications/pdf/CDBGAssess.pdf). The reforms also incorporate a new competitive bonus fund, previously sought at \$200 million, for which certain localities would be deemed eligible by meeting performance measurement standards and targeting formula funding use. Although CDBG formula revisions ultimately may be possible sometime in the future, any near-term reform remains unviable, especially during an election year with so many negatively impacted areas, including those represented by congressional leaders on the relevant committees of jurisdiction.
- **Section 108 Loan Guarantees.** The budget repeats an annual proposal to eliminate the program that leverages future CDBG allocations as security for loans to enable current large-scale physical development project financing. Congress provided \$205 million in loan guarantee authority for FY2008, actually increasing the amount from \$138 million in FY2007, indicating that the budget elimination again will be rejected.
- **Brownfields.** The Environmental Protection Agency budget proposal includes level funding of about \$93.6 million toward Brownfields assessment activities and capitalization of revolving loan funds for clean-up, financing interventions in about 1,000 properties. Meanwhile, the HUD Brownfields Economic Development Initiative program again is unfunded in the budget request, and proposed for elimination as part of broader CDBG reforms; Congress continued to appropriate \$10 million for the HUD program in FY2008 and FY2007.

- **Economic Development Administration.** The Department of Commerce budget includes \$100 million for EDA grant programs, a cut of nearly 60% from \$249 million appropriated in FY2008. The budget appears to drop prior the Administration's prior consolidation recommendations for a new Regional Development Account (RDA) program which failed to gain congressional support over three years, beginning with the Strengthening America's Communities Initiative as CDBG reform and reshaped in FY2007 and FY2008 as a new competitive grant for regional, multi-jurisdictional initiatives enhancing innovation.
- **Small Business Administration.** The budget cuts small-business counseling programs, including Small Business Development Center funding at \$87 million, a decrease of \$10 million from FY2008, and Women's Business Centers at \$12 million, a \$1 million reduction. In addition, the budget eliminates all subsidies for SBA Microloan programs, worth \$17 million in FY2008. Most new financing is targeted to \$174 million for the disaster loan program.

EMPLOYMENT AND WORKFORCE DEVELOPMENT

Once again, the budget seeks dramatic cuts in discretionary spending for workforce development, including a total of \$1 billion from various federal job training programs under the Workforce Investment Act (WIA), building off the \$250 million rescission enacted in FY2008. In tandem, the budget proposal generally recycles prior program consolidation proposals advanced during WIA reauthorization debates; in the 109th Congress, the House and Senate passed different versions of legislation that included portions of these proposals, but never reached an agreement on a final measure, and no action should be anticipated in the current session.

- **Workforce Investment Act (WIA) Consolidation / Career Advancement Accounts.** As in the past five years, the budget proposes a WIA funding package based on consolidation of the **Adult Training Program, Dislocated Worker Program, Youth Program, Employment Service Program, Work Opportunity Tax Credit, and Workforce Information.** The proposal effectively merges these programs into a block state grant and directs the vast majority of funding to new self-directed **Career Advancement Accounts** that allow prior WIA service recipients to "purchase" their own education and training from other sources. However, under a new feature in the budget, States would further invest in training with a 20% match of federal funds used for Career Advancement Accounts.

The funding for the consolidated WIA Reform and Career Advancement Account proposal totals \$2.8 billion, actually cutting the program funding by about \$600 million from FY2008 levels, and more deeply than last year's proposed reduction.

Given the annual lack of success in moving the overall reform proposal, the budget also includes specific amounts for each primary service program (Adult Training - \$712 million; Dislocated Worker - \$943 million; Youth Program - \$840.5 million), and allows local workforce investment boards to transfer up to 40% of those amounts among the programs with State approval.

- **Job Corps.** The budget requests a funding level of \$1.56 billion, including \$110 million for facilities construction, an almost \$40 million increase from the \$1.52 billion appropriated in FY2008. The proposal yet again seeks the return of the program to the responsibility of the ETA after the FY2006 appropriations bill transferred administration of the program to the Office of the Secretary of Labor.
- **Reintegration of Ex-Offenders.** Last year's budget proposed merging the Prisoner Re-entry Initiative and Responsible Reintegration of Youthful Offenders program and reducing the aggregate funding of the single program to \$40 million, a 45% cut. Congress adopted the consolidation proposal but sustained \$74.8 million for the new Reintegration of Ex-Offenders program in the FY08 omnibus bill. In the current budget, the President proposes \$39.6 million for the program, a 47% reduction from FY2008 appropriated funds.
- **Senior Community Service Employment Program (SCSEP).** The budget proposes to fund the program providing community service jobs for low-income seniors at \$350 million, reduced by 33% from \$526 million in FY2008. The budget notes that the program was rated "Ineffective" by the Department of Labor and the Office of Management and Budget. The budget asserts that the Older Americans Act reauthorization in 2006 was inadequate to address competition, redundancy with other programs, and lack of success in getting participants to unsubsidized employment, but congressional interests again are likely to reject the cut.
- **Community-Based Job Training Grants.** The budget request includes \$125 million for technical and community colleges to partner with industry on localized training for unemployed and underemployed workers, decreasing from \$150 million expected in FY2008.
- **YouthBuild.** Per legislation approved in 2007, the budget transfers the YouthBuild program from the Department of Housing and Urban Development to the Department of Labor. The budget requests \$50 million, a cut from nearly \$60 million in FY2008.
- **Job Training for High-Growth Industries.** The budget notes intended use of H1-B Visa fees available without appropriations action to support special initiatives in high-growth economic sectors, such as the prior High Growth Job Training Initiative (HGJTI) and the Workforce Innovation in Regional Economic Development (WIRED) Initiative. The budget identifies future use of funds for programming around strategies for integrated education and workforce development within regional economic clusters; development of new technology-based learning curricula; promotion of apprenticeships and internships; and partnerships with industry to address untapped labor pools. The budget also forecasts providing third-year funding to prior WIRED grant recipients.
- **Foreign Labor Certification.** The budget proposes authorization of three cost-based fees to ensure funding to meet current and future increases in workloads in the H-2A Temporary Agricultural Program, the H-2B Temporary Labor Certification Program, and the Permanent Labor Certification Program. The objective of the program is to address concerns about timely

processing of foreign labor applications. The budget proposes \$77 million for the program -- \$59 million for administration and \$18 million for state grants.

HEALTH

The budget proposal for the Department of Health and Human Services (HHS) allows a modest overall increase of \$15.6 billion over FY2008 levels, but proposed discretionary spending is cut by nearly \$2.2 billion. Nearly 85% of all HHS spending goes to Medicaid and Medicare entitlements, and the budget includes new legislative proposals and administrative actions to reduce the growth of spending in these programs. In the health arena, the Health Resources Services Administration public health programs would be cut by \$995 million, and Centers for Disease Control by \$412 million. The few non-entitlement health-related areas where increased funding is sought center on State Children's Health Insurance Program (SCHIP), abstinence education, health information technology (health IT), and food protection.

- **Medicare.** The budget emphasizes addressing the projected fiscal crisis in the Medicare Trust Fund. Therefore, the budget includes a package of legislative proposals designed slow the growth of Medicare spending and reduce average annual growth rate over five years from 7.2% to 5%. Proposals include a 0.4% automatic pay cut to health providers in every year that federal outlays exceed 45% of general revenue, which has occurred in the past two years, increased premiums for high-income seniors, and a range of other measures that are not viable for serious consideration this year.
- **Medicaid.** Although a state-level program, many local governments are responsible for public hospitals or services that involve Medicaid funding issues. Like Medicare, the budget proposes to slow the annual growth in Medicaid spending over the next five years from 7.4% per year to 7.1%, along with direct changes creating \$2 billion in savings in FY2009 and approximately \$17.4 billion over five years. These proposals include introducing pay-for-performance systems, eliminating Graduate Medical Education payments, and other measures that previously have not been well received by Congress.
- **State Children's Health Insurance Program (SCHIP).** Addressing a potential compromise in the stand-off between House-Senate leadership and the Administration, the budget proposes to reauthorize SCHIP for \$19.7 billion through FY2013 and includes \$450 million to States for outreach efforts to eligible uninsured children, with \$50 million available in FY2009 and \$100 million each additional year. The Administration continues to focus on a mandate that States cover only children under 200% of poverty, with some exceptions for coverage up to 250%. The SCHIP budget proposal increase over recent years is due to conflicts with congressional leadership, which seeks to flex certain eligibility requirements and expand coverage to additional populations, such as pregnant women.
- **HIV/AIDS.** The budget requests \$2.17 billion for Ryan White activities, relatively level funding from FY2008 with slight reductions in Emergency Relief - Part A. Proposed increases to

existing funding for therapies through the State drug assistance grants focus on the provision of anti-retroviral and other therapies for low-income and underinsured individuals.

- **Preventive Health and Health Services Block Grants.** For the fourth year, the budget proposes to eliminate the Preventative Health and Health Services block grant, expected to be funded at \$97 million in FY2008. Many local health departments receive core operating funds supporting personnel and program costs via State passthrough. The budget justification notes areas of higher priority and asserts that the effectiveness of these funds is difficult to track and overlap with other program purposes.
- **Chronic Disease Prevention and Health Promotion.** The budget proposes \$805 million in competitive grants to States, a reduction of \$29 million, focusing on the use of early detection practices, surveillance, and prevention research.
- **Community Health Centers.** The budget includes \$27 million for continued construction of additional Community Health Centers in underserved or distressed areas, funding up to 40 new access point grants in high poverty areas without access to a Health Center, with 25 planning grants.
- **Abstinence Education.** The budget raises funding for abstinence programs to \$191 million, a \$28 million increase.
- **Adolescent Health.** The budget includes \$114 million, an increase of \$12 million over FY2008, for grants to States and localities to support the development of comprehensive community-based systems of care for children and adolescents with serious emotional disorders.
- **Health Information Technology and Quality Initiatives.** The budget request for the Office of the National Coordinator for Health Information Technology (ONC) is \$66 million, or \$6 million over FY 2008, focusing on efforts to increase access to electronic health records (EHR). The budget also makes requests for other agencies within HHS to advance the administration's Health IT agenda, including \$45 million within the Agency for Healthcare Research and Quality for IT investments related to patient safety and \$3.8 million within the Center for Medicare and Medicaid Services to incentivize physicians to adopt EHR systems.

HUMAN SERVICES

The budget for human service programs repeats prior proposals for drastic cuts and eliminations of core social programs. Overall, funding to HHS discretionary programs would be \$68.5 billion, an approximately \$2.2 billion reduction.

- **Temporary Assistance for Needy Families (TANF).** The TANF program was reauthorized for 2006 through 2010, and offers a legislative proposal to extend the authorization for Supplemental Grants in certain states through 2010. These grants are worth \$319 million per year to certain states that must deal with increased populations or an inordinately low welfare

spending baseline, and are otherwise set to expire at year end. The budget again includes a spending-neutral proposal to set equal treatment for two-parent and single-parent families in requiring the same state work participation rates.

- **Foster Care, Adoption Assistance, and Independent Living Programs.** Although foster care programs are funded through States, localities play a leading role in implementation, and the budget again incorporates legislative recommendations that would change the functioning of the program. Once again, the budget proposes the “Child Welfare Program Option” allowing States to opt for greater flexibility in program operation and eligible activities in exchange for a set allocation over a five-year funding cycle; as caseloads are declining, the set allocation may yield a higher long-term funding return. The budget would significantly increase state adoption incentives, from \$5 million in FY2008 to \$20 million in FY2009, particularly targeted through proposed legislation for children over age 9 and those with special needs under age 9.
- **Community Services Block Grant (CSBG).** The budget again proposes elimination of the CSBG formula program, and three smaller but related programs, to save a total of \$698 million. Many municipalities are the direct grantees of substantial CSBG funding for core social safety net services, or will need to fill gaps in services currently provided by nonprofit recipients. The budget criticizes the program for redundancy in purposes, not being awarded competitively, and lacking grantee oversight and accountability. However, CSBG has been consistently funded through Congress in recent years, including an increase in FY2008. It also is due for reauthorization, yet will unlikely progress due to a number of other programs also pending.
- **Social Service Block Grant (SSBG).** The budget again proposes a \$500 million reduction, to \$1.2 billion, with the intent of eliminating the program entirely by FY2010. The budget justification asserts that cuts are appropriate because it has failed to demonstrate measurable results, SSBG’s value is difficult to assess when it overlaps with other federal programs, and that scarce federal resources are better spent on targeted programs. SSBG finances many local government safety net program activities.
- **Low Income Home Energy Assistance Program (LIHEAP).** The budget seeks \$2 billion in LIHEAP, a \$570 million cut from FY2008. The Administration sought a \$400 million cut in FY2008, but Congress instead increased the amount by \$400 million. In the Senate economic stimulus package, a bipartisan amendment is anticipated seeking up to \$1 billion more for LIHEAP this year. Congress clearly will not be receptive to this proposal.
- **Head Start.** The budget would slightly increase Head Start funding, including Early Head Start, to \$7 billion, in order to maintain current enrollment levels. With program reauthorization completed, the budget no longer references the previously proposed demonstration program shifting management of Head Start to States for integration with other early childhood development programs or efforts to refocus Head Start as a school readiness program.
- **Compassion Capital Fund / Communities Empowering Youth Initiative.** The budget again proposes to finance the Compassion Capital Fund at \$75 million, an increase of \$22

million over FY2008 levels. Of that amount, \$40 million will be granted to intermediary organizations with experience in providing training and technical assistance to smaller faith-based and community organizations. The remaining \$35 million would still target the Communities Empowering Youth program, a faith- and community group-based program to connect at-risk youth with support programs, social services, and healthy activities as an alternative to gang involvement.

- **Mentoring Children of Prisoners.** The budget maintains relatively level funding at \$50 million for grants to entities that provide one-on-one mentoring to children of incarcerated or recently released parents.
- **Nutrition Programs.** The budget anticipates a slight increase in Food Stamp eligibility and costs of \$40.2 billion to provide full funding. It also raises the WIC program to \$6.3 billion, a \$46 million increase over FY2008 to support nutrition for pregnant women, infants and children up to their fifth birthday. For the third year, the budget proposes changes in calculating eligibility for food stamps, limiting categorical eligibility to only families that receive cash assistance through TANF Supplemental Security Income programs, but also lowering income thresholds by excluding college and retirement savings, as well as child care expenses.
- **Administration on Aging.** Overall funding for the Administration is reduced by about \$32 million, mostly due to elimination in funding for preventive health services and Alzheimer's Disease Demonstration grants. The proposal would provide \$28 million for the Choices for Independence demonstration projects, an increase of nearly \$12 million over FY2008 enacted levels, which seeks to empower older individuals and their families to make informed decisions about long-term care options. The program funding encourages seniors and their families to plan for long-term care and to conserve of personal resources through the use of community-based alternatives to nursing homes. The budget request also maintains level funding of \$351 million for nutrition, support services and caregiver assistance through formula grant programs to the national aging services network.

EDUCATION

As highlighted in the President's State of the Union address, the top education priority of the Administration is the reauthorization of the No Child Left Behind (NCLB) Act, and the budget proposal reflects that goal with \$24.5 billion designated for NCLB programs, an increase of \$127 million from FY2008. Increased funding is focused on reading skills and math and science instruction, as well as providing more resources targeted to high schools, underperforming schools, and low-income students. However, by ignoring Democratic-favored priorities, both the NCLB reauthorization and most budget recommendations are unlikely to be adopted by Congress.

- **Elementary and Secondary Education Act, Title I.** The budget provides \$14.3 billion for Title I grants, a \$406 million or 2.9% increase. The budget also provides \$491 million for Improvement Grants directed at low-performing schools and \$409 million for State Assessment Grants for the development and implementation of high school college readiness assessments.

- **Reading First State Grants.** As a key priority of the Administration, the Reading First State Grant program includes \$1 billion to improve the reading skills of students in high-poverty, low-performing elementary schools; it is an increase of \$607 million from FY2008. The Early Reading First program would be continued at the FY2008 level of \$112.5 million. Also, the budget significantly increases the funding for the Striving Readers program by \$65 million to \$100 million, a 186% increase.
- **School Choice.** The budget includes \$1.1 billion for two new programs to offer educational alternatives to low-income families with students in low-performing schools -- \$300 million for a new Pell Grants for Kids Program and \$800 million for a reauthorized and renamed 21st Century Learning Opportunities program. Unlikely to be successful in a Democratically-controlled Congress, the new Pell Grants for Kids program would provide scholarships -- effectively vouchers -- to students to enable them to transfer to out-of-district public schools or local private schools. A recasted version of the Promise Scholarships and Opportunity Scholarships proposed and rejected in FY2008, the program would make competitive awards to states, municipalities, school districts, and public or private non-profit organizations to develop programs for eligible students. 21st Century Learning Opportunities program reforms its predecessor into an after- or summer-school scholarship program, and state agencies would make competitive awards to public or private nonprofit organizations.
- **American Competitiveness Initiative (ACI).** The budget proposes \$175 million for programs aimed at improving math and science education, an increase of \$131.5 million. Specifically, the budget seeks (1) \$95 million for Math Now, a program to enhance math instruction to elementary and middle school students; (2) \$70 million for the Advanced Placement and International Baccalaureate program to encourage students from high-need schools to take AP courses and to support AP teacher training; and (3) \$10 million for the Adjunct Teacher Corps to create opportunities for industry professionals in math and science to teach in high-need secondary schools on a part-time or full-time basis.
- **Teacher Incentive Fund.** The budget proposes \$200 million for the initiative to help recruit teachers to high-need schools and offer merit pay programs for teachers who demonstrate progress in closing student achievement gaps. This represents a \$103 million increase over FY2008 funding.
- **Higher Education.** The budget increases the maximum Pell Grant to \$4600 in 2008 (up \$69). The FY2009 request increase sets the Pell Grant program back on the 5-year path to a \$5,400 maximum award in year 2012-2013, as envisioned in the FY2008 budget proposal and implemented by the College Cost Reduction and Access Act. With respect to Academic Competitive Grants (ACG) and SMART Grants, the lack of participation in the programs caused Congress to rescind \$525 million in unneeded ACG/SMART balances in 2008. The Administration, therefore, requests \$960 million for the programs, but proposes to cancel an additional \$652 million in unneeded balances in FY2009. The budget does not seek to increase the amount of the award given to student recipients. Although proposed for elimination in 2007, the budget provides \$303 million for Gaining Early Awareness and Readiness for

Undergraduate Education Programs (GEAR UP) and \$885 million for the Federal TRIO Programs, which provide educational outreach and services to help disadvantaged students enter college. The requests maintain funding at the 2008 level.

- **Notable Program Eliminations and Reductions.** The budget once more seeks to eliminate or consolidate 47 programs that total about \$3.3 billion, such as Even Start (\$66.5 million), Federal Supplemental Educational Opportunity Grants (\$758 million), Mentoring Program (\$49 million), and Smaller Learning Communities (\$80 million), among others; many have been targeted for elimination in prior years, but Congress continued to provide funding. In addition, the budget eliminates funding for several State grant programs, including Career and Technical Education State Grants (\$1.2 billion), Educational Technology State Grants (\$268 million), and Tech-Prep Education State Grants (\$103 million).

ENVIRONMENT AND WATER RESOURCES

Environmental and water-related funding again would decrease in the budget proposal. Overall EPA discretionary spending is at \$7.1 billion, down from \$7.5 billion in FY2008. Most water resource project funds would again decline across the Environmental Protection Agency (EPA), Department of Interior/Bureau of Reclamation, and the Army Corps of Engineers.

However, of particular interest is an alternative infrastructure financing proposal to exempt from the unified state volume cap any Private Activity Bonds (PABs) that are used to finance drinking water and wastewater infrastructure. PABs are tax-exempt bonds issued by state or local governments, the proceeds of which are used by another entity for a public purpose or by the government entity itself for certain public-private partnerships. By removing the aggregate limit on the amount of PABs that can be issued when used for water or sewage facilities, this proposal can provide greater access to help finance and increase capital investments in water.

- **EPA Climate Change Programs.** The budget does not propose increased funding for EPA climate change activities, despite the continued congressional press for more aggressive strategies to reducing greenhouse gas emissions. The EPA budget includes \$98 million for climate change programs, \$16 million for global climate change research, and a proposal to zero-out modest funding for the Greenhouse Gas Reporting Registry. In addition, EPA focuses on continuation of small-scale programs such as Methane-to-Markets, with level funding of \$4.4 million to pursue methane recovery at landfills and other generating sites, and a modest decrease to \$44 million in the popular Energy Star program.
- **EPA Diesel Emissions Reduction Program.** The budget proposes an increase to \$49 million to target grants for port, school bus, freight, construction, and agriculture sector diesel emission reductions in areas of the country that do not meet national ambient air quality standards. In 2009, EPA will manage the program by issuing various categories of Diesel Emission Reduction grants; 70% of these funds would be used to establish competitive National Clean Diesel Campaign grants, up to 10% of which is targeted to new port-related technologies.

- **EPA Clean Water State Revolving Fund (CWSRF)**. The budget again proposes a significant cut in CWSRF funding, the primary source of federal support for municipal wastewater infrastructure improvements. It requests \$555 million, a reduction of \$134 million compared to the FY2008 enacted levels. However, this proposal is consistent with achieving the capitalization target of \$6.8 billion by 2011, and a long-term sustainable revolving fund of \$3.4 billion into the future.
- **EPA Drinking Water State Revolving Fund (DWSRF)**. The budget request modestly increases DWSRF funding to \$842 million, to assist states and communities in increasing the number of homes connected to drinkable water supplies and wastewater collection and treatment systems. The budget request also includes nearly \$11 million in funding for the Underground Injection Control program, including experimental carbon sequestration projects. Information collected would be used to permit large-scale commercial demonstration projects to help coal-fired power plants meet more aggressive climate change-related initiatives.
- **EPA Superfund**. The budget requests a \$10.2 million increase, for a total of \$1.264 billion, a relatively level \$827 million of which is dedicated to cleanup projects.
- **Army Corps of Engineers**. The FY2009 budget proposes to reduce Corps funding to \$4.74 billion. The budget dedicates \$1.478 billion to finance 80 identified construction projects nationwide. The budget also includes increased funding for operation and maintenance programs to \$2.638 billion, and level funding of \$180 million for the Regulatory Program.

The FY2009 construction program will use six performance-based guidelines to guide the allocation of funding towards the highest performing construction projects. One key performance measure includes project rankings -- flood and storm damage reduction, navigation and hydropower projects, for example, are ranked by their Benefit-to-Cost Ratio.

The budget significantly reduces the Continuing Authority programs for activities that do not require specific legislation --

- Aquatic Ecosystem Restoration (Section 206) - \$10.3 million
- Project Modifications that Improve the Environment (Section 1135) - \$6.5 million
- Small Flood Control (Section 205) - \$2.6 million
- Estuary Restoration Program -- level at \$5 million
- Emergency Streambank and Shoreline Protection -- increased to \$2.3 million

The budget again includes targeted funding for emergency preparedness and to reduce the damage caused by natural disasters, proposing a level \$40 million program budget. In addition, the budget includes \$10 million to continue the national inventory and assessment of flood and storm damage reduction projects, and \$15 million to assess the safety of dams under the care of the Corps.

As in prior fiscal years, the budget transfers several activities from the construction program to the operation and maintenance (O&M) program, making it somewhat easier to finance those activities because they no longer have to compete as “new starts” in the construction account. The O&M program now includes compliance with the Endangered Species Act at operating projects, rehabilitation of existing projects, use of maintenance dredging material, and replacement of sand lost to the operation and maintenance of Federal navigation projects.

Also as in previous years, the budget proposes that the Corps not undertake ongoing beach renourishment projects unrelated to mitigating the impacts of Federal navigation projects, giving local sponsors the responsibility for maintaining long-term renourishment after initial nourishment work is performed; a broad coalition of States and local beach communities successfully opposed this proposal in the past four appropriations cycles.

Support for recreation activities is relatively level at \$270 million, and the budget again proposes a recreation facility modernization program that would allow the Corp to collect additional user fees and partner with non-federal interests to upgrade recreation facilities.

- **Bureau of Reclamation.** The budget seeks \$779 million for water and related resources, down \$170 million from FY2008. It includes only \$7 million in line-items for ongoing Title XVI authorized water reclamation construction programs, compared to \$23.6 million appropriated in FY2008. The budget reduces proposed funding for the CalFed Bay-Delta Program to \$32 million, site security to a total of \$29 million (assuming that the annual costs associated with guard and patrol activities will be treated as project operations and maintenance costs, subject to reimbursement based upon project cost allocations); but modestly increases funding to \$16 million for Lower Colorado River operations. The budget also proposes a new “Water for America Initiative,” consolidating programs like Water 2025 with U.S. Geological Survey support into a \$21 million effort to fund basin watershed planning, small-scale geographic studies, and challenge grants.

RECREATION AND HERITAGE RESOURCES

The budget continues to provide relatively meager funding for grants to support local parks and recreation, but proposes modest increases for the National Park Service and slight increases in heritage and tourism promotion programs.

- **National Park Service.** In planning for the NPS centennial in 2016, the budget seeks \$2.1 billion for parks operations an increase of about 8% or \$161 million. However, the proposal would reduce funding for park construction activities. The budget also omits a prior request for the new Centennial Challenge Initiative, funded in FY2008 at \$25 million. Instead, the Administration defers until Congress passes legislation that would create a mandatory program for the federal government to match up to \$100 million per year in private donations for ten years. For jurisdictions with national parkland, this continues to offer a notable opportunity to leverage recreational resources.

- **Land and Water Conservation Fund State Assistance.** The budget request again seeks to eliminate the marginal State assistance program, reduced from \$25 million in FY2008. These grants continue to be the primary source of pass-through federal funding to support local parks.
- **Historic Preservation Fund.** The budget proposes a total of \$66.7 million for heritage preservation and promotion activities, an decrease of \$5 million from the FY2008 appropriation. The budget funds Save America's Treasure Grants at \$15 million. The budget maintains an increase to the Preserve America program proposed in FY2008 and FY2007, seeking \$10 million for competitive grants to communities undertaking heritage tourism activities.

ENERGY

The budget request of \$25 billion for the Department of Energy supports initiatives to advance clean energy alternatives through energy efficiency promotion, and scientific research and demonstrations, some of which have direct bearing on local government operations or power and environmental and economic development priorities. In comparison to prior years, it reduces overall funding for energy efficiency and renewable energy programs by 27% to \$1.25 billion, cutting support for solar energy but funneling more money towards biomass and geothermal technology.

- **Energy Efficiency and Conservation Block Grant (EECBG).** The budget ignores the recently enacted \$2 billion authorization of the EECBG to local and state governments, and provides no funding to the new program.
- **The American Competitiveness Initiative.** The budget proposes \$4.7 billion for the third year of the American Competitiveness Initiative, approximately \$748.8 million above the FY2008 appropriations amount, to strengthen scientific research and facilities.
- **The Advanced Energy Initiative (AEI).** The budget requests \$3.2 billion for the Advanced Energy Initiative, a 19% increase over last year's budget request and \$623 million above the FY2008 enacted appropriation. The AEI seeks to reduce U.S. dependence on foreign sources of energy while promoting the development of cleaner sources of electricity. AEI supports a wide-range of energy alternatives including promoting the licensing of new nuclear power plants, furthering vehicle technology programs, and investing in the cost-competitiveness of solar power.
- **Office of Energy and Renewable Energy (EERE).** The budget seeks \$1.25 billion to support energy technologies, including fuels and vehicles (\$592 million), renewable power (\$242 million), and energy efficiency (\$186 million) programs. Specifically, the budget provides:
 - **Solar America Initiative.** \$225 million, \$156 million from EERE and \$69 million from the Office of Science, to continue efforts toward making solar technology cost competitive with conventional electricity by 2025, including special programs to help municipal governments evaluate and implement solar projects.

- Wind Power Research and Development. \$52.5 million to develop technology in partnership with industry to allow wind power to be cost-competitive in lower-wind speed areas.
- Biomass. \$225 million to achieve President Bush's goal for cost-competitive, commercial scale cellulosic ethanol by 2012, using a wide array of regionally available biomass sources. The program supports research, development, and technology validation.
- Hydrogen Fuel Initiative. \$196 million to support the development of commercially viable hydrogen technologies and fuel cell vehicles that produce little air pollution of greenhouse gas emissions by 2020.
- Coal Research Initiative. Funding priorities include: DOE's restructured FutureGen approach (\$156 million); the Clean Coal Power Initiative (\$85 million), which will issue solicitations this year for its third round of projects focused on carbon capture and storage technologies; and \$407 million for advanced coal research and development activities including Carbon Sequestration Regional Partnerships (\$149 million) for continued work to inject up to one million tons of carbon dioxide into several types of geologic formations. The budget request comes after the Administration backed out of the FutureGen Project last week. The Project was a partnership between the government and an industry group to build a \$1.8 billion clean coal power test plant in Illinois. The Administration claimed it favored smaller test projects at multiple coal-fired power plants.
- Nuclear Power 2010. To address the immediate need for nuclear power expansion domestically and encourage a public-private partnership to develop advance nuclear power plants, the program seeks \$242 million to support industry cost-shared, near-term technology development and licensing demonstration activities.
- Weatherization. The budget eliminates the \$286 million national weatherization program to help low-income households achieve greater energy efficiency and cost savings.