

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Betsy Shotwell

SUBJECT: SEE BELOW

DATE: February 22, 2016

Approved

D. D. SyL

Date

2/24/16

INFORMATION

SUBJECT: SQUIRE PATTON BOGGS ANALYSIS OF THE PRESIDENT'S BUDGET PROPOSAL FOR FY 2017

On February 9, the President released his proposed \$4.7 trillion budget for FY 2017 which starts October 1. In a rare move, neither the Senate nor the House Budget Committees have asked the President's director of the Office of Budget and Management to testify about the package. The President's spending plan however will undoubtedly shape the debate in Congress and will provide a blueprint for approaching many domestic programs.

According to the City's lobbyist firm of Squire Patton Boggs, (SPB) the President's \$4.7 trillion budget outlines the Administration's priorities and provides a road map for the last year of the President's Administration. It also is the first step in the FY 2017 budget and appropriations process as House and Senate Appropriations Committees will soon begin crafting their own budget proposals.

Of particular note is that the President's Budget proposes to pay for many new spending initiatives by imposing new taxes on the wealthy, as well as putting a new \$10.25 per barrel tax on crude oil – to fund The 21st Century Plan -- which would push deficits down again for a couple of years and offset the cost of the President's proposed initiatives. The President proposed 21st Century Plan would help to pay for more than \$300 billion in infrastructure improvements over ten years. Other notable proposals in the President's FY 17 Budget include funding \$11 billion over ten years to end homelessness and significantly expand rapid rehousing and start a new program Housing Choice Vouchers; funding for the Global Climate Change Initiative; funding to fight opioid and heroin abuse and an initiative to fight cancer; funding for Clean Energy R&D; increasing the duration of Head Start; supporting universal preschool, and providing tuition-free community colleges.

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In addition, Squire Patton Boggs report includes an analysis of specific budget highlights that concern: cybersecurity, education, employment and workforce development, energy, financial services, health and social services, homeland security, emergency management, local law enforcement, housing, homelessness, community development and taxes and revenues.

This information and analysis will assist the City as we carry forward San Jose's 2016 Federal Legislative Priorities and develop strategies to work effectively with the Administration and the 114th Congress in the final year of President Obama's term in office.

/s/

BETSY SHOTWELL

Director, Intergovernmental Relations

For more information please contact Betsy Shotwell, Director of Intergovernmental Relations at (408) 535-8270.

Attachment: FY 2017 President's Budget Proposal: Analysis Related to Administration Funding and Policy Priorities



MEMORANDUM

From: Squire Patton Boggs LLP
Date: February 11, 2016
Subject: FY 2017 President's Budget Proposal: Analysis Related to Administration Funding and Policy Priorities

This document analyzes President Obama's Fiscal Year 2017 (FY 2017) Budget Proposal, focusing on issues of interest to local governments, educational institutions, healthcare organizations, public agencies, and others. This analysis highlights relevant policy, programs, and funding proposals in the Budget and assesses impacts, opportunities, and prospects for action.

Specific budgetary highlights are summarized under topical categories:

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INTRODUCTION

Vying for attention (and losing) with the New Hampshire primaries, on February 9, President Obama sent the final budget proposal of his presidency to Congress. The FY 2017 \$4.15 trillion package was declared dead on arrival by Congressional Republicans who, in a sharp departure with years of tradition, announced that they will not hold a hearing on it.

The Budget would increase total spending by 4.9%, mainly as a result of increases in mandatory programs, most notably Social Security and a rise in interest payments on the national debt. The proposed Defense budget is \$582.7 billion, close to the FY 2016 overall budget. The President's proposal does abide by the discretionary caps set for FY 2017 by the bipartisan budget deal crafted last year. The President avoids discretionary spending limits set in the budget deal by proposing his new initiatives be classified as "mandatory spending," which encompasses his \$11 billion new homelessness initiative, along with the \$1 billion to combat opioid and heroin abuse. These initiatives would require Congressional approval, and, as such, the Budget is more aspirational than it is pragmatic. On the pragmatic side, it is expected that the \$19 billion request for cybersecurity funding, spread over a number of federal agencies, might gain some traction in Congress, as might the appeal to strengthen the earned income tax credit for workers not raising children. Additionally, there is some bipartisan support for dealing with the opioid crisis.

To fund the FY 2017 Budget, the Administration has set forth proposals to raise trillions of dollars, including more than \$2.6 trillion in tax revenues by imposing a minimum and repatriation tax on foreign earnings, raising the top tax rate on capital gains, imposing a new fee on large financial firms, implementing the "Buffett Rule" (a proposal to require wealthy individuals to pay at least 30% of their income in taxes), and imposing a \$10.25 per barrel tax on oil.

Notable proposals in the FY 2017 Budget include:

- \$1.3 billion in international climate change assistance through the Global Climate Change Initiative;
- \$4 million for the Defense Department to begin planning a round of base closures (BRAC) to begin in 2019;
- \$1 billion to fight opioid and heroin abuse;
- \$1 billion "moonshot" initiative to fight cancer;
- \$320 billion over ten years in a multi-agency initiative to build a clean and efficient transportation system;
- \$7.7 billion for Clean Energy R&D;
- Increasing duration of Head Start, supporting universal preschool, providing tuition-free community colleges;
- Expanding paid leave by dedicating \$2 billion for the Paid Leave partnership to help five states launch paid family and medical leave policies;
- \$11 billion to end chronic and family homelessness; and
- \$1.8 billion to fight the Zika virus.

The release of the President's Budget kicks off the FY 2017 budget and appropriations process, which will begin soon in the House and the Senate, and sets up a confrontation with the Republican-controlled Congress. This budget outlines the President's priorities for the last year of his presidency

and, along with the concomitant response from Congress, echoes many of the themes in this Presidential election year.

INFRASTRUCTURE: TRANSPORTATION & WATER

DEPARTMENT OF TRANSPORTATION

FAST Act: The President's FY 2017 Budget proposes the same obligation levels for highway and transit programs financed from the Highway Trust Fund (HTF) as in the Fixing America's Surface Transportation (FAST) Act. Most of the highway and transit programs in the FAST Act, which authorized \$305 billion over fiscal years 2016 to 2020, are contract authority funded from the HTF and therefore not subject to appropriations.

New Programs: The President's Budget proposes a new 21st Century Clean Transportation Plan (21st Century Plan). The 21st Century Plan would be financed through a \$10.25 per-barrel fee on oil, generating \$320 billion over 10 years, and would be in addition to the FAST Act's funding levels. The 21st Century Plan would increase transportation spending by an average \$30 billion per year over the next ten years, including \$17.94 billion in FY 2017. It is intended to reduce traffic while adapting to emerging technologies and developing sustainable systems. Once again, the President's Budget proposes establishing a National Infrastructure Bank and reorganizing the HTF as the Transportation Trust Fund, incorporating existing HTF programs, transit, passenger rail, highway safety, and multimodal programs.

- **Federal Highway Administration:** \$7.5 billion (new programs).
 - 21st Century Regions Grant Program: \$1 billion, to provide funding to Metropolitan Planning Organizations to build regional-scale multimodal projects.
 - Future Freight System: \$2 billion, to further modernize the Nation's freight system and fund other critical multimodal modernization projects.
 - Climate-Smart Performance Formula Funds: \$2 billion, to reward states that use federal funding to reduce greenhouse gas emissions.
 - Clean Communities Grant Program: \$1 billion, to support transit oriented development, reconnect downtowns, clean up brownfields, and implement complete streets policies, among others.
 - Resilient Transportation Grant Program: \$1.5 billion, for investments that bolster resilience to climate impacts.
- **Federal Transit Administration:**
 - Capital Investment Grants (New Starts/Small Starts): \$3.5 billion (\$2.18 billion in FY 2016).
 - Washington Metropolitan Area Transit Authority (WMATA): \$150 million (\$150 million in FY 2016).
 - 21st Century Clean Transportation Plan: \$6.39 billion (new programs).
 - Transit Formula Grants: \$5.86 billion.
 - Rapid Growth Area Transit Program: \$525 million.
- **Federal Railroad Administration:**
 - Amtrak: \$2.3 billion (\$1.39 billion in FY 2016). The President's Budget restructures Amtrak funding by creating the Current Passenger Rail Service program funded through the Rail Account of the new Transportation Trust Fund. The Budget also

establishes a Rail Service Improvement Program with \$3.7 billion to expand and improve rail networks and provide some positive train control (PTC) funding.

- Safety and Operations: \$213.3 million (\$199 million in FY 2016). This includes support for railroads' implementation of positive train control (PTC).
- Research and Development: \$53.5 million (\$39.1 million in FY 2016).
- 21st Century Clean Transportation Plan:
 - Rail Service Improvement Program: \$3.7 billion (new program).
- **National Highway Traffic Safety Administration**:
 - 21st Century Clean Transportation Plan: Autonomous Vehicle Deployment: \$200 million (new program) funded through the Transportation Trust Fund. The 21st Century Plan proposes spending \$3.9 billion on autonomous vehicle deployment over 10 years.
- **Pipeline and Hazardous Materials Safety Administration**:
 - 21st Century Clean Transportation Plan:
 - Safety Investments: \$150 million (new program).
- **Office of the Secretary**:
 - Research and Technology: \$18 million (\$13 million in FY 2016).
 - Cyber Security Initiative: \$15 million (\$8 million in FY 2016).
 - University Transportation Centers: \$75 million (\$72.5 million in FY 2016).
- **TIGER Grants**: \$1.25 billion annually (\$500 million in FY 2016). The President's Budget would fund TIGER under the Multimodal Account of the new Transportation Trust Fund; it is currently funded from the General Fund.

Aviation: The Budget includes \$15.9 billion for the Federal Aviation Administration (FAA), a reduction of \$380 million from FY 2016. The Budget reduces Grants-in-Aid for Airports by \$450 million, provides \$1 billion for NextGen programs, and provides \$1.3 billion for the Aviation Safety Organization, including an increase of \$2.9 million for the safe integration of Unmanned Aircraft Systems.

- **Federal Aviation Administration**: \$15.9 billion (\$16.28 billion in FY 2016).
 - Grants-in-Aid for Airports: \$2.9 billion (\$3.35 billion in FY 2016).
 - The Budget also again proposes an increase to the passenger facility charge (PFC) limit from \$4.50 to \$8.00 for all commercial service airports and eliminates guaranteed Airport Improvement Program entitlement funding for large hub airports.
 - Facilities and Equipment: \$2.84 billion (\$2.86 billion in FY 2016).
 - Operations: \$9.99 billion (\$9.91 billion in FY 2016).
 - Research, Engineering, and Development: \$167.5 million (\$166 million in FY 2016).
 - Next Generation Programs: \$1 billion (\$980 million in FY 2016).
 - Facilities and Equipment: \$877 million (\$855 million in FY 2016).
 - Research Engineering and Development: \$63 million (\$71 million in FY 2016).
 - Operations: \$60 million (\$55 million in FY 2016).
 - Contract Tower Program: The Budget eliminates guaranteed funding for the Contract Tower program (\$154 million in FY 2016).
 - Essential Air Service: \$254.2 in estimated obligations (\$278.5 in estimated obligations). The FY 2017 Budget includes \$150 million in discretionary funding to supplement \$104 million of mandatory funding from overflight fees.

Transportation Finance: The Budget proposes housing the new National Surface Transportation and Innovative Finance Bureau, created in the FAST Act to administer the Transportation Infrastructure Finance and Innovation Act program, the Railroad Rehabilitation and Improvement Financing program, and the new Nationally Significant Freight and Highway Projects discretionary grant program for freight projects, within the Office of the Secretary.

ENVIRONMENTAL PROTECTION AGENCY

The FY 2017 Budget provides the Environmental Protection Agency (EPA) with \$8.27 billion, a 1.6% increase from the FY 2016 enacted level of \$8.14 billion. The Budget focuses on similar priorities to the FY 2016 Budget Request including: climate change; air and water quality; toxics and chemical safety; clean-up; and supporting state, tribal, and local partnerships. Of note, the FY 2017 Budget includes \$67.2 million to fund the Toxic Substances Control Act (TSCA) Chemical Risk Review and Reduction program to assess new chemicals and existing chemicals.

With regard to the Flint, MI crisis, Senator Ben Cardin (D-MD), who serves on the Senate Committee on Environment and Public Works and on both of the subcommittees responsible for water and infrastructure, has stated concern that the Administration has chosen in its FY 2017 Budget to request a decrease in funding for the Clean Water State Revolving Fund in order to increase funding for the Drinking Water State Revolving fund. Senator Cardin's concern is that the Administration is removing funding from a program that would clean up the polluted Flint River in order to replace Flint's drinking water pipes, at a time when both programs are in need of funding.

The FY 2017 Budget includes \$5 million for the administrative costs (including contracts for legal and financial advisors) of carrying out the Water Infrastructure Finance and Innovation Act (WIFIA) credit assistance program for water infrastructure projects. The budget also requests \$15 million for the costs of direct loans and loan guarantees under WIFIA. This is the President's first request for funding to support WIFIA lending. The Administration also proposed a \$7.1 million allocation for a Water Infrastructure and Resiliency Finance Center to assist communities with financial planning for future public infrastructure investments. The FY 2017 Budget also includes a new a mandatory fund to support the shift towards cleaner vehicle fleets, specifically focusing on school bus upgrades. Finally, the Budget recommends \$1.65 billion over 10 years and up to \$300 million in FY 2017 to renew and increase funding for the Diesel Emission Reduction Act (DERA) program.

- **EPA:** \$8.27 billion (\$8.14 billion in FY 2016).
 - Clean Water State Revolving Fund: \$979.5 million (\$1.39 billion in FY 2016).
 - Drinking Water State Revolving Fund: \$1.02 billion (\$863 million in FY 2016).
 - WIFIA: \$20 million (\$2.2 million in FY 2016).
 - \$5 million for administrative expenses (\$2.2 million in FY 2016).
 - \$15 million for the subsidy costs of loans and loan guarantees (\$0.0 in FY 2016).
 - Brownfields Project: \$90 million (\$80 million in FY 2016).

CORPS OF ENGINEERS—CIVIL WORKS

The FY 2017 Budget provides significantly less funding for the Army Corps of Engineers (ACOE) than the FY 2016 Budget, similar to the President's Budget last year. The FY 2017 Budget focuses on three mission areas for the ACOE: commercial navigation; flood and storm damage reduction; and aquatic ecosystem restoration. The FY 2017 Budget also invests in sustainable and resilient coastal management.

- **ACOE:** \$4.62 billion (\$5.99 billion in FY 2016).
 - Investigations: \$85 million (\$121 million in FY 2016).
 - Construction: \$1.09 billion (\$1.86 billion in FY 2016).
 - Operation and Maintenance: \$2.71 billion (\$3.14 billion in FY 2016)
 - Harbor Maintenance Trust Fund: \$951 million (\$1.2 billion in FY 2016).
 - Inland Waterways Trust Fund: \$33.75 million (full use of estimated revenues).

DEPARTMENT OF THE INTERIOR

- **Bureau of Reclamation, Water, and Related Resources:** \$1.1 billion (\$1.1 billion in FY 2016).
- **National Park Service:** \$3.1 billion (\$2.75 billion in FY 2016).
 - Historic Preservation Fund: \$87.4 million (\$65 million in FY 2016).
 - Land and Water Conservation Fund: \$900 million, which includes \$475 million in discretionary funds and \$425 million in mandatory funds (\$450 million in FY 2016).

AGRICULTURE, NUTRITION PROGRAMS, AND RESEARCH

AGRICULTURE AND NUTRITION PROGRAMS

The President's FY 2017 Budget provides \$24.6 billion, approximately \$1 billion less than FY 2016, for the US Department of Agriculture (USDA). Mandatory funding is estimated at \$130 billion, which is an \$8 billion decrease from FY 2016.

For FY 2017, the Budget seeks to strongly support programs that: (1) invest in rural communities; (2) help new and beginning farmers and ranchers; (3) increase scientific agricultural research and development programs; (4) protect and expand nutrition programs; and (5) seek to address climate change issues.

Nutrition Programs

- **Supplemental Nutrition Assistance Program (SNAP):** \$81.69 billion in total for SNAP, which is an increase of approximately \$840 million from FY 2016. The Budget includes \$466 million to strengthen the SNAP Employment and Training (E&T) program. In an effort to identify and eliminate fraud, waste, and abuse, the Budget provides an additional \$3.8 million to ensure that states are meeting the highest standards of program integrity in administering

SNAP. The Budget also provides an additional \$3 million towards state SNAP E&T program data collection and reporting systems to help states meet the requirements of the forthcoming regulations on E&T data collection and reporting.

- **Child Nutrition Programs:** \$23.23 billion in total, which is a slight increase from FY 2016. The Budget looks to fund child nutrition programs, including the National School Lunch, School Breakfast, Summer Food Service, and Child and Adult Care Food Programs at levels that would support anticipated increases in participation, food cost inflation, and the six-cent performance-based reimbursement rate for school lunches authorized under the Healthy, Hunger-Free Kids Act of 2010. The Budget notes that outdated food service equipment can be a barrier to serving healthier meals on a large scale, and proposes \$35 million in grants to help schools purchase equipment to prepare and serve healthier meals, as well as to expand the school breakfast program. Additionally, the Budget sets aside \$127 million in FY 2017 and \$12.2 billion over ten years to implement a permanent, nationwide Summer Electronic Benefit Transfer (EBT) for Children (SEBTC) Program. This proposal would allow the administration to expand upon the SEBTC pilot program, which sought to reduce food insecurity during the summer for children in low-income households by providing them with additional food assistance.
- **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC):** \$6.35 billion in level funding.
- **Commodity Assistance Program:** \$313 million in total, which is a slight increase from FY 2016. This includes \$59 million, a \$5 million increase from FY 2016, for The Emergency Food Assistance Program (TEFAP) to support soup kitchens and food banks. The Budget seeks to increase access to SNAP for the elderly by providing additional funding for the Commodity Supplemental Food Program. Additionally, the Budget requests \$17 million for the Farmers' Market Nutrition Program (FMNP), which provides WIC participants with vouchers to purchase fresh local fruits, vegetables, and herbs directly from farmers, farmers' markets, and roadside stands. The Seniors' FMNP is funded with \$21 million from the Commodity Credit Corporation.
- **Food Insecurity Nutrition Incentive Program:** \$20 million in mandatory funding for this program, which funds and evaluates projects intended to increase the purchase of fruits and vegetables, and any variety of fruits and vegetables without added sugars, fats, oils, or salt by low-income consumers participating in SNAP.
- **Healthy Food Financing Initiative:** \$1 million for this program, which would fund loans and grants to provide access to healthy foods in underserved areas.

Research Programs

- **Agricultural Research Service (ARS):** \$1.16 billion in total, which is a slight increase from FY 2016. The Budget requests \$212 million for the Environmental Stewardship Program to continue the development of technologies and systems that support profitable production and enhance renewable natural resources. Additionally, the Budget proposes \$106 million for research on food safety and includes requests for the following priority initiatives identified by the USDA:
 - \$22 million to address antimicrobial pathogens of humans and livestock;
 - \$19 million to develop climate-resistant agricultural production systems;
 - \$10 million to address the threat of avian influenza and foreign animal diseases;
 - \$15 million to increase water use and management practices; and

- \$94.5 million to invest in ARS facilities.
- **National Institute of Food and Agriculture (NIFA):** \$1.38 billion in discretionary NIFA funding and \$1.88 billion in total NIFA funding. This includes a request for \$10 million to establish three new centers aimed at increasing coordination and collaboration between USDA and the 1890 Universities. Each center would focus on a specific issue identified by USDA: (1) creating an integrated center to benefit small farms, ranches, and forest landowners in high poverty areas; (2) establishing a virtual center to support the science, technology, engineering, agriculture, and mathematics pipeline of students and address the growing need for talented career candidates to meet future workforce needs; and (3) satisfying the Nation's need in the areas of international engagement and global food security to increase international cooperation, trade, and development. Additionally, the Budget requests funding of \$781 million for formula grants and capacity building programs, including:
 - \$300 million for Smith-Lever 3 (b&c) programs (level funding from FY 2016);
 - \$244 million for Hatch Act programs (level funding from FY 2016);
 - \$106 million for 1890 Research and Extension programs (\$100 million in FY 2016);
 - \$34 million for McIntire-Stennis Cooperative Forestry programs (level funding from FY 2016); and
 - No funding for Animal Health and Disease Research (\$4 million in FY 2016).

The Budget also includes \$3 million (level funding from FY 2016) for the Biomass Research and Development and \$20 million, a \$1 million increase from FY 2016, for the Organic Agriculture Research and Education Initiative.

- **Agricultural and Food Research Initiative (AFRI):** Total proposed funding for AFRI is \$700 million (\$375 million in discretionary funding and \$325 million in mandatory funding), which is double the funding available in FY 2016. This significant increase in funding for AFRI projects reflects USDA's continued emphasis on agricultural research and development.
- **Agricultural Marketing Service (AMS):** \$1.21 billion in total funding. The Budget proposes \$31 million of level funding for Market Protection and Promotion, which includes: \$4.7 million for the Country of Origin Labeling Program (COOL); \$2.3 million for the Federal Seed Act Program; \$9.1 million for the National Organic Program (NOP); and \$15.1 million to conduct the Pesticide Data Program (PDP). Additionally, the Budget includes \$30 million of level-funding for the Farmers Market Promotion Program, which would allocate \$15 million to support direct producer-to-consumer marketing efforts, and \$15 million to support local supply chain activities, including processing, aggregating, storing, or distributing local food.
- **Food Safety and Inspection Service (FSIS):** \$1.22 billion in total funding for FSIS programs. This includes \$914 million (\$899 million in FY 2016) for federal FSIS initiatives and \$61 million (level funding from FY 2016) for state-level FSIS programs. Additionally, the Budget includes \$8.5 million for FSIS to further modernize its decision-making process by developing and deploying new science-based tools to reduce foodborne illnesses. FSIS anticipates collecting \$191 million through existing user fee and trust fund activities for providing overtime, holiday, and voluntary inspection services.

Farm and Rural Programs

- **Crop Insurance Program:** The Budget requests a total of \$7.67 billion for the Crop Insurance Program. Additionally, the budget contains two proposals to reform the crop insurance program, by: (1) reducing subsidies for revenue insurance policies that insure the price at the time of harvest; and (2) reforming prevented planting coverage, including removing optional buy-up coverage. If implemented, these proposals are expected to save \$1.26 billion in FY 2017, and \$18 billion over 10 years.
- **Grain Inspection, Packers and Stockyards Administration (GIPSA):** \$101 million total, which is an increase of \$6 million from FY 2016. The Budget requests level funding of \$43 million in discretionary funding for salaries and expenses. The Administration expects to collect \$58 million in inspection and weighing user fees in FY 2017, which is an increase of \$6 million from FY 2016.
- **Rural Utilities Service (RUS):** \$586 million in discretionary funds for RUS. This includes \$427 million in budget authority for grants to the Water and Waste Disposal Program, which provides financing for rural communities to establish, expand, or modernize water treatment and waste disposal facilities.
- **Rural Energy for America Program (REAP):** The Budget requests discretionary funding of \$91 million in loan guarantees and grants. REAP, formerly known as the Renewable Energy Systems and Energy Efficiency Improvements Program, provides financing for the purchase of renewable energy systems, energy efficiency improvements, energy audits, and feasibility studies. For FY 2017, the 2014 Farm Bill sets mandatory funding at \$50 million for loan guarantees and grants.
- **Rural Business Development Grant:** \$30 million in discretionary funding, which is an increase of \$6 million from FY 2016. Pursuant to the 2014 Farm Bill, this program consolidates the Rural Business Opportunity Grants and the Rural Business Enterprise Grants into a single program to support grants and funding for business startups and working capital needs in rural areas.
- **Forest Service:** \$5.53 billion, which is a decrease of approximately \$1.5 billion from FY 2016. The Budget proposes \$292 million for Forest and Rangeland Research for research needs that arise from the National Forest System. To address forest health concerns on federal, state, and private lands, the Budget proposes \$234 million, which is a \$3 million decrease from FY 2016. Additionally, the Budget proposes level funding of \$40 million for the Collaborative Forest Landscape Restoration Fund (CFLRP), which supports a multi-year landscape scale restoration project on the National Forest system.

CYBERSECURITY

The President's FY 2017 Budget includes \$19 billion for cybersecurity initiatives and research activities across a number of federal agencies, a 35% increase. The Budget proposal includes \$3.1 billion for the establishment of a new fund – the Information Technology Modernization Fund – to help federal agencies update obsolete computer systems that led to highly reported data breaches last year, such as the one at the Office of Personnel Management. The proposal also seeks \$62 million to recruit and retain federal computer security personnel, including by offering cybersecurity scholarships in exchange for service in federal agencies.

While there are cybersecurity-related accounts in most Departments and agencies, the summary below focuses on the Department of Justice (DOJ), which sees the largest cybersecurity funding increase, and the Department of Homeland Security (DHS), which sustains a sizeable cybersecurity account. Separately, two new Executive Orders related to cybersecurity and data privacy were unveiled on the same day as the Budget (see below for further details).

INFORMATION TECHNOLOGY MODERNIZATION FUND

The President's proposal suggests creating a new \$3.1 billion Information Technology Modernization Fund (ITMF), contingent upon enactment of authorizing legislation. The ITMF is intended to be a full cost recovery revolving fund that finances the retirement of antiquated, legacy information technology systems and transition to new, more secure, more efficient, modern information technology platforms, including the development of information technology products and services for the use of federal agencies. The fund would be managed by General Services Administration (GSA) and a project review board that is comprised of experts in IT acquisition, cybersecurity, and agile development.

DEPARTMENT OF JUSTICE

The FY 2017 Budget provides DOJ \$121 million in additional resources to investigate and address computer intrusions and cybercrimes, defend the security of DOJ's critical information networks, and protect against insider threats. This represents a 23% increase in DOJ's cybersecurity accounts.

- **Federal Bureau of Investigation (FBI):** \$85.1 million to enhance the technical capabilities of FBI investigative personnel, increase the number of cyber investigations, and improve cyber collection and analysis.
- **Drug Enforcement Administration (DEA):** \$7.6 million to enhance its ability to combat insider threats and to enhance its cyber security posture.
- **Cyber Security and Insider Threat:** \$34 million to establish an insider threat program as mandated by Executive Order 13587 and monitor the DEA's classified and sensitive information system resources for threats.
- **Justice Information Sharing Technology (JIST):** \$26.4 million to be invested: for the Justice Security Operations Center; for the Identity, Credentialing, and Access Management (ICAM) program; to enhance information security and continuous monitoring; and for a stronger Insider Threat program.
- **Office of Justice Programs – Economic, High-tech, Cybercrime Prevention:** \$15 million to support state and local governments and enhance their efforts to combat economic, high-technology, and internet crimes, including intellectual property crimes.

DEPARTMENT OF HOMELAND SECURITY

The Budget continues to support DHS operations while making critical investments in a centralized cybersecurity program within the National Protection and Programs Directorate (NPPD) and frontline border security technology and infrastructure, as well as advancing Unity of Effort initiatives to further mature the Department. Funding has also been included to introduce DHS's EINSTEIN intrusion prevention system at all federal civilian agencies in FY 2017. DHS is also continuing to work with Congress to reorganize and transition the NPPD to become an operational component.

- **National Protection and Programs Directorate:** \$1.15 billion (\$64 million in FY 2016)
 - National Cybersecurity Protection System (also known as EINSTEIN): \$471.1 million.
 - Continuous Diagnostics and Mitigation (CDM): \$274.8 million.

ADDITIONAL EXECUTIVE ACTION

New Cybersecurity Commission Established

President Obama separately announced, by Executive Order, the establishment of the Commission on Enhancing National Cybersecurity (Commission) within the Department of Commerce. The Commission will be comprised of no more than 12 individuals who will be appointed by the President, with some input from Congress. The Commission will meet periodically and is charged with making “detailed recommendations to strengthen cybersecurity in both the public and private sectors while protecting privacy, ensuring public safety and economic and national security, fostering discovery and development of new technical solutions, and bolstering partnerships between Federal, State, and local government and the private sector in the development, promotion, and use of cybersecurity technologies, policies, and best practices.” The Commission is directed to submit a final report to the President by December 1, 2016.

New Federal Privacy Council Established

President Obama also issued another Executive Order announcing the establishment of a Federal Privacy Council (Privacy Council). This executive action establishes a formal interagency support structure that builds on existing interagency efforts to protect data privacy. The establishment of the Privacy Council is intended to help Senior Agency Officials for Privacy at agencies better coordinate and collaborate, educate the federal workforce, and exchange best practices. The Privacy Council will be chaired by the Deputy Director for Management of the Office of Management and Budget.

EDUCATION

DEPARTMENT OF EDUCATION

The FY 2017 Budget requests \$68.1 billion in discretionary funding for the Department of Education (DOE). This is an increase of \$1.3 billion from the FY 2016 enacted level. The budget also proposes \$139.7 billion in new mandatory spending and reforms over the next decade.

For FY 2017, the Budget seeks to invest in all areas of education, while emphasizing three in particular: (1) increasing equity and excellence; (2) providing support for teachers and school leaders; and (3) promoting access, affordability, and completion in higher education.

To help achieve these objectives, the Administration proposes an increase of \$15.4 billion to support equity efforts involving Title I schools. The Administration also requests \$2.8 billion in discretionary funding for programs to provide broad support for educators at every phase of their careers. To promote access and affordability, the Budget calls for \$60.8 billion in mandatory funding over the next 10 years to support two years of free community college for responsible students. Finally, the Budget

proposes reforms to existing Title IV programs, including the Pell Grant and campus-based aid programs.

Early Learning

- **Head Start:** \$9.6 billion (\$9.2 billion in FY 2016). This level also includes an additional \$292 million in FY 2017 to increase the number of children participating in a full school day and year-round Head Start program.
- **Preschool for All Initiative:** The Budget proposes \$1.3 billion for a 10-year period. This is a \$75 billion initiative that would support state efforts to provide access to high-quality preschool for all four-year-olds from low- and moderate-income families.
- **Preschool Development Grants:** \$350 million (\$250 million in FY 2016). This initiative is jointly administered by the Departments of Health and Human Services and Education.

Elementary and Secondary Education

The FY 2017 Budget request for elementary and secondary education includes an emphasis on two particular areas of investment: increasing equity and excellence and supporting teachers and principals, as authorized under the Elementary and Secondary Education Act (ESEA).

- **Title I Grants to Local Educational Agencies (LEAs):** \$15.4 billion (\$14.9 billion in FY 2016). A portion of this increase would be reserved to support state and local school improvement activities.
 - **State Assessments:** \$403 million (\$378 million in FY 2016). Funds would support formula and competitive grants to states to develop and implement assessments that are aligned with college and career-ready academic standards.
- **Computer Science for All (CSA):** \$4 billion in mandatory funding and \$100 million in discretionary funding. This program would support all 50 states in their efforts to expand computer science programs in K-12 classrooms. This proposal is supported by Apple, Google, and Microsoft (new program).
- **School Improvement Grants (SIG):** \$450 million (\$450 million in FY 2016).
- **Education Innovation and Research Program:** \$180 million (\$120 million in FY 2016). This program was previously titled the “Investing in Innovation” program (i3). This increase in funding would support the creation, development, implementation, replication, and scaling up of evidence-based, field-initiated innovations designed to improve achievement and attainment for high-needs students.
- **Next Generation High Schools:** \$80 million (while requested, this program was not funded in FY 2016). Funds would support competitive grants to LEAs in partnership with institutions of higher education and other entities, such as nonprofit and community-based organizations, businesses, and other industry-related organizations that can help high schools prepare students to apply academic concepts to real world challenges.
- **Promise Neighborhoods:** \$128 million (\$73 million in FY 2016). Funds support competitive grants and other activities for projects designed to improve significantly the educational and developmental outcomes of children within the Nation’s most distressed communities, by providing children in the community with access to a cradle-through-college-to-career continuum of academic programs and community supports, including effective schools and services.

- **English Language Acquisition:** \$800 million (\$737.4 million in FY 2016). The proposed increase would help states and school districts meet the educational needs of the growing numbers of English Learners (ELs) enrolled in their schools.
- **Individuals with Disabilities Education Act (IDEA) Grants to States:** \$11.9 billion will be provided for Grants to States under IDEA Part B to support special education and related services and help states and LEAs improve results for children with disabilities.
- **Impact Aid:** \$1.3 billion (\$1.3 billion in FY 2016).
- **Student Support and Academic Enrichment Grants:** \$500 million. Supports states and districts in providing students with access to a well-rounded education (new program).
- **Stronger Together Grants:** \$120 million. Encourages the voluntary development of innovative plans to increase socio-economic diversity in schools (new program).

Teachers and School Leaders

Strengthening support for teachers and principals is one of the Department's primary focus areas for FY 2017. As part of the President's Budget, the Administration introduces new programs to support in efforts to recruit, develop, and retain teachers.

- **Teacher and Principal Pathways:** \$125 million. The Administration requests new funding to support the Teacher and Principal Pathways proposal, which is designed to help institutions of higher education and nonprofit organizations, working closely with school districts, to support teacher and principal preparation. The proposal seeks to create or expand high-quality pathways into the teaching profession, particularly into high-needs schools and high-needs subjects such as science, technology, engineering, and math (STEM) (new program).
- **RESPECT: Best Job in the World,** a one-time \$1 billion mandatory investment to support a nationwide effort to attract and retain effective teachers in high-needs schools by increasing compensation and paths for advancement (new program).
- **Teach to Lead Grants:** \$10 million. The proposal would provide direct support to teachers that develop innovative reforms (new program).
- **Teacher and School Leader Incentive Program:** \$250 million (\$230 million in FY 2016 as part of the Teacher Incentive Fund).
- **Improving Teacher Quality State Grants:** \$2.3 billion (\$2.3 billion in FY 2016).
 - **Supporting Effective Educator Development (SEED):** \$100 million.
- **Reform Teacher Loan Forgiveness Benefits:** Reform Teacher Loan Forgiveness Benefits is a streamlined and expanded initiative to provide up to \$25,000 in student loan forgiveness for teachers graduating from an effective preparation program who serve in low-income schools, starting in 2021. This proposal would consolidate various postsecondary assistance options available for teachers, such as TEACH grants and the current teacher loan forgiveness program, into a single loan forgiveness program in which the benefit increases over time as teachers stay in high-needs schools.

Higher Education Funding

- **Student Financial Assistance:** \$33.8 billion to administer student aid programs (\$24.19 billion in FY 2016). The FY 2017 Budget includes proposals to address the college affordability

challenge through increased access to student aid and initiatives and reforms to improve the effectiveness of student aid programs.

- **Pell Grant:** \$22.5 billion in discretionary funding and \$6 billion in mandatory funding, for a total of \$28 billion in FY 2017 (\$22.5 billion in FY 2016). The request funds the maximum Pell Grant award at \$5,935. The Budget also proposes to make the following changes to the Pell Grant program:
 - Reinstates year-round Pell Grant eligibility. Students will now be eligible for a third semester of Pell during an academic year, if they have already completed a full-time course load of 24 credits.
 - Provide a \$300 Pell bonus award to recipients who take 15 credits per semester, and are enrolled in 30 semester hours of course work during an award year. This program will be titled the On-Track Pell Bonus.
 - Provide for the Second Chance Pell proposal, which would lift the restriction on providing Pell Grants to individuals incarcerated in federal or state penal institutions.
 - Strengthen academic progress requirements in the Pell Grant program.
 - Prevent additional Pell disbursements to recipients who repeatedly enroll and obtain aid but do not earn any academic credits.
 - The Budget would move Iraq Afghanistan Service Grants to the Pell Grant program.
 - The Budget proposes eliminating questions related to assets, non-IRS untaxed income, non-IRS income exclusions, and other income adjustments.
 - The Budget also extends the inflationary increase to the maximum Pell Grant award, which is scheduled to end after the 2017-2018 award year.
- **Campus-based aid programs:** The President's 2017 Budget proposes to reform federal allocations in the campus-based programs to target those institutions that enroll and graduate higher numbers of Pell-eligible students, and offer affordable and quality education and training such that graduates can obtain employment and repay their educational debt, including:
 - **Federal Supplemental Educational Opportunity Grant:** \$733 million (\$733 million in FY 2016).
 - **Federal Work Study:** \$990 million (\$990 million in the FY 2016).
 - **Federal Perkins Loans:** The Administration proposes to expand and reform the Perkins Loan program by \$4.1 billion a year. The proposal would increase the annual loan amounts available to students to \$8.5 billion. Perkins Loan borrowers would be charged the same interest rate as un-subsidized Stafford Loan borrowers. Loan volume would be allocated among degree-granting institutions.
- **Career and Technical Education (CTE):** \$1.7 billion (\$1.9 billion for FY 2016). The Budget requests \$75 million for the American Technical Training Fund within the Department's CTE Innovation Fund. This initiative will be jointly administered by the Departments of Education and Labor.
- **American's College Promise:** \$60.8 billion mandatory investment over 10 years. Funds would support the creation of a new partnership with states to make two years of community college free for responsible students by helping them waive tuition in high-quality programs while promoting key reforms to help more students complete at least two years of college. This proposal will also provide low-income students who attend Historically Black Colleges

and Universities and Minority Serving Institutions with up to two free years of college or significantly reduced tuition (new program).

- **College Opportunity and Graduation Bonus:** \$548 million. This proposal would reward colleges that successfully enroll and graduate on time a significant number of low- and moderate-income students and encourage all institutions to improve their performance (new program).
- **First in the World Awards:** \$100 million. First in the World is an evidence based program that supports the development and evaluation of innovative strategies designed to improve college completion, particularly for high-needs students (new program).
- **TRIO Programs:** \$900 million (\$900 million in FY 2016), including \$20 million to support a TRIO Demonstration Initiative to test new approaches to foster college success.
- **Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP):** \$323 million (\$323 million in FY 2016).
- **Strengthening Institutions:** \$87 million (\$87 million in FY 2016).
- **Strengthening Alaska Native and Native Hawaiian-serving Institutions:** \$29 million (\$13.8 million in FY 2016).
- **Strengthening Historically Black Colleges and Universities (HBCUs):** \$330 million (\$245 million in FY 2016).
- **Aid for Hispanic-Serving Institutions (HSIs):** \$107 million in discretionary funding (\$107 million in FY 2016).
 - \$100 million in mandatory funding for the Developing Hispanic-Serving Institution STEM and Articulation Programs.
- **Historically Black Colleges and Universities (HBCUs) Capital Financing Program:** \$20.1 million, with an estimated \$282 million in new loans in 2017 (\$20.4 million in FY 2016).

Other Items of Interest, Consolidations, and Transferals

- **Office of Civil Rights:** \$138 million (\$107 million in FY 2016). This increase is to ensure equal access to education.
- **Tax Provisions Related to College Affordability:**
 - **Child and Dependent Care Tax Credit (CDCTC):** Allows a credit of up to \$3,000 per child, for families with children under the age of 5, with incomes of up to \$120,000. The Budget would eliminate tax preferences for flexible spending accounts (FSAs) for childcare expenses, reinvesting the savings in the improved CDCTC.
 - For more information about the tax reform proposals related to education programs, please refer to the “Tax and Revenue” section of our analysis.
- **Simplifying the Free Application for Federal Student Aid (FAFSA):** The Budget proposes to simplify the FAFSA by eliminating burdensome and unnecessarily complex questions to make it easier for students and families to access federal student aid and afford a postsecondary education.
- **Income-based Repayment:** Improves and streamlines the Pay As You Earn (PAYE) initiative and other income-driven repayment plans and creates a single, simple, and better targeted plan for borrowers that will help them manage their debt, as well as simplifying and strengthening teacher loan forgiveness programs. This builds on the Administration’s efforts to increase enrollment in these plans.

OTHER SELECT RESEARCH FUNDING

The President's 2017 Budget provides \$152 billion for Research and Development (R&D) overall, a \$6 billion or 4% increase from 2016 enacted levels. Within the total R&D investment, the Budget provides \$73 billion for basic and applied research. Four billion dollars of the overall \$152 billion investment in R&D is new mandatory funding

- **National Science Foundation (NSF):** \$7.9 billion (\$7.5 billion in FY 2016), of which \$7.56 billion is discretionary and \$400 million is new mandatory funding. This includes investing in basic research in all fields of science and engineering, developing a highly talented STEM workforce through all phases of education, advancing basic research in areas that are vital to the development of a clean energy economy, and securing one-year mandatory funding to advance innovation. NSF funds activities that support students, teachers, researchers, and the public, as well as education research that is critical to building the nation's knowledge base for improving learning in STEM. The Budget provides a total of \$1.2 billion for STEM education activities, including for:
 - **CyberCorps, Scholarships for Service (SFS):** To support cybersecurity education and research at higher education institutions. This funding will begin laying the groundwork for SFS program scholarship alumni to serve as a national resource over the course of their careers.
 - **Computer Science for All:** To accelerate NSF's ongoing efforts to enable rigorous and engaging computer science education in schools across the nation.
 - **Improving Undergraduate STEM Education:** To accelerate the quality and effectiveness of undergraduate education in all STEM fields by using research on STEM learning to address crosscutting challenges and discipline-specific issues.
 - **Advanced Technological Education:** To support technicians in undergraduate programs preparing for the high-technology fields that drive our nation's economy.
 - **NSF Research Traineeships:** To identify priority research themes that both align with NSF initiatives and have strong potential for the development and testing of innovative practices in graduate education.
 - **Graduate Research Fellowships:** To recognize students with high potential in STEM research and innovation and provide support for them to pursue multidisciplinary research.
 - **Advancing Informal STEM Learning:** To provide design, implementation, and testing of new approaches to STEM learning opportunities for the public in informal environments; the creation of multiple pathways for broadening access to and engagement in STEM learning experiences; and research on and assessment of STEM learning in informal environments.
- **Creating an American Talent Compact:** \$3 billion. The program would fund high-quality training and strong industry partnerships, to ensure that employers and training providers, including the nation's community and technical colleges, work together so that students learn the skills needed for jobs and careers that are available in their communities.
- **National Institutes of Health (NIH):** \$33.1 billion (\$31.3 billion in FY 2016). This increase includes \$1.8 billion in new mandatory funding. The Budget proposes an increase of \$680 million to NIH for the cancer "moonshot" to accelerate progress in preventing, diagnosing, and treating cancer.

- **National Network for Manufacturing Innovation (NNMI):** \$1.9 billion in mandatory funding proposal that will support 27 institutes. The Budget also provides \$42 million to launch two new institutes in 2017.
- **University Transportation Centers (UTCs):** \$75 million (\$72.5 million in FY 2016). UTC program funding will be provided to the Office of the Assistant Secretary for Research and Technology through an allocation from the Federal Highway Administration.

EMPLOYMENT AND WORKFORCE DEVELOPMENT

DEPARTMENT OF LABOR

The FY 2017 Budget for the Department of Labor (DOL) provides \$12.8 billion in discretionary funding, up from \$10.1 billion in FY 2016, with a focus on improving job training and employment programs and ensuring a safety net for underemployed and unemployed workers. Over the last several years, Congress and the Administration have worked together to improve the nation's job training system, including through enactment and implementation of the bipartisan Workforce Innovation and Opportunity Act (WIOA). The Budget builds on this progress by funding the core DOL WIOA formula grants at their full authorized level, which is a \$138 million increase over the enacted 2016 level. The Budget also provides additional resources to train disadvantaged populations with barriers to employment, including ex-offenders and others. In addition, the President proposes a new \$5.5 billion "First Job" proposal, of which \$3.5 billion is to create new partnerships with companies and communities to get one million young people into first jobs over the summer, and the remaining \$2 billion, jointly administered by the Departments of Labor and Education, to put youth who have dropped out, or are at most risk of dropping out, on the path to get a diploma and connect to post-secondary education and jobs.

- **Employment and Training Services:** \$3.5 billion in discretionary funding (\$3.3 billion in FY 2016).
 - Adult Employment and Training: \$842.3 million (\$815.5 million in FY 2016).
 - Youth Activities: \$902 million (\$873.4 million in FY 2016).
 - Dislocated Workers: \$1.33 billion (\$1.24 billion in FY 2016).
 - Dislocated Workers Assistance National Reserve: \$230.86 million (\$220.86 million in FY 2016).
 - Native American Programs: \$52 million (\$50 million in FY 2016).
 - Migrant and Seasonal Farmworkers Programs: \$81.9 million (level funding from FY 2016).
 - Women in Apprenticeship (WANTO): \$0. The request zeroes out the program, which was funded at \$994,000 in FY 2016.
 - Youthbuild: \$84.53 million (\$84.53 million in FY 2016).
- **Veterans Employment and Training:** \$285.5 million (\$271.1 million in FY 2016).
 - Transition Assistance Program: \$14.6 million (\$14.1 million in FY 2016).
 - Homeless Veterans Reintegration Program: \$50 million (\$38.1 million in FY 2016).
- **Job Corps:** \$1.75 billion (\$1.69 billion in FY 2016).
- **Reintegration of Ex-Offenders (RExO):** \$95 million (\$88 million in FY 2016).

- **First Job Fund:** \$5.5 billion proposal to Open Doors to a First Job to connect young people to first jobs over the summer and year round, of which \$3.5 billion is to create new partnerships with companies and communities. Funds would be distributed to states through the WIOA youth formula program. The additional \$2 billion would be jointly administered through the Departments of Labor and Education to put youth who have dropped out, or are most at risk of dropping out, of high school on the path to get a diploma and connect to post-secondary education and jobs. Funding would be competitively awarded to communities, in required partnership with local education, workforce, and community organizations (new program).
- **Expanding Apprenticeships for American Workers and Youth:** The President proposes to dedicate \$200 million to support the development and expansion of youth apprenticeships and pre-apprenticeship programs that let young people explore interests in school through work and classroom-based training before starting a formal apprenticeship. This is part of a broader new Apprenticeship Training program (new program).
- **Apprenticeship Training Fund:** Similar to what was proposed last year, the Budget proposes \$2 billion over four years of mandatory funding to support state strategies to expand apprenticeship, add youth apprenticeships, and spur new innovations (new program).
- **Talent Hotspots:** \$3 billion in competitive funding to create more than 50 Talent Hotspots across the US, which would consist of employers, training programs, and workforce and economic development leaders that prioritize one sector and make a commitment to recruit and train workforce to help local businesses grow, attract more jobs from overseas, and fuel a pipeline of entrepreneurs (new program).
- **Career Navigators in Job Centers:** \$1.5 billion in mandatory spending to states to fund Career Navigators in Job Centers, who will proactively reach out to all people who have been unemployed for six months or more, those who have dropped out of the labor force altogether, and people who are only able to find part-time work (new program).
- **Workforce Data Science and Innovation Fund:** \$500 million to recruit and deploy a best in class team to help states find new ways to use technology and data analytics to improve training programs and consumer choice (new program).
- **Jobs-Plus:** \$35 million through the Department of Housing and Urban Development to target assistance to public housing residents to secure employment and increase their earnings (new program).

ENERGY

DEPARTMENT OF ENERGY

The FY 2017 Budget provides the Department of Energy (DOE) with \$32.5 billion, a 9.1% increase from the FY 2016 enacted level of \$29.6 billion. The Administration's proposal maintains much of the same emphasis as it did in its FY 2016 Budget; however, the FY 2017 Budget includes some significant, new proposed investments. Overall, the FY 2017 Budget is divided as follows: (1) 40% for Science and Energy, with an emphasis on funding for energy security; infrastructure and grid resilience; climate change, risk mitigation, and COP 21 commitments; commercial deployment of energy technologies; and five new Energy Frontier Research Centers; (2) 40% for Nuclear Security; and (3) 20% for Management and Performance, the majority of which would continue to support cleanup activities related to US nuclear weapons research, development, and production.

The Administration's Budget introduces several major new investments. There is a 21% increase for the agency's Mission Innovation objective for clean energy. This proposed increase (from \$4.8 billion to \$5.9 billion in discretionary funds) is intended to validate President Obama's commitment with 19 other countries to double clean energy research and development over five years. These commitments are expected to spur a multi-trillion dollar marketplace, and it is the Administration's intended goal for the US to be competitive and benefit from that opportunity. Mission Innovation involves all clean energy technologies such as: renewables, energy efficiency, carbon capture, nuclear and storage. The funding is intended to boost the agency's Advance Research Projects Agency – Energy (ARPA-E). Also included in this effort is \$110 million designated to encourage new Regional Energy Innovation Partnerships to spur investment in clean energy projects to address specific regional issues in the US.

Other new priorities introduced in the FY 2017 Budget include: \$100 million in new mandatory funding for competitive grants for universities; more than \$1 billion for the agency's 21st Century Clean Transportation initiative for research and development of transportation systems, alternative fuels, clean vehicle fleet adoption, and the Supertruck II initiative – which is focused on doubling efficiency for class eight vehicles; \$261 million for clean energy manufacturing Research and Development (R&D) projects and facilities including two new National Network for Manufacturing Innovation Institutes; and \$215 million for cross cutting initiatives addressing: cybersecurity, grid modernization, computing, energy-water nexus, CO2 technology and advanced materials for energy innovation.

Finally, as Department of Energy Secretary Dr. Ernest Moniz serves on Vice President Joe Biden's task force for the Administration's Cancer Moonshot Initiative, Secretary Moniz noted that his agency's contribution to the effort will involve an emphasis on large scale computing at the National Labs.

- **Energy Efficiency and Renewable Energy:** \$2.8 billion (\$2.07 billion in FY 2016).
 - Hydrogen and Fuel Cell Technologies: \$105 million (\$101 million in FY 2016).
 - Bioenergy Technologies: \$279 million (\$225 million in FY 2016).
 - Solar Energy: \$285 million (\$241.6 million in FY 2016).
 - Wind Energy: \$156 million (\$95.5 million in FY 2016).
 - Geothermal Technology: \$100 million (\$71 million in FY 2016).
 - Water Power: \$80 million (\$70 million in FY 2016).
 - Vehicle Technologies: \$468 million (\$310 million in FY 2016).
 - Building Technologies: \$289 million (\$200.5 million in FY 2016).
 - Advanced Manufacturing: \$261 million (\$228.5 million in FY 2016).
 - Weatherization: \$326 million (\$215 million in FY 2016).
- **Advanced Research Projects Agency-Energy:** \$350 million (\$291 million in FY 2016).
- **Electricity Delivery and Energy Reliability:** \$262 million (\$206 million in FY 2016).
 - Clean Energy Transmission and Reliability: \$30 million (\$39 million in FY 2016).
 - Smart Grid Research and Development: \$30 million (\$35 million in FY 2016).
 - Energy Storage: \$43 million (\$20.5 million in FY 2016).
 - Cyber Security for Energy Delivery Systems: \$46 million (\$62 million in FY 2016).
 - State Energy Assurance: \$15 million (\$0 in FY 2016). The State Energy Assurance program intended to provide grants to states, localities, and tribal governments in support of energy assurance (new program).

- State Distribution-Level Reform Program: \$15 million (\$0 in FY 2016). This program intends to award cooperative agreements to states to encourage states to take an overall grid architecture approach to address system challenges (new program).
- Grid Institute: \$14 million (\$0 in FY 2016). The focus of the Grid Institute will be on manufacturing technologies related to industrial metals for grid application.
- **Office of Science**: \$5.3 billion (\$5.35 billion in FY 2016).
- **Nuclear Energy**: \$993.8 million (\$986.2 million in FY 2016).
- **Fossil Energy Research and Development (FER&D)**: \$600 million (\$632 million in FY 2016).
- **Liquefied Natural Gas Applications**: The Import/Export Authorization program is responsible for reviewing applications to import and export liquefied natural gas (LNG) under Section 3 of the Natural Gas Act. This year, the Administration combined funding for this program into the overall title of “Program Direction and Management Support.” While the line item “Program Direction Management” has been zeroed out for FY 2017, the Budget includes \$61 million for “Program Direction.” The FY 2017 Budget states: “This program [Program Direction and Management Support] provides funding for all headquarters and field personnel and other operating expenses in FER&D. In addition, it provides support for day-to-day project management functions and operating expenses for NETL [the National Energy Technology Laboratory]. Also included is the Import/Export Authorization program, which will continue regulatory reviews and oversight of the transmission of natural gas across the U.S. borders.”
- **Advanced Technology Vehicles Manufacturing Loan Program**: \$5 million (\$6 million in FY 2016).
- **Nuclear Waste and Storage**:
 - Nuclear Waste Disposal Fund: \$388 million (\$386 million in FY 2016). The Administration’s Request remains consistent with the FY 2016 approach and notes that the FY 2017 Budget continues to reflect “the priorities for the nuclear management approach outlined in the Administration’s January 2013 Strategy for the Management and Disposal of Used Nuclear Fuel and High Level Radioactive Waste.” This strategy proposes funding reforms which includes one-time fees to begin in 2026. In addition, the FY 2017 Budget does not request new funds for Yucca Mountain. To that end, the Budget notes: “In FY 2010, the Department closed the Yucca Mountain Project and the Office of Civilian Radioactive Waste Management. Residual obligations and outlays in this account are associated with Yucca Mountain project closeout activities and remaining legacy activities such as accounting.”

FINANCIAL SERVICES

DEPARTMENT OF TREASURY

As expected, the FY 2017 Budget calls for significant funding to further implement and carry out the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). In addition to raising more than \$111 billion over the 10-year scoring window from a proposed seven basis points fee on certain liabilities of large financial firms with worldwide consolidated assets of at least \$50 billion, the Administration is proposing to fund a new Community Development Financial Institutions (CDFI) small dollar loan program to support broader access to “safe and affordable financial products and provide an alternative to predatory lending.” Such action is in direct support of the forthcoming rulemaking from the Consumer Financial Protection Bureau (CFPB) that would regulate various short-term credit providers. Note that the CFPB is still not subject to Congressional appropriations, despite lawmakers’ best efforts.

The Budget also includes significant funding requests for the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), given the agencies’ Dodd-Frank Act implementation responsibilities. Such strong funding requests demonstrates the Obama Administration’s continued support for the implementation and strengthening of financial services regulatory reform. Nevertheless, given that this is the President’s final term, it is likely that Republicans will engage in an all-out assault on the Dodd-Frank Act, seeking to repeal – or at a minimum, weaken – a significant portion of the law.

Department of Treasury: The FY 2017 Budget requests \$13.3 billion in discretionary appropriations for Treasury’s operating accounts. Also within the Treasury Department’s purview and related to financial services:

- **Office of Financial Research (OFR):** The Budget requests \$105 million for OFR, down from a \$108.10 million request for FY 2016. OFR serves as the essential source of data and analysis for monitoring threats to US financial stability.
- **Financial Stability Oversight Council (FSOC):** The Budget requests \$18 million for FSOC, down from a \$19.31 million request for FY 2016. Using its funding, FSOC will monitor the financial system for risks to US financial stability (including making any necessary designations to subject financial institutions to prudential standards) and facilitate interagency cooperation to identify and analyze potential emerging threats.

Financial Services Regulatory Agencies:

- **CFTC:** The Budget requests \$330 million for the CFTC, up from the current funding level of \$250 million and up from the \$322 million requested in the FY 2016 Budget. The Budget again notes that the Administration “strongly supports and will again propose legislation” authorizing fees to fully fund the CFTC through user fees assessed on the sale of commodity

futures, options, and swaps. Further, the Budget notes that the Administration expects the CFTC to begin collecting fees in FY 2018, subject to the enactment of authorizing legislation.

- **SEC:** The Budget requests \$1.78 billion for the SEC, up from the current funding level of \$1.6 billion and up from the \$1.72 billion requested in the FY 2016 Budget. The Budget aims at increasing the SEC's work in its six major programs: (1) enforcement; (2) compliance inspections and examinations; (3) corporation finance; (4) trading and markets; (5) investment management; and (6) economic risk and analysis.

HEALTH AND SOCIAL SERVICES

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The President proposes \$82.8 billion in discretionary budget authority for the Department of Health and Human Services (HHS) for FY 2017, an \$825 million (2.6%) increase from FY 2016. The Budget includes targeted reforms to Medicare, Medicaid, and other health programs, that, in total, would save \$400 billion over 10 years.

- **Administration for Children and Families (ACF):** \$53 billion (\$59.68 billion in FY 2016) in mandatory and discretionary budget authority.
 - **Unaccompanied Children:** \$1.3 billion (\$948 million in FY 2016). Based upon the recent increase in unaccompanied children apprehended at the southwest border during the beginning of FY 2016, ACF is adding temporary capacity so it is adequately prepared to care for the children.
- **Agency for Healthcare Research and Quality (AHRQ):** \$280 million (\$276 million in FY 2016) in discretionary budget authority. AHRQ will receive \$106 million from the Patient Centered Outcomes Research Trust Fund for comparative effectiveness research and \$83 million from Public Health Service Evaluation Funds.
 - **Health Services Research, Data, and Dissemination:** \$113 million (\$89 million in FY 2016).
 - **U.S. Preventive Services Task Force:** \$12 million (\$12 million in FY 2016). The task force is an independent panel of national experts that reviews the medical literature and makes recommendations about the harms and benefits of clinical preventive services and health promotion to improve primary care.
 - **Establishment of a Nationwide Readmissions Database:** \$8 million is allocated for a new all-payer nationwide database for hospital readmissions.
- **Centers for Disease Control and Prevention (CDC):** \$6.9 billion (\$6.33 billion in FY 2016) in discretionary budget authority.
 - **National Action Plan for Combating Antibiotic-Resistant Bacteria:** \$200 million (\$160 million in FY 2016).
 - **Improvements in Lab Safety:** \$38 million (\$33 million in FY 2016).
 - **Injury Prevention and Control:** \$299 million (\$236 million in FY 2016).
 - **Public Health Preparedness and Response:** \$1.4 billion (\$1.4 billion in FY 2016) for expenses necessary to countering potential biological, nuclear, radiological, and chemical threats.

- National Center for Emerging and Zoonotic Infections Diseases: \$629 million (\$579 million in FY 2016). This center addresses rare and deadly disease such as anthrax and Ebola, but also foodborne and mosquito-borne diseases such as Zika and Chikungunya.
 - Direct Healthcare Screenings: \$266 million (\$209 million in FY 2016).
 - Chronic Disease and Health Promotion: \$1.1 billion (\$950 million in FY 2016).
 - Prevention and Public Health Fund: \$944 million (\$892 million in FY 2016).
- **Centers for Medicare and Medicaid Services (CMS)**: \$1.0 trillion in mandatory and discretionary outlays (increase of \$26 billion in FY 2016). The Budget contains a package of Medicare legislative proposals that are expected to save a net \$478 billion over 10 years. \$421 billion is in cuts to providers, and \$56 billion is in Medicare structural reforms.
 - Health Care Fraud and Abuse Control: \$725 million (\$681 million in FY 2016) in discretionary budget authority. The Budget also includes legislative proposals to strengthen program integrity within Medicare, Medicaid, and the Children’s Health Insurance Program (CHIP) that are estimated to yield billions in net savings over 10 years.
 - Healthcare Insurance Marketplace: \$535 million in appropriated funding and \$1.6 billion in projected user fee collections. There are also proposals to:
 - Help eliminate unexpected health care charges and provide for uniform health care billing documents (no budget impact);
 - Authorize CMS for access to new data sources to help determine eligibility in the marketplace (no budget impact); and
 - Allow Marketplaces to Access National Directory of New Hires (no budget impact).

Medicare Legislative Proposals:

The budget includes Medicare legislative proposals that are estimated to save Medicare \$419.6 billion over 10 years.

- Establishes competitive bidding in Medicare Advantage by calculating an adjusted benchmark, which would allow CMS - for the first time - to reward plans for lowering their bids;
- Uses bundled payment methodology for at least half of post-acute care providers (including long-term care hospitals, skilled nursing facilities, inpatient rehabilitation facilities, and home health providers) beginning in 2021 (\$9.9 billion in savings over 10 years);
- Allows assignment of patients to Accountable Care Organizations (ACOs) by mid-level providers (currently, only physicians have the authority) (\$150 million savings over 10 years);
- Hospitals that furnish a “sufficient” portion of their services through Alternative Payment Models (APMs) will receive a bonus payment beginning in 2022 (no budget impact);
- Allows hospitals to code as “present on arrival” instead of “present on admission” for the purposes of Medicare Hospital Acquired Conditions (no budget impact);
- Expands the Medicare Electronic Health Programs to include psychiatric hospitals, community mental health centers, residential and outpatient mental health and substance abuse disorder treatment clinics, and psychologists;
- Strengthens the Independent Payment Advisory Board (IPAB): Under current law, if the projected Medicare per capita growth rate exceeds a predetermined target growth rate, IPAB will recommend policies to Congress to reduce the rate. The budget lowers the target rate for such a trigger for 2018 and alters the formula to rely on gross domestic product (GDP) thereafter (\$36.4 billion in savings over 10 years);

- Reduces market basket updates for inpatient rehabilitation facilities, long-term care hospitals, and home health agencies by 1.1 percentage points in FY 2017 and each year FY 2019 through FY 2026 (\$9.3 billion in savings over 10 years);
- Indirect Graduate Medical Education funding is reduced by 10% beginning in FY 2017. It also authorizes the Secretary to set standards for teaching hospitals receiving Graduate Medical Education payments (\$17.8 billion in savings over 10 years);
- Reduces the current 101% Medicare rate for Critical Access Hospitals (CAH) to 100%. Also prohibits hospitals within 10 miles of another hospital from being designated as a CAH (\$1.7 billion savings over 10 years);
- Closes Medicare Part D Coverage Gap (“Donut Hole”): Currently, beneficiaries in the Part D coverage gap receive a 50% discount from pharmaceutical manufacturers on their brand drugs. Beginning in plan year 2018, this proposal will increase manufacturer discounts to 75%, effectively closing the coverage gap for brand drugs three years earlier than under current law;
- Medicare Parts A and B Appeals - Refundable Filing Fee: Those filing an appeal would pay a per-claim fee at each level of appeal. Fees would be returned to an appellant who receives a fully favorable appeal determination (no budget impact); and
- Home Health Civil Monetary Penalties: Civil Monetary Penalties (CMPs) can be leveled by CMS if they find a Home Health Agency (HHA) to be deficient in meeting required quality and safety standards. Under this proposal, CMS is authorized to retain a portion of the money to help improve beneficiary quality of care and assist HHAs in meeting Medicare’s Conditions of Participation.

Medicaid Legislative Proposals:

- Allows for full federal funding over three years for states who have not yet expanded Medicaid (\$2.61 billion);
- Rebases Medicaid Disproportionate Share Hospital (DSH) allotments (savings of \$6.64 billion);
- Medicaid Adult Health Quality Measures: Extends program for five years at \$14 million per year. This program encourages states to voluntarily report information regarding the quality of health care for Medicaid-eligible adults;
- Recovery Audit Contractor (RAC) Recoveries: Money collected from RAC recoveries may be used to implement corrective actions that prevent improper payments and fraud (\$1.3 billion in cost over 10 years);
- Permanently extends Express Lane Eligibility option for Children (\$870 million);
- Requires full coverage of Preventive Health and Tobacco Cessation Services for Adults in Traditional Medicaid (\$789 million); and
- Creates a Federal-State Medicaid Negotiating Pool for High-Cost Drugs (savings of \$5.83 billion).

Children’s Health Insurance Program Proposals:

- The Budget proposes an additional two-year extension of CHIP authorization (\$13.7 billion).
- Continues to use a simplified Modified Adjusted Gross Income standard to determine eligibility, which may be offered continuously for 12 months.
- **Food and Drug Administration (FDA):** \$2.74 billion (\$2.6 billion in FY 2016) in total discretionary budget authority.

- The human drug discretionary budget is funded at \$492 million (\$492 million in FY 2016).
 - The Medical Device discretionary budget is \$326 million (\$323 million in FY 2016).
 - “Cancer Moonshot” Initiative: \$75 million to develop the regulatory pathways for new technologies, ensure quality systems for trials, and facilitate the sharing of important data across government, academia, and industry. The money would not be directly appropriated to the agency but instead be transferred to the National Institutes of Health.
 - Precision Medicine Initiative: \$4 million to develop regulatory pathways for new medical technologies.
 - Food Safety Modernization Act: \$1.5 billion to support implementation, including increasing state capacity to implement the produce safety rules, implementing the Foreign Supplier Verification Program, and ensuring consumers are able to make healthy food choices. Legislation to allow FDA to collect fees for food import and food facility registration and inspection is expected. This is estimated to bring in \$166 million in additional resources.
- **Health Resources and Services Administration (HRSA)**: \$6.23 billion (\$6.38 billion in FY 2016) in discretionary budget authority.
 - Community Health Centers program: \$1.5 billion, plus \$3.6 billion in mandatory resources for FY 2018 and FY 2019.
 - Health Workforce: \$433 million (\$407 million in FY 2016).
 - 340B Drug Pricing Program: \$17 million (\$10.2 million in FY 2016).
 - The Children’s Hospital Graduate Medical Education (CHGME): \$295 million (\$295 million in FY 2016). The President’s budget requests legislative authority to fund the program through a mandatory (as opposed to the current discretionary) appropriation at \$295 million each year through FY 2021.
 - Teaching Health Centers for GME: \$527 million in new mandatory spending from FY 2018 to FY 2020.
 - Ryan White HIV/AIDS Program: \$2.32 billion, which is level with FY 2016.
 - Rural Health: \$144 million for the Federal Office of Rural Health Policy (\$150 million in FY 2016). Also includes \$10 million for the Rural Opioid Overdose Reversal Program, and up to \$1 million to carry out grants for the purchase and implementation of telehealth services.
 - Rural Hospital Flexibility Grant: \$26 million (\$42 million in FY 2016).
 - **National Institutes of Health (NIH)**: \$33.1 billion (\$31.3 billion in FY 2016) in discretionary budget authority. This increase includes \$1.8 billion in new mandatory funding, which means the discretionary funding in the President’s budget is about \$1 billion less than the current level.
 - National Center for Advancing Translational Sciences: \$685 million (\$685 million in FY 2016).
 - National Cancer Institute: \$6.3 billion (\$5.21 billion in FY 2016).
 - “Cancer Moonshot” Initiative: \$680 million is provided to NIH to expand clinical trials for health disparity populations, pursue new vaccine technology, and fund exceptional opportunities in cancer research.
 - Research Priorities:

- Brain Research through Advancing Innovative Neurotechnologies (BRAIN) Initiative: \$195 million (\$150 million in FY 2016).
 - Alzheimer's Research: \$910 million (\$936 million in FY 2016).
 - Precision Medicine Initiative: \$309 million (\$200 million in FY 2016). This cross-Department initiative, which was established in last year's budget, focuses on developing treatments based on the unique characteristics of each individual. The allocation includes \$300 million to launch a national research cohort of over one million people.
 - HIV/AIDS: \$3 billion (\$3 billion in FY 2016).

- **Office of the Secretary, Office of the National Coordinator for Health Information Technology (ONC)**: \$82 million through the Public Health Service (PHS) Evaluation Fund Appropriation (\$60.37 million in FY 2016). Four legislative proposals were identified for the ONC:
 - Establish Health Information Technology (HIT) Governance Certification;
 - Prohibit information blocking and other related business practices;
 - Require vendor transparency such as the cost, capabilities, and limitations; and
 - Authorize ONC to establish a safety collaboration and provide adequate confidentiality protections.

- **Office of the Secretary**
 - **Protection Against Cyber Threats**: \$51 million is allocated for protections against cyber threats that pose risks to HHS critical functions, services, and data.

- **Public Health and Social Services Emergency Fund**: \$1.4 billion is allocated (a decrease of \$102 million). Initiatives include cybersecurity, pandemic flu, supporting state and local preparedness, and advancing the development of medical countermeasures.

- **Substance Abuse and Mental Health Services Administration (SAMHSA)**: \$3.49 billion (\$3.63 billion in FY 2016) in discretionary budget authority.
 - Opioid Initiative: \$1 billion two-year mandatory funding to expand access to treatment for prescription drug abuse and heroin use. Increase of \$559 million for programs to address the opioid abuse, misuse, and overdose crisis. This funding builds on the multi-pronged investments funded by Congress in FY 2016.
 - \$10 million for a Peer Professionals program, to increase the number of trained peers, recovery coaches, mental health and addiction specialists, and pre-Master's level addiction counselors.
 - Now is the Time Initiative: \$198 million (\$151 million in FY 2016) for a program in its second year that ensures young adults and students have access to mental health care.
 - Crisis Systems: \$10 million (\$10 million in FY 2016) for a targeted demonstration grant program in its second year that assists states in building and sustaining crisis systems to prevent and de-escalate behavioral health crises.
 - Substance Abuse Prevention and Treatment Block Grant: \$1.9 billion (\$1.86 billion in FY 2016).
 - Community Mental Health Services Block Grant: \$533 million (\$533 million in FY 2016).

- Certified Community Behavioral Health Clinic Demonstration: \$500 million for a new two-year initiative. The stated program goal is to support additional states in the Certified Community Behavioral Health Clinic demonstrations, expand the behavioral health workforce, and increase access to early intervention programs.
- Addressing the Prescription Drug Abuse and Heroin Use Epidemic: \$686 million, with \$559 million in new mandatory and discretionary funding (\$93 million in FY 2016).

HOMELAND SECURITY, EMERGENCY MANAGEMENT, AND LOCAL LAW ENFORCEMENT

DEPARTMENT OF HOMELAND SECURITY

The FY 2017 Budget proposes \$40.6 billion in discretionary funding for the Department of Homeland Security (DHS) to carry out its five primary missions: (1) prevent terrorism and enhance security; (2) secure and manage the borders; (3) enforce and administer immigration laws; (4) safeguard and secure cyberspace; and (5) strengthen national preparedness and resilience. The FY 2017 Budget represents a slight decrease in requested funding when compared to the \$41.1 billion enacted in FY 2016.

The Federal Emergency Management Agency (FEMA) is requesting funding in the FY 2017 Budget for a new Regional Competitive grant program. Funding will be awarded on a competitive basis and be aimed at improving national preparedness and closing regional capability gaps. These gaps will be identified through analyses of state and regional Threat and Hazard Identification and Risk Assessment (THIRAs), the annual National Preparedness Report, the Strategic National Risk Assessment, and other assessments of national risk and capabilities.

The FY 2017 Budget also requests funds for various immigration and border protection activities, including: \$319 million for costs associated with the temporary care and transportation of up to 75,000 unaccompanied children, as well as a request for additional contingency budget authority should the number of these apprehensions surge; \$2.2 billion in funding for US Immigration and Customs Enforcement to maintain 31,000 detention beds; and \$126 million for the Alternatives to Detention Program for alternative and less-costly forms of supervision or monitoring for individuals considered to be lower-risk. It would also set aside \$7.0 billion for the salaries and benefits of 21,070 Border Patrol agents and 23,821 Customs and Border Protection officers, and fund an additional 2,070 officers through an increase in user fees.

However, the FY 2017 Budget does not include funding for the President's proposed Deferred Action for Parents of Americans and Lawful Permanent Residents (DAPA) and expanded Deferred Action for Childhood Arrivals (DACA) programs, which have been challenged in a case brought by 26 states that will be argued before the Supreme Court later this year.

The FY 2017 Budget would also set aside \$6.7 billion for disaster relief and an additional \$54 million to mitigate the risks associated with disasters through the Pre-Disaster Mitigation (PDM) Fund.

- **State Homeland Security Grants**: \$200 million (\$467 million in FY 2016).
- **Urban Area Security Initiative**: \$330 million (\$600 million in FY 2016).

- **Port Security Grants:** \$93 million (\$100 million in FY 2016).
- **Public Transportation Security Assistance:** \$85 million (\$100 million in FY 2016) (also including Railroad Security Assistance and reserving \$10 million for Amtrak).
- **Countering Violent Extremism (CVE):** \$49 million (\$50 million in FY 2016).
- **FEMA Regional Competitive Grant Program:** \$100 million (new program).
- **FEMA Urban Search and Rescue Response System:** \$35.18 million (\$35.18 million in FY 2016).
- **FEMA Disaster Relief Fund:** \$7.35 billion (\$7.37 billion in FY 2016).
- **Firefighter Assistance Grants:** \$670 million (\$690 million in FY 2016).
 - Assistance to Firefighters Grants: \$335 million (\$345 million in FY 2016).
 - SAFER Grants: \$335 million (\$345 million in FY 2016).
- **Emergency Management Performance Grants:** \$350 million (\$350 million in FY 2016).
- **Emergency Food and Shelter Program:** \$100 million (\$120 million in FY 2016).
 - In the FY 2017 Budget, FEMA once again proposes to transfer authority over the Emergency Food and Shelter Program to the Department of Housing and Urban Development (HUD).
- **Flood Hazard Mapping and Risk Analysis Program:** \$178 million (\$190 million in FY 2016).
- **National Flood Insurance Fund:** \$181.80 million (\$181.20 million in FY 2016).

DEPARTMENT OF JUSTICE

The FY 2017 Budget requests a total of \$29 billion for the Department of Justice (DOJ). The request includes \$1.4 billion for a new Federal Bureau of Investigation (FBI) headquarters, and, in keeping with the President's recent emphasis on prison reform, includes additional funding for programs related to prisoner housing, mental health treatment, and reentry assistance. The Budget also requests funds for additional federal law enforcement personnel to enhance criminal background checks on gun purchases, as well as resources to help break through encrypted phone messages and respond to the increase in opioid abuse.

The Budget proposes a 21st Century Justice Initiative to be funded at \$500 million annually for 10 years. The program focuses on three objectives: reduce violent crime; reverse practices that have resulted to unnecessarily long jail sentences and unnecessary incarceration; and build community trust. States would focus on one or more of the following activities in the adult and juvenile systems: examine and amend laws and policies that lead to unnecessarily long jail sentences and unnecessary incarceration; promote advancements in community-oriented policing; and provide comprehensive front-end and reentry services.

The Budget also proposes \$442.7 million in additional funds for new programs and enhancement of community policing, prisoner reentry, juvenile justice and other key state, local, and tribal initiatives. Addressing recent events, the President emphasizes activities that enhance community trust and address domestic violent extremism.

- **State and Local Law Enforcement Grants:** \$1.2 billion (\$1.4 billion in FY 2016).
 - Byrne Memorial JAG: \$383.5 million (\$476 million in FY 2016, which included \$100 million in one-time funding for the Presidential Nominating Conventions).
 - Bulletproof Vests: \$22.5 million (\$22.5 million in FY 2016).

- Smart Policing: \$20 million (\$5 million in FY 2016), including \$10 million for a Body Worn Camera Demonstration.
 - National Training Center to Improve Police-Based Responses to People with Mental Illness: \$7.5 million.
 - Byrne Incentive Grants: \$10 million for a program that will make supplemental awards to Byrne JAG grantees who use a portion of those funds on evidence-based activities (new program).
 - Byrne Competitive Grants: \$15 million (not funded in FY 2016).
 - Byrne Criminal Justice Innovation Program: \$24 million (\$15 million in FY 2016).
 - Victims of Trafficking: \$45 million (\$45 million in FY 2016).
 - Prescription Drug Monitoring: \$12 million (\$13 million in FY 2016).
 - Second Chance/Offender Reentry: \$100 million (\$68 million in FY 2016).
 - Comprehensive School Safety Initiative: \$75 million (\$75 million in FY 2016).
 - Community Teams to Reduce the Sexual Assault Kit Backlog: \$41 million (\$45 million in FY 2016).
 - Indigent Defense: Answering Gideon's Call: \$5.4 million for a program to support changes in state and local criminal court practices related to indigent defense (new program).
 - Procedural Justice-Building Community Trust: \$20 million for a program that will provide grants and technical assistance to state, local, and tribal governments and other agencies to support innovative efforts to improve perceptions of fairness in the juvenile and criminal justice systems and enhance community trust (new program).
 - Body Worn Camera Partnership Program: \$30 million (\$22.5 million in FY 2016).
 - Justice Reinvestment Initiative: \$30 million (\$27.5 million in FY 2016).
 - Cyber Crime Prevention: \$15 million (\$13 million in FY 2016).
 - Countering Violent Extremism Grant Program: \$6 million for a program to counter domestic extremism (new program).
 - Violence Reduction Network: \$5 million to maintain and expand a program that enables cities to consult with and receive training from DOJ agencies on strategies aimed to reduce violence (new program).
- **Community Oriented Policing Services (COPS)**: \$286 million (\$212 million in FY 2016).
 - COPS Hiring: \$229 million (\$187 million in FY 2016).
 - Collaborative Reform: \$20 million for a program that provides funding to technical assistance providers to work with law enforcement agencies to assess issues that affect police and community relationships (\$10 million set-aside within COPS Hiring in FY 2016).
 - Countering Violent Extremism: \$3 million (for awards of \$500,000) to enhance the ability of state and local law enforcement agencies to partners with community and other stakeholders to combat violent extremism.
- **Office of Violence Against Women Prevention and Prosecution Programs**: \$489 million (\$480 million in FY 2016).
 - STOP Grants: \$200 million (\$215 million in FY 2016).
 - Transitional Housing Assistance: \$30 million (\$30 million in FY 2016).
 - Grants to Encourage Arrest Policies: \$62.25 million (\$51 million in FY 2016).
 - Grants to Reduce Violent Crimes Against Women on Campus: \$26 million (\$20 million in FY 2016).
 - Sexual Assault Services: \$26 million (\$35 million in FY 2016).

- **Juvenile Justice Programs:** \$334.4 million (\$270.2 million in FY 2016).
 - Juvenile Accountability Block Grants: \$30 million to re-establish the program.
 - Part B: Formula Grants: \$75 million (\$53 million in FY 2016).
 - Youth Mentoring: \$58 million (\$90 million in FY 2016).
 - Delinquency Prevention Program: \$42 million (\$17.5 million in FY 2016).
 - Community-Based Violence Prevention Initiatives: \$18 million (\$7 million in FY 2016).
 - Smart on Juvenile Justice: \$20 million for a program that will support juvenile justice reform at the state and local level (new program).
 - Defending Childhood/Children Exposed to Violence Initiative: \$23 million (\$8 million in FY 2016).

HOUSING, HOMELESSNESS, AND COMMUNITY DEVELOPMENT

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The FY 2017 Budget requests \$48.9 billion in gross discretionary funding (\$1.9 billion above the FY 2016 enacted level) and \$11.3 billion in new mandatory spending over 10 years for the Department of Housing and Urban Development (HUD).

The \$11 billion over 10 years is intended to reach and maintain the goal of ending homelessness among all of America's families by 2020. Of that, \$8.8 billion is for the housing choice voucher program and about \$2.2 billion is in short-term housing. The Budget emphasizes supporting 4.5 million households through rental assistance, increasing homeless assistance, and making targeted investments in communities to help revitalize high-poverty neighborhoods.

Additionally, the Budget proposes \$15 million for a new Mobility Counseling Demonstration, attempts to narrow the digital divide in HUD-assisted housing with a \$5 million ConnectHome initiative, and increases job training and financial incentives for employment in Public Housing and Native American households through Jobs-Plus, a \$35 million evidence-based program. Further, HUD again proposes a series of reforms to the Community Development Block Grant program intended to enhance local decision making, improve program accountability, and provide more options for regional coordination through such changes as reducing the number of small grantees, targeting to the greatest need, and providing more options for regional coordination. As it did last year, the Budget proposes a new initiative, the Upward Mobility Project, which will allow up to ten communities, states or consortia of states and communities to combine funds from four existing block grant programs designed to promote opportunity and economic development. It is important to note that the Community Development Block Grant (CDBG) and HOME Investment Partnership Program would be part of the Upward Mobility Program. The FY 2017 Budget requests \$200 million for the Choice Neighborhoods Program.

- **Community Development Block Grant (CDBG):** \$2.8 billion (\$2.8 billion in FY 2016).
- **Tenant-Based Rental Assistance (Section 8):** \$20.9 billion (\$19.6 billion in FY 2016).
 - Voucher Renewals: \$18.5 billion (\$17.68 billion in FY 2016).
 - Tenant Protection Vouchers: \$110 million (\$130 million in FY 2016).

- HUD-VASH Vouchers: similar to last year, no funds were proposed for this program except for \$7 million for the Tribal HUD-VASH program; however, the President proposes a new Homeless Assistance for Families program (\$60 million in FY 2016).
- Homeless Assistance for Families: \$11 billion over ten years to reach and maintain goal of ending homelessness, and significantly expand rapid rehousing and Housing Choice Vouchers (new program).
- Section 811 Vouchers: \$110 million (\$107 million in FY 2016).
- **Public Housing Capital Fund**: \$1.86 billion, includes \$35 million for Jobs-Plus for increasing employment and earnings (\$1.9 billion in FY 2016).
- **Public Housing Operating Fund**: \$4.6 billion (\$4.5 billion in FY 2016).
- **Choice Neighborhoods Initiative**: \$200 million (\$125 million in FY 2016). Additionally, the Budget includes companion investments of \$128 million in the Department of Education's Promise Neighborhoods program and \$24 million in the Department of Justice's Byrne Criminal Justice Innovation Grants program, as well as tax incentives to promote investment and economic growth in Promise Zones.
- **Housing Opportunities for Persons with AIDS**: \$335 million (\$335 million in FY 2016).
- **HOME Investment Partnerships Program**: \$950 million (\$950 million FY 2016).
 - Self-Help Homeownership Program (SHOP): \$10 million (\$10 million in FY 2016).
- **Homeless Assistance Grants**: \$2.66 billion (\$2.25 billion in FY 2016).
 - Emergency Solutions Grants (ESG): \$270 million (\$250 million in FY 2016).
 - Continuum of Care and Rural Housing Sustainability Assistance Program: \$2.38 billion (\$1.92 billion in FY 2016).
 - National Homeless Data Analysis Project: \$7 million (\$7 million in FY 2016).
- **Lead Hazard Reduction**: \$110 million (\$110 million in FY 2016).
- **Project-Based Rental Assistance**: \$10.8 billion (\$10.2 billion in FY 2016).
- **Housing for the Elderly**: \$505 million (\$433 million in FY 2016).
- **Housing for Persons with Disabilities**: \$154 million (\$151 million in FY 2016).
- **Housing Counseling Assistance**: \$47 million (\$47 million in FY 2016).
- **Rental Housing Assistance (Section 236)**: \$20 million (\$30 million in FY 2016).
- **Voucher Mobility Demonstration**: \$15 million (new program).

DEPARTMENT OF COMMERCE

- **Economic Development Assistance (EDA) Programs**: \$215 million (\$220 million in FY 2016). Includes \$85 million for Public Works, \$20 million for Regional Innovation Strategies Program (i6 Challenge Program), and \$50 million for Economic Adjustment Assistance.
- **Competitive Grant Initiative (under EDA)**: \$50 million for a competitive grant initiative to incentivize partnerships between federal labs, academia, and regional economic development organizations (new program).

TAX AND REVENUE

DEPARTMENT OF TREASURY

To fund its \$4.23 trillion FY 2017 Budget, the Administration has set forth proposals to raise trillions of dollars, including more than \$2.6 trillion in tax revenues, by imposing a minimum and repatriation tax on foreign earnings, raising the top tax rate on capital gains, imposing a new fee on large financial firms, implementing the “Buffett Rule” (*i.e.*, a proposal that would require wealthy individuals to pay at least 30 % of their income in taxes), and imposing a \$10.25 per barrel tax on oil.

From the perspective of Congressional tax-writers, Senate Finance Committee Chairman Orrin Hatch (R-UT) has already focused on the Administration’s international tax reform proposals (which essentially remained unchanged from last year), strongly opposing the use of any revenues generated from international tax changes to pay for infrastructure. He also noted: “I just don’t think [international tax reform is] going to get done this year.” Instead, Chairman Hatch suggested the focus should remain on further developing his plan to end double corporate taxation. The House Ways and Means Committee Chairman echoed these sentiments, noting that the Committee has serious concerns about many of the Administration’s tax proposals.

Below find more detailed analysis of the following tax and revenue provisions in the Budget: (1) international tax reform; (2) research and development; (3) energy; (4) pass-throughs; (5) large financial firms; (6) education and the workforce; (7) healthcare; (8) estate taxes; (9) community development; and (10) funding for the Department of the Treasury and the Internal Revenue Service (IRS).

Note that this review of the tax and revenue provisions in the FY 2017 Budget is not meant to be inclusive, but instead highlights some of the major policy proposals outlined by the Administration. For a full list of the Administration’s tax and revenue proposals, please see the Treasury Department’s [“Green Book.”](#)

Infrastructure Finance

The Budget renews the Administration’s push (thus far rejected by Congress) to limit the tax value of tax-exempt bond interest to 28% for single taxpayers with incomes over \$200,000 and couples over \$250,000 and eliminate tax-exempt financing for professional sports stadiums. It also renews the Administration’s previous proposals for the creation of tax-exempt qualified infrastructure bonds, America Fast Forward (AFF) direct-pay bonds and a national infrastructure bank, as well as an increase in the annual issuer limit for bank-qualified bonds.

Qualified Public Infrastructure Bonds (QPIBS) would be exempt from private-activity bond volume caps and the alternative minimum tax and could be issued beginning in 2017 for airports, docks, wharves, mass commuting facilities, water and sewage facilities, solid waste disposal projects and qualified highway or surface freight transfer facilities as well as broadband to provide high speed internet access. The projects would have to be owned by a state or local governmental unit and available for regular public use.

AFF bonds would be taxable but Treasury would make subsidy payments to issuers equal to 28% of their interest costs. These bonds could be used to finance any projects that could be financed with private activity bonds or QPIBS, as well as government capital projects, current refundings of those bonds, short term working capital financings and projects for 501(c)(3) nonprofit entities.

International Tax Reform

The international proposals included in the President's Budget (and raising more than \$484 billion in revenue) are essentially the same as last year, with two exceptions: this Budget does not contain proposals related to the active financing exception or subpart F look-through rules. However, this comes as no real surprise, given Congress' work in December to pass the large tax extenders package, which made the active financing exception permanent and extended the subpart F look-through until the end of 2019.

- **Impose a 19% Minimum Tax on Foreign Earnings:** As with last year's Budget, this year's proposal again includes a minimum tax on foreign earnings. Specifically, the proposal would require US companies to pay a 19% tax on all of their earnings abroad when earned, with no deferral, after which the remaining money could be distributed stateside with no additional tax liability. Interestingly, the Treasury estimates that the minimum tax as proposed for FY 2017 would raise more than double the amount of revenue it was originally estimated to raise when first proposed last year (\$24.2 billion, up from \$11.9 billion), a result of new earnings that have since moved abroad, coupled with larger amounts of income being shifted than originally estimated.
- **Impose a 14% One-Time Tax on Previously Untaxed Foreign Income:** In connection with the transition to the minimum tax, the Budget would impose a one-time 14% tax on earnings accumulated by controlled foreign corporations (CFCs) and not previously subject to US tax. A credit would be allowed for the amount of foreign taxes associated with such earnings multiplied by the ratio of the one-time tax rate to the maximum US corporate tax rate for 2016. The accumulated income subject to the one-time tax could then be repatriated without any further US tax. The provisions would raise nearly \$36 billion in FY 2017.
- **Other International Tax Reforms:** Other reforms to the US international tax system which are again being proposed include: restricting deductions for excessive interest of members of financial reporting groups; providing tax incentives for locating jobs and business activity in the United States, and removing tax deductions when jobs are relocated overseas; repealing the delay in the implementation of worldwide interest allocation; restricting the use of hybrid arrangements that create stateless income; limit the shifting of income through intangible property transfers; and limiting the ability of domestic entities to expatriate by, among other things, broadening the definition of an inversion transaction by reducing the 80% test to a greater than 50% test, and eliminating the 60% test. In total, the proposed reforms to the international tax system would result in \$28.5 billion in revenue for FY 2017, and a total of \$484 billion in revenue over the 10-year scoring window.

R&D Tax Credit

Following last year's permanent extension of the Research and Development (R&D) Tax Credit, the Administration's Budget would further incentivize companies' research and development efforts by first repealing the "traditional method" (*i.e.*, the credit equals 20% of qualified research expenses above a base amount), and then increasing the rate of the alternative simplified credit from 14% to 18%,

among other changes. The proposal would cost \$959 million in FY 2017, and total more than \$27 billion over the 10-year scoring window.

Energy Taxes

- **Oil Fee:** The Administration's Budget includes \$10.25 per barrel a fee on crude oil (adjusted for inflation from 2016 and phased in evenly over a five-year period beginning October 1, 2016), which would be used to support critical infrastructure and climate resiliency needs. The fee would be collected on crude oil produced domestically, as well as on imported petroleum products. Exported petroleum products would not be subject to the fee, and home heating oil would be temporarily exempted. Specifically, the revenue from the fee would fund a "21st Century infrastructure package" to upgrade the nation's transportation system, invest in cleaner transportation technologies, and reduce carbon emissions. In addition, 15% of the revenues from the fee would be dedicated for relief for households with particularly heavy energy costs. The proposal, which is vehemently opposed by Republicans, would result in an approximate \$.24 per gallon increase at the pump and raise \$7.2 billion in FY 2017 and more than \$319 billion over the 10-year scoring window.
- **Renewable Energy Tax Incentives:** By way of follow-up to last year's action on tax extenders, the Administration is renewing its call to make certain wind and solar tax incentives permanent. Specifically, the President would permanently extend the production tax credit (PTC), which benefits wind energy and is set to phase out by 2020, and the investment tax credit (ITC), which benefits solar energy and is set to phase out by 2022. The extension of these tax incentives would cost \$122 million in FY 2017 and more than \$24 billion over the 10-year scoring window.

Pass-Throughs

The proposal would seek to ensure the consistency in taxation of high-income taxpayers and owners of professional service businesses. First, the Budget seeks to close the gap between the net investment income tax (NIIT) and Self-Employment Contributions Act (SECA), so that all trade or business income of high-income taxpayers (*e.g.*, partners in hedge funds, private-equity firms, and other businesses organized as pass-throughs) is subject to the 3.8% Medicare tax either through NIIT or SECA. Under current law, there is a gap for passive income earned by limited partners from partnerships in which they materially participate. There is also a gap for LLC members (though there may be some question about the scope of the gap).

Additionally, the Administration is proposing to treat individual owners of personal services businesses taxed as S corporations or partnerships as subject to SECA taxes in the same manner and to the same degree. It would apply to owners who materially participate in the business, and would not subject allocable shares of a S corporation's or partnership's dividend, rental, interest, or capital gain income to SECA.

This proposal would raise \$16.6 billion in FY 2016 and nearly \$272 billion over the 10-year scoring window.

Large Financial Firms

The Administration is proposing to assess a seven basis point fee on certain liabilities of large financial firms with worldwide consolidated assets of at least \$50 billion; those firms with assets less than \$50 billion would not be subject to the fee for the period during which their assets are below this threshold. The fee would be also applicable to certain US subsidiaries and branches of foreign entities with assets in excess of \$50 billion. The fee would be deductible in computing corporate income tax and must be reported on the firm's annual federal income tax return, with estimated payments being made on the same schedule as estimated income tax payments. This proposal would raise \$5.7 billion in FY 2017 and more than \$111 billion over the 10-year scoring window.

Education and the Workforce

- **Incentivizing Community College:** The Budget would provide businesses with a \$5,000 tax credit for each qualifying employee hired on a fulltime and permanent basis, and certified to have earned a degree from a participating college program. The credit would be partially recaptured if the employee worked less than one year. The proposal would provide \$500 million in tax credit authority for each of year from 2017 through 2021, which would be allocated annually to states on a per capita basis.
- **Incentivizing Investments in Manufacturing Communities:** The Administration also proposed a new allocated tax credit to support investments in communities that have suffered a major job loss event (*i.e.*, when a military base closes or a major employer closes or substantially reduces a facility or operating unit, resulting in a long-term mass layoff). The credit could be structured using the mechanism of the New Markets Tax Credit or as an allocated investment credit similar to the tax credit for investments in qualified property used in a qualifying advanced energy manufacturing project. The proposal would provide about \$2 billion in credits for qualified investments approved in each year from 2017 through 2019.

Healthcare

Following Congress' vote to delay until 2020 the "Cadillac" tax on high-cost employer insurance plans, which was designed to finance part of the Affordable Care Act, the Administration is proposing to ensure that the tax is only ever applied to higher-cost plans by, among other things, increasing the tax threshold to the greater of the current law threshold or a "gold plan average premium" that would be calculated and published for each state. The proposal would cost \$1.3 billion over the 10-year scoring window.

Estate Taxes

By way of follow-up to its estate tax basis consistency proposal enacted into law last year, the Administration is proposing to expand the property subject to the consistency requirement imposed under section 1014(f) to include: (1) property qualifying for the estate tax marital deduction, provided a return is required to be filed under section 6018, even though that property does not increase the estate's federal estate tax liability; and (2) property transferred by gift, provided that the gift is required to be reported on a federal gift tax return. This proposal would raise nearly \$1.7 billion over the 10-year scoring window.

Additionally, the Budget contains a proposal to extend the estate tax lien under section 6324(a)(1) (which imposes a lien on estate assets generally for the 10-year period immediately following the decedent's death to secure the full payment of the estate tax) throughout the section 6166 deferral period (which allows the deferral of estate tax on certain closely held business interests for up to 14 years from the (unextended) due date of the estate tax payment (up to 14 years and nine months from date of death)). This proposal would raise \$260 million over the 10-year scoring window.

Community Development

The Budget includes \$246 million for the Community Development Financial Institutions (CDFI) Fund, a \$12 million increase (5.3%) from FY 2016, to promote economic development investments in low-income and underserved communities. It also provides funding for a new CDFI small dollar loan program to support broader access to safe and affordable financial products and provide an alternative to predatory lending. The Administration is also proposing a \$100 million mandatory fund for Treasury to encourage the development of innovative private-sector financial products and services that would help low- to moderate-income workers build up “rainy day” reserves to provide a buffer against shocks to income and spending needs. Moreover, the Administration is seeking to extend the CDFI Bond Guarantee program through FY 2017, providing up to \$1 billion of long-term capital to CDFIs that support lending in underserved communities.

Also in the Budget is a \$300 million one-time mandatory appropriation for a new Pay for Success (PFS) program administered by Treasury, which will support the growing number of state and local governments seeking to establish projects that use PFS financing. These projects leverage private investment to provide preventive social services that measurably improve outcomes for families and communities while generating value to the government, including savings.

Department of the Treasury and the Internal Revenue Service

The Obama Administration is requesting \$13.3 billion in discretionary appropriations for Treasury's operating accounts. Moreover, according to the Budget, “[a]lthough the 2016 Consolidated Appropriations Act reversed a five-year trend of irresponsible cuts to the IRS budget – which threatened the integrity of the tax system and resulted in unacceptable levels of taxpayer services – the IRS operating budget is still almost \$1 billion below 2010 levels, even before accounting for inflation.” As such, the Administration is seeking \$12.28 billion in funding for the IRS (a 9.3% increase in funding, up from \$11.23 billion for FY 2016), including \$2 billion for taxpayer services and more than \$500 million to improve enforcement activities.