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*Analysis of the*

**PRESIDENT'S FISCAL YEAR 2010 BUDGET PROPOSAL**

President Obama on May 7 formally released the details of a roughly \$3.7 trillion budget plan for the fiscal year 2010, beginning October 1—what even some administration officials admit could be a moving target.

In February, President Obama sent Congress a summarized version of the budget, using broad strokes to highlight his main priorities for the year: overhauling the nation's health care system, making college student aid more accessible and confronting the hot topic of climate change. That summary served as a starting point for the \$3.56 trillion budget resolution lawmakers have already adopted, which sets aside \$1.1 trillion for discretionary spending, or about \$10 billion less than what the President requests for the 12 appropriations bills Congress hopes to pass this year.

The final installment of its budget proposal was actually released on May 11, reflecting changes in economic assumptions and projected deficits as a result of changes in the economy since the administration released its February 26 outline. (OMB Director Orszag left open the possibility that additional changes may be in the offing, depending upon changing economic conditions.)

Not surprisingly, most Democrats in Congress applauded the proposal, while many Republicans denounced it as fiscally irresponsible.

**Targeted Reductions**

While non-defense discretionary spending would increase by nearly 12 percent, the President's budget calls for savings of \$17 billion by scrapping or reducing 121 ongoing programs, ranging from civics education to anthrax vaccine research. Most of the savings, \$11.5 billion, would come from the discretionary spending controlled by the Appropriations committees, about half of which is in the Defense Department. About \$3.6 billion would result from a plan to cut back the role of private lenders in the federal college student aid program.

Some Republicans characterized the proposed cuts as a drop in the bucket when compared to the overall size of the budget and projected deficits. But the cuts may cause heartburn for some Democrats who could lose a source of funding for special projects. Among the programs targeted by the President is the Transportation Department's Rail Line Relocation Grants, the source of a grant House Speaker Nancy Pelosi (D-CA) channeled to San Francisco; the Surface Transportation Priorities program, which last year financed a project championed by Senate Majority Leader Harry Reid (D-NV); and a major highway project in West Virginia advanced by Senate Appropriations committee chairman Robert C. Byrd (D-WV). (A similar proposal floated by then President Clinton prompted Senator Byrd to say, "You might as well threaten to slap my wife as take the highway money from West Virginia.")

Other major program cuts include the Justice Department's \$400 million State Criminal Alien Assistance program, and \$295 million Safe and Drug-free Schools and Communities program administered by the Department of Education.

OMB Director Orszag said the administration wants to end what it described as "broken-window budgeting."

Despite the proposed cuts, funding for two of the government's largest agencies would change little. A \$663.8 billion request for the Defense Department amounts to two percent more in inflation-adjusted dollars than the FY2009 appropriation for that department, compared to an average annual growth rate of four percent over the last eight years.

The President is asking for \$828 billion for the Department of Health and Human Services, including \$78.3 billion in discretionary spending, compared to \$78.5 billion this year.

### **In the Deficit Shadow**

The FY2010 budget arrived on Capitol Hill just as the Congressional Budget Office reported that the federal government last month incurred its first budget deficit for the month of April in more than a quarter century. April is traditionally the month in which the Treasury runs a significant surplus as individuals file their income tax returns, and quarterly estimated payments are made. Government receipts were down \$140 billion (35 percent) compared with last April.

Updated summary data just released by the White House estimate that this year's deficit would grow an additional \$89 billion to \$1.841 trillion, while next year's deficit would grow an



additional \$87 billion to \$1.258 trillion. Total national debt at the end of 2010 would grow \$379 billion more than earlier estimated, to \$14.433 trillion.

*Following is a summary of the proposed budget for selected federal departments and agencies.*

## **Health and Human Services**

President Obama proposed Thursday to largely hold flat budgets for agencies under the Department of Health and Human Services in fiscal 2010, as they continue to spend billions of dollars in extra money they received under the economic stimulus law passed in February.

The Obama administration is requesting \$828 billion for HHS, including \$78.3 billion in discretionary spending. That excludes an extra \$22.4 billion in discretionary funds contained in the economic recovery bill passed in February. *(For additional details see <http://www.hhs.gov/asrt/ob/docbudget/2010budgetinbrief.pdf>)*

*Food and Drug Administration.* - The FDA is slated for a \$367 million increase in its fiscal 2010 budget. The President is also proposing that Congress allow the agency to begin the process of approving generic competitors to complex biotech drugs, and that it allow the agency to assess a fee for the approval of generic drugs. Also proposed are \$141 million in new user fees for the agency, which, together with increases in existing fees, would provide the agency a program increase of \$511 million over fiscal 2009 enacted levels.

*Health Resources and Services Administration.* - The budget proposes \$7.2 billion for HRSA, a net decrease of \$107 million below current funding, largely due to the elimination of \$361 million earmarks included in the agency's fiscal 2009 budget. For the most part, HRSA programs are held steady, with increases targeted on strengthening the health workforce, including the National Health Service Corps (+\$122 million), training for diversity (+\$14 million), geriatric programs (+\$11 million) and primary care medicine and dentistry (+\$8 million).

*Centers for Disease Control and Prevention.* - The discretionary budget for CDC is set at \$6.3 billion for FY2010, just slightly above this year's funding level. Modest growth is proposed for combating infectious diseases (+\$18 million), health promotion (+\$19 million), health statistics (+\$14 million) and terrorism preparedness (+\$32 million).

*National Institutes of Health.* - The NIH budget would grow by 1.4 percent, to \$30.9 billion under the budget proposal, not counting the \$10.4 billion contained in the economic recovery bill and enough to support over 9,800 new and competing research project grants. The average grant award will be about \$400,000. Of particular note, the President singles out cancer and autism research as special priorities, calling for a doubling of cancer research (beginning with a \$268 million increase in FY2010) and an additional \$1 billion for autism research over the next eight years. Looking down the road, concern is building that the \$10 billion added for NIH in



the economic stimulus bill is not reflected in the NIH research base. Those added funds, to be spent in fiscal years 2009 and 2010, will result in a significant boost in research activities and scientific personnel—only to be face an equally significant drop-off in support in fiscal year 2011—unless Congress and the President step in. This start-and-stop scenario would severely hamper scientific progress and those who stand to gain from its findings.

*Agency for Healthcare Research and Quality.* - The budget request for AHRQ is \$372 million, the same level as in FY2009. That excludes \$300 million the agency received in the economic recovery bill to expand its comparative effectiveness research activities.

*Administration for Children and Families.* - The ACF budget request totals \$15.6 billion for discretionary programs, a decrease of \$1.6 billion. The Low Income Home Energy Assistance Program (LIHEAP), which helps the poor with their heating and cooling bills, would have a budget of \$3.2 billion in 2010, a decrease of \$1.9 billion from 2009. The budget also proposes creating a new mandatory account that would increase funding for LIHEAP in response to spikes in energy prices, at a cost of \$450 million. ACF's budget also includes \$7.2 billion for Head Start, an increase of \$122 million, and \$2.1 billion for the child care block grant program. The budget would eliminate the Compassion Capital Fund, a \$48 million grant program begun under President George W. Bush as part of his outreach to faith-based groups. And it would eliminate abstinence-only education programs that totaled \$133 million in fiscal 2009, a proposal sure to anger some conservatives. In the place of abstinence education, the budget proposes a new \$110 million program to provide grants to states for teen pregnancy prevention programs.

*Centers for Medicare and Medicaid Services.* - Medicare spending would total \$452 billion, up 6 percent from fiscal 2009. Medicaid spending would rise to \$290 billion, a 10 percent increase. President Obama proposes increasing spending for Medicare's anti-fraud programs by \$125 million in fiscal 2010, as part of a multi-year strategy to help crack down on abusive practices.

The budget calls for significant savings from Medicare and Medicaid, the largest savings coming from a proposal to introduce competitive bidding system for Medicare Advantage plans, in which payments would be based on an average of plans' bids submitted to Medicare, presumed to save \$177 billion over 10 years. Other Medicare providers that would experience payment reductions include home health agencies, which would see their reimbursements cut about \$34 billion over 10 years, starting with elimination of the home health inflation update for 2010.

Hospitals would feel the pinch as well. The budget proposes to create hospital quality incentive payments, which the administration projects would reduce spending by about \$12 billion over 10 years. The budget also would implement policies to reduce hospital readmission rates, saving \$8.4 billion, as well bundling some post-acute care payments, saving \$16.1 billion.



As for Medicare's physician payment system, the budget includes \$311 billion over 10 years, reflecting "the administration's best estimate of what Congress has done in recent years for physician payments. However, this adjustment does not suggest it should be future policy." The budget goes on to state that the administration will explore options to facilitate reform of the payment system, including an assessment of whether physician-administered drugs should be covered under the payment formula. (The budget resolution Congress recently adopted proposes to cancel a 21 percent Medicare payment cut for physicians due next year, replacing it with a payment increase for two years.)

For Medicaid, the budget proposes to cut spending by \$22 billion over the next 10 years, including \$1.5 billion in FY2010, primarily through reduced prescription drug costs. If adopted, the budget changes would slow the annual growth in Medicaid from 4.4 percent to 4.3 percent.

Specifically, the budget would increase the rebate for brand-name drugs from 15.1 percent to 22.1 percent of the average manufacturer price, a provision that effectively increases the amount paid by drug manufacturers. The rebate would be applied to new drug formulations of existing drugs, closing a loophole that currently permits drug manufacturers to reformulate existing drugs and charge higher initial prices for those reformulations.

Other Medicaid savings would come from establishing a pathway for FDA approval of generic biologics, expanding family planning services and eliminating the Medicaid Improvement Fund.

## **Education**

President Obama's detailed budget request for the Department of Education underscores his priorities of boosting high school graduation rates, expanding student financial aid programs and emphasizing teacher performance. *(For more details see <http://www.ed.gov/about/overview/budget/budget10/summary/index.html>.)*

*Elementary and secondary education.* - The request calls for \$16.4 billion in funding for disadvantaged students through Title I of the Elementary and Secondary Education Act), which was funded at \$14.9 billion in fiscal 2008 and \$25.9 billion in fiscal 2009, due to boosts through the stimulus. It calls for \$12.6 billion for funding through the Individuals with Disabilities Education Act (IDEA), which many contend has been underfunded for decades. In fiscal 2008, IDEA received \$10.6 billion and \$23.0 billion in fiscal 2009 due to the stimulus. In addition, the President proposes \$517.3 million for the Teacher Incentive Fund, a \$420 million increase over 2009, for grants to local school districts that establish performance pay programs for teachers. The fund also received \$200 million in the economic stimulus law.



The budget proposal calls for \$100 million in additional funding for a new \$650 million innovation fund created under the economic stimulus law. The fund will provide grants to nonprofit organizations and school districts that provide data demonstrating progress towards closing the achievement gap.

In all, the department's Office of Innovation and Improvement would see its budget increase by 50 percent under Obama's proposal, to \$1.5 billion. Meanwhile, the President proposes providing \$486 million for the Office of Safe and Drug-Free Schools — a \$276 million reduction from fiscal 2009 — by eliminating Safe and Drug-Free Schools and Communities State Grants.

The proposal includes \$689 million — a \$143 million increase from fiscal 2008 — for the Institute for Education Sciences, the department's research arm. The institute received \$867 million in fiscal 2009 due to the stimulus.

*College student aid.* The budget proposal includes \$28.7 billion in fiscal 2010 to adopt the President's plan to make Pell grant funding a mandatory rather than discretionary expenditure, and to index the grant to inflation so it will grow annually. It proposes tying the grants to the Consumer Price Index plus 1 percentage point and increasing the maximum Pell grant to \$5,550 for the 2010-2011 academic year. The budget also calls for the Perkins Loans program to receive \$5.8 billion in fiscal 2010, a significant increase from the \$1.1 billion in fiscal 2009, noting that the program could be used to reward schools that enroll and graduate students from low- and middle-income families.

The President has repeatedly called for more students to major in mathematics and science, and his budget proposal proposes significantly boosting funding for students who enter those disciplines. The budget proposes increasing — from \$73 million appropriated in fiscal 2009 to \$1.4 billion — the amount designated for the American Competitiveness/Smart Grant program, which provides grants to students who have completed rigorous high school programs. The program includes the National Sciences and Mathematics Access to Retain Talent Grant, awarded to college students majoring in mathematics, science or foreign language deemed critical for national security.

The budget also accounts for President Obama's proposal to eliminate the Federal Family Education Loan program. Under his proposal, the government would stop providing subsidies for new loans made through the program by July 1, 2010.

## **Agriculture**

In his fiscal 2010 budget request, President Obama calls for a reduction in direct government payments to large farms as well as a \$250,000 cap on commodity subsidies. Both ideas have previously been rejected by lawmakers on the House and Senate Agriculture committees. The



administration's budget proposal also seeks to reduce crop insurance subsidies and eliminate cotton storage credits.

The proposed cuts would offset requests for increased spending on food assistance programs, reflecting a shift in priorities by the Agriculture Department, which has been directed to focus on promoting access to nutritional food and tackling childhood obesity, according to agency officials.

The budget also proposes to increase funding for the Special Supplemental Program for Women, Infants, and Children (WIC), which supports new mothers and their infants. Obama requested an increase of \$917 million for the program to support 9.8 million participants, agency officials said. WIC was funded at \$6.9 billion in fiscal 2009.

The President also requested an additional \$1 billion to overhaul school food programs for children. Congress is currently working on a reauthorization for such programs.

The administration requested an increase of 6.5 percent for the USDA's discretionary budget — a \$1.4 billion increase above the fiscal 2009 level, to \$22.9 billion. That figure includes a 10 percent increase in funding for the Commodity Futures Trading Commission, which oversees the commodities markets. It also includes \$2.3 billion in budget authority for the Food and Drug Administration, which oversees food safety.

For more details see <http://www.obpa.usda.gov/budsum/FY10budsum.pdf>

## **Defense**

The defense budget request for fiscal 2010 that would boost overall defense spending, but halt procurement of a number of high-profile weapons.

President Obama's first Pentagon budget totals \$663.8 billion, including \$533.8 billion for regular Defense operations (or 4 percent more than the fiscal 2009 appropriation) plus \$130 billion to cover war costs, and a 2.9 percent pay increase for service members.

In April, Defense Secretary Gates presented highlights of the DoD budget, noting plans to halt orders for more F-22 fighter jets or C-17 transport planes; reduce missile defense spending by a net \$1.2 billion to \$7.8 billion in fiscal 2010; halt procurement of additional interceptor missiles; and terminate a number of contracts, including the vehicles for the Army's Future Combat Systems, a collection of new equipment tied together on a wireless network, and the VH-71 presidential helicopter. The budget would defer decisions on other big ticket items, notably new bombers, amphibious ships, cruisers and off-shore bases.

For additional details see <http://www.defenselink.mil/comptroller/budget.html>.



## Veterans Affairs

In keeping with his campaign pledge to boost spending for veterans, the fiscal 2010 budget request includes a nearly 16 percent increase for the Department of Veterans Affairs. The department would receive \$112.8 billion in fiscal 2010, roughly \$15.1 billion more than the \$97.7 billion appropriated for fiscal 2009.

Of the total, \$47.4 billion in discretionary funding would be allocated to medical care for veterans. Of that amount, about \$34.7 billion in discretionary funds would be set aside for medical services accounts, compared with \$31 billion in fiscal 2009 appropriations; about \$4.7 billion in discretionary funds would go to medical facilities accounts, down from roughly \$5 billion in fiscal 2009; and roughly \$5.1 billion in discretionary spending would go to medical support and compliance accounts, up from \$4.5 billion appropriated for fiscal 2009.

On a percentage basis, one of the largest increases in scientific research funding is in the VA Medical and Prosthetics Research account. The budget increases funding to \$580 million, from \$510 million, or by 14 percent. This is an intramural research program, although it is fully integrated with the larger biomedical research community. It tackles issues of critical importance to veterans from basic through clinical and translational and, when combined with the VA's electronic health record system, is adept at transferring discoveries to the bedside.

VA benefit programs would receive \$47.2 billion in mandatory funding, up nearly 10 percent from the \$43.1 billion appropriated for fiscal 2009. As much as \$29.3 billion from these funds would be reimbursed to the general operating expenses, medical support and compliance and information technology systems accounts.

For additional details see <http://www.va.gov/budget/products.htm>.

## Transportation

While President Obama's fiscal 2010 Transportation Department budget request appears similar to previous years' budgets, the proposed spending levels are only placeholders until the White House finalizes its plan to reauthorize surface transportation programs set to expire September 30.

The budget request allows for \$36.1 billion from the general fund to be available for highway programs if a surface transportation bill is not passed this year. Revenue from gasoline taxes has not been keeping pace with spending, so it is widely expected that the Highway Trust Fund will run dry without a new authorization bill or transfer from the general fund.



The White House has abandoned a proposal to tear down the firewall that protects Highway Trust Fund revenue from being used for other domestic programs, though the idea has angered some in Congress. The proposal was not included in the congressional budget resolution.

The most notable increase in the department's proposed budget is \$6.2 billion for a high-speed rail program, the President's signature transportation goal. Of that total, \$5.2 billion comes from the stimulus package and \$1 billion is proposed new spending. In addition, the Federal Railroad Administration's proposed budget would increase by 71 percent from the fiscal 2008 level. Part of that proposed increase is attributed to the Obama administration's support of Amtrak, in addition to the high-speed rail proposal.

The budget proposal also would provide \$865 million to transition from an aging radar-based system of air traffic control to a new system based on what is essentially a satellite-based GPS. Transportation Secretary Ray LaHood has said implementing the technology, known as NextGen, is one of his priorities.

For more details see <http://www.dot.gov/budget/2010/>

## **Homeland Security**

President Obama's \$42.7 billion budget request for the Department of Homeland Security shows the difference between his administration's priorities and those of his predecessor. The request, a 6.5 percent increase from fiscal 2009 appropriations, reflects a new emphasis on putting road and rail security on an even footing with aviation security. In keeping with that, the budget request includes \$128 million for surface transportation activities, or more than double the amount appropriated for fiscal 2009.

Less clear is how the budget proposal reflects the President's strategy for the U.S.-Mexico border. The border fence request came in at \$779 million, down nearly 16 percent from the fiscal 2009 appropriation, and it would prohibit \$400 million of this from being used until the Senate and House Appropriations committees approve a plan for fence and technology expenditures. While the department has requested money for general tactical infrastructure at the border, officials did not specify how much money would go toward physical barriers and how much would go toward technological initiatives.

The budget is also silent on whether \$5.6 billion requested for Immigration and Customs Enforcement would be used for any shifts in policy, although \$1.4 billion of this money would be aimed at finding and deporting illegal immigrants who have committed crimes.

State and local grants managed by the Federal Emergency Management Agency total \$3.9 billion in the request. However, grants for firefighters and transportation and infrastructure protection each would drop almost 36 percent, and the request for interoperable



communications grants would mark a nearly 29 percent decrease. These reductions take into account grant money from the stimulus package, which included more than half a billion dollars in grants for firefighters, port security and public transportation security.

Three other grant programs would be eliminated under Obama's budget request: inner-city bus protection, trucking security and funding for emergency-operations centers. Department officials said the programs duplicated security efforts.

For more information see [http://www.dhs.gov/xlibrary/assets/budget\\_bib\\_fy2010.pdf](http://www.dhs.gov/xlibrary/assets/budget_bib_fy2010.pdf)

## **Energy**

President Obama's fiscal 2010 budget request for the Energy Department represents just a 2 percent increase from fiscal year 2009 spending, though the agency's funding has already been largely buttressed by stimulus money. When added together, the \$26.4 billion budget request would boost the agency's 2010 program level by 40 percent, to a combined total of \$33.9 billion.

The agency is expected to play a central role in the president's plans to overhaul the energy sector, expand the use of renewable power and tackle climate change by cutting carbon emissions. White House officials have indicated that the heightened level of spending for the department is likely to continue even after the stimulus funding dries up in two years. Obama has proposed continuing to keep funding at that level by using projected revenue from a "cap and trade" program that would cap greenhouse gas emissions and create a market for trading emissions allowances.

The stimulus funding lays the groundwork for a future of robust spending on modernizing the electric grid with \$4.5 billion, while Obama's budget requests \$208 million for such programs, a 52 percent increase from 2009. That includes \$67 million in the first federal spending request for programs to research a "smart grid" that could transmit power more efficiently.

The budget also proposes \$320 million to research solar energy, an increase of 83 percent from 2009; \$75 million to research wind energy, an increase of 37 percent; and \$50 million for geothermal energy, an increase of 13 percent. The proposal would eliminate a research program for oil exploration that had consistently received funding by the previous administration. Instead, the budget states a top priority of research into so-called "clean coal" technology, which would capture and sequester carbon emissions from coal-fired power plants.

Despite the jump in proposed spending on clean-energy research, the majority of the budget proposal is aimed at nuclear science and defense programs.



*For additional details see*

<http://www.cfo.doe.gov/budget/10budget/Content/Highlights/FY2010Highlights.pdf>

## **Commerce**

The Obama administration's proposed Commerce Department budget would get a significant increase in fiscal 2010, primarily to fund the national census next year.

The Census Bureau would receive \$7.4 billion under the request, boosting the Commerce Department's total proposed budget to \$13.8 billion — a 47 percent increase from the enacted level of \$9.3 billion in fiscal 2009. Administration officials estimate that half a million temporary workers will be employed for the population tally.

The President's budget request would allocate \$4.5 billion to the National Oceanic and Atmospheric Administration (NOAA), a \$29 million increase from fiscal 2009. The new funding would include \$20 million to launch development of a new satellite program called Jason-3, which would monitor rising global sea levels, an indicator of climate change. The NOAA budget would include \$1.3 billion to further existing satellite programs that provide weather and climate change data.

The proposed budget also would fulfill a commitment to double funding for the National Institute of Standards and Technology (NIST) over 10 years by proposing \$847 million for the agency. That would represent an increase of 4 percent — or \$31 million — over fiscal 2009. The majority of the spending, \$652 million, would go to NIST's laboratories and construction of new research facilities.

The National Telecommunications and Information Administration (NTIA) would face budget cuts to help offset new spending.

*For additional information see*

<http://www.osec.doc.gov/bmi/budget/10BIB/2010%20budget%20in%20brief%20final.pdf>

## **NASA**

The President's budget request allocates \$18.7 billion for NASA in fiscal 2010 and keeps the space shuttles on track for a 2010 retirement. That amount represents an increase of \$904 million, or 5 percent, over NASA's funding in fiscal 2009.

The Obama administration, hoping to get a better handle on priorities for the National Aeronautics and Space Administration, has ordered up a fast-track review of the agency's space exploration programs in conjunction with the fiscal 2010 budget submission.



Agency officials have been tasked with forming a review team to assess the transition from the space shuttle fleet, which is to be retired in 2010, to a new Ares rocket and Orion crew capsule, which will not be operational until 2015. The gap would leave NASA without a U.S.-controlled means to transport astronauts to and from the International Space Station for five years. The review team, which expects to finish its work by August, will be headed by Norman Augustine, a former aerospace executive with lengthy experience in science, aerospace and defense governance.

Though NASA, which is still without an administrator, will receive a significant boost in fiscal 2010, out-year budgets are expected to be stagnant, a situation that some in the space community find frustrating.

*For additional information see <http://www.nasa.gov/news/budget/index.html>*

