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PRESIDENT'S FY 2016 BUDGET PROPOSAL

ANALYSIS OF ADMINISTRATION FUNDING AND POLICY PRIORITIES

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INTRODUCTION

On February 2, 2015, President Obama submitted his FY 2016 Budget Proposal to Congress, echoing many elements outlined in his State of the Union address. The Budget proposal exceeds restrictive spending caps ("sequestration") mandated by Congress four years ago and proposes new capital gains and bank taxes, emphasizing tax credits to help the middle class, infrastructure investment, and free community college. The President's $4 trillion Budget outlines his priorities for his last two years in office as well as sets the stage for the next Presidential election.

The President's Budget includes changes to the four-year, $302 billion GROW AMERICA Act legislative proposal from last year's budget, now offering an ambitious six-year, $478 billion public works program of highway, bridge, and transit upgrades, financed in part by a one-time mandatory tax on profits that US companies have amassed overseas, known as repatriation. The 14% tax on accumulated foreign profits – significantly lower than the current top rate of 35% – would generate $238 billion in revenues; the remaining $240 billion would come from the existing federal gas tax which funds the Highway Trust Fund. While there are numerous ways to structure a repatriation tax break, both within and outside of tax reform, the general notion of directing repatriated revenues to infrastructure seems to have some bipartisan support in Congress. Recently, Senators Rand Paul (R-KY) and Barbara Boxer (D-CA) proposed paying for highway and bridge fixes by letting companies voluntarily pay taxes on foreign earnings at a one-time rate of 6.5%. But all financing mechanisms are likely still on the table, including raising the gas tax, as evidenced by the bipartisan bill introduced by Senators Patty Murray (D-WA) and Bob Corker (R-TN) to increase the gas tax by 12 cents over two years and index it to inflation. Among the many policy changes in the GROW AMERICA Act is a proposal to double the popular TIGER transportation grant program to $1.25 billion per year, to be funded from the Multimodal account of their proposed Transportation Trust Fund, rather than from annual appropriations as is the case currently.

In addition to proposing increased federal funding for surface transportation, the Budget proposes a new category of municipal bonds, Qualified Public Infrastructure Bonds (QPIBs), to attract additional private capital to infrastructure investment. Recently announced as part of the Build America Investment Initiative, but requiring legislation to implement, QPIBs would expand the resources available to states and municipalities to fund infrastructure projects by allowing issuance of tax-exempt debt for projects with significant private sector participation. QPIBs could be used in public-private partnership arrangements for publicly-owned, privately-operated, managed, or leased investment arrangements for airports, ports, mass transit facilities, water, sewer, waste disposal facilities, and surface transportation projects. Interest income earned on QPIBs would not be subject to the Alternative Minimum Tax, making QPIBs a potentially more attractive option than other qualified private activity bonds.

Another element of the FY 2016 Budget Proposal requiring legislation is providing students free community college for those annual income earners at or under $200,000 a year. Estimated to benefit millions of students annually, the proposal applies to students of all ages with a 2.5 GPA who attend school at least half-time and are making steady progress towards a degree. To qualify, community colleges would have to offer academic programs that fully transfer credits to local public four-year colleges and universities or training programs with high graduation rates that lead to in-demand degrees and certificates. They must also adopt evidence-based institutional reforms to improve student outcomes. The Administration believes this proposal has bipartisan support.

The Budget proposes improving access to high-quality child care and early education by tripling the maximum Child and Dependent Care Tax Credit (CDCTC) for families with children under the age of five and supports universal preschool by substantially increasing funding for the Department of Education's Preschool Development Grants.

Building on the Promise Zones initiative, the Budget proposes creating 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 and reduce poverty, it will test promising approaches to helping families become more self-sufficient and to revitalizing communities. The Budget also encourages states to develop fully paid family leave programs by providing funding for the initial set-up and half of the costs for as many as five states.

As noted, the Budget exceeds the proposed sequestration spending caps. *The Budget Control Act of 2011* (P.L. 112-25) established sequestration, mandating total projected spending cuts of $1.2 trillion evenly divided over the nine-year period from FY 2013 to FY 2021. Sequestration applies to discretionary spending – anything that Congress funds each year through the appropriations process. Social Security, Medicare, Medicaid, and the Highway Trust Fund are exempted, but sequestration applies to virtually everything else, including defense, housing, veterans' programs, education, and research. The two-year bipartisan budget deal brokered by Senator Patty Murray (D-WA) and Representative Paul Ryan (R-WS) (P.L. 113-67) has expired and sequestration is reinstated in FY 2016.

With the budget deficit down to pre-2008 levels, the proposed Budget ignores sequestration, which the President maintains will hurt domestic programs and military readiness. Spending would be set at $74 billion above the sequester cap, which is approximately a 7% increase in 2016 spending over levels that would trigger sequestration. The plan provides $530 billion on the non-defense discretionary side, which is an increase of $37 billion over spending caps, and $561 billion in defense spending, which is an increase of $38 billion over the caps.

Sequestration was originally imposed as a method for forcing a compromise that would stave off the across the board cuts, and it is expected that Congress will come to an agreement this year to prevent sequestration from going into effect.

The release of the President's Budget kicks off the FY 2016 budget and appropriations process, which will begin soon in the House and the Senate, and sets up a confrontation with the Republican-controlled Congress, although Republicans are divided. Some have vowed to rein in deficit spending, while others have indicated a desire to break spending caps to increase defense spending. Despite the potential battles over funding levels, it is possible that both parties could find agreement on infrastructure proposals, middle class tax credits/corporate tax reform, and trade authorizations.

1. INFRASTRUCTURE: TRANSPORTATION AND WATER

Department of Transportation

Surface Transportation

After Secretary of Transportation Anthony Foxx promised last week a "new and improved" version of last year's four-year, $302 billion GROW AMERICA Act, the President unveiled a $478 billion proposal to authorize federal highway, transit, and rail programs for the next six years. The President this year fleshed out his funding approach for the bill: a one-time "deemed" repatriation tax on the nearly $2 trillion in earnings held overseas by US corporations. These funds held abroad would be taxed at a rate of 14%, regardless of whether the funds are actually brought back to the US. The Budget estimates this scheme would yield $238 billion for surface transportation programs; the remainder of the bill would be funded by current Highway Trust Fund revenue sources. President Obama's proposal assumes repatriation would take place as a part of broader tax reform, which is unlikely to be accomplished before the Highway Trust Fund's revenue shortfall becomes critical at the end of May. A short-term funding bridge – a transfer from the General Fund – would seem unavoidable under this proposal.

For FY 2016, the revised GROW AMERICA proposal requests $94.7 billion. The highway and transit formula programs would receive sizeable funding increases, as would the New Starts discretionary grant program for new or capacity-increasing transit service. The program funding numbers are below. The President would more than double funding for TIGER – the popular, multimodal, competitive grant program – to $1.25 billion annually, and would bring the now general-funded program into the proposed Transportation Trust Fund. The Budget would increase funding for the National Highway Traffic Safety Administration by an average of 20% annually, including $31.3 million in FY 2016 to investigate vehicle safety defects.

The revised GROW AMERICA proposal again includes several policy reforms to strengthen local authority in federal transportation funding decisions and to streamline and accelerate federal permitting processes.

Freight

The President's Budget requests $1 billion to improve freight delivery. With the aim of encouraging broad regional planning, the freight program would fund multi-jurisdictional corridor projects and require regional interests to be included when developing statewide freight plans.

Rail

The Budget would more than triple passenger rail funding, to just over $5 billion, drawing nearly all rail programs into a new multimodal Transportation Trust Fund. The budget provides $3 billion through fiscal year 2018 to help commuter railroads implement Positive Train Control (PTC) collision avoidance systems. The Budget also requests $5 million to ensure the safe transportation of crude oil in tank cars through continued automated track inspections of crude routes, training of shortline railroads on safe hauling of energy projects, and increased Departmental oversight staff. This $5 million request is significantly less than the $40 million proposed last year.

Aviation

The Budget proposes to accelerate modernization of the nation's air traffic control system through NextGen, yet aviation spending remains relatively flat at $15.8 billion. This total includes $2.9 billion in AIP (Grants-in-Aid for Airports) funding, the same as the President's FY 2015 Budget Request but $450 million below the FY 2015 enacted funding level. The Budget also proposes to increase the passenger facility charge (PFC) limit from $4.50 to $8.00 and seeks $9.6 million in additional funds to research drone detection and avoidance technologies.

TIFIA

The budget includes $1 billion annually to support loans through the Transportation Infrastructure Finance and Innovation Act (TIFIA) program. The Budget would also create a new Office of the Assistant Secretary for Innovative Finance to manage all the Department of Transportation's (DOT) credit programs and help project sponsors navigate innovative financing options.

Transportation's Future

In a report entitled "Beyond Traffic," Secretary Foxx announced this week his vision for addressing the challenges facing the nation's transportation systems over the next three decades, primarily focusing on how technology and improved design can increase the capacity and safety of these systems. The report is meant to guide future transportation decisions as freight traffic grows by 45% and population increases by 70 million by 2045, with Americans predicted to migrate to the South and West and from rural communities to suburbs and expanding urban centers.

- **Six-Year Surface Transportation Reauthorization Proposal:** $478 billion including:
  - Federal Highway Administration (FHWA): $317 billion over six years for FHWA programs. FY 2016 funding level of $51.3 billion ($41 billion in FY 2015), with several new programs:
    - Critical Immediate Safety Investments Program: Part of the President's "Fix-it-First" initiative, this program would focus on improving existing highway roads and bridges; funded at $7.5 billion in FY 2016.
    - Freight: New $1 billion annual program to improve freight project delivery.
    - Fixing and Accelerating Surface Transportation (FAST): New six-year, $3 billion competitive grant program designed to create incentives for state and local partners to adopt safety and traffic demand management reforms ($500 million annually).
  - Federal Transit Administration (FTA): Over $114 billion in funding over six years for FTA programs. FY 2016 budget request is $18.4 billion, including $13.9 billion in formula grants ($11 billion in FY 2015). The Budget Request also includes:
    - $3.25 billion for Capital Investment Grants (New Starts/Small Starts); total of $20.5 billion over six years ($2.12 billion in FY 2015).
    - Again includes a new Rapid Growth Area Transit Corridor discretionary grant program to fund Bus Rapid Transit (BRT); $500 million in FY 2016 and $3.4 billion total over six years.
    - $150 million for the Washington Metropolitan Area Transit Authority (WMATA).
- **Federal Railroad Administration:** $28.6 billion total over six years.
    - Amtrak: The President's Budget restructures current general-funded Amtrak capital, debt service, and operating grants ($1.39 billion in FY 2015), requesting $14.1 billion over six years ($2.45 billion in FY 2016), for Current Passenger Rail Service to bring Amtrak assets into a state of good repair.
    - $14.48 billion over six years ($2.33 billion in FY 2016) for a new Rail Service Improvement program, which includes $3.05 billion through FY 2018 to implement Positive Train Control (PTC) on commuter railroads.
    - $203.8 million for Safety and Operations ($186.9 million in FY 2015).
    - $39.2 million for Research and Development ($39.1 million in FY 2015).
- **TIGER Grants:** $1.25 billion annually, for a total of $7.5 billion over six years, compared to $500 million in FY 2015.
- **TIFIA:** $1 billion annually, for a total of $6 billion over six years to support credit assistance to project sponsors under TIFIA program.
    - $2 million for a new Office of the Assistant Secretary for Innovative Finance to assume responsibility for managing DOT's credit programs.
- **Federal Aviation Administration:**
  - Grants-in-Aid for Airports: $2.9 billion for FY 2016 ($3.35 billion in FY 2015).
    - The Budget also proposes an increase to the PFC limit from $4.50 to $8.00 for all commercial service airports and eliminates guaranteed AIP entitlement funding for large hub airports.
  - Facilities and Equipment: $2.86 billion ($2.6 billion in FY 2015).
  - Next Generation Air Transportation System: $956 million in funding for NextGen programs in FY 2016 ($857 million in FY 2015).
    - "Facilities and Equipment" includes $845 million for NextGen capital-related investments ($792 million in FY 2015).
    - "Research Engineering and Development" includes $61 million ($51 million in FY 2015).
    - "Operations" includes $51 million ($37 million above FY 2015).
  - Contract Tower Programs: $144.5 million ($144.5 million in FY 2015).
  - General: $15.8 billion ($15.8 billion in FY 2015).
    - Essential Air Service: $175 million.
- **National Highway Traffic Safety Administration:** Nearly $6 billion over six years; $908 million in FY 2016 ($830 million in FY 2015).
  - Highway Traffic Safety Grants: $577 million ($562 million in FY 2015).
  - Total of $331 million in FY 2016 for Operations and Research, including Vehicle Safety ($179 million).
- **Pipeline and Hazardous Materials Safety Administration:** $288.7 million ($244.5 in FY 2015).
  - Emergency Preparedness Grants: $28.3 million ($26.2 million in FY 2015).

Environmental Protection Agency

The FY 2016 Budget Request provides $452 million more in funding for the Environmental Protection Agency (EPA) than the FY 2015 Budget. The FY 2016 Budget focuses on the following core priorities: addressing climate change and improving air quality; taking action on toxics and chemical safety; protecting water; maintaining core enforcement strength; supporting state, tribal, and local partnerships; strengthening the EPA as a high performing organization; and working toward a sustainable future. The FY 2016 Budget Request includes $5 million for implementing the Water Infrastructure Finance and Innovation Act (WIFIA). WIFIA is an innovative financing program designed to provide low-cost capital and attract private investment for water infrastructure projects.

- **EPA:** $8.6 billion ($8.2 billion in FY 2015).
  - Clean Water State Revolving Fund: $1.12 billion ($1.45 billion in FY 2015).
  - Drinking Water State Revolving Fund: $1.19 billion ($907 million in FY 2015).
  - WIFIA: $5 million ($2.2 million in FY 2015).

Corps of Engineers – Civil Works

The FY 2016 Budget Request provides significantly less funding for the Army Corps of Engineers (ACOE) than the FY 2015 Budget. The ACOE would receive almost $750 million less than it did in FY 2015. The FY 2016 Budget Request focuses on three mission areas for the ACOE: commercial navigation; flood and storm damage reduction; and aquatic ecosystem restoration. The FY 2016 Budget includes a proposal to reform the Inland Waterways Trust Fund, including adding an annual per vessel fee, which would help finance future capital investments in the waterways and raise $110 million.

- **ACOE:** $4.7 billion ($5.45 billion in FY 2015).
  - Investigations: $97 million ($122 million in FY 2015).
  - Construction: $1.17 billion ($1.64 billion in FY 2015).
  - Harbor Maintenance Trust Fund: $915 million ($1.1 billion in FY 2015).
  - Inland Waterways Trust Fund: $53 million ($112 million).

Department of the Interior

- **Bureau of Reclamation, Water, and Related Resources:** $1.1 billion ($1.13 billion in FY 2015).
- **National Park Service:** $2.52 billion ($2.28 billion in FY 2015).
  - Historic Preservation Fund: $89.9 million ($56.4 million in FY 2015).
  - Land and Water Conservation Fund: The FY 2016 Budget Request includes a legislative proposal of $900 million in discretionary and mandatory funding for FY 2016, and proposes to permanently authorize $900 million in mandatory funding beginning in FY 2017 (rescission of $28 million in FY 2015).

Infrastructure Finance

Qualified Public Infrastructure Bonds

As announced in January leading up to President Obama's State of the Union Address, the Budget includes a number of finance proposals to fuel economic growth by attracting additional private investment to infrastructure projects in order to supplement constrained public funding by all levels of government. The centerpiece of this initiative is a new type of tax-exempt bond available for projects delivered through public-private partnerships (P3s): Qualified Public Infrastructure Bonds (QPIBs).

The White House proposal seeks to "level the playing field" for state and local governments seeking to use P3s. QPIBs would be a new category of qualified private activity bond that could be used in P3 structures to finance the construction or improvement of airports, docks and wharves, mass commuting facilities, solid waste disposal facilities, sewage facilities, facilities for the furnishing of water, and qualified highway or surface freight transfer facilities. The facilities financed by QPIBs must be owned by a state or local governmental entity, but these facilities could be leased to or operated and maintained by a private party in a P3 structure as long as:

1. The lease or P3 contract includes a binding, irrevocable election by the private party not to claim depreciation or investment credits in respect to the financed facility for federal tax purposes;
2. The term of the lease or P3 contract does not exceed 80% of the reasonably expected economic life of the financed facility; and
3. The private party has no option to purchase the financed facility other than at the facility's fair market value at the time the purchase option is exercised.

Further, a project financed by QPIBs must either serve a general public use or be available on a regular basis for general public use. QPIBs would be especially attractive compared to other qualified private activity bonds, because the interest payments on QPIBs will not be subject to the Alternative Minimum Tax, there will be no volume cap on the issuance of QPIBs, and no expiration date will apply to the issuance of QPIBs.

America Fast Forward Bonds

Included again this year is the President's proposal to establish a direct-pay, taxable bond in which state or local governmental issuers would receive a payment from the US Treasury equal to 28% of interest costs. America Fast Forward Bonds could be issued for infrastructure projects and for any other projects eligible to be financed by governmental use tax-exempt bonds, qualified 501(c)(3) tax-exempt bonds, and exempt facility tax-exempt bonds.

Water Finance Center

Funding is also included to support the EPA's new Water Finance Center, a part of the Build America Investment Initiative, which will work with municipalities, states, utilities, and private sector companies to promote public-private collaboration and increase private capital in water infrastructure projects.

2. AGRICULTURE, NUTRITION PROGRAMS, AND RESEARCH

Agriculture and Nutrition Programs

The President's FY 2016 Budget provides $25 billion, an increase of nearly $1 billion above FY 2015 for the US Department of Agriculture (USDA), with a great emphasis placed on funding to drive the Administration's agenda on climate change along with the protection of nutrition programs. Mandatory funding is estimated at $31 billion, which is close to a $3 billion increase from FY 2015. The increase largely reflects greater funding for the Commodity Credit Corporation.

The FY 2016 Budget also includes an interesting proposal to create an independent agency focused on food safety. Currently, the USDA Food Safety and Inspection Service (FSIS) coordinates with other federal agencies, including the Food and Drug Administration (FDA) and the Centers for Disease Control and Prevention (CDC), to ensure that food is safe. The Budget proposes consolidating FSIS and the food safety components of the FDA to create a single new agency within the Department of Health and Human Services. The Administration envisions that this new agency would draw on the best practices of both agencies to address safety and other issues that affect the supply chain.

Nutrition Programs

- **Supplemental Nutrition Assistance Program (SNAP, formerly known as food stamps):** $83.69 billion for SNAP, which is an increase of $1.86 billion from FY 2015. This includes $1.5 million to support research and evaluation of the Dietary Guidelines for Americans (DGA) to explore motivators and barriers related to achieving a healthy weight and reducing disease risk among these groups. The Budget also provides $1.5 million to fund the SNAP Employment and Training (E&T) Center for Excellence, as well as $1.2 million to support technical assistance for states implementing SNAP nutrition education.
- **Child Nutrition Programs:** $21.48 billion in total, which is a slight increase from FY 2015. The Budget includes $184 million in permanent appropriations, an increase of $6 million from FY 2015. 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. Additionally, the Budget sets aside $67 million for Summer Electronic Benefit Transfer (EBT) demonstration projects, which aim to reduce food insecurity during the summer for children in low-income households.
- **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC):** $6.62 billion (level funding from FY 2015). This includes an increase of $25 million for the contingency fund in the event of unanticipated increases in program costs or participation.
- **Commodity Assistance Program:** $288 million in total. This includes $49 million of level funding for The Emergency Food Assistance Program (TEFAP) to support soup kitchens and food banks. Level-funding is also requested for the Farmers' Marketing 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.
- **Healthy Food Financing Initiative:** $13 million for this new program, which would fund loans and grants to provide access to healthy foods in underserved areas.

Research Programs

- **Agricultural Research Service (ARS):** $1.43 billion in total, which is an increase of $221 million from FY 2015. The Budget requests $206.2 million for the Environmental Stewardship Program to develop technologies and systems that support profitable production and enhance renewable natural resources. Additionally, the Budget proposes $116.2 million for research on food safety. The Budget includes requests for the following priority initiatives, which crosscut the agency's major programs:
  - $19 million to develop climate-resistant agricultural production systems;
  - $11 million to invest in genetic improvements and translational breeding;
  - $7.5 million to assist small farmers in developing sustainable practices; and
  - $5 million to establish a new program focused on vertical farming in urban settings.
- **National Institute of Food and Agriculture (NIFA):** $1.5 billion in discretionary NIFA funding and $1.67 billion in total NIFA funding. This includes a request for $20 million to establish a new capacity program that would competitively provide funds to research and address critical food and agricultural challenges at regional and national scales. This program for 1862 Universities ($16.5 million) and 1890 Universities ($3.5 million) will be offered as competitive multistate grants that will focus on research coordination, common infrastructure, and training needs. Additionally, the Budget requests funding of $786 million for formula grants and capacity building programs, including:

- $300 million for Smith-Lever 3 (b&c) programs (level funding from FY 2015);
- $244 million for Hatch Act programs (level funding from FY 2015);
- $106 million for 1890 Research and Extension programs ($96 million in FY 2015);
- $34 million for McIntire-Stennis Cooperative Forestry programs (level funding from FY 2015); and
- No funding for Animal Health and Disease Research ($4 million in FY 2015).

The Budget Request also includes $3 million (level funding from FY 2015 Budget) for the Biomass Research and Development and $20 million, a $1 million decrease from FY 2015 Budget, for the Organic Agriculture Research and Education Initiative.

- **Agricultural and Food Research Initiative (AFRI):** $450 million for AFRI, which is an increase of $125 million from FY 2015, and is part of a government-wide initiative to invest in research and development.
- **Agricultural Marketing Service (AMS):** $1.21 billion. The Budget proposes $31 million of level funding for Market Protection and Promotion, which includes $4.8 million for the Country of Origin Labeling Program (COOL) and $9.2 million for the National Organic Program (NOP). Additionally, the Budget includes $30 million of level funding for the Farmers Market Promotion Program, which was expanded in the 2014 Farm Bill to also cover local and regional foods. The Budget would allocate $15 million to support local foods, and $15 million to support farmers' markets.

Farm and Rural Programs

- **Grain Inspection, Packers and Stockyards Administration (GIPSA):** $99 million total, which is an increase of $9 million from FY 2015. The Budget requests $44 million in discretionary funding for salaries and expenses, which is a $1 million increase over FY 2015. The Budget also requests $55 million in inspection and weighing user fees, which is an increase of $8 million from FY 2015.
- **Rural Utilities Service (RUS):** $573 million in discretionary funds to RUS. This includes $452 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):** $5 million for loan guarantees and $5 million for grants. REAP, formerly known as the Renewable Energy Systems and Energy Efficiency Improvements Program, supports the President's Climate Action Plan by providing financing for the purchase of renewable energy systems, energy efficiency improvements, energy audits, and feasibility studies. Additionally, the 2014 Farm Bill sets mandatory funding at $50 million for loan guarantees and grants.
- **Rural Business Development Grant:** $30 million, which is an increase of $6 million from FY 2015. 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:** $5.25 billion, which is a decrease of $122 million from FY 2015. 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 $237 million. Additionally, the Budget proposes $60 million for the Collaborative Forest Landscape Restoration Fund (CFLRP), up from $40 million in FY 2015, to support up to 10 additional multi-year restoration projects, economic stability in rural communities, and to reduce the risk of wildfires.

3. CYBERSECURITY

Department of Homeland Security

The President's FY 2016 Budget includes $14 billion for cybersecurity initiatives and research activities across a number of federal agencies. The President's Budget also references his recent legislative proposals on information sharing, data breach standards, and modernization of law enforcement authorities related to cyber. The Department of Homeland Security's (DHS) National Protection and Programs Directorate (NPPD) leads the effort on cybersecurity and critical infrastructure issues.

Given that DHS is still operating under a Continuing Resolution (CR) until February 27, the requested funding levels for FY 2016 listed below are compared to the Department's FY 2014 enacted funding levels.

- **National Protection and Programs Directorate:** $3.1 billion ($2.8 billion in FY 2014).
  - Infrastructure Protection and Information Security: $1.31 billion ($1.22 billion in FY 2014).
  - Critical Infrastructure Cyber Protection and Awareness: $77.58 million ($73.01 million in FY 2014).
  - Critical Infrastructure Protection: $11.24 million ($9.4 million in FY 2014).
  - US Computer Emergency Readiness Team: $98.64 million ($101.03 million in FY 2014).
  - Network Security Deployment: $479.76 million ($381.39 million in FY 2014).
  - National Cybersecurity Protection System (also known as EINSTEIN): $463.85 million ($381.39 million in FY 2014).
  - Continuous Diagnostics and Mitigation (CDM): $102.66 million ($168.06 million in FY 2014). Changes to requested amounts in the CDM program reflect the current state of the CDM implementation across the federal government's information technology (IT) systems. CDM remains a priority of the Administration and will be used to implement the new FISMA law passed by Congress in December, 2014.
- **Critical Infrastructure Cyber Community (C3) Voluntary Program:** $5.9 million.
  - This is a new program designed to support the implementation of the President's Executive Order and the National Institute of Standards and Technology (NIST) Cybersecurity Framework focusing on working directly with the private sector on cyber resilience.
  - The funding would facilitate 100 voluntary Cyber Resilience Reviews and metric collection on the adoption and implementation of the NIST Cybersecurity Framework.

Department of Commerce

The US Department of Commerce was charged with reviewing all IT acquisitions for cyber risks to the supply chain as part of the FY 2015 Budget. The FY 2016 Budget includes new proposed funding for a Supply Chain Risk Management (SCRM) program to satisfy the Congressional mandate. The Budget also notes that NIST is continuing to expand its work with various critical infrastructure sectors on the NIST Cybersecurity Framework. NIST currently works with 13 critical infrastructure sectors, an increase from 9 sectors in 2014. NIST requested additional funding for the implementation of the Cybersecurity Framework, and plans to continue to update the Cybersecurity Framework and improve it based on feedback from users' experiences.

- **SCRM:** $350 million. This is a new program at the Department of Commerce that is being established to assess risk of cyber-espionage associated with the acquisition of IT systems.
- **Strengthening NIST Cryptographic and Privacy Capabilities to Address the Cybersecurity Concerns of Today and Tomorrow:** $13.2 million ($6.2 million FY 2015).
- **NIST Cybersecurity Framework:** $55.4 million ($36.4 million in FY 2015).

4. EDUCATION

Department of Education

The FY 2016 Budget requests $70.7 billion in discretionary funding for the Department of Education (DOE), which is an increase of $3.6 billion (or 5.4%) from the FY 2015 level. The Budget also proposes $145 billion in new mandatory spending and reforms over the next 10 years to support early learning, teacher preparation, and reforms to postsecondary education.

For FY 2016, the Budget seeks to strongly support education programs that look to meet objectives of:

1. Increasing equity;
2. Expanding access to high-quality early learning;
3. Increasing support for teachers; and
4. Expanding college opportunity and quality.

A common thread connecting each objective is using and developing evidence to optimize student outcomes and to be effective with spending.

To help achieve these objectives, the Administration proposes an increase of $1 billion to support equity efforts involving Title I schools. The Administration also calls for new programs and over $1 billion in mandatory spending to support early learning initiatives and community college programs that would make tuition free for eligible students. Additionally, the Administration has looked to consolidate existing programs and create new programs to support teachers and principals, as well as propose reforms to existing Title IV programs, including the Pell Grant and campus-based aid programs.

Early Learning

- **Head Start:** $10.1 billion, an increase of $1.5 billion from FY 2015. This increase would strengthen services and expand access to Early Head Start, including through Early Head Start – Child Care Partnerships.
- **Preschool for All Initiative:** The Budget again proposes $1.3 billion in FY 2016 for a 10-year, $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:** $750 million, an increase of $500 million from FY 2015. This $750 million discretionary funding request would expand the national activities reservation to 5%, in part to support proposed Pilots in Integrated Programming for Early Results (PIPER) in five to six communities that would test innovative approaches to strengthening the effectiveness of early learning interventions and improving the transitions of children from preschool into kindergarten through third grade.

Elementary and Secondary Education

The FY 2016 Budget request for elementary and secondary education includes $26 billion for programs authorized under the Elementary and Secondary Education Act (ESEA), an increase of $2.7 billion (or 11.8%) from FY 2015.

- **Title I Grants to Local Educational Agencies (LEAs):** $15.4 billion, an increase of $1 billion from FY 2015. This increase reflects the increased number of students from low-income families. The State-level set-aside of Title I funds would increase from 1% to 3%, building state capacity for creating reform. The increase would help ensure that supplemental funds be added to an equitable base of state and local resources in high-poverty schools. Specifically, the increase in funds would create an Equity and Outcomes Pilot for up to 10 participating Title I LEAs that would promote more equitable and efficient uses of funds.
  - The program also modifies appropriations language authority, allowing the Department to reserve up to 0.5% of funds to support the comprehensive evaluation of the implementation, outcomes, impact, and cost-effectiveness of any individual ESEA programs. The Department seeks appropriations language allowing it to reserve funds from Titles I and III, which currently are excluded from this "pooled evaluation" authority, except that any reservation of Title I Grants to LEA funds would be limited to 0.1% of the appropriation.
  - State Assessments: $403 million, an increase of $25 million. The Department would set aside $25 million to support projects designed to help states address their most urgent needs in developing and implementing their assessments.
- **School Improvement Grants (SIG):** $555.8 million, an increase of $50 million. The proposed increase would provide additional support to states that demonstrate a strong commitment to using SIG funds for evidence-based interventions, with new funds being used only for subgrants to LEAs that propose to implement proven interventions or school closures.
- **Investing in Innovation (i3) Program:** $300 million, an increase of $180 million from FY 2015. This increase would support greater numbers of the larger Scale-up awards that the Department anticipates making as applicants seek to build on the results of the Development and Validation grants made in previous years. The FY 2016 Budget would allow federal, state, or local public funds to be used as matching funds, rather than limiting matching funds to private sources. In addition, the program would allow the Department to reserve up to $50 million for a new Advanced Research Projects Agency-Education (ARPA-ED) to pursue development of breakthrough educational technology and tools that result in improvements for all students.

- **Next Generation High Schools:** $125 million (new program). This program would promote the whole school transformation of high school education to provide students with challenging and relevant academic and career-related learning experiences that prepare them to transition to postsecondary education and careers. 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:** $150 million, an increase of $93 million from FY 2015. A portion of these funds would be reserved for communities that intend to apply for funding under both the Promise Neighborhoods and the Department of Housing and Urban Development (HUD)'s Choice Neighborhoods program. For more information about the Choice Neighborhoods program, please refer to the "Housing, Homelessness, and Community Development" section of our analysis.
- **Elementary and Secondary Education Counseling:** $49.6 million, level funding from FY 2015.
- **Leveraging What Works:** $100 million (new program). This new proposal would make competitive awards that would create an incentive for LEAs to rethink their use of federal formula grant funds, in combination with state and local resources, to support the innovative use of comprehensive, evidence-based strategies to improve student outcomes. LEAs would commit to use grant funds for activities for which there is moderate or strong evidence of effectiveness, based on the standards in the Education Department General Administrative Regulations (EDGAR).
- **English Language Acquisition:** $773.4 million, an increase of $36 million from FY 2015. 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:** $11.7 billion, an increase of $175 million from FY 2015.
- **Impact Aid:** $1.2 billion (level funding from FY 2015).

Teachers and School Leaders

Strengthening support for teachers and principals is one of the Department's primary focus areas for FY 2016. As part of the President's Budget, the Administration introduces new programs to support the recruitment, retention, and professional development of teachers. In terms of new programs, the Administration proposes the following:

- **Teaching for Tomorrow:** $5 billion over five years (new program), with $1 billion for FY 2016. The program would provide support for states and districts to significantly change their approach to recruiting and preparing teachers. The program is based on models from the District of Columbia, Finland, and Singapore.
- **Teacher and Principal Pathways:** $139 million (new program). 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 replace the School Leadership, Teacher Quality Partnership, and Transition to Teaching programs (all three programs total nearly $71 million).
- **Educational Technology State Grants:** $200 million (new program). The Administration requested the funding to ensure that teachers and leaders have the skills and tools to use technology effectively to improve instruction and personalized learning. The program would allow states to make competitive subgrants to high-need districts that have basic technology infrastructure to support the implementation of exemplary models for using technology.

The Administration also looks to continue support for the following programs:

- **Excellent Educator Grants (currently the Teacher Incentive Fund):** $350 million (an increase of $230 million from FY 2015).
- **Improving Teacher Quality State Grants:** $2.35 billion (level funding from FY 2015). The Budget would expand the current 2.3% reservation for the Supporting Effective Educator Development (SEED) program to 5% of the total appropriation for Improving Teacher Quality State Grants.
- **TEACH Grants:** $11.7 million compared to $14.3 million in FY 2015, with the FY 2015 funding total including new loan subsidy and upward re-estimates.

Higher Education Funding

- **Student Financial Assistance:** $1.58 billion to administer student aid programs. The increase represents $185 million over FY 2015, primarily due to higher servicing costs, increases in the number of borrowers, aging of the student loan portfolio as more borrowers move into repayment, and renegotiated servicing contracts with pricing and incentives to improve customer outcomes. The FY 2016 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: $22.48 billion in discretionary funding and $6.46 billion in mandatory funding, for a total of $28.94 billion in FY 2016 (an increase of $380.9 million from FY 2015). The request fully funds the maximum Pell Grant award at $5,915, and indexes it to inflation for the 2016-2017 award year and beyond with savings from a proposed expansion of the Perkins Loan program (see below). The Budget also proposes to make the following changes to the Pell Grant program:
    - Strengthen the academic progress requirements to encourage students to complete their studies on time.

    - Reinstate the Ability to Benefit provision for students enrolled in eligible career pathways programs to enable adults without a high school diploma to gain the knowledge and skills they need to secure a good job.
    - Prevent Pell disbursements to recipients who repeatedly enroll and obtain aid, but do not earn any academic credits.
  - Campus-based aid programs: The President's 2016 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: $733.13 million, level funding from FY 2015.
    - Federal Work Study: $989.73 million, level funding from FY 2015.
    - Federal Perkins Loans: The Administration proposes to expand and reform the Perkins Loan program to support $8.5 billion a year in new loan volume, with unsubsidized loans carrying the same annually-determined fixed interest rate as proposed for Unsubsidized Stafford Loans. DOE would service the loans instead of institutions.
- **Career and Technical Education (CTE):** $1.33 billion (an increase of $1.13 billion from FY 2015). The Budget requests $200 million for a new American Technical Training Fund within the Department's CTE Innovation Fund. The CTE Innovation Fund is part of the Administration's Blueprint for CTE reauthorization. For more information about the American Technical Training Fund and other workforce development programs, particularly the implementation of the Workforce Innovation and Opportunities Act (WIOA), please refer to the "Employment and Workforce Development" section of our analysis.
- **American's College Promise:** $1.37 billion in mandatory funding (new program), with a cost of $60.3 billion over 10 years. The program would make community college free to students that attend at least half-time, maintain a 2.5 GPA while in college, and make steady progress toward completing their program. The program would eliminate tuition and fees for all eligible students for a maximum of four years; annual income earners at or above $200,000 would not be eligible.

Federal funding would cover about three-quarters of the average cost of community college and allocate such funding to states on a formula that includes both student enrollment and outcomes (e.g., transfer to 4-year institutions). States would be expected to contribute the remaining funds to eliminate community college tuition for eligible students. The proposal generally outlines which community college programs qualify – academic programs that fully transfer to local public four-year institutions or are occupational training programs with high graduation rates that lead to degrees and certificates that are in demand among employers.

- **College Opportunity and Graduation Bonus:** $647 million in mandatory funding (new program), with a cost of $7 billion in budget authority for 10 years. This proposal would reward colleges that successfully enroll and graduate a significant number of low- and moderate-income students on time and encourage all institutions to improve their performance.
- **First in the World Awards:** $195 million (increase from $58 million in FY 2015). The 2016 request would provide a total of $200 million for the third year of the First in the World program.
- **TRIO Programs:** Talent Search - $134.7 million (a slight decrease from $135.1 million in FY 2015); Upward Bound - $265.4 million (level funding from FY 2015); Veterans Upward Bound - $13.8 million (level funding from FY 2015); Upward Bound Math-Science - $43.1 million (level funding from FY 2015); Educational Opportunity Centers - $46.9 million (level funding from FY 2015); Student Support Services - $297.5 million (level funding from FY 2015); McNair Post Baccalaureate Achievement - $30.7 million (a slight increase from $30.3 million in FY 2015).
- **Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP):** $301.6 million (level funding from FY 2015).
- **Strengthening Institutions:** $80 million (level funding from FY 2015).
- **Strengthening Alaska Native and Native Hawaiian-serving Institutions:** $12.8 million in discretionary funding (level funding from FY 2015).
- **Strengthening Alaska Native and Native Hawaiian-serving Institutions:** $227.5 million in mandatory funding (level funding from FY 2015). This figure includes sequester reductions of 5.1% in 2013 and 7.2% in 2014.
- **Aid for Hispanic-Serving Institutions (HSIs):** $100.2 million in discretionary funding (level funding from FY 2015); $100 million in mandatory funding (an increase from FY 2015).
- **HBCU Capital Financing Program:** $19.4 million (level funding from FY 2015).

Other Items of Interest, Consolidations, and Transferals

- **Office of Civil Rights:** $130.7 million, an increase of nearly $31 million from FY 2015. Approximately $26 million (or 86%) of the requested increase is for staff pay and benefits for an additional 200 full-time employees, among other compensation changes. The remaining increases cover overhead costs and information technology services, including contracts for the Civil Rights Data Collection (CRDC).
- **Tax Provisions Related to College Affordability:** 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 eliminate up to 30 questions from the FAFSA, including those related to savings, investments, and net worth, as well as untaxed income. Instead, the Department would rely primarily on information readily available in federal tax returns.
- **Income-based Repayment.** As part of the Administration's Pay As You Earn (PAYE) initiative, the Budget would simplify income-driven repayment by making modified PAYE the only income-driven repayment plan for borrowers who originate their first loan on or after July 1, 2016, allowing for easier selection of a repayment plan. The Budget also calls for legislative changes to the Public Sector Loan Forgiveness (PSLF) program to (1) cap the aggregate loan limit for independent undergraduate students and (2) prevent payments made under non-income driven repayment plans from being applied toward PSLF.

The FY 2016 Budget consolidates or eliminates five programs for an annual savings of $138.2 million, if these funds are not reallocated for other programs. Of note, three of the five programs are consolidated into the Teacher and Principal Pathways proposal.

- **Evaluation of the Education for the Disadvantaged:** The Administration proposes to fund evaluation activities through an expansion of the ESEA pooled evaluation authority first authorized in the FY 2014 appropriations act and continued in FY 2015.
- **Impact Aid Payments for Federal Property:** The Department wants to eliminate activity coming from this authority, as it provides payments to local educational agencies without regard to the presence of federally connected children.
- **School Leadership Program, Teacher Quality Partnership, and Transition to Teaching:** The Administration proposes to consolidate these programs into its Teacher and Principal Pathways proposal.

The Department of Education also plans to transfer nearly a handful of programs to the US Department of Health and Human Services (HHS), including:

- **Assistive Technology Programs:** $33 million. The program supports grants to states to increase access to and funding for assistive technology devices and services for individuals with disabilities.

Other Select Research Funding

As part of the Administration's agenda for the last two years, investments in research and development (R&D) are a priority, especially as it relates to basic research. The Budget requests $146 billion for R&D research across all agencies, which the Administration calculates to be an $8 billion increase (or 6%) from FY 2015. The Budget calls for $67 billion for basic and applied research, which the Administration calculates to be a $3 billion increase (or 2%) from FY 2015.

- **National Science Foundation (NSF):** $7.72 billion, which is an increase of $379.3 million from FY 2015. The Budget proposes several new priority programs including those targeting cybersecurity, manufacturing, and Science, Technology, Engineering, and Math (STEM) education. More specifically, the FY 2016 Budget provides $143 million to support the Cyberinfrastructure Framework, $257 million for Cyber-enabled Materials, Manufacturing, and Smart Systems, which aims to integrate a number of science and engineering activities across the agency. Lastly, the Budget provides a total of $1.2 billion for STEM education activities, ranging from research traineeships, cybercorp scholarship programs, and graduate fellowship programs, to improving undergraduate STEM education.
- **National Institutes of Health (NIH):** $31.31 billion, an increase of $1 million from FY 2015.
- **National Network for Manufacturing Innovation (NNMI):** $1.9 billion mandatory funding proposal that will support 29 institutes, building on the nine institutes already funded through 2015. The Budget supports seven new manufacturing institutes in the Departments of Commerce, Agriculture, Defense, and Energy. Additionally, the Budget includes $10 million for the National Institute of Standards and Technology (NIST) to coordinate the activities of the current and future institutes, thus leveraging the legislation included in the 2015 Omnibus Appropriations Act.
- **University Transportation Centers (UTCs):** While the Administration did not include specific funding for the UTC program as part of its FY 2016 Budget, it does specify that 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.
- **American Technical Training Fund (ATT):** $200 million for the ATT fund to support the development, operation, and expansion of innovative, evidence-based job training programs. This Fund would be jointly administered with the Department of Labor to ensure that projects are well-integrated into the workforce system.

5. EMPLOYMENT AND WORKFORCE DEVELOPMENT

Department of Labor

The FY 2016 Budget for the Department of Labor (DOL) provides $13.2 billion in discretionary funding, with a focus on improving job training and employment programs and ensuring a safety net for underemployed and unemployed workers.

- **Employment and Training Administration:** $9.9 billion in discretionary funding ($9.01 billion in FY 2015).
- **Grants to States:** $2.7 billion ($2.6 billion in FY 2015).
  - Adult Employment and Training: $815.56 million ($776.77 million in FY 2015).
  - Youth Activities: $873.42 million ($831.84 million in FY 2015).
  - Dislocated Workers: $1.26 billion, a $25 million increase from FY 2015.
- **National Programs:** $692.6 million, a $263.1 million increase from FY 2015.
  - Dislocated Workers Assistance National Reserve: $240.86 million ($220.86 million in FY 2015).
  - Native American Programs: $50 million ($46.08 million in FY 2015).
  - Migrant and Seasonal Farmworkers Programs: $81.9 million (level funding from FY 2015).
  - Women in Apprenticeship (WANTO): $0. The request zeroes out the program, which was funded at $994,000 in FY 2015.
  - Youthbuild: $84.53 million ($79.69 million in FY 2015).
- **Veterans Employment and Training:** $271.11 million ($269.98 million in FY 2015).
  - Transition Assistance Program: $14.1 million ($14.0 million in FY 2015).
- **Job Corps:** $1.71 million ($1.69 million in FY 2015).
- **New Apprenticeship Training Fund:** $2 billion over four years of mandatory funding for a newly proposed fund to increase the adoption of the Registered Apprenticeship model. This fund includes $1.5 billion in flexible funding to states, as well as $500 million for an innovation competition, to help states link apprenticeships to pathways for higher learning. In addition, the Budget includes a discretionary $100 million Apprenticeship Grant program to help build capacity at the state level to help set up the Registered Apprenticeship programs.
- **New High-Growth Training Sector Grants:** $16 billion over 10 years for a new regional partnership grant program to help double the number of workers receiving training through the workforce development system. The proposal includes $500 million for grants to develop credentialing and assessment frameworks, $300 million of which will be targeted to information technology jobs across growing industries such as health care, energy, advanced manufacturing, transportation and logistics, cybersecurity, and information technology.
- **Connecting for Opportunity Initiative:** $3 billion, four-year mandatory proposal, where $1.5 billion is to subsidize youth summer and year-round jobs as well as $1.5 billion for grants to municipalities to reengage and offer disconnected youth educational and workforce pathways.
- **Trade Adjustment Assistance (TAA):** The Budget proposes to reauthorize the program using the provisions enacted by Congress in 2009 and 2011, and similar to legislation introduced by both Chambers in 2014. The TAA program would also be aligned with the goals of the Workforce Innovation and Opportunity Act (WIOA) to improve intake systems and case management, standardize performance and outcome measures, and foster integration with business, as well as a variety of other integration efforts.

Department of Commerce

- **Hollings Manufacturing Extension Partnership (MEP):** $141 million ($130 million in FY 2015).
- **Advanced Manufacturing Technology Consortia (AMTech):** $15 million ($8.1 million in FY 2015).

6. ENERGY

Department of Energy

The FY 2016 Budget Request provides the Department of Energy (DOE) with $29.9 billion, a 9.4% increase from the FY 2015 enacted level of $27.4 billion. The Administration's Request revolves around significant new investments in:

1. Science and Energy, with an emphasis on supporting research and development in clean energy technology innovation, commercial deployment, and energy efficiency;
2. Nuclear Security; and
3. Management and Performance, the majority of which would support cleanup activities related to US nuclear weapons research, development, and production.

Implementation of the President's Climate Action Plan (CAP) is a consistent theme throughout the Request, which prioritizes several tenants of the CAP, including development and deployment of clean energy technologies to reduce greenhouse gas emissions, enhance climate resiliency and adaption, as well as reducing methane emissions. This focus on CAP implementation reflects the President's targeted remarks on climate change in his most recent State of the Union Address, and his Administration's second-term focus on environmental policy initiatives.

Finally, the Department continues to focus on the Innovative Technology Loan Guarantee Program, which encourages early commercial use of or significantly improved technologies to avoid, reduce or sequester air pollutants. The Department does not request any new funds to administer this program as it anticipates administration costs of the program to be fully offset by application fees. More importantly, the request acknowledges that roughly $23.2 billion in loan guarantee funding remain unobligated. The Department will be accepting new applications and review them in an effort to obligate those existing funds for Fossil energy technologies, renewable energy and electricity transmission projects, and eligible advanced nuclear projects.

- Energy Efficiency and Renewable Energy: $2.7 billion ($1.9 billion in FY 2015).
  - Hydrogen and Fuel Cell Technologies: $103 million ($97 million in FY 2015).
  - Biomass and Biorefinery Systems Research and Development: $246 million ($225 million in FY 2015).
  - Solar Energy: $336.7 million ($233 million in FY 2015).
  - Wind Energy: $145 million ($107 million in FY 2015).
  - Geothermal Technology: $96 million ($55 million in FY 2015).
  - Water Power: $67 million ($61 million in FY 2015).
  - Vehicle Technologies: $444 million ($280 million in FY 2015).
  - Building Technologies: $264 million ($172 million in FY 2015).
  - Advanced Manufacturing: $404 million ($200 million in FY 2015).
  - Weatherization: $228.4 million ($193 million in FY 2015).
- **Advanced Research Projects Agency-Energy:** $325 million ($280 million in FY 2015).
- **Electricity Delivery and Energy Reliability:** $270 million ($147 million in FY 2015).
  - Clean Energy Transmission and Reliability: $40 million ($34.2 million in FY 2015).
  - Smart Grid Research and Development: $30 million ($15.4 million in FY 2015).
  - Energy Storage: $19 million ($15.2 million in FY 2015).
  - Cyber Security for Energy Delivery Systems: $52 million ($46 million in FY 2015).
- **Office of Science:** $5.3 billion ($5.07 billion in FY 2015).
- **Nuclear Energy:** $907.6 million ($913.5 million in FY 2015).
- **Fossil Energy Research and Development:** $560 million ($560.6 million in FY 2015).
- **Liquefied Natural Gas Applications:** The Administration requests a slight ($70,000) decrease against enacted FY 2015 funds to administer the import/export authorization program, which is responsible for reviewing applications to import and export liquefied natural gas (LNG) under Section 3 of the Natural Gas Act. However, the request should not be read as an indication that the Department plans to slow down or de-prioritization of LNG application review. The request likely reflects the new procedural changes that DOE implemented in 2015 for LNG export application review. Under the new procedures, the Department will no longer issue conditional export approval orders and will only review applications after the Federal Energy Regulatory Commission (FERC) completes its National Environmental Protection Act (NEPA) review.
- **Advanced Technology Vehicles Manufacturing Loan Program:** $6 million ($4.5 million in FY 2015).

- **Nuclear Waste and Storage:** The Administration's Request remains consistent with the FY 2015 approach for nuclear waste and storage policy and does not request new funds for the Nuclear Regulatory Commission's review of Yucca Mountain. Instead, the Administration requests $24 million for generic process development activities related to consent-based siting, $75.4 million for research and development activities for the transportation, storage, disposal, and siting of nuclear waste, and $3 million for activities related to alternative storage options for spent nuclear waste. Furthermore, the Administration argues that long-term nuclear waste program management must include a mix of ongoing discretionary appropriations, access to annual fee collections (despite ongoing litigation related to the existing fee collection program), and "eventual access to the . . . balance of the Nuclear Waste Fund."

7. FINANCIAL SERVICES

Department of Treasury

The FY 2016 Budget provides strong funding for the Department of Treasury to implement the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). The Budget also includes increased funding requests for the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission (CFTC), given the agencies' Dodd-Frank Act implementation responsibilities. These increased funding requests demonstrate continued efforts by the Obama Administration to support the implementation of financial services reform and continue monitoring and addressing threats to US financial stability. However, the FY 2016 Budget is likely to draw opposition from Republicans in Congress, who continue pushing hard to pare down portions of the Dodd-Frank Act.

The FY 2016 Budget requests $14.3 billion for the Department of Treasury's operating accounts (and $2.9 billion for its International Programs). The funding request was increased from $13.8 billion last year, and is $2.1 billion higher than the current funding levels of $12.2 billion. Among other things, the Budget:

1. Proposes legislation to increase the US quota in the International Monetary Fund;
2. Proposes a multi-year program integrity cap adjustment for the Internal Revenue Service (IRS); and
3. Funds efforts to increase transparency and accountability, and to implement the Digital Accountability Transparency Act.

- **IRS:** The Budget requests $12.9 billion, which is an increase of 18% upon FY 2015 enacted funding levels of $10.9 billion. For more information regarding the tax proposals in the FY 2016 Budget, please refer to the "Tax and Revenue" section of our analysis. Further, for more information regarding the President's proposals related to infrastructure development, including the Qualified Public Infrastructure Bonds (QPIBs) and the America Fast Forward Bonds (AFFBs), please refer to the "Infrastructure: Transportation & Water" section of our analysis.
- **Office of Financial Research (OFR):** The Budget requests $108.10 million for OFR, up from a $99.54 million request for FY 2015, and actual funding levels of $83.26 million. The Budget Request emphasizes OFR's role as an "essential source of data and analysis" for monitoring threats to US financial stability. OFR's funding would be divided into:
    1. $63.15 million for OFR's Data Center;
    2. $11.47 million for OFR's research and analysis functions; and
    3. $33.47 million for operations and support services.
- **Financial Stability Oversight Council (FSOC):** The Budget requests $19.31 million for FSOC, up from a $16.31 million request for FY 2015, and actual funding levels of $19.25 million. According to the Budget, the goals of FSOC for FY 2016 will be to:
    1. Continue to evaluate nonbank financial companies for potential designation for Federal Reserve supervision and enhanced prudential standards;
    2. Consider whether to designate additional Financial Market Utilities (FMUs) as systemically important;
    3. Monitor the financial system for risks to US financial stability; and
    4. Facilitate interagency cooperation to identify and analyze potential emerging threats.
- **Community Development Financial Institutions (CDFI) Fund:** The Budget requests $233.52 million for the CDFI Fund to expand the availability of credit, investment, and financial services in distressed urban and rural communities and for underserved populations.
- **Troubled Asset Relief Program (TARP):** The Budget notes that the cost of TARP investments to taxpayers has dropped "from an estimated $341 billion in FY 2009 to $37.4 billion as of September 30, 2014." The Budget adds that, while winding down TARP, the Department of Treasury will continue TARP programs that help homeowners avoid foreclosure.

Related Regulatory Agencies

- **CFTC:** The Budget requests $322 million for the CFTC, up from the current funding levels of $250 million and up from $280 million from the FY 2015 Budget Request. Among other areas, the Budget Request would include $2.79 million for the Office of the Inspector General and $10 million for salaries, expenses, and technology updates. The Budget also notes that the Administration "strongly supports and plans to 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 2017, subject to the enactment of authorizing legislation.

- **SEC:** The Budget requests $1.72 billion for the SEC, as it did last year, up from the current funding level of $1.5 billion. 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
  6. Economic risk and analysis

  As in previous years, the Budget argues that increased funding is necessary for the SEC to carry out its expanded authority under the Dodd-Frank Act, including through its new Whistleblower Office.

- **Federal Housing Finance Agency:** The Budget estimates high returns from the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. Particularly, over the next ten years, the GSEs are expected to provide $153.3 billion in profits, representing a return of $191.2 billion over the $187.5 billion in assistance that they received from the government in 2008. For more information regarding the housing proposals in the FY 2016 Budget, please refer to the "Housing, Homelessness, and Community Development" section of our analysis.

8. HEALTH AND SOCIAL SERVICES

Department of Health and Human Services

The President proposes $83.8 billion in discretionary budget authority for the Department of Health and Human Services (HHS) for FY 2016, a $4.8 billion increase from FY 2015. The Budget includes legislative proposals that, in total, would save $249.9 billion over 10 years. This summary provides highlights of programs of note and new proposals.

- **Administration for Children and Families (ACF):** $59.68 billion ($51.6 billion in FY 2015) in mandatory and discretionary budget authority.
  - Unaccompanied Children: $967 million ($948 million in FY 2015), including creation of a contingency fund that would be triggered with certain increased caseloads. In summer 2014, there was a significant increase in unaccompanied children apprehended by immigration authorities at the Southwest border. Due to federal government efforts, authorities now believe numbers will be stable, but there is uncertainty.
- **Agency for Healthcare Research and Quality (AHRQ):** $276 million ($364 million in FY 2015) in discretionary budget authority. AHRQ will receive $116 million from the Patient Centered Outcomes Research Trust Fund for comparative effectiveness research.
  - Health Services Research, Data, and Dissemination: $112 million (level funding from FY 2015), including $5 million for a new effort to reduce overdoses of prescription drugs and opioids, $12 million to develop clinician tools to improve care of those with multiple chronic conditions, and $44 million for investigator-initiated research grants, of which about $14 million will be used to fund new grants.
- **Centers for Disease Control and Prevention (CDC):** $6.17 billion ($6.07 billion in FY 2015) in discretionary budget authority.
  - An additional $914 million from the Affordable Care Act's Prevention and Public Health Fund.
    - Injury Prevention and Control Activities: $257 million ($170 million in FY 2015) program level, including $48 million to expand prescription drug overdose activities in the states, $6 million to identify illicit opioid risk factors, and $5 million to establish and oversee a surveillance system to determine incidence of sports-related concussions among youth (ages 5-21).
    - Public Health Preparedness and Response Activities: $1.38 billion ($1.35 billion in FY 2015) program level.
- **Centers for Medicare and Medicaid Services (CMS):** $970.8 billion in mandatory and discretionary outlays under the proposed policy ($897.2 billion in FY 2015).
  - The Budget contains a package of Medicare legislative proposals that are expected to save a net $423.1 billion over 10 years. The proposals are scored off the Budget adjusted baseline, which assumes a 0% update to Medicare physician payments. Proposals include:
    - Repealing the Medicare Sustainable Growth Rate formula and reforming physician payments in a manner consistent with bipartisan and bicameral legislation - $44 billion in costs over 10 years;
    - Improving incentives to provide care in the most appropriate ambulatory setting by phasing in lower payments for services provided in off-campus hospital outpatient departments under the Outpatient Prospective Payment System to either the Medicare Physician Fee Schedule-based rate or the rate under the Ambulatory Surgical Center payment system - $29.5 billion in savings over 10 years;
    - Implementing bundled payment for post-acute care - $9.3 billion in savings over 10 years;
    - Allowing CMS to assign beneficiaries to federally qualified health centers and rural health clinics participating in the Medicare Shared Savings Program - $80 million in savings over 10 years;
    - Expanding the basis for beneficiary assignment for accountable care organizations to include certain physician extenders - $60 million in savings over 10 years;
    - Allowing accountable care organizations to pay beneficiaries for primary care visits up to the applicable Medicare cost sharing amount - no budget impact;
    - Establishing a hospital-wide readmissions reduction measure that encompasses broad categories of conditions - no budget impact;
    - Establishing bonus payments for Part D plans based on quality star ratings - no budget impact;
    - Expanding sharing Medicare data beyond simple performance measurement with qualified entities - no budget impact;
    - Extending accountability for hospital-acquired conditions by requiring hospitals to code conditions as "present on arrival" instead of "present on admission" for purposes of payment policy and quality reporting - no budget impact;

- Implementing value-based purchasing for several additional provider types, including skilled nursing facilities, home health agencies, ambulatory surgical centers, hospital outpatient departments, and community mental health centers beginning in 2017 - no budget impact;
- Making permanent the primary care incentive payment in a budget neutral manner - no budget impact;
- Eliminating the 190-day lifetime limit on inpatient psychiatric facility services - $5 billion in costs over 10 years;
- Aligning Medicare drug payment policies with Medicaid policies for low-income beneficiaries - $116.1 billion in savings over 10 years;
- Adjusting payment updates for certain post-acute care providers, including reducing market basket updates for inpatient rehabilitation facilities, long-term care hospitals, home health agencies, and skilled nursing facilities - $102.1 billion in savings over 10 years;
- Increasing the minimum Medicare Advantage coding intensity adjustment - $36.2 billion in savings over 10 years;
- Reducing Medicare bad debt payments to 25% over 3 years for all providers who receive bad debt payments - $31.1 billion in savings over 10 years;
- Lowering the target rate for triggering Independent Payment Advisory Board action, applicable for 2018 and after, from GDP per capita growth plus 1 percentage point to GDP per capita growth plus 0.5 percentage points - $20.9 billion in savings over 10 years;
- Reducing existing add-on payments to teaching hospitals for indirect costs of medical education by 10% and grant the Secretary of HHS the authority to set standards for teaching hospitals receiving Graduate Medical Education payments - $16.3 billion in savings over 10 years;
- Accelerating manufacturer drug discounts for Medicare beneficiaries in the coverage gap - $9.4 billion in savings over 10 years;
- Modifying reimbursement of Part B drugs - $7.4 billion in savings over 10 years;
- Aligning employer group waiver plan payments with average Medicare Advantage plan bids - $7.2 billion in savings over 10 years;
- Excluding certain services from the In-Office Ancillary Services Exception - $6 billion in savings over 10 years;
- Encouraging appropriate use of inpatient rehabilitation facilities - $2.2 billion in savings over 10 years;
- Reducing critical access hospital reimbursements from 101% of reasonable costs to 100% of reasonable costs - $1.7 billion in savings over 10 years;
- Prohibiting critical access hospital designation for facilities that are less than 10 miles from the nearest hospital - $770 million in savings over 10 years;
- Requiring mandatory reporting of other prescription drug coverage - $480 million in savings over 10 years;
- Expanding coverage of dialysis services for beneficiaries with acute kidney injury - $200 million in savings over 10 years;
- Allowing the Secretary of HHS to negotiate prices for biologics and high cost prescription drugs - no budget impact;
- Clarifying the Medicare fraction in the Medicare Disproportionate Share Hospital (DSH) statute - no budget impact;
- Establishing authority for a program to prevent prescription drug abuse in Medicare Part D - no budget impact;
- Modifying the documentation requirement for face-to-face encounters for durable medical equipment claims - no budget impact;
- Suspending coverage and payment for questionable Part D prescriptions and incomplete clinical information - no budget impact;
- Increasing income related premiums under Medicare Parts B and D - $66.4 billion in savings over 10 years;
- Encouraging the use of generic drugs by low-income beneficiaries - $8.9 billion in savings over 10 years;
- Introducing a Part B deductible for new beneficiaries - $3.7 billion in savings over 10 years;
- Introducing home health copayments for new beneficiaries - $830 million in savings over 10 years;
- Prohibiting brand and generic drug manufacturers from delaying the availability of new generic drugs and biologics - $10.1 billion in Medicare savings over 10 years;
- Modifying length of exclusivity to facilitate faster development of generic biologics - $4.4 billion in Medicare savings over 10 years;
- Providing Office of Medicare Hearings and Appeals and Department Appeals Board authority to use recovery audit contractor collections - $1.3 billion in costs over 10 years;
- Establishing a refundable filing fee at each level of Medicare appeal - no budget impact;
- Establishing magistrate adjudication for claims with amount in controversy below new administrative law judge amount in controversy threshold - no budget impact;
- Expediting procedures for claims with no material fact in dispute - no budget impact;

- Increasing minimum amount in controversy for administrative law judge adjudication of claims to equal amount required for judicial review - no budget impact;
- Remanding appeals to the redetermination level with the introduction of new evidence - no budget impact;
- Sampling and consolidating similar claims for administrative efficiency - no budget impact; and
- Clarifying calculation of the late enrollment penalty for Medicare Part B premiums - no budget impact.

– The Budget contains a package of Medicaid legislative proposals that are expected to have an impact of $3.7 billion on net federal spending over 10 years. This includes $26.7 billion in Medicaid investments for flexibility, efficiency, and accountability. The proposals include:
  - Requiring full coverage of preventive health and tobacco cessation services for adults in traditional Medicaid - $754 million in costs over 10 years;
  - Creating state options to provide 12-month continuous Medicaid eligibility for adults - $4.7 billion in net federal costs including $27.7 billion in Medicaid costs over 10 years;
  - Extending the Medicaid primary care payment increase through Calendar Year (CY) 2016 and including additional providers - $6.3 billion in costs over 10 years;
  - Piloting a comprehensive long-term care state plan option - $4.1 billion in costs over 10 years;
  - Allowing states to develop age-specific health home programs - $1 billion in costs over 10 years;
  - Permanently extending the express lane eligibility option for children - $1.2 billion including $680 million in Medicaid costs over 10 years;
  - Expanding eligibility for the 1915(i) home and community-based services state plan option - $1.3 billion in costs over 10 years;
  - Allowing full Medicaid benefits for individuals in a home and community-based services state plan option - $38 million in costs over 10 years;
  - Allowing pregnant women choice of Medicaid eligibility category - no budget impact;
  - Requiring coverage of early and periodic screening, diagnostic, and treatment benefit for children in inpatient psychiatric treatment facilities - $425 million in costs over 10 years;
  - Providing home and community-based waiver services to children eligible for psychiatric residential treatment facilities - $1.6 billion in costs over 10 years;
  - Expanding state flexibility to provide benchmark benefit packages - no budget impact;
  - Extending transitional medical assistance through CY 2016 - $1.8 billion in costs over 10 years;
  - Extending the Qualified Individual Program through CY 2016 - $975 million in costs over 10 years;
  - Expanding eligibility under the Community First Choice Option - $3.6 billion in costs over 10 years;
  - Rebasing future Medicaid DSH Allotments - $3.3 billion in savings over 10 years;
  - Limiting Medicaid reimbursement of durable medical equipment based on Medicare rates - $4.3 billion in savings over 10 years;
  - Lowering Medicaid drug costs and strengthening the Medicaid Drug Rebate Program - $6.3 billion in savings over 10 years;
  - Promoting program integrity for Medicaid drug coverage - $10 million in savings over 10 years;
  - Increasing access to and transparency of Medicaid drug pricing data - $30 million in costs over 10 years;
  - Reducing fraud, waste, and abuse in Medicaid - $700 million in savings over 10 years;
  - Allowing for federal/state coordinated review of dual special need plan marketing materials - no budget impact;
  - Creating a pilot to expand Program of All-Inclusive Care for the Elderly (PACE) eligibility to individuals between ages 21 and 55 - no budget impact;
  - Ensuring retroactive Part D coverage of newly eligible low-income beneficiaries - no budget impact;
  - Integrating the appeals process for Medicare-Medicaid enrollees - no budget impact; and
  - Establishing hold harmless for federal poverty guidelines - no budget impact.

- **Children's Health Insurance Program (CHIP):** The Budget proposes to extend CHIP funding through FY 2019, paid for through an increase in tobacco taxes to help reduce youth smoking. The Budget also extends the authority to operate Express Lane Eligibility.
- **Health Care Fraud and Abuse Control:** $2.05 billion ($1.95 billion in FY 2015) in discretionary and mandatory budget authority. The Budget also includes legislative proposals to strengthen program integrity within Medicare, Medicaid, and CHIP. These proposals include:
  – Retaining a portion of Medicare Recovery Audit Contractor recoveries to implement actions that prevent fraud and abuse - $2.7 billion in costs and $4.4 billion in non-PAYGO savings over 10 years;
  – Allowing prior authorization for Medicare fee-for-service items - $90 million in savings over 10 years;

- Allowing civil monetary penalties for providers and suppliers who fail to update enrollment records - $29 million in savings over 10 years;
- Assessing a fee on physicians and practitioners who order services or supplies without proper documentation - no budget impact;
- Establishing a registration process for clearinghouses and billing agents - no budget impact;
- Allowing collection of application fees from individual providers - no budget impact;
- Increasing the amount of home health agency surety bond - no budget impact;
- Expanding funding and authority for the Medicaid Integrity Program - $580 million in costs and $850 million in non-PAYGO savings over 10 years;
- Supporting Medicaid Fraud Control Units for the territories - $10 million in costs and $2 million in non-PAYGO savings over 10 years;
- Expanding Medicaid Fraud Control Unit review to additional care settings - no budget impact, but $66 million in non-PAYGO savings over 10 years;
- Tracking high prescribers and utilizers of prescription drugs in Medicaid - $710 million in savings over 10 years;
- Consolidating redundant error rate measurement programs - no budget impact;
- Preventing the use of federal funds to pay the state share of Medicaid or CHIP - no budget impact;
- Permitting exclusion from federal health care programs if affiliated with sanctioned entities - $70 million in savings over 10 years;
- Establishing gifting authority for the Healthcare Fraud Prevention Partnership - no budget impact; and
- Strengthening penalties for illegal distribution of beneficiary identification numbers - no budget impact.

- **Food and Drug Administration (FDA):** $2.74 billion ($2.6 billion in FY 2015) in discretionary budget authority.
  - Medical products programs: $2.7 billion program level.
  - Precision Medicine Initiative: $10 million to support the new FY 2016 Precision Medicine Initiative, in which the agency will establish a regulatory conduit to incorporate genetic information into device development.

- **Health Resources and Services Administration (HRSA):** $6.23 billion ($6.11 billion in FY 2015) in discretionary budget authority.
  - Health Centers program: $4.19 billion, including $2.7 billion in mandatory resources for each of FY 2016, FY 2017, and FY 2018 ($5 billion in FY 2015).
  - 340B Drug Pricing Program: $17 million ($10 million in FY 2015). Additionally, a new user fee totaling $7.5 million is proposed in order to offer long-term financial stability to the program.
  - Health Professionals training: $1.8 billion total ($1.06 billion in FY 2015). The Budget requests $400 million in mandatory funding for the Targeted Support for Graduate Medical Education program and $100 million for the Children's Hospital Graduate Medical Education (CHGME) program. The Budget also includes $14 million to establish a program to increase diversity in the health professional workforce through partnerships in academic training and workforce development.
  - Ryan White HIV/AIDS Program: $2.32 billion, with a continued proposal to consolidate funds in Part C and Part D programs ($2.32 billion in FY 2015).
    - AIDS Drug Assistance Program: $900 million (level funding from FY 2015).
  - Rural Health: $128 million ($147 million in FY 2015), with $4 million in additional funding for new Rural Health Physician grants to assist rural-focused training programs to recruit and graduate those most likely to practice in underserved areas.

- **National Institutes of Health (NIH):** $30.31 billion ($29.45 billion in FY 2015) in discretionary budget authority.
  - National Center for Advancing Translational Sciences: $660 million ($633 million in FY 2015).
  - National Cancer Institute: $5.10 billion ($4.95 billion in FY 2015).
  - Research Priorities:
    - Brain Research through Advancing Innovative Neurotechnologies (BRAIN) Initiative: $135 million ($65 million in FY 2015).
    - Alzheimer's research: $638 million ($587 million in FY 2015).
    - Precision Medicine Initiative: $200 million. This new cross-Department initiative focuses on developing treatments based on the unique characteristics of each individual. The allocation includes $70 million to expand current cancer genomics research and $130 million to launch a national research cohort of over one million people.
    - Pediatric Research: $3.6 billion overall ($75 million over FY 2015), with $13 million authorized under the Gabriella Miller Kids First Research Act of 2014.

    - Research Project Grants: $17.2 billion to finance over 35,000 competitive, peer-reviewed, and largely investigator-initiated research project grants, with an anticipation of supporting over 10,000 new and competing grants.

- **Office of the Secretary, Office of the National Coordinator for Health Information Technology (ONC):** $92 million through the PHS Evaluation Fund Appropriation ($60 million budget authority in FY 2015).
  - ONC will focus on interoperability through standards development, certification, and governance structures to support the requirements set out in Meaningful Use Stage 3.
  - ONC will continue to work on expanding the Certification Program's regulatory guidance for health care providers that are ineligible under the Meaningful Use program.
  - ONC will transition to a governance approach for health information exchange, involving policy collaboration and development across government and industry.
  - As opposed to providing technical assistance through the Regional Extension Center program, ONC will begin to educate providers through HealthIT.gov.
  - ONC will focus on consumer eHealth and consumer access to electronic health information.

- **Substance Abuse and Mental Health Services Administration (SAMHSA):** $3.4 billion ($3.47 billion in FY 2015) in discretionary budget authority.
  - Mental Health: $35 million in new funding to expand the partnership with HRSA to increase licensed behavioral health professionals and paraprofessionals across the country; $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; and $4 million to reduce the stigma of mental health and substance abuse disorders.
    - Now is the Time Initiative: $151 million is requested for a new program to ensure young adults and students have access to mental health care.
    - Crisis Support: $10 million is requested for a new, targeted demonstration grant program to assist states in building and sustaining crisis systems to prevent and de-escalate behavioral health crises.
  - Substance Abuse Prevention and Treatment Block Grant: $1.82 billion (level funding from FY 2015).
  - Community Mental Health Services Block Grant: $483 million (level funding from FY 2015).

9. HOMELAND SECURITY, EMERGENCY MANAGEMENT, AND LOCAL LAW ENFORCEMENT

Department of Homeland Security

The FY 2016 Budget includes $41.19 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 our immigration laws
4. Safeguard and secure cyberspace
5. Strengthen national preparedness and resilience

The FY 2016 Budget Request represents an increase in requested funding from the enacted level of $39.89 billion in FY 2014. As noted in the "Cybersecurity" section above, DHS is still operating under a Continuing Resolution (CR) until February 27; Congress is attempting to use the DHS appropriations bill as a way to limit the President's executive actions on immigration announced in November, 2014. As such, the requested funding for FY 2016 that is listed below is compared to the Department's FY 2014 enacted funding levels given that FY 2015 enacted levels are not available.

In the FY 2016 Budget, the Administration again proposed to consolidate a number of Federal Emergency Management Agency (FEMA) state and local grant programs into a new National Preparedness Grant Program (NPGP). This concept was first proposed in the President's FY 2013 Budget and has received significant pushback from stakeholders and Congress over the years. The proposal to consolidate the grant programs into the NPGP is an effort to streamline grant administration and focus on building national capacity through enhancement of regional capabilities instead of funding similar activities for individual jurisdictions. The consolidated program would incorporate activities previously funded through individual programs, including the Urban Area Security Initiative (UASI), State Homeland Security Grant Program, Urban Search and Rescue Teams (USAR), Metropolitan Medical Response System, Emergency Operations Center Grants, and Port Security Grants, among others.

To continue his push on immigration reform, the President again requested resources to fund an additional 2,000 Customs and Border Patrol officers to assist in efforts to process and inspect passengers at US ports of entry faster and more effectively. The FY 2016 Budget also requests additional funding to enable the Immigration and Customs Enforcement (ICE) to maintain more than 34,000 detention beds and requests $134.5 million in contingency funding for the increase in costs associated with the apprehension and care of unaccompanied minors crossing the US southern border.

The FY 2016 Budget does not include additional discretionary funding to implement the President's November executive actions on immigration given that these activities will be funded through fees that DHS collects.

Additionally, the FY 2016 Budget includes a request for language to be included in legislation regarding the Pre-Disaster Mitigation (PDM) Fund. The language would authorize DHS to use funds appropriated to the PDM program during prior years for specific grant projects authorized in the Robert T. Stafford Disaster Relief and Emergency Assistance Act, provided that the funds were unobligated and did not have a fiscal year limitation.

- **National Preparedness Grant Program:** $1.04 billion (stand-alone program funding totaled $1.5 billion in FY 2014).
- **FEMA Urban Search and Rescue Response System:** $27.5 million.
- **FEMA Disaster Relief Fund:** $7.37 billion ($6.22 billion in FY 2014).
- **Firefighter Assistance Grants:** $670 million ($680 million in FY 2014).
  - Assistance to Firefighters Grants: $335 million ($340 million in FY 2014).
  - SAFER Grants: $335 million ($340 million in FY 2014).
- **Emergency Management Performance Grants:** $350 million ($350 million in FY 2014).
- **Emergency Food and Shelter Program:** $100 million ($120 million in FY 2014).
  - In the FY 2016 Budget, FEMA proposes to transfer authority of the Emergency Food and Shelter Program to the Department of Housing and Urban Development (HUD).
- **Flood Hazard Mapping and Risk Analysis Program:** $278.62 million ($95.2 million in FY 2014).
  - These additional resources will fund the Risk Mapping, Assessment and Planning (Risk MAP) program to the full funding level that is authorized in the recent National Flood Insurance Program (NFIP) reform legislation and to provide FEMA with the ability to begin full implementation of the expanded mapping responsibilities included in the legislation.
- **National Flood Insurance Fund:** $181.19 million ($173.27 million in FY 2014).

Department of Justice

The FY 2016 Budget requests a total of $28.7 billion for the Department of Justice (DOJ), including $26.2 billion for federal programs and $2.4 billion for state, local, and tribal assistance programs. In addition, the Request includes increased funding for countering violent extremism and other national security areas, civil rights and advancing equality under the law, and Smart on Crime activities, including increased funds for prisoner reentry initiatives, and other key enforcement initiatives.

- **State and Local Law Enforcement Grants:** $1.14 billion ($1.24 billion in FY 2015).
  - Byrne Memorial JAG: $388 million ($376 million in FY 2015).
    - Bulletproof Vests: $22.5 million ($22.5 million in FY 2015).
    - Smart Policing: $20 million ($5 million in FY 2015), $10 million of which is for Body Worn Camera Demonstration.
  - Byrne Competitive Grants: $15 million (not funded in FY 2015).
  - Victims of Trafficking: $10.5 million ($42 million in FY 2015).
  - Prescription Drug Monitoring: $9 million ($11 million in FY 2015).
  - Second Chance/Offender Reentry: $120 million ($68 million in FY 2015).
  - Comprehensive School Safety Initiative: $75 million ($75 million in FY 2015).
  - Community Teams to Reduce the Sexual Assault Kit Backlog: $41 million ($41 million in FY 2015).
  - Body Worn Camera Partnership Program: $30 million (not funded in FY 2015).
- **Juvenile Justice Programs:** $339.4 million ($251.5 million in FY 2015).
  - Youth Mentoring: $58 million ($90 million in FY 2015).
  - Title V: Local Delinquency Prevention Incentive Grants: $42 million ($15 million in FY 2015).
- **Community Oriented Policing Services (COPS):** $303.5 million ($208 million in FY 2015).
  - COPS Hiring: $249.5 million ($180 million in FY 2015).
- **Office of Violence Against Women Prevention and Prosecution Programs:** $473.5 million ($430 million FY 2015).
  - STOP Grants: $193 million ($195 million in FY 2015).
    - Transitional Housing Assistance: $25 million ($26 million in FY 2015).
  - Grants to Encourage Arrest Policies: $50 million ($50 million in FY 2015).
  - Consolidated Youth Oriented Program: $10 million ($10 million in FY 2015).
  - Campus Violence: $26 million ($12 million in FY 2015).
  - Sexual Assault Services: $27 million ($30 million in FY 2015).

10. HOUSING, HOMELESSNESS, AND COMMUNITY DEVELOPMENT

Department of Housing and Urban Development

The FY 2016 Budget requests $49.3 billion in funding for the Department of Housing and Urban Development (HUD) to support and expand a number of programs. This year's Budget is a $4 billion (8.7%) increase over the current spending levels. The FY 2016 Budget maintains all existing rental assistance vouchers and includes funding for those lost in 2013 due to sequestration. Additionally, the Budget includes 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) is a part of the Upward Mobility Project, as HUD is focused on keeping the program on a sustainable path through a series of proposals they intend on releasing this year. Furthermore, these communities will be eligible to receive a total of $1.5 billion in new funding over five years, in addition to currently provided resources. In support of Promise Zones, the FY 2016 Budget expands the Choice Neighborhoods Program in HUD as well as the Department of Education's (DOE) Promise Neighborhoods program. The Budget also requests $50 million, and eliminates the current cap, for the Rental Assistance Demonstration (RAD) program.

- **Community Development Block Grant (CDBG):** $2.8 billion ($3 billion in FY 2015).
- **Tenant-Based Rental Assistance (Section 8):** $21.1 billion ($19.3 billion in FY 2015).
  - Voucher Renewals: $18.33 billion ($17.49 billion in FY 2015).
  - Tenant Protection Vouchers: $150 million ($130 million in FY 2015).
  - HUD-VASH Vouchers: no funds were proposed for this program; however the President proposes 22,500 new vouchers for families, veterans, and tribal families experiencing homelessness ($75 million FY 2015).
  - New Families, Veterans, and Tribal Homelessness Vouchers: $177.50 million for 22,500 vouchers to be distributed through a competitive grant process.
  - Section 811 Vouchers: $107.6 million ($83.16 million in FY 2015).
- **Public Housing Capital Fund:** $1.97 billion ($1.9 billion in FY 2015).
- **Public Housing Operating Fund:** $4.6 billion ($4.4 billion in FY 2015).
- **Choice Neighborhoods Initiative:** $250 million ($80 million in FY 2015). Additionally, the Budget includes companion investments of $150 million in the DOE's Promise Neighborhoods program and $29.5 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 the Promise Zones.
- **Housing Opportunities for Persons with AIDS:** $332 million ($330 million in FY 2015).
- **HOME Investment Partnerships Program:** $1.06 billion ($900 million FY 2015).
  - Self-Help Homeownership Program (SHOP): $10 million ($50 million in FY 2015).
- **Homeless Assistance Grants:** $2.48 billion ($2.14 billion in FY 2015).
  - Emergency Solutions Grants (ESG): $250 million ($250 million in FY 2015).
  - Continuum of Care and Rural Housing Sustainability Assistance Program: $1.94 billion ($1.86 billion in FY 2015).
  - National Homeless Data Analysis Project: $7 million ($7 million in FY 2015).
- **Lead Hazard Reduction:** $120 million ($110 million in FY 2015).
- **Project-Based Rental Assistance:** $10.76 billion ($9.3 billion in FY 2015).
- **Housing for the Elderly:** $445 million ($420 million in FY 2015).
- **Housing for Persons with Disabilities:** $177 million ($135 million in FY 2015).
- **Housing Counseling Assistance:** $60 million ($47 million in FY 2015).
- **Rental Housing Assistance (Section 236):** $30 million ($18 million in FY 2015).

Department of Commerce

- **Economic Development Assistance (EDA) Programs:** $228 million ($209.5 million in FY 2014).

Independent Agencies

- **Institute for Museum and Library Services:** $237.43 million ($227.8 million in FY 2015).
- **National Endowment for the Humanities:** $146 million ($146 million in FY 2015).
- **National Endowment for the Arts:** $146 million ($146 million in FY 2015).

11. TAX AND REVENUE

Department of Treasury

The Administration is proposing to increase the top capital gains tax rate to 28%, significantly curtail the stepped-up tax basis on inherited assets, and impose a seven-basis-point fee on the liabilities of roughly 100 of the largest financial institutions. According to President Obama, the revenues raised from these proposals will be dedicated principally to a series of tax credits and incentives "designed to bring middle class economics into the 21st Century." As such, the Budget includes proposals to "better support and reward work," including the creation of a new "Second Earner Credit," an expanded Earned Income Tax Credit (EITC) and child care tax benefits, and the streamlining of education tax incentives. Additionally, the revenue would be used to reform retirement tax incentives and expand savings opportunities, while also helping to pay for the President's recent proposal to make two years of community college free to students. For more information about the community college proposal, please refer to the "Education" section of our analysis.

Also notable, the Budget proposes a minimum 19% tax on foreign earnings and a 14% tax on previously untaxed foreign income, but then allows foreign earnings to be repatriated without an additional tax. The President proposes using this new revenue to help pay for infrastructure projects as part of the $478 billion six-year surface transportation reauthorization. For more information about the surface transportation proposal, please refer to the "Infrastructure: Transportation & Water" section of our analysis.

Tax Proposal Highlights from the Administration's FY 2016 Budget Include the Following Provisions:

The tax proposals discussed below represent the new and/or significant proposals contained in the Budget. A list of all Budget proposals is available here.

Revenue Raisers

- **Impose a 14% One-Time Tax on Previously Untaxed Foreign Income:** The Budget proposes a one-time 14% tax on earnings accumulated in controlled foreign corporations (CFCs) that have not previously been subject to US tax. The Budget would provide a credit 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 tax year 2015. The accumulated income subject to the one-time tax could then be repatriated without any further US tax. The Budget would use the additional revenue from this one-time tax to pay for: (1) new spending associated with the Administration's surface transportation reauthorization proposal; and (2) shortfalls between revenue and surface transportation spending that exist under current law for the proposal period.

  The proposal would raise approximately $268.13 billion over 10 years and would be effective on the date of enactment and apply to earnings accumulated for taxable years beginning before January 1, 2016. The tax would be payable ratably over five years.

- **Repeal Tax-Exempt Bond Financing on Professional Sports Facilities:** The Budget would eliminate the private security or payment test for state or local governmental bonds issued to finance or refinance professional sports facilities, which would generally mean that such bonds would be taxable private activity bonds if more than 10% of the bond-financed facility is used for private business use. The elimination of the private security or payment test for state or local governmental bonds issued to finance or refinance professional sports facilities would apply to such bonds issued after December 31, 2015.

  The proposal would raise approximately $542 million over 10 years.

- **Repeal Preferential Dividend Rule for Publicly Traded and Publicly Offered Real Estate Investment Trusts (REITS):** The Budget proposes repealing the preferential dividend rule for publicly traded REITs and publicly offered REITs. The proposal would also provide the Secretary of the Treasury with explicit authority to cure inadvertent violations of the preferential dividend rule where it continues to apply and, where appropriate, to require consistent treatment of shareholders.

  The proposal has a negligible revenue effect and would apply to distributions that are made (without regard to section 858) in taxable years beginning after the date of enactment.

New Tax Reductions

- **Bond Programs:** Acknowledging the important role of the private sector in public infrastructure investment, the Budget proposes establishing a new category of tax-exempt Qualified Public Infrastructure Bonds (QPIBs) for projects owned by state or local governments and that are available for general public use. Further, the Budget would create a new, expanded, and permanent America Fast Forward Bond (AFFB) program as an optional alternative to traditional tax-exempt bonds. The Budget would permanently expand the qualified small issuer limit in the definition of qualified tax-exempt obligations to include issuers of up to $30 million of tax-exempt bonds annually.

  For more information about these and other bond initiatives, please refer to the "Infrastructure: Transportation & Water" section of our analysis.

- **Simplify and Better Target Tax Benefits for Education**
  - Expand and Modify the American Opportunity Tax Credit (AOTC) and Repeal Lifetime Learning Credits: In an effort to further increase tax benefits available to students while they are in college and simplify the claiming of tax benefits, the Budget would replace the Lifetime Learning Credit and student loan interest deduction with an expanded AOTC, which would be available for the first five years of postsecondary education and for five tax years. It would expand eligibility to include less than half-time undergraduate students, simplify and increase the refundable portion of the AOTC, and index expense limits and the refundable amount for inflation after 2016.

    The AOTC would be available to students attending school at least half-time in an amount equal to 100% of the first $2,000 of eligible expenses and 25% of the next $2,000 of eligible expenses, with the first $1,500 being refundable. Eligible students attending school less than half-time would be able to claim a part-time AOTC equal to 50% of the first $2,000 of eligible expenses plus 12.5% of the next $2,000 of eligible expenses, with the first $750 being refundable.

    Under the Budget, students who can be claimed as a dependent on someone else's tax return would no longer be able to claim the nonrefundable portion of the AOTC on their own return.

    The proposal would cost approximately $31.29 billion over 10 years and would be effective for taxable years beginning after December 31, 2015.

  - Make Pell Grants Excludable from Income: The Budget would attempt to further simplify education benefits for low-income students by excluding all Pell Grants from gross income and from the AOTC calculation.

    The proposal would cost approximately $17.56 billion over 10 years and would be effective for taxable years beginning after December 31, 2015.

  - Modify Reporting of Tuition Expenses and Scholarships on Form 1098-T: The Budget would require institutions of higher education to report amounts paid, not billed, on Form 1098-T, as well as require any entity issuing a scholarship or grant in excess of $500 – which would be indexed for inflation after 2016 – that is not processed or administered by an institution of higher education to report the scholarship or grant on Form 1098-T.

    The proposal would raise approximately $618 million over 10 years and would be effective for taxable years beginning after December 31, 2015.

  - Repeal the Student Loan Interest Deduction and Provide Exclusion for Certain Debt Relief and Scholarships: The Administration is proposing four changes to the tax rules governing student loans. Specifically, the proposal would:

    1. Repeal the deduction for student loan interest for new students;
    2. Conform the tax treatment of loan amounts repaid by the Indian Health Service (IHS) to the tax treatment of loan amounts paid by the National Health Service Corps (NHSC) and certain state programs intended to increase the availability of health care services to underserved populations;
    3. Conform the tax treatment of IHS Health Professions Scholarships to the tax treatment of NHSC scholarships and Armed Forces Health Professions (AFHP) scholarships; and
    4. Allow the Secretary of the Treasury to disclose identifying information to the Department of Education (DOE) for the purpose of contacting late-stage delinquent borrowers to inform them about options for avoiding default, while also allowing DOE to re-disclose this information, as under current law for defaulted borrowers, to certain lenders, guarantee agencies, and educational institutions for this purpose.

    The proposal would raise approximately $1.25 billion over 10 years and would be effective for taxable years beginning after December 31, 2015.

  - Repeal Coverdells and Reduce the Federal Tax Benefits of Qualified Tuition Programs: The Budget proposes to repeal Coverdell Education Savings Accounts (ESAs) and reduce the federal tax benefits allowed to qualified tuition programs (529 plans) as part of an effort to help pay for the aforementioned education tax incentives. The Budget would not allow any new contributions to Coverdell ESAs. Moreover, while qualifying distributions of earnings on contributions to Coverdell and section 529 ESAs made prior to the date of enactment would continue to be excludable from gross income, distributions of earnings on contributions to section 529 ESAs made after the date of enactment would no longer be excludable from gross income, although they would still benefit from being includable only in the gross income of the student beneficiary, not the gross income of the account holder.

    The proposal would raise approximately $1.28 billion over 10 years and would be effective for taxable years beginning after December 31, 2015, except that the provisions regarding student loan forgiveness would be effective for discharges of loans after December 31, 2015, and the provisions expanding disclosure of taxpayer identifying information for late-stage delinquency would be effective upon enactment.

Notably, as mentioned above, President Obama does not plan to pursue his proposal to reduce the tax benefits associated with 529 plans.

- **Provide for Automatic Enrollment in Individual Retirement Accounts or Annuities (IRAs), Including a Small Employer Tax Credit, and Double the Tax Credit for Small Employer Plan Start-Up Costs:** The Administration is proposing to require employers that have been in business for at least two years and that have more than ten employees to offer an automatic IRA option to employees, under which regular contributions would be made to an IRA on a payroll-deduction basis. Under the Budget, if the employer sponsored a qualified retirement plan, simplified employee pension (SEP), or Savings Incentive Match Plan for Employees (SIMPLE) for its employees, it would not be required to provide an automatic IRA option. However, if the qualified plan excluded from eligibility a portion of the employer's work force or a class of employees, the employer would be required to offer the automatic IRA option to those excluded employees.

  The employer offering automatic IRAs would provide employees with a standard notice and election form and allow them to elect to participate or opt out. Any employee who fails to provide a written participation election would be enrolled at a default rate of 3% of the employee's compensation in an IRA. Employees could opt out or opt for a lower or higher contribution rate up to the IRA dollar limits. Moreover, the Budget would let employees choose either a traditional IRA or a Roth IRA, with Roth IRAs being the default.

  At the employer's option, payroll-deduction contributions from all participating employees could be transferred to a single private-sector IRA trustee or custodian designated by the employer. Alternatively, if the employer prefers, it could allow each participating employee to designate the IRA provider for that employee's contributions or could designate that all contributions be forwarded to a savings vehicle specified by statute or regulation.

  Under the Budget, there would be no need for employers making payroll deduction IRAs available to choose or arrange default investments, as a low-cost, standard type of default investment and a handful of standard, low-cost investment alternatives would be prescribed by statute or regulation. Moreover, this approach would not involve employer contributions, employer compliance with qualified plan requirements, or employer liability or responsibility for determining employee eligibility to make tax-favored IRA contributions or for opening IRAs for employees. Information and basic educational material regarding saving and investing for retirement, including IRA eligibility, would be made available online; however, as under current law, individuals would bear ultimate responsibility for determining their IRA eligibility.

  Contributions by employees to automatic IRAs would qualify for the saver's credit to the extent the contributor and the contributions otherwise qualified.

  Small employers (i.e., those with fewer than 100 employees) that offer an automatic IRA arrangement would be eligible to claim a temporary non-refundable tax credit for the employer's expenses associated with the arrangement up to $500 for the first year and $250 for the second year, and also would be entitled to an additional non-refundable credit of $25 per enrolled employee up to $250 for six years.

  In an effort to encourage employers not currently sponsoring a qualified retirement plan, SEP, or SIMPLE to do so, and in conjunction with the automatic IRA proposal, the Budget would double the non-refundable "start-up costs" tax credit to a maximum of $1,000 per year for three years for a small employer that adopts a new qualified retirement, SEP, or SIMPLE. Moreover, the credit would be extended from three to four years for any employer that adopts a new qualified retirement plan, SEP, or SIMPLE during the three years beginning when it first offers – or first is required to offer – an automatic IRA arrangement. This expanded credit would not apply to automatic or other payroll deduction IRAs and thus would encourage small employers to adopt a new 401(k), SIMPLE, or other employer plan instead.

  The proposal would cost approximately $17.12 billion over 10 years and would be effective for taxable years beginning after December 31, 2015.

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