PRESIDENT OBAMA'S FY 2014 BUDGET PROPOSAL

ANALYSIS RELATED TO ADMINISTRATION FUNDING AND POLICY PRIORITIES

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This document analyzes President Obama's Fiscal Year 2014 (FY 2014) Budget proposal released on April 10, 2013, focusing on issues of interest to units of local government, educational institutions, healthcare organizations, public agencies, and others. This analysis highlights relevant policy, program and funding proposals in the Budget and assesses impacts, opportunities and prospects for action. It concludes with a summary and analysis of relevant tax and revenue provisions of particular interest.

Specific budgetary highlights are summarized under topical categories:

INTRODUCTION

On April 10th, President Obama submitted his FY 2014 Budget Proposal to Congress. In the normal course of events, the President would have unveiled his spending plan in early February as required by law. But, as with all fiscal matters in Washington, D.C. these days, reality has not followed a "normal" course of events. Instead, the President's Budget, which should kick off the budget and appropriations processes, comes weeks after the House and the Senate passed their starkly different FY 2014 Budget Resolutions.

The President's ten-year budget request calls for $3.77 trillion in government spending and proposes cutting the deficit by $1.8 trillion over ten years. The Budget does not address the $85 billion sequester occurring in the current fiscal year (FY 2013), but does eliminate sequestration in the out years. It proposes generating $580 billion by restricting deductions for the top two percent of earners and by requiring households with more than $1 million in annual income to pay at least 30 percent in taxes. The Budget also proposes to solicit $78 billion from new cigarette taxes. In eliminating sequestration, the President discards the discretionary spending caps established in the *Budget Control Act of 2011* (P.L. 112-25) and requests spending of $1.058 trillion in FY 2014. This would mark a significant increase over FY 2013 discretionary spending of $984 billion.

Most significantly, in his quest to achieve a "grand bargain," the President proposes savings of about $230 billion by restructuring cost of living adjustments for entitlement programs, including beneficiaries of Social Security, known as the chained Consumer Price Index, or chained CPI. This is viewed by some as an olive branch to the Republicans, and by others as offering too much without gaining anything in exchange. The President proposes an additional $400 billion in health care savings - $200 billion in mandatory program reductions and $200 billion in discretionary spending cuts.

The President remains committed to the areas he identified as his core priorities for his second term and requests additional cross-department/agency funding for a number of new initiatives related to manufacturing, infrastructure, education, cybersecurity, immigration reform and gun control. However, many of his proposals, especially related to infrastructure financing, have been repeatedly rejected by Congress.

Forecast

Budget hearings in the Senate and House Appropriations Committees continue, although the overall discretionary spending cap, and subsequent allocations for each spending bill, may not be determined until the anticipated debt ceiling debate this summer. Senate Appropriations Chairwoman Barbara Mikulski (D-MD) has stated that she will begin markups utilizing the President's request of $1.058 trillion. On the other hand, the House FY 2014 Budget Resolution (H. Con. Res. 25) establishes an FY 2014 spending cap, incorporating sequestration reductions, at $967 billion. Senate and House Budget Committee Chairmen Patty Murray (D-WA) and Paul Ryan (R-WI) recently began negotiations on a joint FY 2014 Budget Resolution, though there is little optimism, given the seemingly irreconcilable differences between their positions, that those talks will produce an agreement.

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NOTE: The President's Budget Proposal compares FY 2014 proposals to FY 2012 enacted levels because the impact of the sequester on FY 2013 federal budget was unclear at the time of its drafting. Our analysis follows this comparison; however, in some cases where it makes sense to do so, we provide FY 2013 comparisons.

AGRICULTURE, NUTRITION PROGRAMS, AND FOOD SAFETY

DEPARTMENT OF AGRICULTURE

Under the President's Budget, the U.S. Department of Agriculture (USDA) would receive close to $22 billion in discretionary funding. Similar to last year, President Obama's Budget proposes cutting crop insurance for both high- and low-risk plans and eliminating direct farm payments, which would save the federal government $37.8 billion over ten years.

New this year, the Budget supports cutting the catfish inspection program that Congress had authorized within USDA but was never created. Additionally, the President proposes an overhaul of the USDA's Food for Peace Program by shifting it to the U.S. Agency for International Development (USAID) and allowing USAID to use some of the funding to purchase food assistance from foreign suppliers instead of U.S. farmers. These changes, however, would not affect the Food for Progress or the McGovern-Dole international school feeding programs within USDA.

Further, the President's Budget makes policy statements by not providing funding for the slaughter of horses, which is the Administration's endorsement of a horse slaughter ban in the United States, and by excluding a payment to Brazil (that would have avoided Brazil levying tariffs on the U.S. over U.S. cotton subsidies) in an effort to encourage Congress to pass a Farm Bill. The Budget also sends a signal that USDA will move forward with its plans to streamline the inspection of poultry by pulling inspectors off lines to perform testing and other duties at a cost-savings of $9 million for FY 2014. The poultry inspection rule will likely be finalized by the end of September.

Major program highlights of the USDA's FY 2014 Budget include:

- **Federal Crop Insurance Program:** The Budget would reduce insurance premium subsidies for lower-risk plans by $4.2 billion over ten years, and insurance subsidies for higher-risk plans by $3.2 billion over the same time period. Overall, crop insurance would be afforded $13.7 billion, a decrease of over $4.7 billion from FY 2013. However, both House and Senate Agriculture Committees hope to expand, not cut, crop insurance.
- **Direct Payment Program**: The Budget would eliminate direct farm payments to save about $3 billion per year over ten years. As stated previously, when combined with the above cuts to crop insurance programs, the Budget would save $37.8 billion over ten years. The House Budget Resolution calls on the House Agriculture Committee to revisit farm-support programs like crop insurance and fixed payments, while the Senate Budget Resolution works to provide the Senate Agriculture Committee flexibility to write a five-year Farm Bill that maintains a safety net for farmers.

- **Catfish Inspection Program:** The Office of Management and Budget said cutting the program's funding would help USDA focus on the meat and poultry supply through the Food Safety and Inspection Service. The Administration may find support in Congress for cutting this program, especially since the Senate voted to repeal the program in its 2012 Farm Bill, and an amendment was offered in the House Agriculture Committee markup to do the same in its version of the 2012 Farm Bill.

- **Natural Resources Conservation Service (NRCS):** The Budget requests $813 million for discretionary funding programs (Private Lands Conservation Operations) in the Natural Resources Conservation Service, and a total of $3.9 billion in mandatory funding programs (Farm Bill Programs), including the Environmental Quality Incentives Program and Conservation Stewardship Program. The Budget aims to improve efficiency and optimize resources by prioritizing conservation goals for water quality and water availability, land conservation, wildlife habitat, and wetland protection. The Budget proposes to retitle the existing "Conservation Operations" account as the "Private Lands Conservation Operations" to prioritize conservation of private working lands, and would include at least $25 million for non-Federal conservation partners.

  For FY 2014, the Budget would also provide for 12.8 million new acres under the Conservation Stewardship Program (requested to be funded at $989 million) and allow for the protection of 50,000 acres of farmland under the Farm and Ranch Lands Protection Program (requested to be funded at $150 million for FY 2014). The Budget would also cap the Conservation Reserve Program at 25 million acres. While the House Budget Resolution is largely silent on conservation efforts, the Senate Budget Resolution allows for the reauthorization of conservation measures like the Federal Land Transaction Facilitation Act.

- **America's Great Outdoors Initiative:** USDA argues that this program makes public lands more resilient to threats and enhances natural resources, and that the Budget would further this initiative by targeting land acquisitions that would improve public access to inaccessible portions of the National Forest System. As it did in FY 2013, the Budget for FY 2014 requests $59 million for the Land Acquisition Program, but also requests $34 million to be transferred from the mandatory Land and Water Conservation Fund (LWCF) program. The Senate Budget Resolution would fully fund the LWCF program.

- **Food Safety and Inspection Service:** The President's Budget proposes $1.02 billion for the Food Safety and Inspection Service (FSIS). It also proposes a user fee that would recover the costs incurred for additional inspections incurred because of a plant's performance, like when FSIS needs to conduct follow-up sampling or additional investigations after disease outbreaks. Total collections are estimated to reach $4 million.

- **Rural Utilities Service (RUS):** USDA also plans to obligate all of the available program funding for the RUS for FY 2014, and requests a program level of $6.3 billion. The 2014 Budget provides $4 billion for electric loans, up to $1 billion of which will be used to support environmental upgrades to existing fossil fuel electric generation facilities to reduce carbon emissions. No less than $3 billion of the remaining funds for electric loans will be used for the generation, transmission, and distribution of renewable energy. The Budget also requests $690 million in telecommunications loans, and notes that the reduction in performance for 2012 was due to lower obligations because of the uncertainty within the Universal Service Fund fee structure. The Senate Budget Resolution aims to reflect a commitment to broadband access throughout the U.S., including rural communities, and would restore the RUS to pre-sequestration funding levels.

- **Rural Energy for America Program:** The Budget would fund the Rural Energy for America Program at a discretionary program level of $45 million in loan guarantees and $7.4 million in grants, and at a mandatory level of $70 million for a combination of grants and up to $159.5 million in loan guarantees. The Senate Budget Resolution provides flexibility to the Budget Committee to make changes to efforts related to energy conservation and renewable energy development.
- **Supplemental Nutrition Assistance Program (SNAP):** The President's Budget would request $81.2 billion for SNAP, and anticipates a drop from 47.1 million participants in FY 2013 to 44.7 million participants in 2014 as the economy is expected to steadily improve. The Budget would also aim to continue to combat fraud, even though the payment error rate has dropped from over 8 percent to about 3.8 percent, and the trafficking rate has reduced from 4 percent to 1 percent. The Senate Budget Resolution would protect SNAP funding, and argues that the program is effective and efficient. The Senate Budget Resolution also argues that SNAP enrollment will decrease as the economy improves. The House Resolution also argues that the SNAP structure is flawed and provides little incentive to help graduate people off the program or to root out waste, fraud and abuse.
- **Special Supplemental Nutrition Program for Women, Infants, and Children (WIC):** The Budget provides for $7.1 billion for WIC, aiming to serve all eligible individuals seeking WIC benefits. This includes $30 million for States to improve their management information systems, helping them work towards implementing the Electronic Benefits Transfer system by 2020. The Budget would also provide $1 million to combat fraud. The Senate Budget Resolution argues that WIC provides healthy food and nutrition education for low-income pregnant women, mothers, and children at risk for malnutrition, and lowers health care costs down the line. The Senate Budget Resolution aims to reverse the effects of sequestration that would cause 570,000-750,000 women and children to lose WIC support in FY 2014.
- **Commodity Assistance Program (CAP):** The Budget would fund CAP at $271.7 million, including a $2 million increase for integrity efforts within the Emergency Food Assistance Program (TEFAP), which provides support to food banks and other emergency food operations. Integrity efforts would include management evaluation reviews and technical assistance to state and local TEFAP operations. The Budget for CAP would also provide $49.4 million for state and local program administration of TEFAP. For FY 2014, the Budget would also provide $202.7 million for the Commodity Supplemental Food Program, which provides commodities to low-income elderly and certain mothers and children.
- **Agricultural Research Service (ARS):** The Budget requests roughly $1.3 billion for ARS, which USDA argues conducts research to develop scientific knowledge, to transfer technology to the private sector to solve agricultural problems, and to provide access to scientific information. The Senate Budget Resolution generally recognizes the importance of the U.S. government in developing new technologies and products by reducing the risk for companies, and aims to prioritize research and development. The Senate Budget Resolution continues support for agriculture research specifically, which is often carried out at land grant colleges and universities. The President's Budget for FY 2014 proposes reallocating funding from lower priority programs and new funding to provide a total overall increase of $24 million for ARS. The request for ARS funding includes:

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- $155 million for the replacement of the Southeast Poultry Disease Research Laboratory in Athens, Georgia;
- $85 million for new products/product quality/value added research programs;
- $73 million for livestock production (including a focus on feed efficiency and animal genomic data for health and performance improvements) and $80 million for livestock protection;
- $229 million for crop production (including a focus on agricultural sustainability, floral nursery research, accelerating crop yields, and improving crop genetic resource capacity) and $179 million for crop protection;
- $119 million for food safety (including detection technologies for crops at risk of infestation, pathogen reduction, alternatives to antibiotics, and identification of pathogens);
- $95 million for human nutrition (helping develop the evidence base used to set food policy); and
- $219 million for environmental stewardship.

- **National Institute of Food and Agriculture (NIFA):** The Budget for FY 2014 requests about $1.3 billion in discretionary NIFA funding. More specifically, the formula grant programs below would receive the following:
  - $294 million for Smith-Lever 3 (b&c) programs;
  - $236 million for Hatch Act programs;
  - $93 million for 1890 Research and Extension programs;
  - $33 million for McIntire-Stennis Cooperative Forestry programs; and
  - No funding for Animal Health and Disease Research programs.

  The Budget also provides for $383.4 million for the Agriculture and Food Research Initiative (AFRI), a competitive peer-reviewed research program for fundamental and applied sciences in agriculture. Major initiatives include increased food availability through sustainable food systems, as well as nutrition and obesity prevention research, education, and extension efforts that help promote eating healthy foods and explore the impacts of outside factors on childhood food choices and obesity. The Budget also requests $8 million to improve and consolidate its grants management systems for AFRI and other NIFA competitive grants, in order to lower transaction costs in applying, and to increase acceptance speed and accuracy.

FOOD AND DRUG ADMINISTRATION

The FY 2014 Budget includes $4.7 billion for the Food and Drug Administration (FDA), an increase of $470 million over FY 2013 funding levels and includes investments in the continuation of the FDA Food Safety Modernization Act (FSMA). The agency says industry user fees of $252.4 million would fund 94 percent of the proposed budget increase to support the *Food Safety Modernization Act* and strengthen the FDA's ability to oversee imported food. *(Please see the section on Health, Human & Social Services for additional information on FDA)*

- **Food Safety:** The FY 2014 Budget includes a total program level of $1.5 billion (including $1.2 million in budget authority), or an increase of $296 million increase from FY 2012, to assist with the implementation of the FSMA. The Budget also proposes to generate $225 million in funds through a food importer fee and a food facility and inspection fee. In addition, the Budget proposes a $5 million food contact notification user fee that FDA will use to support food safety programs.

CYBERSECURITY

DEPARTMENT OF HOMELAND SECURITY

In the President's FY 2014 Budget, the U.S. Department of Homeland Security (DHS) outlined its five budget priorities for the upcoming fiscal year, one of which is the need to safeguard and secure cyberspace. In order to fulfill this mission, DHS has proposed increased funding for cybersecurity programs and initiatives across the Department, including $43.9 million of new funding to foster cybersecurity information sharing throughout the federal government. Despite the increase in overall cybersecurity funding at DHS, several programs, such as the Infrastructure Protection Exercise program and the Next Generation Networks Priority Services program, saw reductions in funding for FY 2014 to provide additional funding for higher priority cybersecurity programs.

The FY 2014 Budget also includes a large increase in funding for research, development, and innovation (RD&I) through the Science and Technology (S&T) Directorate at DHS. This funding includes $70 million for research and development focused on strengthening the nation's cybersecurity capabilities.

Major program highlights of the U.S. Department of Homeland Security's FY 2014 Budget include:

- **National Cybersecurity Protection System (NCPS):** The FY 2014 Budget proposes a total of $406 million for Network Security Deployment, which includes $43.9 million of new funding to support the NCPS, operationally known as EINSTEIN. This funding will be used to plan and develop advanced information sharing capabilities and procure additional commercial information sources on cyber threats.
- **Multi-State Information Sharing and Analysis Center (MS-ISAC):** In FY 2014, DHS plans to increase its support to the MS-ISAC by $12.9 million in order to assist in providing coverage for all 50 states and 6 U.S. territories. This increased funding will allow the MS-ISAC to keep a cybersecurity operations center open at all times, develop and rapidly distribute cybersecurity advisories, and directly respond and assist MS-ISAC members with response to cyber incidents.
- **U.S. Computer Emergency Readiness Team (US-CERT):** The FY 2014 Budget proposes $102 million for US-CERT to help increase information sharing within the federal government and lay the foundation for establishing a standard interface for sharing cyber threat information with state and local authorities and the private sector. This funding includes an increase of $12.6 million for Cybersecurity Operational and Strategic Analysis to assist the National Cybersecurity and Communications Integration Center (NCCIC).
- **Research, Development, and Innovation (RD&I):** The President's Budget includes $476 million for RD&I, which represents a $200 million increase from FY 2012 enacted levels. This funding supports research and development in a number of areas and includes $70 million for RD&I activities related to cybersecurity.

- **Comprehensive National Cybersecurity Initiative "Transition to Practice":** DHS's S&T Directorate proposes $10.1 million for a project that aims to accelerate the transition of federally-funded cybersecurity research into widespread deployment via commercialization and open-source licensing. This project is a result of recommendations made in the 2011 Federal Cybersecurity R&D Strategic Plan and the White House's Comprehensive National Cybersecurity Initiative.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

As a result of the President's Executive Order (EO) on cybersecurity, the National Institute of Standards and Technology (NIST) was directed to work with the private sector to create and develop a Cybersecurity Framework of standards and best practices for industry. NIST has long had an important role in establishing standards for various industries, and the FY 2014 Budget supports that mission—requesting a total of $928.3 million, which includes funding for several cybersecurity research and development programs and $1 million for the National Initiative for Cybersecurity Education.

Major program highlights of the National Institute of Standards and Technology's FY 2014 Budget include:

- **National Initiative for Cybersecurity Education (NICE):** NIST includes $1 million for NICE which will work with federal, state, local and regional governments to improve cybersecurity education. This effort will include collaboration with other agencies to implement a cybersecurity education framework which addresses national cybersecurity awareness, formal cybersecurity education, federal cybersecurity workforce structure, and cybersecurity workforce training and professional development.
- **Cybersecurity R&D and Standards:** The President's FY 2014 Budget includes $60 million to strengthen NIST's core cybersecurity R&D programs. This will allow NIST's Cybersecurity Center of Excellence to accelerate the delivery of implementable cybersecurity solutions to industry and will provide additional support for NIST's efforts to implement the President's EO.
- **Cyber-Physical Systems (CPS):** NIST's budget includes $50 million to address issues related to cyber-physical systems, including model-based diagnostics and prognostics, time synchronization and secure operation to ensure that deployed CPS systems have appropriate risk-based security solutions.
- **National Strategy for Trusted Identities in Cyberspace (NSTIC):** The FY 2014 Budget includes an increase of $24.5 million for NSTIC to ramp up efforts to raise the level of trust associated with identities of individuals, organizations, services, and devices involved in online transactions.

DEPARTMENT OF DEFENSE

The Department of Defense (DOD) plays a critical role in cybersecurity as well. One of the premier goals in the FY 2014 Budget focuses on the need to "…improve capabilities to conduct effective operations in cyberspace and space." In order to accomplish this mission, DOD continues to support the Comprehensive National Cybersecurity Initiative (CNCI) through funding from multiple departments and agencies within DOD.

The DOD budget prioritizes funding for cybersecurity programs in the budgets for the Army, Navy and Air Force, including $1.4 billion for cyberspace operations in the Air Force budget. In addition, DOD is planning to implement a new cyber force planning model to realign military, civilian and contractor positions under U.S. Cyber Command in a three-year phased build-up that will begin in FY 2014. DOD's budget also includes around $1 billion through the Science and Technology Program to assist in meeting its mission to operate effectively in cyberspace and space.

DEPARTMENT OF JUSTICE

The Department of Justice's (DOJ) FY 2014 Budget provides a total of $668 million for cybersecurity initiatives, which is a $92.6 million increase from its FY 2012 funding levels. This funding will support the Department's role in the domestic mitigation of cyber threat actors through the investigation and prosecution of cyber crimes. Several cybersecurity related programs have requested increased budgets for FY 2014 to assist in carrying out the Administration's goal of improving cybersecurity.

Major program highlights of the Department of Justice's FY 2014 Budget include:

- **Next Generation Cyber Initiative:** The President's Budget includes $314 million for the FBI's Next Generation Cyber Initiative to improve cyber information collection, analysis, and investigation capabilities.
- **National Security Division:** A total of $27 million will go to the National Security Division at DOJ to identify, combat and disrupt cyber threats to national security.
- **Criminal Division:** The FY 2014 Budget includes $27.9 million for cybersecurity initiatives through the Criminal Division which will enhance the Department's capabilities in cybercrime investigations and prosecutions; advice and advocacy legal tools; international cooperation and outreach; and forensic support.

DEPARTMENT OF ENERGY

The President's Budget includes increased investments to modernize the electric grid and the resiliency of energy infrastructure, similar to the investments outlined in the Senate's FY 2014 Budget Resolution. These investments include increased efforts to enhance situational awareness and strengthen operational capabilities to help the energy sector cost effectively manage cybersecurity risks.

Major program highlights of the Department of Energy's FY 2014 Budget include:

- **Cybersecurity for Energy Delivery System (CEDS):** The FY 2014 Budget includes $38 million for the CEDS program to develop advanced cybersecurity technologies and capabilities to reduce the risk of energy disruptions due to cyber incidents.
- **Infrastructure Security and Energy Restoration (ISER):** The Department of Energy's budget includes $16 million for the ISER program to secure U.S. energy infrastructure against hazards, increase resiliency, and reduce the impact of disruptive events, such as cyber attacks.

NATIONAL SCIENCE FOUNDATION

The National Science Foundation (NSF) budget lists a number of cybersecurity research and development programs as priorities for FY 2014. Although funding for the Secure and Trustworthy Cyberspace program decreased slightly for FY 2014, many of the other NSF cyber-related programs saw large increases in funding for the upcoming fiscal year.

Major program highlights of the National Science Foundation's FY 2014 Budget include:

- **Cyber-enabled Materials, Manufacturing, and Smart Systems (CEMMSS):** NSF's FY 2014 Budget included $300.4 million for the CEMMSS program, which represents a $158.8 million increase from FY 2012 levels. This funding will be used to transform static systems and processes into adaptive "smart" systems with embedded computational intelligence.
- **Cyberinfrastructure Framework for 21st Century Science, Engineering, and Education (CIF21):** NSF includes $155.5 million for the CIF21 program, which is double the amount of funding enacted in FY 2012. This program is a joint initiative with the National Institutes of Health (NIH) to coordinate development of new knowledge, tools, practices and infrastructure to enable breakthrough discoveries in science, engineering, education and national security.
- **Secure and Trustworthy Cyberspace (SaTC):** NSF decreased the budget by $1 million for the SaTC program, totaling the program's funding to $110.25 million in FY 2014. This investment aligns NSF's cybersecurity initiatives outlined in the national strategic plan for federal cybersecurity research and development.

DEFENSE

DEPARTMENT OF DEFENSE

The Department of Defense (DOD) base budget request is $526.5 billion. The Department will also request funding for Overseas Contingency Operations to support the War on Terrorism in an amount to be presented to Congress in May. The President's Budget requests significantly less than the Senate and House Budget Resolutions, which both requested $560.2 billion. The President's Budget represents a real growth of – 1.8 percent from the FY 2013 enacted defense budget.

The Department estimates a 20 percent drop in overall defense spending from the post 9/11 peak in 2010 to 2017. The Budget Control Act of 2011 cut $487 billion from FY 2012 through 2021. If sequestration continues unchanged, more than $50 billion in defense spending would be cut each year through 2021. The projected Five Year Defense Plan (2014 – 2018) budget of $2.747 trillion does not reflect the sequester cuts.

Base Budget by Military Department:

Army	129.7 B	-4%
Navy	155.9 B	---
Air Force	144.4 B	+3%
Defense-wide	88.7 B	+2%

Base Budget by Appropriation:

Military Personnel	137.1 B	+2%
Operations and Maintenance	209.4 B	---
Procurement	99.3 B	---
Research, Development, Test & Evaluation	67.5 B	-3%
Military Construction	9.5 B	-1%
Family Housing	1.5 B	-12%
Revolving Funds	2.3 B	+10%

Major program highlights of the Department's FY 2014 Budget include:

- Requests Base Closure Round in 2015 (Must be authorized by Congress in legislation)
- Reduces the Size of Military Healthcare System 8 percent from 2012 – 2018
- Shrinks the Civilian Workforce 5 percent between 2012 – 2018
- Reduces Military Force Structure in the Army and Marine Corps
- Cyberspace Operations 4.7 B
- Military Healthcare 49.4 B

EDUCATION, SCIENCE & TECHNOLOGY

NOTE: The President's Budget Proposal also includes additional education-related research opportunities in its requests for other federal agencies. These opportunities have been identified throughout the budget analysis, particularly in the Agriculture, Energy, Health, Employment & Workforce Development, Manufacturing & Economic Development, and Tax & Revenue sections.

DEPARTMENT OF EDUCATION

With this proposal, the President continues his commitment to prioritizing funding for education initiatives. As such, the Budget Proposal provides $71.2 billion in discretionary funding for the Department of Education, which is 4.1 percent ($2.8 billion) above the 2013 CR level. While most formula programs (i.e., Title I grants, $14.5 billion; Special Education State Grants, $11.6 billion, Career and Technical Education State Grants, $1.1 billion; Improving Teacher Quality State Grants, $2.5 billion) and other institutional support programs (i.e., TRIO, $840 million; GEAR UP, $302 million; Aid for Institutional Development, $598 million) would see level funding, increased funding for new bold initiatives is proposed in the early learning and postsecondary education spaces. A cornerstone of the FY 2014 Budget Proposal is a ten-year, $75 billion investment in high quality preschool programs to be made available to all four-year-olds from low- and moderate-income families. Another significant focus is support for States and institutions who tackle college costs while improving access and completion levels.

Major program highlights of the Department of Education's FY 2014 Budget include:

Early Childhood Education Programs

- **Quality Preschool for All:** As part of a larger initiative proposed to invest $75 billion over 10 years in high-quality preschool financed by an increase on the federal tobacco tax by 94 cents, the Budget requests mandatory funding for a new initiative allowing all children to have access to a high-quality preschool education. The Budget provides $1.3 billion in grant funding to States for FY 2014 to support implementation of high-quality preschool programs in line with elementary and secondary education systems and proposes a federal-state partnership to provide all low- and moderate-income four-year-olds with high-quality preschool, while also incentivizing States to expand such programs for children from middle class families.
- **Preschool Development Grants:** The Budget provides $750 million for a new Preschool Development Grants program. The competitive grant program aims to reward States that commit to expanding preschool access with resources to make the investments necessary to serve their four-year-old children in high-quality programs. The program targets children from families at or below 200 percent of the Federal poverty line. Five percent of the funds would be reserved for national activities.

Elementary and Secondary Education

- **Elementary and Secondary Education Act (ESEA) Reauthorization Proposals**: The Budget continues to propose ESEA reauthorization through consolidation of existing program authorities into new grant programs providing greater State flexibility. As such, the Budget includes several legislative proposals as part of its reauthorization blueprint, which are not subject to PAYGO rules, including among others:
  - **School Turnaround Grants:** The Budget proposes $659 million in formula grant funding to States to help turn around the country's lowest-performing schools. The proposal includes $125 million for a new competitive grant program to build local capacity to support and sustain school turnaround efforts.
  - **Promise Neighborhoods:** The Budget requests $300 million (approximately $240 million over FY 2012 enacted levels and FY 2013 CR) to support competitive grants and other activities to improve the educational and developmental outcomes of children in the most distressed communities, through a cradle-to-career continuum of academic programs and community supports, with a portion of the funds targeted to designated Promise Zones.
  - **Successful, Safe, and Healthy Students:** The Administration proposes $280 million for competitive grants and other activities to improve school climates and reduce violence and bullying, as well as promote students' physical and mental well-being. Funds would also support school safety initiatives included in the President's plan for reducing gun violence, including support for emergency preparedness plans, evidence-based behavioral intervention, and data collection.
- **Advanced Research Projects Agency—Education (ARPA-ED):** Under the Investing in Innovation (i3) program, the Administration again requests increased funding ($65 million) to launch the Advanced Research Projects Agency-Education (ARPA-ED), which is modeled after similar agencies in the Department of Defense and Department of Energy. The purpose of the entity would

be to fund "breakthrough" projects in educational technology and teaching and learning systems. For FY 2013, the Administration requested $90 million in discretionary funding to support ARPA-ED activities.

- **STEM Innovation Networks:** As part of a larger $415 million dollar Science, Technology, Engineering, and Math (STEM) innovation proposal, the Budget requests $265 million for public-private partnership grants between local education agencies and institutions of higher education, businesses, and other science and research agencies. These networks would work to transform teaching and learning by implementing research-based practices, supporting innovation, and capacity building. The initiative includes $80 million to recruit and prepare 100,000 STEM teachers within a decade and create a new STEM Master Teachers Corps. *(Additional information concerning government crosscutting and consolidation of STEM programs is included below)*
- **High School Transformation:** The Budget provides $300 million for a new competitive grant program to strengthen college- and career-readiness among high school students. The program encourages partnerships among LEAs, postsecondary institutions, businesses, and non-profits to create new rigorous learning models that are more relevant and better focused on real-word experiences.
- **Recognizing Educational Success, Professional Excellence, and Collaborative Teaching (RESPECT):** The Budget again proposes a $5 billion one-time mandatory investment to support States and districts that commit to bold, comprehensive reforms to transform the teaching profession.

Higher Education

- **Race to the Top – Higher Education:** As part of a broader effort to allow the Department to respond to and promote system-wide reform efforts when needed, the Budget again requests $1 billion for a new competitive grant program to States that demonstrate a commitment to reform postsecondary education in the following areas:
  - Sustaining financial support while constraining costs and improving outcomes;
  - Removing barriers to innovative student learning methods and degree pathways;
  - Empowering consumer choice through increased transparency; and
  - Smoothing transitions into college and between institutions of higher education.
- **First in the World Fund:** The Budget again requests funding ($260 million) for a new initiative to enable individual colleges and universities, including private colleges, Minority-Serving Institutions, and non-profit organizations, to develop, validate, or scale up strategies for increasing productivity and postsecondary attainment rates while reducing college costs. This initiative would be part of the Administration's larger effort to improve the current accreditation system or establish an alternative system of accreditation to allow new providers to access student financial aid based upon rigorous performance standards. These practices include investing in alternative credentials from new technology-based learning platforms where strong outcomes can be demonstrated.
- **Student Loan Reform:** The Budget proposes to set interest rates annually to more closely follow market rates for all new loans and would remain fixed over the life of the loan. While several Congressional Republicans also have called for a similar switch to a market-based formula, the House

Budget Resolution would allow interest rates on subsidized loans to double. The Senate plan would simply extend the current 3.4 percent rate. The Budget also includes more affordable repayment options that would cap loan payments at 10 percent of borrowers' discretionary income and allow debt forgiveness after 20 years of repayment.

- **Campus-based Aid Reform:** The Administration again proposes to create a new formula that shifts campus-based aid from colleges and universities with rising tuition to those institutions that offer relatively lower net tuition prices or restrain tuition growth, demonstrate a good value in education, and succeed in enrolling and graduating low-income students. Some of the increases described below would be used specifically to reward those institutions:
  - **Federal Work-Study:** The Budget seeks to double the number of participants in the Federal Work Study program over the next five years by increasing program support by $150 million to provide $1.3 billion for the program in FY 2014.
  - **Supplemental Educational Opportunity Grants (SEOG):** The 2014 Budget includes $735 million (essentially level funding from FY 2012 enacted levels) for SEOG, which would generate $982 million in aid to 1.6 million students. Institutions must give priority in awarding SEOG grants to Pell Grant recipients and other students with exceptional need.
  - **Federal Perkins Loans:** The proposal again seeks to modernize and expand the program so more colleges can participate and more students can access these loans, with the federal government originating and servicing the loans. The Budget would increase, beginning on July 1, 2014, the annual loan amounts available to students to $8.5 billion from the current $1 billion. Institutions would have some discretion about student eligibility, but Perkins Loan borrowers would be charged the same interest rate as Unsubsidized Stafford Loan borrowers. As noted above, the Budget seeks to change how interest rates are calculated and would tie the Perkins rates to the 10-year Treasury bill. While the rate would remain fixed for the life of the loan, interest would accrue while student are in school.
- **Pell Grants:** The Budget proposes $35.3 billion in funding for the Pell Grant program, which is nearly a $1.6 billion increase from FY 2013 CR levels. Of the requested funds, $22.8 billion is discretionary and $12.5 billion is mandatory. The total request would provide Pell Grant awards to 9.4 million students, with an increase in maximum Pell Grant award amounts from $5,645 to $5,785. The Senate Budget Resolution would maintain such scheduled increases in the Pell Grant, while the House plan proposes a 10-year freeze in addition to stricter eligibility rules.

Efficiencies and Consolidations

- **STEM Innovation:** The single largest consolidation proposed in the FY 2014 Budget is for STEM education programs, and the Administration proposes to consolidate and restructure the 90 current programs across 11 agencies in this area to improve their delivery, impact, and visibility. The proposal includes a plan to reorganize 12 existing programs within the National Science Foundation (NSF) (11) and NASA (1), while eliminating and redirecting funding from 78 programs in the following agencies:
  - Department of Agriculture - 6 Programs
  - Department of Commerce - 6 Programs

- Department of Defense - 6 Programs
- Department of Energy - 8 Programs
- Department of Health and Human Services - 10 Programs
- Department of Homeland Security - 1 Program
- Environmental Protection Agency - 2 Programs
- National Aeronautics and Space Administration - 38 Programs
- Nuclear Regulatory Commission - 1 Program

Nearly $180 million will be redirected from these programs toward the Department of Education, NSF, and the Smithsonian Institution to implement core initiatives in four priority areas: K-12 instruction; undergraduate education; graduate fellowships; and education activities outside the classroom. The Department of Education will be responsible for the development of the STEM Innovation Networks, while NSF will focus on improving STEM undergraduate education and reforming and realigning graduate fellowships, and the Smithsonian Institution will improve the reach and better align informal education activities to State standards.

- Other consolidations within the Department of Education also include **Impact Aid Payments for Federal Property** ($67 million decrease since FY 2012 enacted levels) and **Rehabilitation Act Programs** (zeroed out $36 million in FY 2012 funding).
- **Improved Data Collection:** The Budget includes funding to provide assistance for state and local leaders and the federal government to collect and use data to make smarter investments. Specifically, the Budget nearly doubles funding for Statewide Data Systems, providing $85 million to support early childhood data systems, and provides $17 million to upgrade the National Student Loan Data System and provide more frequent student surveys.

NATIONAL INSTITUTE OF STANDARDS AND TECHNOLOGY

The National Institute of Standards and Technology (NIST) plays an important role in the President's advanced manufacturing agenda, with funding increases matching Administration priority areas, including advanced manufacturing. NIST's FY 2014 Budget requests a total of $928.3 million, which includes funding for science and innovation research as well as manufacturing initiatives, as described below. The Budget again includes a mandatory funding request to provide a one-time investment of $1 billion to launch the National Network for Manufacturing Innovation (NNMI), with program coordination led by NIST's inter-agency Advanced Manufacturing National Program Office.

Major program highlights of the National Institute of Standards and Technology's FY 2014 Budget include:

- **National Network for Manufacturing Innovation (NNMI):** The Budget would support the creation of as many as 15 regional manufacturing innovation institutes across the country to assist in the development of cutting-edge manufacturing technologies and capabilities, in partnership with industry, institutions of higher education, and non-profit organizations.

- **Hollings Manufacturing Extension Partnership (MEP):** The FY 2014 Budget provides $153 million for MEP, a $25 million increase over previous levels – primarily to establish Manufacturing Technology Acceleration Centers to assist manufacturers in adopting new technologies and supply chain development.
- **Advanced Manufacturing Technology Consortia:** The Budget includes $21.4 million for the Advanced Manufacturing Technology Consortia (AMTech) program, a public-private partnership to support road maps and research to address common manufacturing challenges faced by American businesses. The program would be based on the Nanoelectronics Research Initiative model and allow for funding of facilities, equipment, and research at leading universities and government laboratories.
- **Construction of Research Facilities:** The Budget includes $60 million, an increase of $4 million (or 7.1 percent) over FY 2013 CR levels, for the construction of new facilities and the renovation and maintenance of NIST's current buildings.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The Budget provides $5.4 billion for the National Oceanic and Atmospheric Administration (NOAA), an increase of $185 million over the FY 2013 CR level.

Major program highlights of the NOAA FY 2014 Budget include:

- **Oceanic and Atmospheric Research (OAR):** The President's Budget requests $472.4 million for OAR, which is the primary research and development wing, focused on improvements to climate, weather, coastal and ocean services. The FY 2014 funding request represents a $82.4 million increase over FY 2013 funding levels.
- **Weather Forecasting:** The two major increases for weather forecasting are a $339 million increase for Geostationary Operational Environmental Satellite System - R Series (GOES-R), and a $17 million increase for the Jason-3 satellite, which are critical to NOAA's ability to provide accurate weather forecasts and severe weather warnings.

NATIONAL SCIENCE FOUNDATION

The Budget provides $7.6 billion for the National Science Foundation (NSF), an increase of $593 million above the FY 2012 enacted level.

Major program highlights of the NSF FY 2014 Budget include:

- **Catalyzing Advances in Undergraduate STEM Education (CAUSE):** As part of the comprehensive agency-wide STEM consolidation, the Budget provides $123 million for CAUSE, which would implement evidence-based instructional practices and support an expanded evidence base. CAUSE also includes research on how new technologies can facilitate adoption and use of new approaches to instruction.
- **Innovation Corps (I-Corps):** The Budget proposes $25 million for the NSF I-Corps program, an increase of 231 percent over FY 2012 enacted levels. Funding would aim to improve NSF-funded researchers' access to resources that can assist in bridging the gap between discoveries and

downstream technological applications and would continue investments and expansions related to Innovation Teams, I-Corps Nodes and I-Corps Sites.

- **Integrated NSF Support Promoting Interdisciplinary Research & Education (INSPIRE):** The Budget would nearly triple current INSPIRE funding to $63 million to continue support of interdisciplinary and transformative research.
- **Science, Engineering, and Education for Sustainability (SEES):** The FY 2014 Budget provides $223 million to help address challenges in environmental and energy research and education, with an increased focus on enhancing the Water Sustainability and Climate, Cyber-SEES, Hazards, and Sustainable Chemistry, Engineering and Materials (SusChEM) programs.

DEPARTMENT OF DEFENSE

- **Research and Development:** The Budget provides $67.5 billion for Department of Defense (DOD) research, development, test and evaluation activities, primarily to support efforts to evaluate new tactical vehicles; continue to develop the Air Force KC-46 aerial refueling tanker; continue to design the OHIO class ballistic missile submarine replacement; and advance other critical technologies in advanced manufacturing and hypersonics. Included in this request is $12 billion for early-stage science and technology (S&T) programs to support the warfighter and $2.9 billion for the Defense Advanced Research Projects Agency (DARPA) and its breakthrough research, an increase of 1.8 percent above the 2012 enacted level. Research activities within the Defense Health Program would be funded at $729 million.
- **Tuition Assistance:** The Budget requests $8.5 billion for military family assistance programs, including $1.3 billion for Morale, Welfare, and Recreation programs, which include tuition assistance, and $94 million for the Spouse Employment and Career Opportunities Program, which includes funding tuition assistance for eligible military spouses.

EMPLOYMENT & WORKFORCE DEVELOPMENT

NOTE: The President's Budget Proposal also includes additional workforce-related research and program opportunities in its requests for other federal agencies. These opportunities have been identified throughout the budget analysis, particularly in the Cybersecurity, Education, Science & Technology, and Health, Human & Social Services sections.

DEPARTMENT OF LABOR

The Department of Labor is provided with $12.1 billion in the President's FY 2014 Budget Proposal, up $20 million from FY 2012. Although the funding sees only a slight increase, programs are notably affected within the Department. First, the Budget proposes the creation of a new Community College to Career Fund in order to build upon the success of the Trade Adjustment Assistance (TAA) Community College and Career Training Grant Fund. The Department of Labor would partner with the Department of Education to administer this program, which would receive $8 billion total. Moreover, the Administration proposes to combine the Trade Adjustment Assistance for Workers and the Dislocated Worker state grant programs into one program entitled the Universal Displaced Worker program, which would receive $4 billion in funding.

Lastly, funding for the reintegration of ex-offenders sees a notable increase in the President's proposal, while the Job Corps sees cuts that will result in closing a small number of low-performing centers.

Although the Senate Budget provides no concrete funding numbers for job training programs, it extols the necessity of such programs and laments that the U.S. has fallen "far below" other countries in regards to these investments. The House argues that the "federal government's incompetence extends to job-training," deeming that existing programs are duplicative, inaccessible, uncoordinated, and unaccountable for their results.

Major program highlights of the Department of Labor's FY 2014 Budget include:

- **Training and Employment Services (including WIA):** The Budget requests $3.39 billion for programs authorized by the Workforce Investment Act of 1998 (WIA). This is a slight increase from the $3.1 billion enacted in FY 2012.
    - **Grants to States:** The Administration requests $2.68 billion in its proposal for grants to states. Of this, $792 million is allocated for adult employment and training activities, compared to $770 in FY 2013; $847 million is provided for youth activities, compared to $825.9 in FY 2012; and $1.04 billion for dislocated worker employment and training activities, compared to $1.2 billion in FY 2012.
    - **Federally Administered Programs:** The Budget proposes $582 million to fund federally administered programs. This includes $47.5 million for Native American programs; $84 million for migrant and seas farmworker programs; and $79 million for YouthBuild programs – all consistent with FY 2012 enacted levels. The Budget's request for dislocated workers assistance is $220 million, $4 million less than enacted in FY 2012.
    - **Workforce Innovation Fund:** The Budget requests $150 million to support grants for the Workforce Innovation Fund. Of this, $10 million is set aside for programs targeting youth, $20 million is set aside for performance-based awards or other agreements under the Pay for Success program, and $50 million is set aside for veterans, members of military families, and members of the National Guard and Reserves. This is a slight increase from the enacted FY 2012 level.
    - **National Activities:** $121.2 million is requested for additional national programs, including: $25 million for Pilots, Demonstrations, and Research; $90.2 million for ex-offender activities ($80.3 million in FY 2012), of which $20 million is available for competitive grants targeted toward young ex-offenders and school drop outs; and $6 million for the Workforce Data Quality Initiative ($6.4 million in FY 2012).
    - **Job Corps.** The Administration proposes to cut Job Corps funding from $1.71 billion to $1.69 billion. Of this, $1.6 billion will be allocated for Job Corps Operations – a slight increase from FY 2012. The funding for construction, rehabilitation, and acquisition will take the largest hit, decreasing by $52 million. The Administration proposes to close chronically low-performing centers, identify and replicate high-performing centers, and adopt cost-saving reforms.
- **Universal Displaced Workers program:** The Administration proposes legislation that would establish a new dislocated worker program beginning in 2014. The $4.05 billion program would consolidate the Trade Adjustment Assistance for Workers program and WIA's Dislocated worker State grants program.

- **TAA Community College and Career Training Grant Fund/Community College to Career Fund:** This program has been appropriated $500 million annually since 2011 for competitive grants to eligible institutions of higher education; 2014 is its last year of funding. To build upon the success of this program, the Administration has allocated $8 billion to the Department of Labor and the Department of Education to fund a new Community College to Career Fund. It is designed to strengthen partnerships between businesses and institutions of higher education and improve access to job training.
- **Federal Unemployment Benefits:** The Budget requests $656 million for federal unemployment benefits and allowances, constituting a decrease of more than $200 million from FY 2012 enacted funding levels. Of this funding, $322 million will be allocated for Trade Adjustment Assistance benefits ($239 million in FY 2012), and $235 million will be allocated for Trade Adjustment Assistance training ($575 million in FY 2012). Wage insurance payments are funded at $25 million, down from $41 million in FY 2012.
  - **Foreign Labor Certifications.** The Administration requests, as enacted in FY 2012, $65.6 million for the administration of Foreign Labor Certifications, of which $50.5 is available for administration and $15.1 million is available for grants to states.
  - **Workforce Information-Electronic Tools-System Building.** The Administration requests $90.5 million to provide workforce, information, national electronic tools, and a one-stop system building under the Wagner-Peyser Act.
- **American Jobs Act.** The Administration proposes initiatives to build upon the American Jobs Act and aggressively address long-term unemployment, including:
  - **Reemployment NOW.** $4 billion for Reemployment NOW Fund which gives greater flexibility to states to institute methods of connecting Emergency Unemployment Compensation (EUC) claimants with job opportunities such as Bridge to Work programs with on-the-job experience and wage insurance.
  - **Pathways Back to Work.** $12.5 billion is provided to support subsidized employment and work-based training programs targeting the long-term unemployed and low-income Americans.
- **Payments to Unemployment Trust Fund:** The Budget proposes a legislative proposal that includes:
  - **Suspending State Unemployment Insurance (UI) Interest.** The Administration proposes suspension on State UI borrowing in 2013 and 2014 along with a suspension of the FUTA (Federal Unemployment Tax) credit reduction. It also proposes to increase the FUTA taxable wage base to $15,000 in 2016 and index it to average wages thereafter.
- **Pension Benefit Guaranty Corporation (PBGC):** PBGC is a federal corporation that guarantees payment of basic pension benefits to workers and retirees in more than 26,000 private sector defined pension plans. The Budget requests $5.05 million in spending authority for the PBGC's administrative activities in 2014. The Budget also proposes to give the PBGC authority to make future premium rate adjustments that take into account risks that sponsors pose to their retirees and PBGC starting in 2015.

- **State Paid Leave Fund:** As in its FY 2013 Budget, the Administration requests $5 million to provide technical assistance and support to states considering adopting paid-leave programs to help workers who must take time off, including start up, research, and development costs.
- **Veterans Employment and Training:** In total, the Administration requests $262 million ($2 million less than in FY 2012) to provide resources and services to veterans in helping them succeed in the civilian workforce.
    - **Jobs for Veterans State Grants:** The Budget requests $203 million ($160 in FY 2012) for Grants to State Workforce Agencies supporting veterans; this also includes funds for state implementation of the VOW to Hire Heroes Act.
    - **Transition Assistance Program.** The Administration requests $14 million, $1 million more than enacted in FY 2012. The program provides employment workshops for departing service members in the domestic as well as international installations.
    - **Veterans' Workforce Investment Program:** The Administration proposes to end funding for this program and instead support its goals through the Workforce Innovation Fund. In FY 2012, $14.5 million was enacted for this program.

ENERGY, ENVIRONMENT & WATER RESOURCES

DEPARTMENT OF ENERGY

The President requested $28.4 billion for the Department of Energy (DOE), a modest increase over prior years. The Budget again prioritizes increased funding for basic research and development (R&D) investments in clean energy and alternative fuel programs to reduce dependence on foreign oil. Compared to FY 2012 enacted levels, the Administration has requested a 40 percent increase for DOE's clean energy technology activities and a 30 percent overall increase in funding for these programs across all federal agencies (totaling $7.9 billion).

The Budget proposes a new program with one-time funding of $200 million for Race to the Top for Energy Efficiency and Grid Modernization awards to promote policies at the state, local levels or by electric cooperatives to implement effective policies to increase energy productivity and modernize the grid.

The House Budget prioritizes funding for energy security and basic R&D, and would roll back spending on renewable projects. It recommends rescinding unobligated balances in the Department of Energy's loan portfolio. The Senate FY 2014 Budget, passed earlier this year, hews closer to the Administration's proposal with emphasis on smart grid technologies, renewable energy and increased investment in ARPA-E.

Major program highlights of DOE's FY 2014 Budget include:

- **Clean Energy:** The President has proposed a 40 percent increase for clean energy technology investments. The Office of Energy Efficiency and Renewable Energy budget grows to $2.8 billion, a nearly 62 percent increase over the current, sequester-adjusted level of about $1.7 billion and includes: $575 million for advanced vehicle technologies; $282 million for next-generation biofuels; $365 million for innovative manufacturing R&D; $357 million for solar; and $300 million for building technologies. The Budget includes $379 million for the Advanced Research Projects Agency–Energy (ARPA-E), which is approximately a 35 percent increase over current levels under sequestration, and $153 million for "smart grid" R&D.

- **Energy Security Trust Fund:** Establishes a $2 billion, 10-year long research fund to help shift vehicles off oil, funded by oil and gas development revenues in Federal waters.
- **Energy Efficiency:** A new $200 million "Race to the Top for Energy Efficiency and Grid Modernization" – modeled after a similar reform program within the Department of Education – would reward states for helping reduce residential and commercial building energy consumption by half over the next two decades and modernizing utility regulations. The President has also proposed $184 million for the Weatherization Assistance Program.
- **Fossil Fuels:** The Budget again proposes eliminating billions of dollars in what the Administration characterizes as "unnecessary" oil and gas tax preferences. Over the next decade, the Administration estimates doing so would save $41 billion–including repealing the domestic manufacturing tax deduction ($17.4 billion), intangible drilling costs ($11 billion), and percentage depletion allowance ($10.7 billion). The Budget proposes eliminating $3.2 billion in coal tax preferences over the next decade, reducing the Fossil Energy Research and Development program's budget by 21 percent, and proposing management reforms to save $2.5 billion.
- **Advanced Manufacturing:** The President requests $2.9 billion across federal agencies for advanced manufacturing R&D, an 87 percent increase over 2012. Funding would support innovative manufacturing processes that reduce energy use and bolster cutting-edge technology investments. Funding for DOE's Advanced Manufacturing Office would triple to $365 million and would support the establishment of Manufacturing Innovation Institute(s). To encourage investment in clean energy manufacturing equipment and facilities, the Budget proposes $4.8 billion in tax credits for advanced energy manufacturing projects.

DEPARTMENT OF THE INTERIOR

The President requests $11.7 billion for the Interior Department, a nominal increase over prior years, and proposes new policies and investments to cut foreign oil imports in half by the end of the decade (compared with 2008 levels).

Major program highlights of the Department of Interior's FY 2014 Budget include:

- **Clean Energy:** The President has proposed $100 million to review and permit new renewable energy projects on federal lands and waters – including for transmission infrastructure. The Budget proposes making the renewable production tax credit permanent and refundable, making the deduction for energy efficient commercial property permanent, and adding $2.5 billion in credits, for investments in advanced energy manufacturing projects.
- **Oil and Gas:** The Budget requests a 20 percent increase for the Bureau of Land Management's oil and gas onshore permitting and regulatory program, including a $50 million increase in fees to support additional management reforms (e.g., new onshore permit application fees). Monies would be invested in research programs to "ensure safe and responsible natural gas production and promote the development of the first, natural gas combined cycle power plant to integrate carbon capture and storage."

- **Conservation Funding:** The President has proposed mandatory funding for the Land and Water Conservation Fund, beginning with $600 million in FY 2014 and increasing to $900 million by FY 2015. A small portion ($15 million) would revive the Urban Parks Recreation and Recovery Program. The Budget proposes a nearly 50 percent reduction for National Heritage Areas, to $9 billion in FY 2014 (from $17 billion in FY 2012).
- **WaterSMART:** The Bureau of Reclamation would receive a total of $35.4 million, including $12 million for grants, $4.7 million for basin studies, $14 million for Title XVI water reclamation and reuse projects, and $1 million for a new external water resources grant program to be called the "Shared Investment Water Innovation Program."

ARMY CORPS OF ENGINEERS

The President's request for Fiscal Year 2014 for the U.S. Army Corps of Engineers Civil Works program proposes $4.826 billion in discretionary funding to cover the Corps' commercial navigation, flood control, environmental restoration and related water resources activities, through Corps initiated studies, construction, and operation and maintenance activities.

The Budget request includes four construction new starts, ten new studies, and would fund the completion of 21 ongoing studies or project designs, and the completion of five construction projects.

By program area, the Budget request includes:

- $1.35 billion for the Construction account
- $2.588 billion for the Operation and Maintenance account.
- $90 million for the Investigations account, which funds studies and preconstruction engineering and design. The Budget includes funding in the Investigation account for proposals to deepen eight commercial deep-draft ports.

The overall recommended funding level of $4.826 billion is $100 million greater than the President's request last year, but approximately $174 million below the enacted FY 2012 appropriation of $5 billion. With respect to FY13, the current FY 2013 year-long Continuing Resolution equates to approximately $4.75 billion for the Corps' budget, based on the $5 billion FY 2012 appropriation (pursuant to the Continuing Resolution), minus the five percent sequestration reduction. Thus the President's FY14 request is approximately $76 million higher than the current FY13 level of funding.

As with prior budget requests, the FY14 request focuses on projects with high benefit/cost ratios, studies and projects nearing completion, and projects that address public safety risks, such as dam repairs, as well as the operation and maintenance of critical navigational channels that serve the largest ports and facilitate the most commercial activity.

The Budget request increases the total amount to be spent from the Harbor Maintenance Trust Fund to $890 million to cover Operation and Maintenance expenses to maintain commercial deep draft harbors, a level that is higher than in previous budget requests, but still significantly below the approximately $1.6 billion collected annually via the Harbor Maintenance Tax. The President's request all calls for legislation to increase spending on the Inland Waterways Trust Fund, to include a new annual per-vessel fee, in addition to the current diesel tax imposed on commercial users of the inland waterway system. The President's request also would establish an Infrastructure Bank to finance port deepening, levees, and other major development projects.

FINANCIAL SERVICES

The Administration's Budget Proposal highlights the Administration's commitment to the implementation of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act). At the outset, the Administration notes that financial regulators have made significant progress in implementing reforms such as higher capital requirements for the largest firms, a new orderly liquidation framework, rules in the over-the-counter derivatives market, and business conduct and recordkeeping requirements for swap dealers. The Administration also underscores the importance of newly created agencies – the Financial Stability Oversight Council (FSOC), the Federal Insurance Office, and the Consumer Financial Protection Bureau (CFPB) – in increasing market oversight and protecting consumers. The Administration states that these agencies have enabled regulators to supervise industries such as payday lenders, credit reporting agencies, and financial market utilities, and have assisted regulators in coordinating responses to events such as the failure of MF Global and Hurricane Sandy.

DEPARTMENT OF TREASURY

The Administration's Budget request of $14.2 billion in discretionary funding for the Department of Treasury represents an increase of 7.7 percent above the FY 2012 enacted level. Of note, the Administration's overall funding for the Department of Treasury's operating offices – excluding the Internal Revenue Service (IRS) and the Treasury Forfeiture Fund (TEOAF) – has been reduced by 2.3 percent, or $31 million, from the FY 2012 enacted level.

The Budget lists several strategic goals for the Department of Treasury, including: (1) supporting the recovery of the housing market, (2) implementing financial reform, (3) winding down the Troubled Asset Relief Program (TARP), (4) promoting small business lending, and (5) supporting low-income community development through capital and credit availability, and financial management innovations.

Major highlights of the Department of Treasury's FY 2014 Budget include:

- **FSOC:** The objectives outlined in the Budget for FSOC include promoting market discipline, and identifying and responding to risks posed to the U.S. financial stability by certain bank and non-bank financial institutions. For FSOC's operations for FY 2014, the Administration requests approximately $19.5 million. Similarly, the Budget requests approximately $88 million in funds for the Office of Financial Research (OFR), which supports the FSOC by providing it the financial data and analysis needed to monitor threats to U.S. financial stability.
- **TARP:** The Budget calls for the continued winding down of TARP. While the full estimated cost of TARP to taxpayers was anticipated at $341 billion, the Budget has significantly lowered the estimated cost to $47.5 billion. With regard to housing programs, the Department of Treasury informs that the Making Home Affordable Program and the Hardest Hit Fund have disbursed $5.5 billion from inception through the end of FY 2012. Further, for FY 2014, the Department of Treasury has reduced the obligation to the Federal Housing Administration's (FHA) Short Refinance Program by $7 billion, which reduces the overall commitment to housing programs under TARP to $38.6 billion.

- **Community Development Financial Institutions (CDFI) Fund:** The Budget includes $225 million for the CDFI Fund, in order to support low-income community development. Of the total request, $35 million will support the Healthy Food Financing Initiative, and $10 million will ensure proper oversight and administration of the Gulf Coast Restoration Trust Fund and related RESTORE Act responsibilities.
- **International Programs:** The Administration requests $2.9 billion for international programs. Such programs are aimed at strengthening U.S. national security, advancing export markets, and promoting public-private partnerships to confront global challenges such as environmental degradation and food insecurity. Of the total, $2.1 billion is requested for General Capital Increases (GCIs) and replenishments at the Multilateral Development Banks (MDB); $135 million is requested for the Global Agriculture and Food Security Program (GAFSP); $30 million is requested for the International Fund for Agricultural Development (IFAD); $427.5 million is requested for Environmental Trust Funds administered by the World Bank; and $23.5 million is requested for the Office of Technical Assistance (OTA).

SECURITIES AND EXCHANGE COMMISSION

The Administration's Budget allocates $1.67 billion in offsetting fee collections to finance the Securities and Exchange Commission (SEC) in 2014. The Budget emphasizes that, because the SEC's budget is offset by fees, the agency's funding level has no impact on the Federal deficit. The allocation for FY 2014 represents an increase of 27 percent above the 2012 enacted level.

The Budget notes that, in order to continue implementation of the Dodd-Frank Act, the SEC will generally enhance staffing levels, particularly emphasizing the need to hire staff with industry expertise for areas that are new additions to the SEC's regulatory portfolio under the Dodd-Frank Act. Of note, the Budget estimates the need for 4,834 full-time employees in FY 2014, an increase of over 1,000 employees from current employment levels.

Major highlights of the SEC's FY 2014 Budget include:

- **Division of Enforcement:** As outlined in the Budget, the SEC's Division of Enforcement will use its allocated $494 million to enhance its core investigative, litigation, and analytical functions to address "increasingly complex financial products and transactions." The SEC will also invest resources in developing capabilities related to whistleblower actions.
- **Division of Trading and Markets:** The Budget proposes allocating $98 million to the SEC's Division of Trading and Markets, recognizing the SEC's increased responsibilities as a result of the Jump-start Our Business Startups Act (JOBS Act). Additionally, it notes that the Division will enhance its oversight of market structure and operations, analysis of real-time market data, and economic analysis of self-regulatory organizations (SRO) rules to determine potential burdens on competition of the proposed rule changes.
- **Other Divisions:** The Budget requests $347 million for the SEC's Office of Compliance Inspections and Examinations, which plans to increase the number of examiners to focus on investment advisers and investment companies. The Division of Corporate Finance will receive $164 million to continue its efforts to enhance disclosure reviews of large or financially significant companies. The Division

of Investment Management, with $63 million, plans to focus on exchange-traded funds and money market funds, and conduct financial analyses and data "to support its investor protection mandate."

COMMODITY FUTURES TRADING COMMISSION

The Administration's Budget allocates $315 million to the Commodity Futures Trading Commission (CFTC) for FY 2014, representing an increase of nearly $10 million over the Proposed Budget for FY 2013. The Budget requests $100 million above the FY 2012 enacted level. The Budget estimates the need for 1,015 full-time employees, an increase of 328 employees from current levels.

The FY 2014 Budget, similar the Administration's Budget for FY 2013, calls for the CFTC to receive funding through Congressionally-authorized user fees paid by the Commission's regulated entities. Funding through the assessment of user fees would bring the CFTC's practices into line with nearly all other Federal financial regulators. Commissioner Bart Chilton stated that he is "concerned that without such user fees, [the CFTC] won't have the resources — the people, power, or the tech tools — needed to take on the oversight and enforcement duties we've been asked to undertake by Congress and the President." The matter of CFTC user fees is likely to be debated during the Commission's Congressional reauthorization process later this year.

Major highlights of the CFTC's FY 2014 Budget include:

- **Information Technology:** The Budget proposes $73 million in funding for information technology in FY 2014, stating that the CFTC must be well-positioned to build up its operational capabilities to monitor changes in the market; continue to operate effective surveillance programs; integrate swap data repository and derivative clearing organization data; integrate tools of self-regulatory organizations; and increase the speed at which data can be processed. The Administration notes that 16 percent of the Commission's budget must be allocated to supporting the Commission's information technology infrastructure.
- **Surveillance and Examinations:** The Budget instructs that 34 percent of the CFTC's resources for FY 2014 be allocated to surveillance, including data acquisition and analytics, and examinations of systemically important derivatives clearing organizations and other significant registered entities.
- **Regulatory Compliance and Enforcement:** The Budget requires that 22 percent of the CFTC's resources be allocated to registering new entities and new rule activities, making mandatory clearing determinations, ensuring compliance with and providing economic analyses and legal guidance on the new regulatory framework, and working with international regulators toward global regulatory harmonization. The Budget also requires that 18 percent of the CFTC's resources be allocated to enforcement activities.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

The Board of Governors of the Federal Reserve System's (Federal Reserve) transactions are not included in the Budget because of its unique status in the conduct of monetary policy. However, the Budget includes an overview of the Federal Reserve's obligations and program financing. For FY 2013, the Federal Reserve's program activities are estimated at $587 million, as compared to $452 million in FY 2012 (the estimation for FY 2012 was $522 million).

- **Consumer Financial Protection Bureau (CFPB):** The Federal Reserve is primarily responsible for funding the CFPB's operations through transfers. In 2013, such transfers are capped at $597.6 million. For 2014, the transfer cap has been raised to approximately $608.4 million, as adjusted by an annual inflation indicator. The CFPB is also authorized to request up to $200 million in discretionary appropriations from 2010 to 2014, if the amount transferred by the Federal Reserve is not sufficient.

FEDERAL HOUSING ADMINISTRATION AND GOVERNMENT-SPONSORED ENTERPRISES

The Administration indicates that the housing market is "showing signs of healing and growth." However, the Budget Proposal notes that reserves at the Federal Housing Administration (FHA) "will be insufficient for the cost of the 2013 credit subsidy re-estimate," and requests a $943 million infusion from taxpayers. This request has been criticized by the GOP and is contrary to the House-passed FY 2014 Budget Resolution, which expresses opposition to using taxpayer funds to help FHA meet its requirement to hold enough reserves to cover expected losses.

Similarly, the House-passed FY 2014 Budget would call for a winding down of the Government-Sponsored Enterprises (GSEs), Fannie Mae and Freddie Mac. Although the GSEs are federally- chartered private companies that are not included in the President's Budget, the Budget does provide an overview of the status of the GSEs. By way of background, since 2008, the GSEs required ongoing assistance from the Department of Treasury as mandated by the Housing and Economic Recovery Act (HERA). HERA strengthened housing GSE regulation by creating the Federal Housing Finance Agency (FHFA), an independent, non-appropriated funded agency, and provided temporary authority for the Department of Treasury to purchase obligations of the GSEs.

- **GSEs:** Fannie Mae and Freddie Mac engage primarily in guaranteeing residential mortgage-backed securities and investing in portfolios of residential mortgages. Since they were placed into federal conservatorship, the Treasury Department entered into a Senior Preferred Stock Purchase Agreement (PSPA) with Fannie Mae and Freddie Mac to maintain positive equity. As of December 31, 2012, Fannie Mae had received $116.1 billion under the PSPA and made $31.4 billion in dividend payments to Treasury. Separately, as of December 31, 2012, Freddie Mac had received $71.3 billion under the PSPA and made $23.8 billion in dividend payments to Treasury. The FY 2014 Budget estimates additional net dividend receipts of $183 billion from January 1, 2013, through FY 2023. The cumulative budgetary PSPA impact from the first PSPA purchase through FY 2023 is estimated to be savings of $51 billion.

For additional information on other general housing programs under the Department of Housing and Urban Development, see Housing *section.*

HEALTH, HUMAN & SOCIAL SERVICES

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The President proposes increasing discretionary funding for the Department of Health and Human Services (HHS) by $3.9 billion above the enacted FY 2012 funding level. The President includes $401 billion in health savings that was included in his December Deficit Reduction proposal. The Administration's Budget includes funding to support implementation of the Affordable Care Act (ACA), including the Health Insurance Marketplaces and the Medicaid expansion, and to ensure oversight of consumer protections in the health insurance market. The President also proposes to expand the small business tax health insurance tax credit.

By comparison, House Budget Committee Chairman Paul Ryan's (R-WI) FY 2014 Budget Resolution, "The Path to Prosperity: A Responsible, Balanced Budget," would reform the Medicare program in several ways. For individuals born in 1959 or later, beginning in 2024, Medicare would offer a choice of private plans as well as the current fee-for-service option on a Medicare exchange. Medicare would provide premium assistance to help offset the cost of the plan's premium. Chairman Ryan's Budget also repeals the ACA, including the Independent Payment Advisory Board (IPAB), the optional Medicaid expansion, and the subsidies for the health insurance exchanges. The Budget Proposal supports reforms to medical liability. The Proposal advances means-testing for Medicare Parts B and D premiums for high-income seniors, an idea that the President included in his FY 2013 Budget Proposal. Chairman Ryan's Budget proposes to make Medicaid a block-granted program and provide states with flexibility, currently only available through waivers, to reform their Medicaid programs.

The House Budget would also increase funding for fraud, waste, and abuse efforts that would generate billions in savings to the Medicare, Medicaid, Supplemental Security Income (SSI), and Disability Insurance programs. The Budget requires authorizing committees to annually provide recommendations to reduce spending for programs found to be duplicative, wasteful, outmoded or expensive in relation to the return on investment.

The Senate Budget Resolution notes the importance of the ACA in terms of health care savings. The Budget includes $275 billion in savings achieved by further realigning incentives throughout the system, cutting waste and fraud, and seeking greater engagement across the health care system. The Senate Budget seeks to encourage delivery system reforms that improve quality and lower costs. The Senate Budget Proposal calls for aggressive expansion of models that achieve these goals. The Budget cites models such as bundled payments and pay-for-performance programs, including hospital readmissions and value-based purchasing. The Senate Budget would enact a permanent fix to the Medicare sustainable growth rate (SGR) formula. The Senate Budget would also replace the Medicare sequestration cuts with more targeted cuts, which were not identified in the Budget Resolution.

HEALTH REFORM IMPLEMENTATION

Major program highlights of the Department of Health and Human Services' (HHS) FY 2014 Budget to implement the Affordable Care Act (ACA) include:

- **Independent Payment Advisory Board (IPAB)**: The President proposes to strengthen the IPAB to reduce long-term drivers of Medicare cost growth by lowering the target rate from the gross domestic product (GDP) per capita growth rate plus one percent to plus 0.5 percent (savings $4.1 billion).
- **Center for Medicare and Medicaid Innovation (CCIIO)**: The ACA provides $10 billion in mandatory funding for CCIIO in each fiscal year from 2011 through 2019.
- **Health Insurance Marketplaces**: The President's Budget Proposal includes funding to implement the Health Insurance Marketplaces, also known as exchanges. The President requests $803.5 million for the Centers for Medicare & Medicaid Services (CMS) to support operation of the Marketplaces. The Budget Proposal also includes $837 million for beneficiary education and outreach activities, as well as $18.4 million for insurance oversight to ensure compliance with the Medical Loss Ratio and Rate Review premium requirements.
- **Medicaid Expansion**: The Administration requests $24 million for administrative activities related to implementing new Medicaid responsibilities under the ACA.
- **State Innovation Waivers**: The President's Budget Proposal would accelerate the date from 2017 to 2014 that states can submit waiver requests to be exempt from some of the ACA's requirements and develop innovative strategies to ensure access to high-quality, affordable health insurance for at least as many residents who would have coverage without a waiver. The Proposal does not have a budgetary impact.
- **Health Centers**: The President's Budget provides $3.8 billion in funding for the health centers program, including $2.2 billion in mandatory funding to health centers through the Affordable Care Act Community Health Center Fund. The funding will be used to establish 40 new health center cites that will provide preventive health services to approximately 1.5 million additional patients. The Health Center Program will support more than 1,200 grantees in FY 2014 serving approximately 23 million patients.
- **Expand and Simplify the Small Business Health Insurance Tax Credit**: President Obama proposes to expand and simplify the tax credit to small businesses for non-elective contributions to employee health insurance. The law provides that beginning in tax year 2014, the credit is only available for health insurance purchased through a Health Insurance Marketplace and available only for two additional, consecutive years. The ACA provides the credit to employers with no more than 25 full-time employees and whose employees have annual full-time wages that average no more than $50,000. The law begins phases out the credit for employers with 10 employees as well as for average annual wages of $25,000. The President's Budget proposes to provide the credit to small businesses with up to 50 employees and begin the phase-out at 20 employees and revises the formula to provide a more gradual phase-out of the credit based on number of employees and average annual wage effective after December 31, 2013.
- **Patient-Centered Health Research**: The President's Budget includes $100 million for patient-centered health research (also known as comparative effectiveness research).

- **Funding for Quality Measurement**: The Budget Proposal includes $100 million in funding over ten years for a consensus-based entity focused on performance measurement through 2017. Funding for quality measures is important as CMS continues to implement value-based purchasing and other performance-based payment models.
- **Consumer Operated and Oriented Plan (CO-OP) Program**: The program establishes non-profit health insurance issuers to provide health insurance plans in the individual and small group markets. The President's Budget includes $253 million in funding for oversight and assistance to existing loan entities.

FOOD AND DRUG ADMINISTRATION

The FY 2014 Budget includes $4.7 billion for the Food and Drug Administration (FDA), an increase of $470 million over FY 2013 funding levels. The FDA budget includes investments in the following areas: (1) the continuation of the FDA Food Safety Modernization Act (FSMA); (2) advance medical countermeasures; (3) continuing activities to decrease tobacco use; (4) improving the safety of medical products and food that are imported from China; and (5) continue efforts set forth in the Administration's Big Data Initiative. The agency says industry user fees of $252.4 million would fund 94 percent of the proposed budget increase to support the *Food Safety Modernization Act* and strengthen the FDA's ability to oversee imported food.

- **Food Safety:** The FY 2014 Budget includes a total program level of $1.5 billion (including $1.2 million in budget authority), or an increase of $296 million increase from FY 2012, to assist with the implementation of the FSMA. The Budget also proposes to generate $225 million in funds through a food importer fee and a food facility and inspection fee. In addition, the Budget proposes a $5 million food contact notification user fee that FDA will use to support food safety programs.
- **Safety of Medical Products:** The FY 2014 Budget includes $24 million for the FDA Medical Countermeasure Initiative, which is $4 million above FY 2012 funding levels.
- **Advancing Medical Countermeasures:** The FY 2014 Budget includes $24 million for the FDA Medical Countermeasure Initiative, which is $4 million above FY 2012 funding levels.
- **Reducing Tobacco Use:** The FY 2014 Budget includes $534 million in user fees for the FDA to continue implementation of the Family Smoking Prevention and Tobacco Control Act, which was enacted in 2009. FDA will have three main goals: (1) reducing the initiation of tobacco product use; (2) decreasing the harms of tobacco products; and (3) encouraging tobacco use to cease. In FY 2014, FDA also will engage in the following activities: (1) supporting the Tobacco Retail Inspection program, which increases the efficiency of inspections; (2) expanding its advertising and labeling enforcement activities; and (3) investing in the educational activities for businesses that manufacturer or sell tobacco products, as well as for the public.
- **User Fees:** The FY 2014 Budget proposes six new user fees across FDA, including the food facility registration and inspection fee, food import fee, food contact notification fee, cosmetics fee, medical products registration fee, and international courier user fee. The Budget also increases existing fees. In addition, the Budget assumes that the animal drug and animal generic drug user fees, which expire in October 2013, will be reauthorized.

HEALTH RESOURCES AND SERVICES ADMINISTRATION

The President's Budget Proposal increases funding for the Health Resources and Services Administration (HRSA) by $841 million over its FY 2012 level to $9 billion.

Major program highlights of HRSA's FY 2014 Budget include:

- **Health Centers and HIV/AIDS Programs:** The Health Center Program would receive the largest increase of $1 billion in funding, mandated under the ACA. The Ryan White HIV program would also benefit under the increased budget, receiving a proposed $20 million increase to support community-based providers and access to medications. The President's Budget also proposes increasing funding for home visiting programs aimed at improving maternal and child health by $50 million, for family planning services by $34 million, and for organ donation activities by $2 million. Further, nursing workforce development would be funded at $251 million in FY 2014, an increase of $18 million over FY 2013 levels and $20 million over 2012 levels. This figure includes $84 million in funding in FY 2014 for Advanced Education Nursing, an increase of $20 million over FY 2013 levels.
- **Rural Health:** The President's Budget Proposal also cuts some program budgets. A proposed $15 million cut to Rural Hospital Flexibility Grants would eliminate new grants for the small hospital improvement fund and funding for the Rural and Community Access to Emergency Devices program would be eliminated. The Budget would also eliminate funds for two ACA programs, Family to Family Health Information Centers and School Based Health Centers.
- **Health Workforce Program Funding:** Health workforce programs administered by HRSA would suffer a net loss of $202 million under the Proposed Budget. Though the Budget for some programs, including the National Health Service Corps and the Primary Care Training and Enhancement and Nursing Workforce Development programs would see budget increases, funds would be eliminated for Area Health Education Centers and the Health Careers Opportunity Program and decreased by $15 million for Training for Diversity and by $177 million for Children's Hospital Graduate Medical Education (GME) Payments.

CENTERS FOR DISEASE CONTROL AND PREVENTION

The FY 2014 Budget for the Centers for Disease Control and Prevention (CDC) and the Agency for Toxic Substances and Disease Registry (ATSDR) is $11.3 billion. This includes $755 million of the $1 billion that is available from the Prevention and Public Health Fund. The Budget includes increased funding to various programs, including healthcare associated infections, injury prevention and control, and food safety, among others. Furthermore, the Budget includes targeted reductions to other activities, including preparedness and response, chronic disease prevention programs, and certain immunization activities. At the same time, certain targeted reductions reflect the increased availability of preventive services resulting from the implementation of the ACA during 2014.

Major program highlights of the Centers for Disease Control & Prevention's FY 2014 Budget include:

- **Chronic Disease Prevention and Health Promotion:** The Budget includes $1.0 billion for Chronic Disease Prevention and Health Promotion, which reflects an increase in $231 million in funding since FY 2013 (and a $175 decrease in funding since FY 2012). $416 million is funded through the Prevention and Public Health Fund. In FY 2014, CDC will permit states to reallocate up to 5 percent of grant funding from each disease program so that this funding is more targeted to address the needs in each state. The Budget also includes $212 million to increase support for evidence-based programs designed to prevent and/or reduce tobacco use. This represents a $14 million increase over FY 2012 funding levels. Moreover, the implementation of the ACA will serve populations formerly served by CDC grant programs in FY 2014; therefore, the Budget proposes to reduce the CDC's spending for select direct healthcare programs.

- **Preventive Health and Health Service Block Grants:** The FY 2014 Budget eliminates Preventive Health and Health Service Block Grants because some of these activities can be more effectively implemented through targeted programs within CDC.
- **Emergency Preparedness:** The FY 2014 Budget provides $1.3 billion for biodefense and emergency preparedness activities in CDC. This represents a $26 million decrease in funding from FY 2013 levels. CDC programs that will face reduced funding include Public Health and Preparedness grants, CDC Preparedness and Response Capability, and the Strategic National Stockpile.

NATIONAL INSTITUTES OF HEALTH

The FY 2014 Budget request for the National Institutes of Health (NIH) is $31.3 billion, which represents an increase in $274 million over the FY 2013 funding level. This reflects that the Administration is placing high priority on investing in innovative biomedical and behavioral research. In FY 2014, approximately 83 percent of the funding to NIH will be used to support community efforts, including the work of universities, medical schools, hospitals and other research programs. The remaining funds will be used to support in-house programs and agency leadership.

Major program highlights of the National Institutes of Health's FY 2014 Budget include:

- **The BRAIN Initiative:** In FY 2014, NIH intends to spend approximately $40 million on research collaborations with academic institutions, as well as with the private sector and other government agencies, on the new Brain Research through Application of Innovative Neurotechnologies (BRAIN) Initiative. This initiative strives to answer questions about the links between brains and behavior and the activities of brain cells, and ultimately aims help identify better treatment options for conditions such as Alzheimer's Disease. The FY 2014 Budget emphasizes the Administration's commitment to increase the funding of Alzheimer's research multiple times.
- **STEM Education:** The FY 2014 Budget proposes a significant reorganization of government-wide science, technology, engineering, and mathematics (STEM) education programs in order to improve STEM outcomes and increase the number of educators and graduates in these areas. Reorganization efforts, which are led by the Department of Education and the National Science Foundation, include creating core initiatives centered on improving K-12 instruction and reforming undergraduate education.

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SUBSTANCE ABUSE AND MENTAL HEALTH SERVICES ADMINISTRATION

The FY 2014 Budget requests $3.6 billion for the Substance Abuse and Mental Health Services Administration (SAMHSA), which is an increase of $4 million above FY 2012. The Budget includes new efforts to increase access to mental health services to protect children and communities. Consistent with the President's charge after the tragedy at Sandy Hook elementary School, SAMHSA has committed to ensuring mental health care is accessible to all Americans in need of assistance. SAMHSA will deploy mental health and substance abuse prevention and treatment investments more strategically by: (1) targeting resources to evidence-based prevention and treatment interventions; (2) improving providers' capacity to bill insurance to increase access; and (3) issuing additional guidance to states to ensure that existing programs support, but do not supplant, insurance coverage.

The Budget includes funding to maintain states' capacity to provide behavioral health services and to expand state and tribal substance abuse prevention and mental health promotion activities. The Budget reduces funding for tested competitive grant activities that will be brought to scale through the block grants or state-level funding streams.

Major program highlights of SAMHSA's FY 2014 Budget include:

- **Project Advancing Wellness and Resilience in Education (AWARE).** As part of the Now is the Time Presidential Initiatives, the Budget proposes $40 million for state grants to help states and communities keep schools safe and get students with behavioral health issues referred to the services they need. The Budget also proposes $15 million for Mental Health First Aid training for teachers and other adults who work with youth to detect and respond to mental illness, including how to encourage adolescents and families to seek treatment.
- **Workforce.** The Budget requests $50 million to train 5,000 new social workers, counselors, psychologists, peer professionals and other mental health professionals to serve students and young adults.
- **Healthy Transitions.** The Budget requests $25 million for innovative state-based strategies supporting young people ages 16 to 25 and their families to access and navigate the behavioral health treatment systems.
- **Children's Mental Health Services.** The Budget includes $117 million, the same level as FY 2012, for Children's Mental Health Services for the development of comprehensive community-based systems of care for children and adolescents with serious emotional disorders and their families.
- **Preventing Suicide.** The Budget proposes first-time funding of $50 million to prevent suicide. The funding will implement the National Strategy for Suicide Prevention.
- **Protection and Advocacy for Individuals with Mental Illness**. The Budget provides $36 million, same level as 2012, to support state protection and advocacy systems to monitor residential treatment facilities.
- **Projects for Assistance in Transition from Homelessness.** The Budget dedicates $139 million, same level as FY 2012, for services to support individuals facing homelessness and suffering from substance abuse or mental illness.
- **Community Mental Health Services Block Grant.** The Budget proposes $460 million, same level

as FY 2012, to implement evidence-based treatment and prevention strategies nationwide and maintain the nation's public behavioral health infrastructure.

AGENCY FOR HEALTHCARE RESEARCH AND QUALITY

The Budget requests $434 million for the Agency for Healthcare Research and Quality (AHRQ), which is $29 million above the FY 2012 level and $27 million over the FY 2013 level, for research relating to cost, quality, and effectiveness of health care. It includes $100 million for Patient-Centered Outcomes Research, or Comparative Effectiveness Research, a fourfold increase since FY 2012. It requests a $5 million increase, to $64 million, to expand the Medical Expenditure Panel Survey (MEPS). The Budget requests $92 million, a decrease of $20 million, for value and research innovations, including MONAHRQ, a software tool for communities to build public reporting websites. It also proposes decreases to its patient safety research and prevention research portfolios, which includes the Preventive Services Task Force, by $3 million and $7 million, respectively.

- **Health IT Research**: The Budget requests $26 million to be allocated to AHRQ for health IT research, which is the same level as FY 2012 and 2013. This includes $20 million to support approximately 44 research grants and $6 million to support contract activities related to disseminating evidence on meaningful use. The Budget proposes to increase support for research grants, while decreasing support for developing implementation tools, which are increasingly funded by the Office of the National Coordinator for Health Information Technology (ONC).

OFFICE OF THE NATIONAL COORDINATOR FOR HEALTH INFORMATION TECHNOLOGY

The Budget requests $78 million for the Office of the National Coordinator for Health Information Technology (ONC), an increase of $17 million from FY 2012 and 2013, to continue to develop and coordinate health IT policy. The Budget does not include line items, but will support the adoption of health information exchange (HIE), address implementation barriers through the National Learning Consortium (NLC), and promote the "Blue Button" program to allow consumers to securely download their health information. ONC will work with other agency partners to create the foundation for the Patient Safety Plan to be launched in 2014, which seeks to ensure that health IT is safely designed and implemented.

CENTERS FOR MEDICARE & MEDICAID SERVICES

Medicare

The President's FY 2014 Budget would decrease Medicare spending by $371 billion over the next ten years, saving more than the $265 billion offered by the Senate's Budget Resolution, but substantially less than the $716 billion promised by the House plan to convert Medicare to a defined-contribution system. Like the Senate plan, the President's Proposal maintains the current defined-benefit structure of the Medicare program. While the Senate's plan centers on delivery system reforms, the President's Proposal goes further to propose both an array of provider payment cuts and some structural changes to the Medicare program.

Major program highlights of Medicare's FY 2014 Budget include:

- **Cuts to Hospital Payments:** Medicare payments to hospitals and other health facilities would suffer under the President's Proposed Budget. For instance, Medicare would reduce its current payment of 65 percent of bad debts for hospitals and skilled nursing facilities to 25 percent over three years, beginning in 2014. Reimbursement to critical access hospitals would also fall, from 101 to 100 percent of their reasonable costs. Meanwhile, hospitals located within ten miles of another hospital would no longer qualify for payment as critical access hospitals.
- **Graduate Medical Education (GME):** The FY 2014 Budget proposes to decrease existing add-on payments to teaching hospitals for the indirect costs of medical education by ten percent. This reduction is intended to align these payments with the actual added patient care costs that these facilities incur. Additionally, the Secretary would have the authority to set certain standards for teaching hospitals that receive GME payments.
- **Cuts to Post-Acute Care Payments:** Post-acute care providers would be subject to a variety of cuts. Inpatient rehabilitation facilities, long-term care hospitals, skilled nursing facilities, and home health agencies would be subject to market basket update reductions of 1.1 percentage points from 2014 through 2023. Beginning in 2014, standards for classification as an inpatient rehabilitation facility would be made more stringent, and payments for certain conditions would be equalized between inpatient rehabilitation facilities and skilled nursing facilities. Other payment changes for post-acute care providers include a potential reimbursement reduction for skilled nursing facilities that have high rates of preventable readmissions, beginning in 2017, and a shift to bundled payments for post-acute care beginning in 2018.
- **Pharmaceutical Reimbursement Cuts:** Drug manufacturers are also hit under the President's Proposed Budget. Beginning in 2014, the Budget would require manufacturers to provide the same rebates specified in the Medicaid program for drugs dispensed to Medicare beneficiaries who receive the Part D low-income subsidy. Manufacturer discounts for Part D beneficiaries falling into the program's 'donut hole' would be accelerated to 75 percent in 2015 to close the current coverage gap. Meanwhile, reimbursement for drugs administered in physician offices would fall from 106 percent of the Average Sales Price to 103 percent of the Average Sales Price. The Budget also attempts to increase the appeal and availability of generic drugs. The Proposal would alter drug copayments for low-income beneficiaries to selection of generic instead of brand-name drugs. It would also authorize the Federal Trade Commission to prohibit pay-for-delay agreements between brand and generic pharmaceutical companies, and would decrease the patent exclusivity period available to biologics manufacturers.
- **Laboratory and Medicare Advantage Cuts:** The Proposed Budget would also decrease reimbursement for clinical laboratories by reducing payment rates under the Clinical Laboratory Fee Schedule by 1.75 percent each year from 2016 to 2023. Additionally, it would also cut Medicare Advantage payments by increasing an annual adjustment factor that reduces the payments based on Medicare Advantage providers' greater incentive to code enrollee risk factors.
- **Sustainable Growth Rate Fix:** The Budget does propose to address the flawed sustainable growth rate formula for physician reimbursement. Congress has postponed physician payment reductions called for under the SGR formula for ten years, leaving a 25 percent reduction scheduled to take effect in 2014. Under the President's Budget, physician pay rates would instead be frozen at their current level while CMS develops potential alternative payment models.

- **Structural Changes:** The President's Budget also proposes structural changes to the Medicare program. The Budget would increase income-related premiums under Parts B and D and increase the Part B deductible for new enrollees. It would also add a home health co-payment for new beneficiaries and a Part B premium surcharge for new beneficiaries purchasing Medigap policies with low cost-sharing requirements. The Budget would also lower the target rate set to trigger potentially binding Medicare savings proposals by the ACA's Independent Payment Advisory Board (IPAB).

Office of Inspector General (OIG)

The President's FY 2014 Budget proposes $640 million in spending for health care program integrity activities. The Budget estimates that these investments will, in turn, produce $6.7 billion in savings over ten years, with an additional $4.1 billion in savings associated with the Budget's proposed legislative changes for program integrity. These funds are used for enforcement initiatives such as the joint Department of Health and Human Services (HHS)-Department of Justice (DOJ) Health Care Fraud Prevention and Enforcement Action Team (HEAT) task force, including Strike Force teams in areas with a perceived heightened risk of fraud and abuse. These funds will also be used for the previously announced Health Care Fraud Prevention Partnership between the federal government, private health insurers, and other stakeholders as well as for data analysis systems. The Budget also notes that the Administration would place an increased focus on off-label marketing and pharmaceutical fraud.

The Budget also includes several legislative proposals intended to strengthen program integrity. One such policy that the Budget proposes is to allow individuals and entities to be excluded from participating in Federal health care programs (such as Medicare and Medicaid) if they are affiliated with an entity that is sanctioned for fraudulent or other prohibited activity. This proposal, which the President has put forward in the past) would significantly expand the risks for individual owners, officers, and employees of health care companies that are under investigation.

In addition to CMS program integrity activities, the Office of Inspector General (OIG) is also responsible for health care oversight and enforcement activities. The FY 2014 Budget proposes $389 million for OIG, an increase of $101 million above the FY 2012 enacted level. The Budget identifies several key areas of Medicare and Medicaid program integrity where OIG will focus its resources, including identifying and reducing overpayments, investigating the provision of substandard and deficient care so egregious they constitute fraud, and ensuring efficiency and effectiveness in the Medicare and Medicaid Program Integrity Contractors.

Major program highlights of the CMS Program Integrity FY 2014 Budget include:

- **Requiring Prepayment Review or Prior Authorization for Power Mobility Devices**
- **Allowing Civil Monetary Penalties for Providers and Suppliers who Fail to Update Enrollment Records**
- **Allowing the Secretary to Create a System to Validate Practitioners' Orders for High Risk Items and Services:** This Proposal would institute an electronic Medicare claims ordering system for certain items and services to prevent improper payments by validating the medical necessity and verifying that a patient has, in fact, seen a provider.
- **Requiring Prior Authorization for Advanced Imaging**
- **Expanding Medicaid Fraud Control Unit (MFCU) Review to Additional Care Settings:** This

Proposal would expand the existing MFCU program by providing federal matching funds for investigations involving in-home and community-based settings.

- **Enhancing Medicaid Third Party Liability Recoveries:** This Proposal includes a number of provisions involving Medicaid Secondary Payer, including allowing state Medicaid programs to recover costs from beneficiary liability settlements. It is estimated to save $1.7 billion over ten years.
- **Program Integrity and Medicare Part D**: The Budget includes five proposals to: (1) require states to track high prescribers and utilizers of prescription drugs; (2) require manufacturers to make a full restitution to states if they improperly report a drug that is not covered by Medicaid when they report a list of covered outpatient drugs to CMS; (3) permit more regular audits and surveys of drug manufacturers to ensure compliance with the requirements of their Medicaid drug rebate agreements; (4) require drugs to be electronically listed with the Food and Drug Administration (FDA) in order to be covered by Medicaid; and (5) increase penalties for fraudulent noncompliance with drug rebate agreements.
- **Permit Exclusion for Federal Health Care Programs (FHCPs) if Individual is Affiliated with a Sanctioned Entity:** As discussed above, the Budget Proposal would expand the existing exclusion authority to also allow individuals and entities to be excluded from participating in FHCPs, such as Medicare and Medicaid, if the individual or entity is "affiliated with" a sanctioned entity. This proposal is estimate to save $60 million over ten years.

MEDICAID & State Children's Health Insurance Program

Jointly funded by states and the federal government, Medicaid provides health care coverage to low-income individuals and families. In 2014, states have the option to expand Medicaid eligibility to individuals under the age of 65 with family incomes up to 133 percent of the federal poverty level (FPL), as authorized by the Affordable Care Act (ACA). If a state chooses to expand its Medicaid eligibility, the federal government will pay 100 percent of state expenditures for newly enrolled individuals for the next three years.

For FY 2014, Medicaid outlays are expected to be $303.8 billion, an increase of approximately $37 billion over FY 2013. The President's Budget did not make any significant cuts to Medicaid, but rather offered proposals to reduce Medicaid expenditures by $22.1 billion, including rebasing future Disproportionate Share Hospital (DSH) allotments and improving quality of care for beneficiaries dually eligible for Medicare and Medicaid. Additionally, the Budget extends the Transitional Medical Assistance Program (TMAP) and Medicare Part B premium assistance for low-income Medicare beneficiaries.

The State Children's Health Insurance Program (CHIP) is also a state-federal partnership that provides health care to low-income children, often targeting children whose families have incomes too high for Medicaid, but too low to afford private insurance. CHIP outlays are estimated to be $10.1 billion in FY 2014, an increase of $70 million over FY2013. The President's Budget proposes to increase enrollment of eligible children by 25 percent over 2008 (46.6 million children) in FY 2014.

In contrast, the House Budget Resolution proposes to convert the federal share of Medicaid into a block-grant program, similar to the State Children's Health Insurance Program (CHIP). The House Resolution would provide states flexibility to tailor program requirements and enrollment to meet the needs of their constituents. Additionally, the Resolution would repeal the ACA's Medicaid expansion and exchange subsidies that were to be used to help low-income individuals purchase health insurance.

The Senate Budget Resolution did not make any major structural reforms to Medicaid or CHIP. The Resolution maintains Medicaid and CHIP's missions to serve low-income children, seniors, pregnant women, and disabled individuals, as well as supports the Medicaid expansion in the health reform law.

Major program highlights of the Medicaid and CHIP's FY 2014 Budget include:

- **DSH Allotments**. The Budget proposes to continue with the scheduled Medicaid Disproportionate Share Hospital (DSH) payment reductions, but they will begin in 2015, rather than 2014, with the payment reductions currently scheduled for 2014 spread instead over 2016 and 2017(no budget impact). The proposal also bases future state DSH allotments on states' actual DSH allotments as reduced by the ACA ($3.6 billion savings over ten years).
- **Drug Rebate and Payment Clarification.** The Budget includes a number of policies to lower drug costs to taxpayers and consumers. It proposes targeted adjustments in Medicaid prescription drug financing by clarifying the definition of brand drugs, excluding authorized generic drugs from average manufacturer price calculations for determining manufacturer rebate obligations for brand drugs, making a technical correction to the ACA alternative rebate for new drug formulations, and calculating Medicaid Federal upper limits based only on generic drug prices. These options are projected to save $8.8 billion over ten years.
- **Extend Transitional Medical Assistance.** TMAP provides Medicaid coverage six months to a year for low-income families who lose cash assistance due to increase in earned income or hours. The Budget extends the authorization and funding for TMAP through the end of 2014. The Budget notes that states that chose not to expand their Medicaid eligibility can opt out of TMA. The proposal is estimated to cost $1.1 billion over ten years.
- **Extend the Qualified Individual (QI) Program.** The Budget proposes to extend the QI program, which provides states 100 percent federal funding support for Medicare Part B premiums of low-income beneficiaries (between 120 and 135 percent FPL), through December 31, 2014, which is expected to cost $590 million over ten years.
- **Hold Harmless for Federal Poverty Guidelines.** The Budget proposes to treat the Consumer Price Index for All Urban Consumers (CPI-U) adjustment for the poverty guidelines consistent with the treatment of the annual cost of living adjustments for Social Security Benefits. Thus the poverty guidelines would only be adjusted when there is an increase in the CPI-U and not when there is a decrease.
- **Support for Dually Eligible Beneficiaries.** The Budget provides the Secretary with the authority to establish a streamlined appeals process for dual eligibles by allowing an integration of program rules and requirements. Additionally, based on a current demonstration, the Budget instructs CMS to contract with a single plan to provide Part D coverage to low-income beneficiaries while their eligibility is processed in order to ensure there is not a disruption of benefits to beneficiaries instead of assigning these beneficiaries to Part D plans that are then paid on the standard Part D prospective payment regardless of the beneficiary's utilization of services. This change is intended to bring payment closer in line with actual costs incurred by beneficiaries.

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ADMINISTRATION FOR CHILDREN AND FAMILIES

The President's Budget Proposal request for the Administration for Children and Families (ACF) is $51.9 billion. The FY 2014 discretionary request for ACF is $17.8 billion, an increase of $1.5 billion above FY 2012. The discretionary request includes additional funding for Head Start, Child Care, and Child Support. The President also requests $34.2 billion for ACF mandatory programs such as Temporary Assistance for Needy Families (TANF), Child Care Entitlement to States, Child Support Enforcement, Foster Care, Adoption Assistance, and Promoting Safe and Stable Families.

Major program highlights of ACF's FY 2014 Budget include:

- **Early Childhood Development:** The President's FY 2014 ACF Budget Proposal includes a series of new investments in early childhood learning. ACF will enter into a federal-state partnership with the Department of Education to provide high-quality preschool to all four year olds in low- and moderate-income families. The Budget requests $1.4 billion to create these Early-Head State and Child Care Partnerships. The FY 2014 request for the Child Care and Development Fund is $5.9 billion, which includes $3.4 billion for the Child Care Entitlement (CCE) and $2.5 billion for the Child Care and Development Block Grant (CCDBG).
- **Head Start:** The President's ACF Budget Proposal requests an additional $197 million to strengthen services for children currently enrolled in Head Start. ACF will continue to require Head Start grantees who do not meet benchmarks to compete for ongoing federal funding. The FY 2014 Budget requests $25 million above the FY 2012 request to ensure smooth transitions between current and new grantees.
- **Low Income Home Energy Assistance Program (LIHEAP) Funding:** The FY 2014 Budget includes $3 billion for LIHEAP, which is $452 million below the FY 2012 level. The Budget includes $50 million for new competitive energy burden reduction grants to improve the energy efficiency of the homes of LIHEAP-eligible households, and to help these households switch to less-costly fuels.
- **Child Care Entitlement to States:** The Budget requests an increase of $7 billion over 10 years for the Child Care Entitlement to States, including an increase of $500 million in FY 2014. The Budget request includes $200 million in discretionary funding for competitive grants to help states raise the bar on the quality of child care through improved regulation, monitoring, and transparency for parents.
- **Social Services Block Grant (SSBG):** SSBG is funded at $1.7 billion, the same as FY 2013. An additional $85 million per year will fund the Health Professions Opportunity Grants, a program that provides education and training to TANF recipients and other low-income individuals for occupations in the health care field that pay well and are expected to be in high demand.
- **Pregnancy Prevention Program for Foster Youth:** The FY 2014 Budget redirects $12 million from anticipated unobligated Abstinence Education funding in ACF to support a new program to prevent pregnancy among youth in foster care.

ADMINISTRATION FOR COMMUNITY LIVING

The FY 2014 Budget requests $2.1 billion for the Administration for Community Living (ACL). The Budget prioritizes efforts to address Alzheimer's disease, protects critical programs like nutrition, protection and advocacy, and caregiving support, and includes transfers of programs currently administered by other federal organizations to better coordinate activities that impact older adults as well as people with disabilities.

- **Alzheimer's Disease Supportive Services Program.** The Budget proposes $9 million to fund competitive grants to States that expand the availability of evidence-based interventions designed to assist persons with dementia and their caregivers.
- **Alzheimer's Disease Initiative.** The Budget requests $11 million to strengthen the dementia capabilities of States, tribes, and localities, enabling these entities to enact permanent systems change.
- **Home and Community-Based Supportive Services**. The Budget proposes $367 million to fund in-home and community-based services to help older adults live independently and with dignity. These services include transportation assistance; case management; information and referral; help with personal care; and adult day care and physical fitness programs.
- **Nutrition Services.** The Budget requests $816 million for nutrition services to ensure that millions of older adults have access to nutritious food to stay healthy.

HOMELAND SECURITY & EMERGENCY MANAGEMENT

DEPARTMENT OF HOMELAND SECURITY

The FY 2014 Budget Proposal for the Department of Homeland Security (DHS) requests $39 billion in net discretionary funding, a 1.5 percent reduction based on administrative savings.

In addition to the agency highlights below, the President also requests funding through DHS to support his cross-agency initiative to reduce gun violence. $4.5 million is requested to expand the Federal Law Enforcement Training Center's Active Shooter Threat Training Program and First Responder Training Program. The President also requests funding to expand the "If You See Something, Say Something™" campaign and to implement a public awareness effort regarding mass casualty shooting threats.

In support of his Immigration Reform proposal, the President requests $10 million to help individuals on a pathway to citizenship, as well as increased funding for programs that improve citizenship education and develop best practices for community integration. He also focuses Immigration and Customs Enforcement resources on detention, monitoring, and supervision of high priority cases, such as criminals and fugitives. Lastly, the Budget requests $114 million to expand and enhance the E-Verify system.

FEDERAL EMERGENCY MANAGEMENT AGENCY

The FY 2014 Budget Proposal for the Federal Emergency Management Agency (FEMA) prioritizes disaster response and recovery while proposing to consolidate state and local grant programs.

Pursuant to the *Budget Control Act of 2011* (P.L. 112-25), the President provides $5.6 billion in major disaster funding for the Disaster Relief Fund (DRF) outside of the $39 billion in net discretionary funding he requests for the Department of Homeland Security. An additional $595 million for non-major disaster costs is proposed for the DRF through FEMA's base budget.

State and local programs are funded at $2.1 billion in the President's Budget Request. While this may appear to be a reduction of $367 million, Department of Homeland Security (DHS) Secretary Janet Napolitano asserted in her testimony before the House Homeland Security Appropriations Subcommittee that reductions would be achieved through administrative adjustments. Grant programs, she asserted, would be maintained at level funding.

The Administration proposes to consolidate a number of state and local grant programs into a new National Preparedness Grant Program (NPGP) in an effort to streamline grant administration and focus on building national capacity through enhancement of regional capabilities instead of funding similar activities in individual jurisdictions. Since first proposing the grant consolidation in the President's FY 2013 Budget Proposal, FEMA has received significant pushback from stakeholders and Congress. In fact, the FY 2013 Department of Homeland Security Appropriations bill (P.L. 113-6) specifically prohibits the agency from setting up a new grant program without Congressional authorization. During her testimony, Secretary Napolitano noted that the current proposal addresses some of the concerns expressed by stakeholders and stated that DHS will seek authorization legislation this year to implement the new program. 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. *Additional details on the revised proposal for the National Preparedness Grant Program will be provided under separate cover.*

The President does not request funding for the Pre-Disaster Mitigation Fund, instead proposing that the program operate under unobligated balances.

Major program highlights of FEMA's FY 2014 Budget include:

- **Disaster Relief Fund:** A total of $6.2 billion is requested to replenish the Disaster Relief Fund, which provides assistance during Presidentially-declared major disasters and emergencies.
- **State and Local Programs:** $2.1 billion is requested for state and local programs. This includes $1.043 billion for the competitive National Preparedness Grant Program, which will replace a number of grant programs. The program will prioritize activities that align with the National Preparedness Goal. Emphasis will be placed on development and sustainment of capabilities that address high-risk threats and hazards.
- **Firefighter Assistance Grants:** The Budget requests $670 million to be split equally between the Assistance to Firefighters and the SAFER programs, which enable local fire departments to hire and retain personnel, provide training, and purchase equipment. Award and expenditure waivers are also

continued for these programs. $675 million was allocated for the two in FY 2013 prior to a five percent reduction from sequestration.

- **Emergency Management Performance Grants:** Level funding of $350 million is requested ($350 million in FY 2013, before a five percent sequestration reduction) to provide formula funding to states and localities for emergency response activities and catastrophic planning.
- **Emergency Food and Shelter:** The Budget requests $100 million ($120 million in FY 2013, before a five percent sequestration reduction) to supplement efforts to provide shelter, food, and supportive services to homeless and underserved individuals.
- **Flood Hazard Mapping and Risk Analysis Program:** The Budget proposes $84.4 million ($95.3 million in FY 2013, before a five percent sequestration reduction) to update mapping data for communities that rely on structural flood control defenses.
- **First Responder Stabilization Fund:** The President again requests $1 billion in immediate assistance for the retention, rehiring, and hiring of fighters with a preference for recruitment of post-9/11 veterans. SAFER award and expenditure waivers would apply.

CUSTOMS AND BORDER PATROL

U.S. Customs and Border Protection estimates that it needs 3,800 additional staff in FY 2014 due to expanded facilities and growth in travel. The President requests $221 million to add 1,600 Customs and Border Patrol (CBP) officers, equipment, and technology at ports of entry. To provide an additional 1,877 officers, the President proposes a $2.00 increase to the Immigration User Fee (IUF) and the Consolidated Omnibus Budget Reconciliation Act of 1985 (COBRA) air and see passenger user fees.

TRANSPORTATION SECURITY ADMINISTRATION

The Transportation Security Administration (TSA) proposes to change the $2.50 passenger security fee (now charged for each segment with a $5 maximum) to a flat fee of $5 per one-way trip. The Administration also calls for annual increases of 50 cents from 2015 to 2019, resulting in a $7.50 fee in 2019 and thereafter. Congress has rejected these fee increases in the past.

TSA requests $382 million for explosives detection systems, of which $84 million is allocated for procurement and installation. These are reductions of $26.4 million, and $16 million, respectively from FY 2013 totals (not factoring a five percent sequestration reduction in FY 2013).

HOUSING, HOMELESSNESS & COMMUNITY DEVELOPMENT

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The President's FY 2014 Budget requests a total of $47.6 billion for the Department of Housing and Urban Development (HUD)'s programs, a 9.7 percent increase from 2012 enacted levels. Ninety percent of this funding will be used to maintain current levels of rental and homelessness assistance for families.

In contrast, the House-passed FY 2014 Budget focuses on winding down Fannie Mae and Freddie Mac while the Senate-passed Budget Resolution highlights restoring funding that was lost due to sequestration.

The President's Budget includes requests for significant additions or expansions, including a new $200 million competitive grant opportunity to help communities affected by the foreclosure crisis, an expansion of the Moving to Work Program, a modernization of the HOPWA formula, and a new source of funding for innovative homeless programs.

Some programs are also notably reduced in this proposal. Funding for the HOME Investment Partnerships project is reduced in the President's Budget, the Community Development Block Development Grant program would be reduced by $404 million, and Housing for the Elderly and Persons with Disabilities programs are reduced by $14 million.

Major program highlights of the HUD FY 2014 Budget include:

- **Housing Counseling Assistance:** The Budget requests $55 million for this program, of which $50 million will fund grants to intermediaries that provide direct counseling for homeowners and tenants. This is a $10 million increase from the 2012 enacted funding level, prior to sequestration.
- **Section 8 Tenant-Based Rental Assistance (TBRA)/Housing Choice Voucher Program:** The Budget requests $20 billion for TBRA programs – a small increase from the FY 2012 enacted levels. This includes $11 million for the renewal of over 14,000 Section 811 vouchers for persons with disabilities, $75 million for new vouchers through the HUD-Veteran Affairs Supportive Housing (HUD-VASH) program, and $150 million for tenant protection vouchers. In addition, the Budget proposes legislative reforms for these programs, including an expansion of the Moving to Work program, increased flexibility for Public Housing Authorities (PHAs), a streamlined Family Self-Sufficiency program, and a new renewal formula for the Housing Choice Voucher program.
- **Public Housing Operating and Capital Funds:** The Budget requests $4.6 billion for the Public Housing Operating Fund, which is equal to 90 percent of PHAs' estimated funding eligibility under the Operating Fund formula, and $2 billion for the Public Housing Capital Fund, of which $1.9 billion will go to PHAs. Of the Public Housing Capital Fund's remaining balance, $15 million will fund a Jobs-Plus pilot modeled after the Jobs-Plus demonstration and $20 million will go toward emergency capital needs from non-Presidentially declared emergencies and natural disasters. This funding is an increase of $757 million from FY 2012 enacted levels, prior to sequestration.
- **Housing Trust Fund (HTF):** The President requests, as he has requested in each Budget Proposal since 2010, $1 billion for the Housing Trust Fund. The Housing Trust Fund was authorized through the Housing and Economic Recovery Act of 2008 and is supposed to be funded from Fannie Mae

and Freddie Mac assessments. However, the FHA has indefinitely suspended these assessments and the HTF has never been funded. The purpose of the Housing Trust Fund is to provide formula grants to States or State-designated entities to increase and preserve the supply of affordable rental housing and homeownership opportunities for extremely low- and very low-income families. Of the total funding, 75 percent must be used to benefit "extremely low-income households for whom the shortage of affordable housing is most acute."

- **Homeless Assistance Grants (HAG):** The Homeless Assistance Grants program, which includes the Emergency Solutions Grants and Continuum of Care (CoC) programs, is provided with $2.38 billion in the President's Budget—a slight increase from FY 2012 enacted levels. Of this, the Budget allocates $356 for Emergency Solutions Grants, $1.95 billion for competitive renewals of the CoC program, $40 million for competitive supportive housing projects in the CoC program, $60 million for rapid re-housing in high need communities, and $8 million for the Homeless Data Analysis Project.
- **Housing for the Elderly and Housing for Persons with Disabilities Programs:** The Budget requests $526 million total for the Housing for the Elderly and Housing for Disabilities programs, $14 million below FY 2012 enacted levels. The funding includes support for all existing units in these programs, $20 million to support a demonstration program to test and implement housing with services models for seniors, as well as $20 million for new Project Rental Assistance (PRA) awards. The Budget also directs HUD to reviews residual receipts collections, recaptures, and other unobligated balances in FY 2014 and reallocate the amount available toward awards for new PRA models or housing with services models for seniors.
- **Housing Opportunities for Persons with AIDS (HOPWA) Program:** In addition to requesting $332 million for HOPWA, the Administration proposes a new formula for the allocation and distribution of the program's funding. In order to target communities with the most need, the formula is based on the current population of people living with HIV/AIDS, fair market rents, and poverty rates. The Budget also includes changes to HOPWA that would allow for more efficient targeting of resources and flexibility for grantees. These changes will be proposed in separate legislation, and will also seek to develop a strategy that integrates HOPWA with the Homeless Assistance Grants and Continuum of Care programs.
- **HOME Investment Partnership:** The Budget requests $950 million for this program, which is 5 percent less than last year's enacted funding level. The Administration justifies this reduction by requesting $1 billion to capitalize the Housing Trust Fund, which it argues will expand the supply of housing for "very-low income" families. Still, the Administration expects that the grants provided to state and local governments through the HOME Investment Partnership program will supply 39,500 additional units of housing.
- **Self-Help and Assisted Homeownership Opportunity Program (SHOP):** Of the $950 million requested for the HOME program, an additional $10 million is allocated specifically for SHOP. The Budget also proposes changes to SHOP to improve the administration of the program, including allowing HUD to develop program regulations over 5 pages long, establishing a standard grant term of 36 months, establishing a deadline for completion of SHOP units, and explicitly naming planning, administrative, and management costs as eligible activities.
- **Native American Housing Block Grant Program:** The Budget requests $650 million to provide for the Native American Housing Block Grant program – a continuation of FY 2012 enacted levels.

This includes $2 million for the Title VI loan guarantee program, which will in turn guarantee $16.5 million in loans to tribes.

- **Lead-Based Paint Hazard Reduction:** The Budget requests $120 million for the Office of Lead-Based Paint and Poisoning Prevention – a continuation of FY 2012 enacted levels. This request includes $90 million for Lead Hazard Control Grant Program (an increase of $27 million from FY 2012) and $25 million for the Healthy Homes program (an increase of $15 million from FY 2012). However, the Budget proposes the elimination of the Lead Hazard Control Demonstration Program.
- **Community Development Block Grant (CDBG):** The Budget requests $2.78 billion for the Community Development Block Grant formula grant program – $404 million less than enacted in FY 2012. The Budget also includes proposals to better target these funds and to ensure that grants made to communities are large enough to effectively advance the goals of the program. These proposals include establishing a minimum grant threshold and eliminating the community "grandfathering" provision.
- **Neighborhood Stabilization Initiative:** Of the $2.78 billion provided for the CDBG program, the Budget includes $200 million for the Neighborhood Stabilization Initiative. This is a new competitive set-aside grant program that is designed to build upon the success of the Neighborhood Stabilization Program in order to restore neighborhoods affected by the foreclosure crisis. Grants can be used by states, cities, and housing financing agencies to purchase and rehabilitate abandoned or foreclosed properties, establish land banks, demolish blighted structures, and redevelop vacant or demolished properties.
- **Community Development Loan Guarantees (Section 108):** As in 2013, the President's Budget Proposal requests an increase of $500 million to the guaranteed loan limit. However, it does not request appropriations for the Community Development Loan Guarantee Program – instead, it requests a legislative change that would allow HUD to collect fees to offset credit subsidy costs and make related adjustments to the program.
- **Sustainable Communities:** The Budget does not mention the Sustainable Communities program, which has not been funded by Congress for several years. The Budget does provide for $75 million for Integrated Planning and Investment Grants to support local and regional public investment plans and implementation efforts that align public and private investments in development and infrastructure, to better attract businesses and improve quality of life, modernize building and zoning codes, reduce barriers to achieve affordable and economically vital communities, and attract private capital to community revitalization efforts. HUD will consult with DOT and other agencies in evaluating grant proposals.
- **Choice Neighborhoods Initiative/Promise Zones:** The Budget requests $400 million for this initiative; $280 million more than the enacted level for 2012. A portion of this funding is designated to the Administration's new Promise Zones, which are high-poverty areas in which the Federal government will work with local leadership to create jobs, reduce violence, and expand educational opportunities. The Promise Zones will also receive funding from the Department of Education's Promise Neighborhoods program ($300 million), HUD's Neighborhood Stabilization and rental Assistance Demonstration programs, and the Department of Justice's Byrne Criminal Justice Innovation Grants program ($35 million). Promise Zones will also include tax incentives to promote investment and economic growth.

- **Brownfields Economic Development Initiative (BEDI) Program:** The Budget does not request any funding for the BEDI program. The Administration reasons that local governments can use other public and private funds, including CDBG funds, to serve similar purposes. The President did not request funding for this program in its FY 2013 Budget Proposal.
- **Economic Development Initiative (EDI) Grants:** The Budget also does not request funding for EDI grants. Its enacted funding level in FY 2012 was $6 million; in the past, this funding had been almost entirely earmarked.
- **Empowerment Zones/Renewal Communities:** The Budget requests no new funding for the Empowerment Zones (EZ) and Renewal Communities (RCs) programs, and instead proposes a rescission of approximately $25,000 in carryover. The Budget also notes that although tax incentives for RCs expired on December 31, 2009, EZ tax incentives have been extended to December 31, 2013.

INTERNATIONAL PROGRAMS

STATE DEPARTMENT/USAID

The Obama Administration's FY 2014 Budget provides $47.8 billion in discretionary funding for the Department of State and the U.S. Agency for International Development (USAID). This is a 6 percent decrease from the FY 2012 enacted level, largely due to lower Overseas Contingency Operations (OCO) activity. The President's FY 2014 Budget Proposal continues to prioritize funding for global health in order to achieve the vision of an AIDS-free generation, food security to reduce extreme poverty and foster inclusive growth, and clean energy and energy efficiency in order to combat climate change. Notably, the Budget proposes major reforms in food aid and emergency food assistance. It also continues to expand people-to-people relationships and to support academic programs and cultural exchanges. Moreover, the President's request continues to support transitioning countries in the Middle East and North Africa region by investing in economic and political reform in the wake of the Arab Spring. With respect to trade, the FY 2014 Budget request continues to promote U.S. exports and help U.S. companies navigate foreign regulations. Furthermore, the FY 2014 Budget request also proposes $4 billion for Department of State security programs, in line with the recommendations of the Benghazi Accountability Review Board. Although the Budget request provides over $1.2 billion to support the Obama Administration's "Asia pivot," it also continues to support U.S. security, diplomatic, and development goals in Afghanistan, Pakistan and Iraq.

Major program highlights of the State Department's/USAID's FY 2014 Budget include:

- **Educational and Cultural Exchange Programs:** The President's Budget provides approximately $563 million in funding for educational and cultural exchange programs. These are authorized by the Mutual Educational and Cultural Exchange Act of 1961 to assist in the development of friendly, peaceful relationships between the United States and other countries. This includes educational exchanges as well as the promotion of U.S. higher education overseas through educational advising centers and marketing activities.

LOCAL LAW ENFORCEMENT & PUBLIC SAFETY

DEPARTMENT OF JUSTICE

The President requests a three percent increase of $27.6 billion for the Department of Justice (DOJ). The Budget Resolution prioritizes gun safety, cyber security, financial and mortgage fraud, immigration laws, civil rights, prisons and detention capacity and assistance to state, local and tribal law enforcement partners.

Within the Budget Request, the President includes $395.1 million (a $173 million increase) for the DOJ to implement a number of activities he proposed earlier this year in his gun violence prevention and enforcement initiative. In anticipation of Congressional agreement on the expansion of background checks, the President requests $100 million to double the capacity of the FBI's National Instant Criminal Background Check System (NICS) and $70 million in state grants to increase the submission of records, especially mental health records, on the NICS. The request also includes $51.1 million to enhance the Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) firearm tracing system and $22 million to enhance the National Integrated Ballistics Information Network. In partnership with the FBI, DOJ also requests $15 million to provide specialized active shooter response training for first responders and school officials, as well as an additional $150 million for a new Comprehensive School Safety Program that would provide grants to fund school resource officers and security equipment. $5 million is requested for the State and Local Gun Crime Violence Reduction Program.

The President requests $25 million for the Executive Office for Immigration Review (EOIR) to address immigration court backlog and case increases from the Department of Homeland Security. Funds are also requested for the EOIR to develop a pilot program to provide counsel to vulnerable populations, including unaccompanied alien children.

As part of the President's new Promise Zones initiative – a cross-agency partnership that will work with local leaders in high-poverty communities to address job creation, private investment, education, and violence reduction – the Budget requests $35 million for the program's DOJ component.

The Budget proposes to eliminate the State Criminal Alien Assistance Program and the Bulletproof Vest Partnership Program.

Major program highlights of DOJ's FY 2014 Budget include:

- **Byrne Justice Assistance Grants:** $395 million is requested to support law enforcement, prosecution and courts, crime prevention, corrections, drug treatment and other initiatives ($392 million in FY 2013, before a five percent sequestration reduction). The President requests an additional $40 million for new competitive incentive grants that would enhance evidence-based strategies and interventions, improve the functionality of the justice system, and prevent or combat juvenile delinquency.
- **Byrne Criminal Justice Innovation Program:** $35 million is requested to combat violence in high-poverty communities as part of the President's Promise Zones Initiative.
- **Second Chance Act Program:** The Budget requests $119 million to establish and enhance reentry initiatives to reduce recidivism ($68.75 million in FY 2013, before a five percent sequestration reduction), including $5 million for a new Children of Incarcerated Parents Demonstration Grant Program.
- **Community Oriented Policing Services Programs (COPS):** $289.5 million ($222.5 million in FY 2013 before a five percent sequestration reduction) is requested for COPS. This includes an increase of approximately $58 million for COPS Hiring Grants – with preference for the recruitment of post-9/11 military veterans and school resource officers - and $12.5 million for the Methamphetamine program. Within the COPS program, the President proposes two new initiatives:
  - **Comprehensive School Safety Program:** The Budget requests $150 million for a new initiative administered by the COPS office with the Department of Education to provide grants and technical assistance to elementary and secondary schools to hire non-sworn safety personnel (including civilian public safety personnel, counselors, psychologists, social workers or child/adolescent psychiatrists), purchase security equipment, provide training or address other authorized safety needs.
  - **Community Oriented Policing Stabilization Fund:** The President again requests $4 billion in immediate assistance for the retention, rehiring, and hiring of police officers in 2013 with a preference for recruitment of post-9/11 veterans.
- **Office on Violence Against Women:** $413 million ($416 million in FY 2013, before a five percent sequestration reduction) is requested for programs to prevent and respond to violent crimes against women.
- **Juvenile Justice Programs:** The Budget requests $332.5 million ($279 million in FY 2013, before a five percent sequestration reduction).The President again proposes a $30 million increase to Part B: Formula Grants, requesting $70 million, and requests $25 million for the Community-Based Violence Prevention Initiative, which would triple funding for the program. $12.5 million of this would be directed toward efforts to reduce shootings and gang violence. The President requests to expand the National Forum on Youth Violence Prevention, which provides assistance to selected cities to develop and implement strategies to reduce youth violence, by doubling program funding to $4 million. The President also requests $2 million for a new demonstration grants focusing on girls in the juvenile justice system. Youth mentoring grants are proposed at $58 million, which is a $20 million reduction from FY 2013 levels.

MANUFACTURING & ECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT ADMINISTRATION

The President's FY 2014 Budget for the Economic Development Administration (EDA) includes $352 million for Economic Development Assistance Programs, which represents a decrease from FY 2013 that is primarily attributable to disaster recovery aid and emergency appropriations. EDA continues to place funding priority on investments that drive economic growth, enhance regional competitiveness, and diversify the regional and local economy in the country's most distressed communities. In particular, the Agency proposes to use authorities provided by the America COMPETES Reauthorization Act of 2010 to invest in two new initiatives: the Investing in Manufacturing Communities Fund and the Regional Export Challenge program.

Major program highlights of EDA's FY 2014 Budget include:

- **Investing in Manufacturing Communities Fund:** The President's Budget proposes $113 million for the Investing in Manufacturing Communities Fund, which is intended to leverage local resources in order to increase the Nation's manufacturing base. Projects may include commercial manufacturing parks or manufacturing-focused research and training centers. Funds are to be awarded on a competitive basis to communities to develop a strategic plan and provide capital to attract manufacturers. It is expected that grantees will leverage existing suppliers and local assets, such as infrastructure, research and education institutions, and training centers to create an innovation ecosystem where manufacturers can thrive in global competition.
- **Regional Export Challenge Program:** The President's Budget proposes $12 million for a new Regional Export Challenge Program aimed at assisting communities in developing export action plans that support jobs.
- **Public Works and Economic Assistance Grants:** The President's Budget proposes reducing funding for Public Works grants to essentially half the amount it received for FY 2013 (down to $71 million) while increasing funding for Economic Assistance grants (up to $76 million). In recent years, EDA has packaged the two grant programs together to support economic development strategies that advance new ideas and creative approaches to advancing economic prosperity in distressed communities. Combined, the total amount for both programs represents a decrease of $21 million from FY 2012 enacted levels.

SMALL BUSINESS ADMINISTRATION

The President's FY 2014 Budget for the Small Business Administration (SBA) requests $810 million in regular appropriations for the Small Business Administration, a decrease of $109 million from the 2012 enacted level. This amount would support a new entrepreneurial education initiative designed to train and develop small business owners that are poised for growth, as well as the Boots to Business program, which provides entrepreneurship training to America's veterans transitioning to civilian life. The Budget also supports place-based initiatives, such as the Regional Innovation Clusters program and growth accelerators.

Major program highlights of SBA's FY 2014 Budget include:

- **Disaster Loan Programs:** The Budget requests $1.1 billion in direct disaster assistance loans, the normalized 10-year average (an increase of $637 million from the amount of direct loan obligations in FY 2012). SBA's Disaster Loans Program provides low-interest disaster loans to homeowners, renters and businesses of all sizes whose property is damaged or destroyed in a disaster.
- **Entrepreneurship Counseling and Regional Economic Development:** The Budget requests $210 million for SBA's non-credit technical assistance programs, including $104 million for Small Business Development Centers and $20 million in technical assistance for microloan programs. The Budget also includes $5 million each for SBA's growth accelerators program and Regional Innovation Clusters program, which helps connect small businesses with universities, venture capitalists, and regional industry leaders to leverage a region's unique assets to turn entrepreneurial ideas into sustainable high-growth small businesses.

OTHER PROGRAMS

Promise Zones

Under the Department of Housing and Urban Development (HUD), the Budget requests $400 million for the Choice Neighborhoods Initiative/Promise Zones; $280 million more than the enacted level for 2012. A portion of this funding is designated to the Administration's new Promise Zones, which are high-poverty areas in which the Federal government will work with local leadership to create jobs, reduce violence, and expand educational opportunities. The Promise Zones will also receive funding from the Department of Education's Promise Neighborhoods program ($300 million), HUD's Neighborhood Stabilization and Rental Assistance Demonstration programs, and the Department of Justice's Byrne Criminal Justice Innovation Grants program ($35 million). Promise Zones will also include tax incentives to promote investment and economic growth. *(Please see the section on Housing, Homelessness & Community Development for additional information on HUD.)*

Advanced Manufacturing Research and Development

The President requests $2.9 billion across federal agencies for advanced manufacturing research and development (R&D), an 87 percent increase over 2012. Funding would support innovative manufacturing processes that reduce energy use and bolster cutting-edge technology investments.

- **The National Institute of Standards and Technology (NIST):** NIST plays an important role in the President's advanced manufacturing agenda, requesting a one-time investment of $1 billion to launch the National Network for Manufacturing Innovation (NNMI), with program coordination led by NIST's inter-agency Advanced Manufacturing National Program Office. *(Please see the section on Education, Science & Technology for additional information about NIST funding for manufacturing.)*
- **Department of Energy (DOE):** Funding for the DOE Advanced Manufacturing Office would triple to $365 million, and would support the establishment of Manufacturing Innovation Institutes. To encourage investment in clean energy manufacturing equipment and facilities, the Budget proposes $4.8 billion in tax credits for advanced energy manufacturing projects. *(Please see the section on Energy, Environment & Water Resources for additional information on DOE funding for research and development.)*

- **National Science Foundation (NSF):** NSF's FY 2014 Budget included $300.4 million for Cyber-enabled Materials, Manufacturing, and Smart Systems, which represents a $158.8 million increase from FY 2012 levels. This funding will be used to transform static systems and processes into adaptive "smart" systems with embedded computational intelligence. *(Please see the sections on Cybersecurity and Education, Science & Technology for more information on NSF funding.)*

TELECOMMUNICATIONS

NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

The Administration requests a total of $52.12 million in discretionary funding to administer the National Telecommunications and Information Administration (NTIA), which serves as the President's principle advising agency for telecommunications policy. The FY 2014 request would represent an increase of $6.3 million over appropriated funds for FY 2013. The Administration's request seeks to support the President's mission to identify up to 500 MHz of federally held spectrum that could be used for commercial wireless broadband development, in addition to NTIA's responsibility to carry out the Middle Class Tax Relief and Job Creation Act of 2012 mandates with respect to construction of a nationwide, interoperable public safety broadband network to support first responders. There are a number of specific line item requests in the Budget that represent slight changes or developments to NTIA policy for 2014; those policies are summarized below.

Major program highlights of NTIA's FY 2014 Budget Request include:

- **Internet 3.0:** As part of the Department of Commerce's ongoing effort to take a leadership role in international Internet governance policy, NTIA's Budget Request includes an increase of $986,000 over current appropriated funds to advocate for an "Internet 3.0" (or next generation Internet) policy framework. As part of this request, NTIA seeks to engage U.S. policymakers with international regulators and industry stakeholders, particularly in the developing world, to establish "multi-stakeholder based solutions" for issues related to online privacy, cybsersecurity, online copyright protection, and global e-commerce growth.
- **Public Safety Wireless & FirstNet:** The Budget Request reflects NTIA's continued implementation duties under the Middle Class Tax Relief and Job Creation Act of 2012 (the JOBS Act), which called upon the Department of Commerce and the Federal Communications Commission to repurpose spectrum for development of a nationwide, interoperable public safety broadband network for use by public safety professionals. The request seeks a $10 million appropriation for grants to state and localities to plan for the broadband network build-out requirements, which builds upon the FY 2013 appropriation in the amount of $125 million for the same program. Similarly, the Administration's Budget $257 million and $1.913 billion, respectively, for Network construction funds and for the Public Safety Trust Fund, which are key components of the FirstNet program. The JOBS Act provided the Administration with borrowing authority for these activities until the spectrum auctions are conducted and proceeds are made available to the Public Safety Trust Fund to support the FirstNet build-out requirements.
- **Spectrum Identification:** NTIA also seeks an additional $1.251 million to support the President's National Wireless Initiative, which seeks (with coordination by the Federal Communications

Commission) to identify 500 MHz of spectrum for commercial wireless broadband. The new funds would support NTIA's existing 10-year plan originally released in 2010, and would be used to determine which spectrum currently held by federal users can be repurposed for private sector. NTIA is already examining relocation, data collection and cleanup efforts, and spectrum sharing arrangements as part of the identification process, and will use the requested funds as part of that effort.

- **Broadband Grant Oversight:** As NTIA administration of the broadband grant program connected to the American Recovery and Reinvestment Act of 2009 comes to a close in 2013, the agency has requested a $1.699 million reduction in funding. However, the Administration still anticipates that additional oversight will be necessary to ensure that nearly $4.2 billion awarded for broadband development in under and unserved American communities will not be subject to waste, fraud and abuse. Thus, NTIA did not completely defund this budget item for FY 2014.
- **Spectrum Sharing Pilot Program:** Finally, the NTIA Budget Request includes a $7.5 million request to implement a spectrum monitoring pilot project that covers 10 major metropolitan areas. The pilot program seeks to stimulate more efficient use of federally held spectrum resources through private sector sharing arrangements, and would include development and field-testing for a prototype spectrum monitoring system that would be used to assess spectrum-sharing technologies. If the pilot-program is developed, NTIA plans to make the data collected by the monitoring system available to researchers and other stakeholders. The pilot-program is scheduled for a two-year trial run and will be subject to potential expansion.

NATIONAL OCEANIC AND ATMOSPHERIC ADMINITRATION

The President's FY 2014 Budget includes a total request for $5.448 billion to administer the National Oceanic and Atmospheric Administration (NOAA) for FY 2014, which would represent an increase of $185,034 over current appropriations for FY 2013. The Administration's request includes significant proposed investments to administer the agency's satellite technology infrastructure, including a $2 billion request to fund the development of NOAA's geostationary and polar-orbiting satellites. Additionally, the Budget includes a request for a $335,862 increase over its current FY 2013 authorization for technology related to the Geostationary Operational Environmental Satellite (GOES)-R program to continue development of the GOES-R series of satellites, which is scheduled for launch in 2015. At the same time, the Administration's Budget request seeks a $21 million reduction for NOAA's Radiosonde (weather balloon) Network Replacement program.

The FY 2014 Budget request for NOAA is also linked to a separate instruction found in the Administration's Budget request for the Federal Communications Commission (FCC), which includes a line item instruction relevant to NOAA's development and acquisition of GOES-R satellite technology. There, the Administration's request instructs the FCC to take steps to transition spectrum held by NOAA in the 1675-1680 Megahertz (MHz) band for private sector wireless broadband development by 2017. If the FCC acts on the Administration instruction, NOAA would shift its Radiosonde network to a different frequency band, which would pave the way for commercial wireless broadband development alongside "protection zones for the remaining weather satellite downlinks."

TRANSPORTATION

DEPARTMENT OF TRANSPORTATION

Surface Transportation

The Administration's request reflects a continued commitment to infrastructure investment, though the Budget Proposal by and large mirrors previous proposals that have not gained traction. The Budget is headlined by the Administration's request for $50 billion in Immediate Transportation Investments, which the President first proposed in the lead up to the 2010 mid-term elections and has included in his FY 2012 and FY 2013 Budgets as well as the American Jobs Act. As previewed in the President's State of the Union Address, $40 billion of the Immediate Transportation Investments would be earmarked for "Fix it First" investments to improve the state of good repair of the nation's highways, transit systems, passenger rail networks and airports.

The President's Budget also proposes robust, long-term reauthorizations of the surface transportation and passenger rail programs to be financed through "savings from ramping down overseas military operations" in Iraq and Afghanistan. The Budget proposes to reserve these savings to fund a six-year reauthorization of MAP-21 beginning in FY2015 that would increase funding by 25 percent above current levels. The Administration also proposes a five-year, $40 billion passenger rail reauthorization that would provide $3.7 billion for High Speed Rail and $2.7 billion for Amtrak beginning in FY 2014, more than a four-fold increase over FRA's current budget. The Administration proposes to use the war savings to "fully offset baseline Highway Trust Fund solvency needs, the out-year surface transportation reauthorization allowance, and the rail reauthorization proposal." The President also proposed the so-called "peace dividend" as a financing mechanism in his FY 2013 Budget, but the proposal did not garner support in Congress.

Excluding the Immediate Transportation Investments, the Budget proposes approximately $77 billion in budgetary resources for the Department of Transportation in FY 2014, a significant increase over the $70 billion in non-emergency budget authority provided for FY 2013. The increase is driven primarily by the increased rail funding under the proposed reauthorization. The Budget also funds highway and transit formula programs for FY 2014 at the levels authorized in MAP-21, as the recent full year Continuing Resolution did for FY 2013. With respect to key discretionary programs, the President's Budget provides $500 million for the TIGER program and $1.98 billion for the New Starts program, representing modest increases over the final FY 2013 levels.

The President's Budget also lays out a series of new infrastructure financing proposals that are detailed in the tax section of this analysis, including the creation of America Fast Forward bonds modeled on the former Build America Bonds program and changes to Private Activity Bonds. The proposals are intended to provide additional and more flexible financing tools for local governments and encourage private investment in the nation's infrastructure. At the same time, the President's Budget again proposes a 28 percent cap on the tax exemption for municipal bond and other tax exempt bond interest for high income taxpayers.

The policy contrasts between the President's Budget and the House and Senate Budget Resolutions are stark. Most significantly, the Ryan Budget would limit surface transportation spending to available Highway Trust Fund revenues, which would require a dramatic decrease in funding immediately after MAP-21 expires.

Taking a middle ground between the House and the President's Budget, the Senate Budget assumes the continuation of current spending levels after MAP-21 expires and creates a "deficit neutral reserve account" to allow savings or revenue from other parts of the Budget to be used to offset transfers into the Highway Trust Fund -- if Congress can find and agree on those offsets. It is also notable that the House Budget expressly prevents future High Speed Rail funding and that the discretionary caps in the Senate Budget leave no room for large, discretionary programs that are not currently funded -- leaving the President's Budget alone in proposing future High Speed Rail funding.

Major highlights of the Department of Transportation's FY 2014 Budget for surface transportation programs include:

- **$50 Billion in Immediate Transportation Investments:** The President's request includes $40 billion for the proposed "Fix it First" initiative and $10 billion for innovative infrastructure investments.
    - The $40 billion in "Fix it First" investments includes:
        - $25 billion for federal aid highways;
        - $9 billion for transit, consisting of $6 billion for the new State of Good Repair program under MAP-21, $2.5 billion for the urbanized and non-urbanized area formula programs, and $500 million for the new Core Capacity Improvement Grants that MAP-21 created within the New Starts program;
        - $2 billion for Amtrak;
        - $2 billion for Grants in Aid to Airports; and
        - $2 billion for Cross Border Transportation.
    - The $10 billion in innovative infrastructure investments includes:
        - $4 billion for a TIGER-TIFIA grant and innovative financing program;
        - $2 billion for Transportation Leadership Awards modeled on the Department of Education's Race to the Top program;
        - $3 billion for high speed and intercity passenger rail improvements; and
        - $1 billion for NextGen investments.
- **Highway and Transit Formula Programs:** The Budget reflects the funding levels and program structure authorized in MAP-21, providing $41 billion for federal-aid highways (including $1 billion for the TIFIA program) and $8.6 billion for mass transit in FY 2014 from the Highway Trust Fund.
- **TIGER:** In addition to the funding for TIGER included as part of the $50 billion in new infrastructure stimulus, the President's Budget includes $500 million for TIGER in FY 2014. TIGER was funded at $500 million for FY 2013 ($475 million post-sequester).
- **New Starts and Small Starts:** The Budget proposes $1.98 billion in new discretionary appropriations for New Starts and Small Starts projects in FY 2014, which would be available for obligation along with $151 million in unobligated balance for a total of $2.132 billion. The amount appropriated (post sequester) for FY 2013 was $1.84 billion. The list of funding recommendations

can be found on p.32 of the DOT's Budget Summary: http://goo.gl/nhDyF. It includes $1.685 billion for projects with existing Full Funding Grant Agreements (FFGAs); $195 million for new FFGA recommendations; $25 million for existing Small Starts construction grants; $88 million for "Small Starts Projects For Consideration," and reserves $120 million for Core Capacity Improvement Grants.

- **MAP-21 Reauthorization:** The President's Budget calls for a six-year reauthorization of MAP-21 beginning in FY2015 using war savings to offset both the current structural deficit in the Highway Trust Fund and to increase funding by approximately 25 percent over current levels through the reauthorization period. With respect to the funding increase, the Budget states that, "The Administration continues to champion additional spending above current service levels, and the Budget includes a reauthorization reserve of $88 billion over six years (2015-2020) to provide for these critical investments."
- **Passenger Rail Reauthorization:** The Budget proposes a five-year, $40 billion reauthorization of FRA's rail safety and passenger rail assistance programs, including establishing a National High Performance Rail System (NHPRS) program. The proposed NHPRS would consist of two main accounts: (1) Current Passenger Rail Service, which consolidates Amtrak's Capital and Debt Service accounts into a single program funded at $2.7 billion in FY 2014; and (2) the Rail Service Improvement Program (RSIP), which funds the development of high speed and intercity rail corridors, as well as certain intermodal freight facilities, and receives $3.7 billion in FY 2014. By comparison, Amtrak received $1.34 billion in FY 2013, and the High Speed Rail program has not received an appropriation since FY2010. The President proposes to create a new Rail Account within a renamed Transportation Trust Fund to fund these programs on the mandatory side of the Budget, meaning that they would be outside of the current strict discretionary spending caps. As described above, the President proposes to use "savings from ramping down overseas military operations" to fund the increased rail spending.
- **National Infrastructure Bank:** The President's FY 2014 Budget calls for a National Infrastructure Bank to be created as an independent governmental entity with an initial $10 billion appropriation, which would support approximately $100 million in low-interest loans and loan guarantees. Eligible projects would include transportation, water, and energy projects. The bank could finance up to 50 percent of eligible project costs. The Administration has proposed the creation of a National Infrastructure Bank in every budget dating back to FY2010, though with some variations in the structure of the bank.

Aviation

The Budget Request includes several provisions favorable to the aviation industry. Airports would be eligible recipients of Department of Transportation (DOT) grants of up to $2 billion out of the Administration's proposed $50 billion in Immediate Transportation Investments program, and such grants would cover 100 percent of the eligible costs. Moreover, airports would certainly benefit from the America Fast Forward (AFF) Bonds program, as airports greatly benefited from the Build America Bonds program in the American Recovery and Reinvestment Act, which expired at the end of 2011. But the biggest boost to commercial service airports would be an increase in the Passenger Facility Charge to $8.00 per passenger, capped at $4.50 since 2000.

On the revenue side, the Administration once again proposes a $100 per flight surcharge "to more equitably distribute the cost of air traffic services across the aviation user community," exempting piston aircraft among other classes of users. In the past, Congress has shown no appetite for this surcharge; the Administration is expected to argue that this revenue ($807 million in FY14) is needed to shore up the Trust Fund.

The Administration has also once again targeted the accelerated depreciation rules for the purchased of corporate aircraft.

Major program highlights of the FAA's FY 2014 Budget include:

- Airport Improvement Program (AIP): The proposal would reduce AIP funding by roughly $450 million, which is to be offset in part by eliminating passenger and cargo "entitlement" funds for large hub airports. Nearly all of the 29 large hub airports are on record willing to forego certain AIP funds in exchange for removing the passenger facility charge (PFC) cap. It is unclear whether or not the remainder of the offset would come from a rescission in carryover funds. The additional reduction in AIP funding would be more than offset if Congress were to enact the Administration's Immediate Transportation Investments program, of which $2 billion is designated for runway construction and repair, runway safety areas, and noise mitigation.
- **Next Generation Air Transportation System:** Next Gen comprises many programs and initiatives, spanning three accounts. In total, the Next Gen budget is up about 7 percent over prior years, totaling over $1 billion. The Facilities & Equipment (F&E) and Research, Engineering & Development (RED) accounts will support the bulk of Next Gen programs including: Performance Based Navigation, which promises many millions of dollars of savings to airlines for operations to and from major airports; implementation of Automated Dependent Surveillance-Broadcast (ADS-B), although there does not appear to be any funding to equip aircraft with ADS-B-Out and –In technology; and activities related to Unmanned Aircraft Systems, which Congress required to be integrated into the National Airspace System by 2015. The Operations account will fund the En Route Automation Modernization system, a software program used by en route controllers. Although NextGen faces considerable technological challenges, the issue of how to pay for Next Gen equipage remains the biggest unresolved question.
- **Essential Air Service Program:** The proposal would provide $246 million for the EAS program, an increase over the final FY2013 enacted level of $204 million. The proposal also seeks to remove the requirement that communities are entitled to subsidized service of an air carrier using aircraft of at least 15 seats, putting air carriers operating smaller aircraft (as lesser cost to the Federal Government) on a level playing field to bid on EAS contracts.

TAX AND REVENUE

The FY 2014 Budget Proposal divides the proposed changes in tax law into two broad categories: changes reserved for revenue neutral business tax reform and changes that would be independent of tax reform. It also contains a number of tax incentives intended to increase growth and create jobs, as well as a number of revenue raisers and provisions intended to reduce the deficit, simplify the tax code, reduce the tax gap, and strengthen tax administration. While there are some new provisions, including increased tobacco excise taxes, many of the provisions contained in the Budget Request, particularly on the revenue-raising side, are items the President has requested in years past that Congress has chosen not to act on in the absence of comprehensive tax reform.

The Treasury scores the changes in tax law that are independent of tax reform as raising just over $1 trillion in net new revenue over 10 years (relative to the adjusted baseline). This includes over $582 billion from several provisions targeted at upper-income taxpayers and $100 billion in new revenue derived by virtue of using the "chained CPI" for purposes of indexing tax provisions for inflation. These provisions are specifically earmarked in the Budget for use as part of President Obama's deficit reduction plan. The Administration's proposal also includes significant new revenue from increased taxes on estates, a variety of "loophole closers," and taxes on financial institutions and others.

With regards to corporate taxation, the Budget Request contains many of the same items on the revenue-raising side as have budgets past, with particular emphasis placed on the taxation of U.S.-based multinationals, oil and gas producers, and the financial services and insurance industries. What is new, however, is that the Administration places most of these in its new section of the Budget that calls for revenue-neutral business tax reform. This section of the Budget also includes a variety of tax cuts, including making permanent the Research and Development tax credit as well as increased small business expensing limits, among many others. The proposal "spends" on the Administration's tax reform proposals most of what it raises for tax reform, leaving only $95 billion to pay for tax reform items, such as the corporate rate reduction, that are not specifically included in the Administration's "revenue-neutral tax reform proposals." However, the Budget does not include a number of other potentially significant revenue raisers that the Administration has previously suggested should be used to pay for a lower corporate tax rate, including changes to capital cost recovery, the tax treatment of some passthrough entities, and limitations on the deductibility of interest expense. Each of these, and others, will clearly remain on the table.

Several of the high-profile disagreements on the tax treatment of upper-income individuals were resolved by the Administration and Congressional Republicans by enactment of the American Tax Relief Act (ATRA) legislation in early January, which permanently increased marginal rates on ordinary, capital gain and dividend income from their 2012 levels. Therefore, unlike past budgets, the FY 2014 proposal does not call for an increase in individual marginal income tax rates. It does, however, include two significant provisions targeted at upper-income taxpayers that would increase their effective rate of tax: (1) a limitation on the use of tax exclusions and deductions; and (2) codification of the so-called "Buffet Rule."

Unlike prior years, the Administration's proposal does not call for wholesale extension of the litany of expiring business, individual and energy tax provisions that have been routinely extended on a year-to-year basis. Instead, the President proposes to make permanent a select few of the traditional tax "extenders." Those "extender" items proposed for permanence in the Budget are clearly reflective of the Administration's priorities (and are likely "must have's" from the Administration's perspective in the context of tax reform). However, the absence of certain provisions from the proposal should not be read as rejection by the Administration, but rather as a signal that the Administration considers them a lesser priority to be worked out in the tax reform process.

Tax proposal highlights from the Administration's FY 2014 Budget include the following provisions:

Adjustments to Baseline

As in past years, the Administration's Budget uses an adjusted baseline for purposes of scoring the cost of its proposals. That adjusted baseline is much closer to a "current law" baseline than it was in budgets past, due to the early January enactment of the American Taxpayer Relief Act (ATRA), which with the stroke of an auto-pen made nearly $4 trillion of tax policy permanent. The adjusted baseline here makes only a few changes to the current law baseline by assuming permanence of three provisions that were extended for five years (through 2017) in ATRA and are, thus, not yet permanent in law: (1) the American Opportunity Tax Credit (AOTC); (2) the Earned Income Tax Credit (EITC) expansions; and (3) the Child Tax Credit (CTC) expansion. Permanence of these provisions in the adjusted baseline signals that these provisions are core priorities for the Administration, while simultaneously allowing the Administration to assert that making them permanent has no "cost." The baseline adjustment totals $161 billion over a ten-year period.

- **American Opportunity Tax Credit:** The American Recovery and Reinvestment Act of 2009 (Recovery Act) created the AOTC to replace the Hope Scholarship credit for taxable years 2009 and 2010. The Tax Relief, Unemployment Reauthorization and Job Creation Act of 2010 extended the AOTC to taxable years 2011 and 2012. Most recently, the American Taxpayer Relief Act of 2012 (ATRA) extended the AOTC through tax year 2017. The AOTC provides a tax credit equal to 100 percent of the first $2,000, plus 25 percent of the next $2,000, of qualified tuition and related expenses for a maximum credit of $2,500. The credit phases out for taxpayers with adjusted gross income between $80,000 and $90,000 ($160,000 and $180,000 if married filing jointly). Effective for taxable years beginning after December 31, 2017, the Budget would make the AOTC a permanent replacement for the Hope Scholarship credit.
- **Earned Income Tax Credit:** As in prior years, the Administration proposes to make permanent, at a 45 percent credit percentage, the EITC for low-income families with three or more qualifying children.
- **Child Tax Credit:** The Recovery Act reduced the earned income threshold for the child tax credit to $3,000 in tax years 2009 and 2010. Later legislation extended the reduced threshold through 2017. After 2017, the earned income threshold will increase to $10,000 (indexed after 2001). For taxable years beginning after December 31, 2017, the proposal would make permanent the reduction of the earned income threshold to $3,000.

Reserve for Revenue-Neutral Business Tax Reform

In an effort to encourage comprehensive tax reform, the Administration proposes a set of provisions designed to reduce corporate tax preferences and broaden the corporate tax base. The Administration proposes that these provisions be enacted as part of revenue-neutral business tax reform. As a result, these provisions are presented in a discrete section of the Administration's Budget Proposal, and the net savings derived therefrom is not included in the Administration's stated goal of new revenue for deficit reduction.

Manufacturing, Research and Clean Energy Incentives

- **Incentives for Expanding Manufacturing and Insourcing Jobs:** The Administration's Budget Proposal includes provisions aimed at expanding manufacturing and insourcing of U.S jobs. One proposal would create a new general business credit against income tax equal to 20 percent of the eligible expenses paid or incurred in connection with insourcing a U.S. trade or business. For this purpose, insourcing a U.S. trade or business means reducing or eliminating a trade or business (or line of business) currently conducted outside the U.S. and starting up, expanding, or otherwise moving the same trade or business within the U.S., to the extent that this action results in an increase in U.S. jobs. Further, deductions for expenses paid or incurred in connection with outsourcing a U.S. trade or business would be disallowed. For this purpose, outsourcing a U.S. trade or business means reducing or eliminating a trade or business or line of business currently conducted inside the U.S. and starting up, expanding, or otherwise moving the same trade or business outside the U.S., to the extent that this action results in a loss of U.S. jobs. For purposes of the proposal, expenses paid or incurred in connection with insourcing or outsourcing a U.S. trade or business are limited solely to expenses associated with the relocation of the trade or business and do not include capital expenditures or costs for severance pay and other assistance to displaced workers.

- **Repeal of Domestic Manufacturing Deduction for Oil, Gas, Coal and Hard Mineral Fossil Fuels:** For taxable years beginning after 2009, the manufacturing deduction is generally equal to 9 percent of the lesser of qualified production activities income for the taxable year or taxable income for the taxable year, limited to 50 percent of the W-2 wages of the taxpayer for the taxable year. The deduction for income from oil and gas production activities is computed at a 6 percent rate. Qualified production activities income is generally calculated as a taxpayer's domestic production gross receipts. Although the proposal would retain the overall manufacturing deduction, it would exclude from the definition of domestic production gross receipts, all gross receipts derived from the sale, exchange, or other disposition of oil, natural gas or a primary product thereof for taxable years beginning after December 31, 2013. There is a parallel proposal to repeal the domestic manufacturing deduction for coal and other hard mineral fossil fuels.

- **Manufacturing Communities Tax Credit:** Currently, no tax incentive exists that is directly targeted to investments in communities that do not qualify as low-income communities but have suffered an economic disruption as a result of a major job loss event. Therefore, Administration proposes a new allocated tax credit to support investments in communities that have suffered a major job loss event such as a military base closure or a substantial reduction in a facility or operating unit that results in a long-term mass layoff. Applicants for the credit would be required to consult with relevant state or local Economic Development Agencies in selecting those investments that qualify for the credit. Full details of the credit are to be worked out, and the Administration intends to work with Congress to craft the appropriate structure and selection criteria. The proposal would provide about $2 billion in credits for qualified investments approved in each of the three years, 2014-2016.

- **Make Research & Experimentation Tax Credit Permanent:** The research and experimentation (R&E) tax credit, which expires on December 31, 2013, is for 20 percent of qualified research expenses above a base amount. The base amount is the product of the taxpayer's "fixed base percentage" and the average of the taxpayer's gross receipts for the four preceding years. The base amount cannot be less than 50 percent of the taxpayer's qualified research expenses for the taxable year. The R&E tax credit also provides a credit for 20 percent of: (1) basic research payments above a base amount; and (2) all eligible payments to an energy research consortium for energy research. The law provides for a simplified alternative calculation that results in a credit at a lower rate. The Budget would make the R&E credit permanent and, effective after December 31, 2012, increase the rate on the alternative simplified credit from 14 percent to 17 percent. These changes would provide an additional $99 billion in incentives for research over the next 10 years.

- **Tax Credit for the Production of Advanced Technology Vehicles:** The Budget Proposal would replace the credit for plug-in electric drive motor vehicles with a credit for advanced technology vehicles meeting the following criteria: (1) the vehicle operates primarily on an alternative to petroleum; (2) as of the January 1, 2012, there are few vehicles in operation in the U.S. using the same technology as such vehicle; and (3) the technology used by the vehicle exceeds the footprint based target miles per gallon gasoline equivalent by at least 25 percent.
- **Energy Efficient Buildings:** The Administration would raise the current maximum deduction for energy efficient commercial building property to $3.00 per square foot (up from $1.80). The maximum partial deduction allowed with respect to each separate building system would be increased to $1.00 per square foot, along with a specialized increase in the maximum partial deduction to $2.20 per square foot for taxpayers that simultaneously satisfy the energy savings targets for both building envelope as well as heating, cooling, ventilation, and hot water systems. Energy-savings targets would be updated every three years. The proposal would also provide a new deduction based on a combination of the projected and realized energy savings performance achieved by a plan to retrofit existing commercial buildings. The new deduction would be capped at 50 percent of the total cost of implementing the retrofit plan. The deduction would be available for property placed in service after December 31, 2013.
- **Miscellaneous**: The Administration's Budget Proposal would restructure assistance to New York City by providing tax incentives for transportation infrastructure, modify the rules for tax-exempt bonds for Indian tribal governments, reform and expand the lower-income housing tax credit, extend certain employment tax credits including incentives for hiring veterans, provide a tax credit for medium- and heavy-duty alternative fuel commercial vehicles, and modify and permanently extend the renewable energy production credit.

Small Business Measures

- **Qualified Small Business Stock Incentives:** The Administration would make permanent the 100 percent exclusion for capital gains on the sale of qualified small business stock, extend the 60 day rollover period to 6 months for qualified small business stock held for 3 years, and eliminate the AMT preference for gains excluded from income.
- **Expensing for Small Business:** Small businesses may expense up to $500,000 in qualifying depreciable property through 2013. The amount of allowable expenses phases out beginning at $2 million of qualifying investment. The Administration would permanently extend these limitations and index them for inflation beginning after 2013.

Regional Growth Provisions

- **New Markets Tax Credit:** The Administration proposes to extend the new markets tax credit, which under current law will expire on December 31, 2013, permanently with an allocation amount of $5 billion per year. The Administration proposes that $250 million of the $5 billion be allocated to support healthy food options in distressed communities as part of the Healthy Food Financing Initiative. The proposal would permit the credit to permanently offset alternative minimum tax liability and would be effective upon enactment.

International Tax Reforms

- **Deferral of Interest Expense Deduction:** The Budget defers the deduction of interest expense that is properly allocated and apportioned to stock of a foreign corporation that exceeds an amount proportionate to a taxpayer's pro rata share of income from such subsidiaries currently subject to U.S. tax. The Administration notes that the Treasury Department will continue to revise existing regulations and propose changes to the Internal Revenue Code (the Code) to prevent inappropriate decreases in the amount of interest expense that is allocated and apportioned to foreign-source income. The proposal would be effective for tax years beginning after December 31, 2013 and would raise $36.5 billion over ten years.
- **Foreign Tax Credit "Pooling":** To prevent taxpayers from cross-crediting between different foreign tax credit limitation categories when calculating the section 902 credit for deemed paid foreign taxes, the Administration would require calculation of the deemed paid foreign tax credit on a consolidated basis, based on the aggregate foreign taxes and earnings and profits of all foreign subsidiaries for which a taxpayer can claim the deemed paid foreign tax credit. The Treasury Department would be granted authority to issue regulations necessary to carry out the proposal. This change to section 902 of the Code would be effective for taxable years beginning after December 31, 2013 and would raise $65.8 billion over ten years.
- **Transactions Involving Intangibles:** When a taxpayer transfers intangibles to a related controlled foreign corporation, this proposal would treat certain excess income from transactions relating to the intangible as subpart F income if the income is subject to a low foreign effective tax rate. Under the Budget Proposal, a transfer would include a sale, lease, license, or any shared risk or development agreement, including any cost-sharing agreement. The subpart F income arising under this proposal would be included in a separate category of income for purposes of determining the foreign tax credit limitation under section 904 of the U.S. Tax Code. In a separate proposal, the definition of "intangible property" under sections 367(d) and 482 of the U.S. Tax Code would be clarified to include workforce in place, goodwill, and going concern value. Further, the Budget Proposal would provide the IRS broad flexibility to value intangible property on an aggregate basis where multiple properties are transferred so as to achieve a more "reliable result", and to consider prices or profits the taxpayer could have realized under a realistic alternative transaction involving transfer of the intangible properties. Both proposals would be effective for taxable years beginning after December 31, 2013 and together would raise about $26.1 billion over ten years.
- **Disallowance of Deduction for Reinsurance Premiums:** The Administration's Budget Proposal would disallow the deduction of reinsurance premiums paid to related foreign affiliates that are not subject to U.S. income tax with respect to the premiums received. Further, the Budget Proposal would allow a company to which the proposed disallowance rule applies to exclude from its income any return premiums, ceding commissions, reinsurance recovered, or other amounts received with respect to reinsurance policies. This income exclusion is limited, however, to amounts "in the same proportion that the premium deduction was denied." This proposal would be effective for policies issued in taxable years after December 31, 2013 and raise $6.2 billion over ten years.
- **Earnings Stripping Limitation:** As in prior budgets, the Administration would limit interest deductions when paid by an "expatriated entity" to related parties by eliminating the debt-to-equity safe harbor for these entities and lowering the threshold for application of the limitation from 50 percent to 25 percent of the entity's adjusted taxable income. The carryforward for disallowed

interest would be limited to ten years, and the carryforward of excess limitation would be eliminated. An entity would be determined to be an "expatriated entity" by applying the rules in section 7874 of the Code as if these rules applied for taxable years beginning after July 10, 1989. This proposal would be effective for taxable years beginning after December 31, 2013 and raise $4.65 billion over ten years.

- **Dual Capacity Taxpayers:** The Budget Proposal would tighten the foreign tax credit rules that apply to taxpayers that are subject to a foreign levy and that also receive directly or indirectly a specific economic benefit from the levying country. The Budget Proposal also would provide a separate category under the foreign tax credit limitations in section 904 of the Code for foreign oil and gas income (rather than the current rules in section 907). This proposal would be effective for taxable years beginning after December 31, 2013 and raises $10.964 billion over ten years.
- **Gain from Sale of a Partnership:** The Administration's proposal would treat gain or loss from the sale of a partnership interest as effectively connected income and subject to U.S. taxation to the extent attributable to the partner's share of the partnership's unrealized gain or loss from property used in a trade or business in the United States. To ensure that the tax on the gain is paid, the transferee of a partnership interest would be required to withhold 10 percent of the amount realized on the sale of a partnership interest unless the transferor certified that it was not a nonresident alien individual or foreign corporation. Lower withholding would be permitted if the transferor provided a certificate from the IRS that established that the transferor's federal income tax liability from the transfer was less than 10 percent. If the transferee failed to withhold the correct amount, the partnership would be liable for the shortfall and would satisfy the obligation by withholding on future distributions that otherwise would have gone to the transferee partner. This proposal would be effective for tax years beginning after December 31, 2013 and raise $2.65 billion over ten years.
- **Leveraged Distributions from Related Foreign Corporations:** The Budget would limit leveraged distributions from related foreign corporations by not taking into account the U.S. shareholder's basis in the stock of the distributing corporation for purposes of determining the treatment of the distribution under section 301 of the Code to the extent a foreign corporation funds a related foreign corporation with a principal purpose of avoiding dividend treatment on distributions to the U.S. shareholder. Under the Budget Proposal, a funding transaction would include capital contributions, loans, or distributions to the foreign distributing corporation, whether the funding transaction occurs before or after the distribution. This proposal would be effective for distributions made after December 31, 2013 and raises $3.2 billion over ten years.
- **Other Changes**: The Budget Proposal would extend the application of section 338(h)(16) of the Code (which states that a deemed asset sale resulting from a section 338 election is not treated as occurring for purposes of determining the source or character of income for foreign tax credit rules) to other transactions that are treated as asset acquisitions for U.S. tax purposes but the acquisition of an entity for foreign tax purposes. The proposal would also remove foreign taxes from a section 902 corporation's foreign tax pool when earnings are eliminated.

Financial Products and Insurance Treatment

- **Changes in Tax Treatment of Derivatives Products:** The Administration's proposal would require derivative contracts to be marked to market annually, and would treat resulting gain or loss as ordinary. Mark to market accounting would not be required for business hedging transactions. The

Budget would also eliminate section 1256 (mark to market and 60/40 capital gains treatment) and section 1092 (tax straddles) and significantly limit the application of section 1233 (short sales), section 1234 (gain or loss from an option), section 1234A (gains or losses from certain terminations), section 1258 (conversion transactions), section 1259 (constructive sales transactions), and section 1260 (constructive ownership transactions). The proposal would raise $18.9 billion over ten years.

- **Sales of Life Insurance Contracts:** Recent years have seen a significant increase in the number and size of life settlement transactions, wherein individuals sell previously-issued life insurance contracts to investors. Under a transfer-for-value rule, the buyer of a previously issued life insurance contract who subsequently receives a death benefit generally is subject to tax on the difference between the death benefit received and the sum of the amount paid for the contract and premiums subsequently paid by the buyer. However, there are exceptions to this rule that may give investors the ability to structure a transaction to avoid paying tax on the profit when the insured person dies. The Budget proposes to require a person or entity who purchases an interest in an existing life insurance contract with a death benefit equal to or exceeding $500,000 to report the purchase price, the buyer's and seller's taxpayer identification numbers (TINs), and the issuer and policy number to the IRS, to the insurance company that issued the policy, and to the seller. The Budget also would modify the transfer-for-value rule to ensure that exceptions to that rule would not apply to buyers of policies. Upon the payment of any policy benefits to the buyer, the insurance company would be required to report the gross benefit payment, the buyer's TIN, and the insurance company's estimate of the buyer's basis to the IRS and to the payee.

- **Proration Rules for Insurance Companies:** Corporate taxpayers may generally qualify for a dividends-received deduction (DRD) with regard to dividends received from other domestic corporations to prevent or limit taxable inclusion of the same income by more than one corporation. For life insurance companies, the DRD is permitted only with regard to the "company's share" of dividends received, reflecting the fact that some portion of the company's dividend income is used to fund tax-deductible reserves for its obligations to policyholders. The system for computing the company's share and policyholders' share of net investment income is sometimes referred to as proration. The proration regime currently used by some taxpayers may produce a company's share that greatly exceeds the company's economic interest in the net investment income earned by its separate account assets, generating controversy between life insurance companies and the Internal Revenue Service. The Budget Proposal would repeal the existing regime for prorating investment income between the "company's share" and the "policyholders' share." The general account DRD, tax-exempt interest, and increases in certain policy cash values of a life insurance company would instead be subject to a fixed 15 percent proration in a manner similar to that which applies under current law to non-life insurance companies. The limitations on DRD that apply to other corporate taxpayers would be expanded to apply explicitly to life insurance company separate account dividends in the same proportion as the mean of reserves bears to the mean of total assets of the account. The proposal would thus put the company's general account DRD on a similar footing to that of a non-life company, and would put its separate account DRD on a similar footing to that of any other taxpayer with a diminished risk of loss in stock that it owns, or with an obligation to make related payments with regard to dividends.

Fossil Fuel Treatment

- **Elimination of Fossil Fuel Preferences:** The Budget Proposal eliminates eleven oil and gas and coal preferences and in so doing raises $44 billion over 10 years. *Please see the Energy Section of this Memorandum for more details on these provisions.*

Other Revenue Raisers for Reserve

- **Repeal of LIFO for Inventories**: The Budget contains a proposal that would not allow the use of the LIFO inventory accounting method for federal income tax purposes. Taxpayers that currently use the LIFO method would be required to write up their beginning LIFO inventory to its FIFO value in the first taxable year beginning after December 31, 2013. Taxpayers would be permitted, however, to take this one-time increase into gross income ratably over ten years, beginning with the first taxable year beginning after December 31, 2013. The proposal raises $80.8 billion over ten years.
- **Interest Expense Disallowance for COLI:** To prevent tax arbitrage by leveraged businesses, the exception from the pro rata interest expense disallowance rule for life insurance and endowment contracts covering employees, officers or directors (except 20 percent owners of a business that owns or is a beneficiary of the contracts) would be repealed. This provision raises $5.9 billion over ten years.
- **Repeal Gain Limitation for Dividends Received in Reorganization Exchanges:** The boot-within-gain limitation that applies in reorganization transactions would be repealed for any transaction where the exchange has the effect of the distribution of a dividend.
- **Deduction for Punitive Damages:** A taxpayer would not be allowed a deduction for punitive damages, whether upon a judgment or in settlement of a claim. The deduction would be disallowed for damages paid or incurred after December 31, 2014. Insurance payments to cover punitive damages would be included in the insured's income.
- **Prohibit Use of Lower-of-Cost-or-Market Inventory Accounting:** The "lower of cost or market" inventory accounting method would be statutorily prohibited.
- **Depreciation of General Aviation Aircraft:** Corporate jets and other general aviation aircraft primarily used for carrying passengers would be depreciated over the same 7-year period (or 12 year period for taxpayers using the alternative depreciation system) that applies to airplanes used in the commercial or contract carrying of passengers or freight.
- **Built-In Losses for Purposes of Partnership Loss Transfers:** The proposal would expand the definition of built-in loss for purposes of the "substantial built-in loss" rules applicable in the case of transfers of partnership interests.
- **Basis Limitation for Nondeductible Partnership Expenditures:** The partnership basis rule that limits deductions for losses would be expanded to apply to a partner's distributive share of expenditures that are not deductible in computing the partnership's taxable income.

BUDGET PROPOSALS

Jobs Provisions

- **New Jobs and Wage Credit:** The Administration proposes to provide a one-year income tax credit for increases in wage expense, whether driven by job creation or higher wages. The credit would equal ten percent of the increase in the employer's 2012 eligible wages over the prior year. Eligible wages are the employer's Old Age Survivors and Disability Insurance (OASDI) wages. The maximum credit would be $500,000. For employers with no OASDI wages in 2012, eligible wages in 2012 would be 80 percent of their 2013 eligible wage base. To focus the benefit on small businesses, the credit would be limited to employers with less than $20 million in OASDI wages in 2012.
- **Advanced Energy Manufacturing Credit:** The Budget would make available an additional $2.5 billion, down from $5 billion in last year's proposal, of credits for investments in eligible property used in a qualifying advanced energy manufacturing project. Taxpayers would be able to apply for a credit with respect to part or all of their qualified investment. Applications for the additional credits would be made during the two-year period beginning on the date on which the additional authorization is enacted.
- **Designation of Promise Zones:** The Administration proposes to designate 20 promise zones (14 in urban areas and 6 in rural areas). The zone designation would occur in four rounds of five zones each, which will become effective at the beginning of 2015, 2016, 2017, and 2018. The zones will be chosen through a competitive application process based on the strength of the applicant's competitiveness plan and other criteria, including the need to attract investment and jobs. The Budget includes tax incentives for employers who employ zone residents and for certain property placed in service by businesses in promise zones.

Infrastructure Measures

- **America Fast Forward Bonds:** The Budget would create a new, permanent bond program that would be an optional alternative to traditional tax-exempt bonds. Like Build America Bonds (BABs), America Fast Forward (AFF) Bonds would be taxable bonds issued by State and local governments in which the Federal Government makes direct payments to governmental issuers at a 28 percent subsidy payment rate. The Budget proposes broadening the use of AFFs beyond the types of projects eligible for BABs to include financing for section 501(c)(3) nonprofit entities and the types of projects that can be financed with qualified private activity bonds (PABs).

  The Budget also includes a temporary 50-percent Federal subsidy rate for "American Fast Forward Bonds for School Construction." Eligible uses would include: (1) original financings for governmental capital projects for public schools and state universities; and (2) new money financings for section 501(c)(3) nonprofit educational entities such as nonprofit schools and nonprofit universities that could use qualified section 501(c)(3) bonds. This temporary subsidy would be effective for bonds issued in 2014 and 2015.
- **Private Activity Bonds:** The Administration proposes modifying certain restrictions in the qualified private activity bonds (PABs) program. The various proposals include repealing the $150 million limit on volume of outstanding nonhospital section 501(c)(3) organization bonds, increasing the national limitation for qualified highway or surface freight transfer facility bonds from $15 billion to $19 billion, eliminating the volume cap for qualified PABs issued for water infrastructure, increasing

the limitation on the use of proceeds for land acquisition from 25 percent to 35 percent, and repealing the government ownership requirement for certain types of exempt facility bonds.

- **Foreign Pension Funds Exempt from FIRPTA:** The Budget would exempt from the application of the Foreign Investment in Real Property Tax Act (FIRPTA) gains of foreign pension funds from the disposition of U.S. real property interests. Under the proposal, a foreign pension fund would generally mean a trust, corporation, or other organization or arrangement that is created or organized outside of the United States; generally exempt from income tax in the jurisdiction in which it is organized; and substantially all of the activity of which is to administer or provide pension or retirement benefits. The Treasury Department would be granted authority to issue regulations necessary to carry out the proposal. The proposal would be effective for dispositions of U.S. real property interests occurring after December 31, 2013 and would cost $2.2 billion over ten years.
- **Miscellaneous:** The Budget would authorize current refundings of State or local bonds that meet certain requirements. The provision would apply generally to State and local bond programs or provisions that do not otherwise allow current refundings or expressly address the treatment of current refundings.

Individual Tax Provisions

- **Automatic IRA:** The Administration proposes to require employers with 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. If the employer already sponsors a retirement plan, it would not be required to provide the automatic IRA option for its employees. The employer offering automatic IRAs would give employees the opportunity to "elect out" of the program. Any employee who does not provide a written election would be enrolled at a default rate of 3 percent of the employee's compensation. Small employers that offer the automatic IRA arrangement could claim a non-refundable tax credit for their expenses and employers offering a qualified retirement plan may be eligible for enhanced non-refundable tax credits for the "start-up costs" of establishing a new qualified retirement plan.
- **Expand the Child and Dependent Care Tax Credit:** The Budget Proposal would permanently increase the beginning of the phasedown for the child care credit to $75,000 for tax years beginning after 2013.
- **Exclusion from Income for Certain Student Loan Indebtedness:** Federal student loan programs provide borrowers with two options for making payments that are related to their income levels after college. For those who comply with the programs, any remaining loan balance is forgiven after a certain period. The Budget Proposal would exclude from gross income amounts forgiven at the end of the repayment period for certain borrowers using the income-contingent method or the income-based repayment option. In addition, the Administration proposes to exclude from income student loans forgiven under the Indian Health Service Loan Repayment program and exempt from income certain scholarship amounts paid to participants in the Indian Health Service Health Professions Scholarship program.

Upper-Income Provisions

- **Limitation on Use of Itemized Deductions:** This provision, which has been a staple of past Obama Budget Proposals, would limit the tax rate at which upper-income taxpayers can use most tax exclusions and deductions to reduce tax liability to a maximum of 28 percent (28 percent limitation). This limitation would affect taxpayers in the 33, 35 or 39.6 percent tax brackets, and would apply as an additional limitation for itemized deductions that have already been reduced by so-called Pease limitations. The 28 percent limitation would apply under the Alternative Minimum Tax.

- Income exclusions and above-the-line deductions limited to 28 percent include any interest from state and local tax-exempt bonds, employer-sponsored health insurance payments made by employers or by employees with pre-tax employee dollars, health insurance costs of self-employed individuals, contributions to health savings accounts, interest on education loans, and certain higher education expenses. The Budget would also limit the deduction for employee contributions to defined contribution retirement plans and individual retirement arrangements, while allowing the taxpayer's basis to be adjusted to reflect the additional tax imposed. All itemized deductions would be subject to a 28 percent limitation, including deductions for state and local property, income and sales taxes, interest paid (including mortgage interest), charitable gifts, medical and dental expenses, and casualty and theft losses. This proposal raises $529 billion over 10 years and would be effective for taxable years beginning after December 31, 2013.

- **Codification of the Buffet Rule**: The Budget also seeks to codify the so-called "Buffett Rule" by instituting a new minimum "Fair Share Tax" (FST) for certain upper-income taxpayers whose effective tax rates are lower than 30 percent (generally due to significant long-term capital gain and qualified dividend income, which are taxed at preferential rates). While new to the Budget, this has been included in past Administration deficit reduction proposals, and versions of it have been voted on in Congress. The FST is the excess, if any, of the tentative FST over the sum of (i) the "regular income tax" (which the proposal appears to define as the sum of (A) the tax on tax taxable income as reduced by most allowable credits but not the foreign tax credit, (B) the alternative minimum tax and (C) the 3.8 percent surtax on investment income) and (ii) the employee portion of payroll taxes.

  The FST would phase in linearly beginning with taxpayers with AGI above $500,000 ($1,000,000 for married couples filing jointly), and would become fully effective with a 30 percent minimum tax rate for taxpayers with AGI over $1,000,000 ($2,000,000 for married taxpayers filing jointly). AGI would be reduced by a credit for itemized charitable contributions, but that credit would be limited to 28 percent after any applicable Pease limitations are applied. In addition, the AGI thresholds would be indexed annually for inflation. The Budget Proposal raises $53 billion over 10 years, and would be effective for taxable years beginning after December 31, 2013.

Estate and Gift Tax

- **Restore Estate, Gift and Generation Skipping Transfer Tax Rates to 2009 Levels:** Although new estate tax parameters were made permanent several months ago in ATRA, the FY 2014 Budget proposes increasing the tax on large estates. Beginning in 2018, The Budget Proposal would make permanent the estate, GST, and gift tax parameters that applied during 2009. The top tax rate would be 45 percent and the exclusion amount would be $3.5 million for estate and GST taxes, and $1 million for gift taxes. The exclusion amounts would not be indexed for inflation. The portability of unused estate and gift tax exclusions between spouses would be retained.

- **Impose Consistency Requirements in Valuations for Income and Transfer Taxes:** The Budget Proposal would require consistency between income and transfer taxes. The basis of property received by reason of death would equal the value of the property for estate tax purposes. The basis of property received by gift during the donor's life would equal the donor's adjusted basis increased by the gift tax paid (but not more than fair market value). The executor of the estate or the donor would have to provide the valuation and basis information to both the recipient and the Internal Revenue Service.
- **Changes in Rules Relating to GRATs:** The Budget Proposal would impose new requirements on grantor retained annuity trusts created after the date of enactment. A GRAT would have a minimum term of ten years and a maximum term of life expectancy plus ten years. The remainder interest would have to have positive value at the time the GRAT is created. The proposal would prohibit decreases in the annuity during the GRAT term.
- **Duration of GST Tax Exemption:** The allocation of an amount of GST exemption to a transfer or trust excludes both the amount from the tax upon transfer or creation of the trust and all appreciation and income on that amount during the existence of the trust. The Budget Proposal would limit the latter benefit to 90 years. The amendment would apply to trusts created after enactment and to additions after the date of enactment to trusts created before enactment.
- **Coordinate Income and Transfer Tax Rules Applicable to Grantor Trusts:** In some cases in which a grantor or other person is treated as the owner of the assets of a grantor trust for income tax purposes, the trust is not included in the deemed owner's gross estate for estate tax purposes at the death of the deemed owner. To avoid potential abuse relating to this distinction, The Budget Proposal includes a special rule if the deemed owner of a grantor trust engages in a sale, exchange or comparable transaction with the trust and the transaction is disregarded for income tax purposes. The portion of the trust attributable to the property received in the transaction will be subject to gift tax at any time during the deemed owner's life when his or her treatment as deemed owner of the trust is terminated or to the extent that a distribution is made to another person. If the deemed owner remains owner of the trust until death, the portion will be treated as part of the estate of the deceased owner. The estate or gift tax would be payable by the trust. The amendment would apply to trusts that engage in the described transactions on or after the date of enactment.

Financial Industry Measure

- **Financial Crisis Responsibility Fee:** To finance the Troubled Asset Relief Program (TARP) as well as discourage what it believes to be excessive risk taking, the President's Budget again proposes a "Financial Crisis Responsibility Fee." The fee would be applied to U.S.-based bank and thrift holding companies, certain broker-dealers, and to companies that control broker-dealers and insured depository institutions. U.S. companies owning or controlling such entities as of January 14, 2010, would also be subject to this fee. The fee applies to entities with worldwide consolidated assets of $50 billion or more, including U.S. subsidiaries of foreign firms with assets at or above this threshold. The current proposal would impose a fee at a rate of 17 basis points (similar to last year's FY 2013 Budget, but different than the FY 2012 Budget which set the fee at 7.5 basis points). A 50 percent discount would apply to more stable sources of funding, including long-term liabilities. The fee would be based on the covered liabilities of a financial firm, though there are exceptions for insurance companies with respect to certain policy reserves and other policyholder obligations. The

Budget would subject firms to the fee beginning on January 1, 2015, and would raise approximately $59 billion over 10 years.

Additional Revenue Raisers in Budget

- **Reinstatement of Superfund Excise Taxes and Superfund Environmental Income Tax:** To remedy damages caused by the release of hazardous substances, the Administration's Budget would reinstate Superfund excise taxes including: (1) an excise tax on domestic crude oil and on imported petroleum products at a rate of $0.097 per barrel; (2) an excise tax on listed hazardous chemicals at a rate that varies from $0.22 to $4.87 per ton; and (3) an excise tax on imported substances that use as materials in their manufacture or production one or more of the hazardous chemicals subject to the excise tax described in (2) above. The excise taxes would be extended to cover certain sources of crude that were not covered by the old tax. In addition, the Budget would reinstate the corporate environmental income tax at a rate of 0.12 percent on a corporation's modified alternative minimum taxable income that exceeds $2 million. The "modified alternative minimum taxable income" is defined as a corporation's alternative minimum taxable income, determined without regard to the alternative minimum tax net operating loss deduction and the deduction for the corporate environmental income tax. The three Superfund excise taxes and the corporate environmental income tax would be reinstated after December 31, 2013 and would sunset after December 31, 2023, raising $20.2 billion over ten years.
- **Increase Oil Spill Liability Trust Fund Tax Rate:** The Budget would increase the rate of the Oil Spill Liability Trust Fund tax to 9 cents per barrel for periods after December 31, 2013 and to 10 cents per barrel for periods after December 31, 2017.
- **Increase Tobacco Taxes:** Beginning in 2014, The Budget would increase the tax on cigarettes from just under $1.01 per pack to about $1.95 per pack and increase all other excise taxes on tobacco products and cigarette papers and tubes by roughly the same proportion. Excise tax rates would be increased for inflation annually. Payable on or before April 1, 2014, The Budget also includes a one-time floor stocks tax that generally applies to tobacco products, cigarette papers, and tubes that are held for sale on January 1, 2014. The Administration also proposes to clarify that roll-your-own tobacco includes any processed tobacco that is removed or transferred for delivery to anyone without a proper permit, but does not include export shipments of processed tobacco. The Budget would raise $78 billion over ten years.
- **Carried Interest:** The Administration includes a familiar proposal in its Budget Proposal to treat a partner's share of income from an "investment services partnership interest" in an investment partnership as ordinary income subject to tax as ordinary income and to the self-employment tax, rather than capital gains. This proposal assumes that the gain recognized on the sale of an "investment services partnership interest" would generally be taxed as ordinary income, not as capital gain. An "investment services partnership interest" is a carried interest held by a person who provides "services" to the partnership. A partnership is considered an investment partnership if the majority of its assets are certain investment-type assets and if over half of the partnership's contributed capital is from partners in whose hands the interests constitute property held for the production of income (as opposed to held as part of a trade or business). The Budget includes an exception for income and gain attributable to a partner's invested capital, even if that partner also holds an "investment services partnership interest," if the partnership allocations to the invested capital are done in the same manner as allocations to other capital interests held by partners who do

not hold an "investment services partnership interest" and the allocations to these "other partners" are significant. To provide protection against abuse, a partner that provides services to an entity and holds a "disqualified interest" in the entity is subject to ordinary income taxation on all income or gain received with respect to its interest. A disqualified interest is convertible or contingent debt, an option, or other derivative instrument with respect to the entity (but does not include a partnership interest, stock in certain taxable corporations, or stock in an S corporation). Notably, the proposed carried interest rule is "not intended" to adversely affect qualification of a REIT owning a carried interest in a real estate partnership. This proposal would be effective for taxable years ending after December 31, 2013 and would raise $15.9 billion over ten years.

- **Permanently Reinstate Unemployment Insurance Surtax:** The Budget Proposal would raise over $15 billion over ten years by permanently reinstating for wages paid after 2013 the 0.2 percent unemployment tax surtax that expired on July 1, 2011.
- **Expand Federal Unemployment Tax Base:** The President's Budget would raise more than $50 billion over ten years by raising the Federal Unemployment Tax (FUTA) base from $7,000 to $15,000 in 2016 and index the wage base to wage growth for subsequent years. The Budget would reduce the net FUTA tax (the difference between the calculated tax and the credit allowed for state unemployment taxes) from 0.8 percent to 0.37 percent. The proposal would also provide short-term relief to employers by suspending certain interest charges and FUTA credit reductions for employers in states that borrowed from the Federal UI trust fund.
- **Worker Classification:** The classification of workers as employees or independent contractors generally is based on a common-law test for determining whether an employment relationship exists. The main factor is whether the service recipient (the employer) has the right to control not only the result of the worker's services but also the means by which the worker accomplishes that result. Since 1978, the IRS has not been permitted to issue general guidance addressing worker classification and, in many instances, has been precluded from reclassifying workers – even prospectively – who may have been misclassified. This proposal would permit the IRS to require prospective reclassification of workers who are currently misclassified and whose reclassification has been barred under current law. Penalties would be reduced for employers who voluntarily reclassify their workers before being contacted by the IRS if the employer had complied with reporting requirements for independent contractors in the past. The Budget also would allow Treasury and the IRS to issue guidance on the proper classification of workers under common law standards. Further, it would allow independent contractors receiving payments of $600 or more in a calendar year from a single employer to require that employer withhold a flat rate percentage on their gross payments for federal tax purposes to ease compliance burdens.
- **Distribution Limits for Non-Spouse IRA Beneficiaries:** Under current law, if an IRA owner dies, there are numerous rules that govern how benefits are paid out to his or her beneficiary. These rules vary based on, among other factors, whether the beneficiary is the IRA owner's spouse. Tax preferences for retirement savings are primarily intended to benefit individuals and their spouses – not to provide tax preferences to non-spouse heirs who are often much younger. For this reason, under the proposal, non-spouse IRA beneficiaries would generally be required to take distributions over no more than five years – eliminating their ability to stretch the receipt of distributions and tax-favored accumulation of earnings over long periods of time. Some exceptions will be provided.

- **Limit Accruals of Tax-Favored Retirement Benefits:** The President's proposal addresses situations where taxpayers accumulate amounts above a specified level within the tax-favored retirement system (such as IRAs, 401(k) plans, defined benefit plans and other tax-qualified plans). The limit on the amount that can be accumulated is the amount necessary to purchase an annuity that would provide the maximum amount allowed from a defined benefit plan under current law – currently $205,000 annually. Under the proposal, taxpayers would be prohibited from making contributions or receiving accruals that would exceed this amount under any tax-favored retirement arrangements. However the taxpayer's account balance could continue to grow above this maximum amount as a result of earnings on investments. Excess contributions or accruals would be included in current income unless the taxpayer withdraws the amount within a designated grace period.
- **Miscellaneous:** Additional revenue raisers include:
  - A fee on the production of hardrock minerals would be imposed and the proceeds used to restore the most hazardous abandoned mine lands.
  - A charitable deduction (for a conservation easement) would not be allowed for contribution of property that is, or is intended to be, used as a golf course.
  - The fees for migratory bird hunting and conservation stamps, commonly known as duck stamps, required for hunting migratory waterfowl would be increased.
  - A $100 per flight fee would be charged for all flights other than flights of public aircraft, military aircraft, piston aircraft, air ambulances, Canada-to-Canada flights, and flights outside of controlled airspace.

Information Reporting Reforms

- **Form 5500 Annual Reports for Employee Benefit Plans:** Employers that sponsor funded deferred compensation and health and welfare plans must file an annual report containing specified information and, for plans subject to minimum funding requirements, an actuarial report prepared by an independent auditor. This report, the Form 5500, consolidates filing requirements under the Internal Revenue Code and ERISA. It is filed with the Labor Department and then shared with the IRS. Under current law, only the Labor Department has authority to require electronic filing of this information. Moreover the Labor Department has exercised this authority so that the Form 5500 and its attachments must be filed electronically. Thus, because the IRS does not have the authority to require electronic filing, information relevant only to tax code requirements cannot be requested on the Form 5500. The President's Budget Proposal would provide the IRS the authority to require inclusion of information that is relevant only to employee benefit plan tax requirements as part of the electronically filed Form 5500.
- **Miscellaneous:** Other proposed information reporting changes include:
  - Requiring life insurance companies to report to the IRS for each contract whose cash value is partially or wholly invested in a private separate account information about the policy and policyholder.
  - Requiring contractors who receive payments of $600 or more from a particular business to furnish the business with a Form W-9 and requiring the business to verify the contractor's TIN with the IRS.

- Requiring greater electronic filing of tax returns.
- Requiring all tax-exempt organizations to file forms in the Form 990 series electronically.

Code Simplification Provisions

In the name of simplification, the Budget Proposal would: simplify the rules for claiming the EITC for workers without qualifying children; modify the adoption credit to allow tribal determination of special needs; eliminate the minimum required distribution requirements for IRA/plan balances of $75,000 or less; allow all inherited plan and IRA balances to be rolled over within 60 days; repeal the nonqualified preferred stock (NQPS) designation and no longer treat the receipt of such stock as taxable boot; repeal the preferential dividend rules for publicly offered REITs; reform excise tax based on investment income of private foundations; remove bonding requirements for certain taxpayers subject to federal excise taxes on distilled spirits, wine and beer; modify the arbitrage investment restrictions imposed on the investment of tax-exempt bond proceeds; streamline private business limits on governmental bonds; exclude self-constructed assets of small taxpayers from the uniform capitalization (UNICAP) rules; repeal technical terminations of partnerships; repeal anti-churning rules of section 197 of the U.S. Tax Code; and modify single-family housing mortgage bond targeting requirements. Several of these changes are described in greater detail below:

- **Repeal Technical Terminations of Partnerships:** Under present tax law, a partnership is treated as terminated for federal income tax purposes if within a 12-month period there is a sale or exchange of 50 percent or more of the total interest in partnership capital or profits. A technical termination can cause a partnership to file two tax returns for a year and result in a restart of depreciation lives. The Budget would repeal terminations resulting from sales and exchanges of partnership interests.
- **Repeal Preferential Dividend Rule for Publicly Treated REITs**: REITs can generally deduct dividends paid to shareholders, but a deduction is not allowed for a preferential dividend (i.e., a distribution that is not distributed pro rata to all shareholders). This rule would be repealed for distributions made in taxable years beginning after the date of enactment, but the repeal would apply only to (i) a publicly traded REIT or (ii) certain dividends of a REIT that is required to file periodic reports with the SEC under Securities Act of 1934 (but only if not more than one-third of the voting power of the REIT was held by a single person taking into account attribution rules).
- **Eliminate Minimum Required Distributions (MRDs) for Certain IRAs:** President Obama's proposal would exempt an individual from the MRD requirements if the value of the individual's IRA(including Roth IRAs) and other tax-favored retirement plan accumulations does not exceed $75,000 (indexed for inflation). Defined benefit pension plans that have already begun to pay benefits in life annuity form would be excluded from the $75,000 calculation. Under the Budget Proposal, the MRD requirements would phase in for individuals with aggregate retirement benefits between $75,000 and $85,000. This proposal would help senior citizens with only modest tax-favored retirement benefits by eliminating the retirement that they calculate the annual amount of their MRDs each year, even though they are unlikely to try to defer withdrawal and taxation of these benefits for estate planning purposes, which the MRD rules aim to prevent. The proposal also allows these individuals to have more flexibility in determining how to draw down their limited retirement savings.

- **60-Day Rollovers for All Inherited IRAs:** Generally, assets can be moved from a tax-favored employer retirement plan or IRA into an IRA or eligible retirement plan without adverse tax consequences. However, there are some limits on how the assets of an IRA account inherited by a non-spouse beneficiary can be transferred. Specifically, a surviving non-spouse beneficiary under a tax-favored employer retirement plan may roll over assets to an IRA only by means of a direct rollover and a surviving non-spouse beneficiary under an IRA may move assets to a non-spousal inherited IRA only by means of a direct trustee-to-trustee. The Budget Proposal would expand the options that are available to a surviving non-spouse beneficiary under a tax-favored employer retirement plan or IRA for moving inherited plan or IRA assets to a non-spousal inherited IRA by allowing 60-day rollovers of such assets. This treatment would be available only if the beneficiary informs the new IRA provider that the IRA is being established as an inherited IRA, so that the IRA provider can title the IRA accordingly.
- **Private Foundation Tax Rates:** The two rates of tax on private foundations that are exempt from federal income tax would be replaced with a single tax rate of 1.35 percent. The tax on private foundations not exempt from federal income tax, such as certain charitable trusts, would be equal to the excess (if any) of the sum of the 1.35 percent excise tax on net investment income and the amount of the unrelated business income tax that would have been imposed if the foundation were tax exempt, over the income tax imposed on the foundation. The special reduced excise tax rate available to tax-exempt private foundations that maintain their historic level of charitable distributions would be repealed.