



PRELIMINARY ANALYSIS OF PRESIDENT BUSH'S FY 2007 PROPOSED BUDGET

I. Introduction

The Administration's Proposed FY 2007 Budget of the United States, released on February 7, 2006, contains many direct and indirect financial implications for the National Capital Region, for the State and local governments comprising the Region, for those governments which are participating jurisdictions of the Metropolitan Washington Council of Governments (COG), and for COG, itself. Perhaps most importantly, the Budget impacts every resident and taxpayer within the Region in ways both great and small – and both obvious and invisible.

At the request of the Board of Directors, COG staff has conducted a preliminary analysis of the President's budget submission, with particular attention to those proposals -- both increases and cuts – which have particular relevance to policy or programs espoused by COG. Budget proposals have been sifted through four screens:

- Impact upon states, counties, and municipalities, generally, which impact such entities throughout the Region;
- Impact upon the National Capital Region, as a discreet entity, in a manner not replicated throughout the country;
- Impact upon the District of Columbia, which has a concomitant and ripple-effect impact upon the Region; and
- Impact upon COG, itself, as an entity representing and supporting its members and participating jurisdictions.

II. Overall Philosophy of the President's Budget Proposal

The President's proposed FY07 Budget builds on efforts of spending restraints and pro-growth policies offered in last year's budget. The objective is to "hold overall discretionary spending below the rate of inflation and to cut spending in non-security discretionary programs below 2006 levels."

The proposed budget of \$2.77 trillion increases overall spending by 2.25 percent above last year's budget. Non-defense discretionary spending, however, would be cut by \$2.2 billion from current levels, potentially having significant impacts on local governments.

The Administration's budget plan proposes to save \$15 billion by eliminating or drastically reducing 141 programs deemed wasteful and outdated. By slowing the growth of entitlement spending, the Administration projects a savings of \$65.2 billion dollars over five years; much of these dollars will come from Medicare and Medicaid.

At least three significant budgeting philosophies or directions are evident throughout the Budget and its supporting and explanatory appendices:

- Proposed deficits continue to exceed 2.5 percent of the GDP. Without considering expenditures related to Iraq or Afghanistan, this Budget proposes a deficit of \$354 billion.
- Unrelated to current war efforts, there are modest efforts in defense and homeland security.
- As indicated in the President's message, there are significant reductions in domestic spending. The Budget proposes a reduction of \$187 billion in discretionary spending and \$60 billion in mandatory spending over the next five years – cuts that will either occur in FY07 or as a result of program changes made in FY07.

III. Budget Implications for the National Capital Region

Environment and Energy

The Environmental Protection Agency's proposed budget of \$7.3 billion is a \$300 million decrease from the FY06 budget. Consequently there were significant cuts to a number of programs. The budget proposes to cut \$199 million from the national Clean Water Revolving Loan Fund, allocating \$688 million in FY07. The budget completely eliminates direct grants to localities for installing biological nutrient removal technology in sewage treatment plants and for addressing severe overflow problems.

The Administration's budget request of \$23.6 Billion for the Department of Energy is the same as the FY06 budget. Research and development for solar energy and biomass/biofuels funding levels were increased over FY06 levels to \$148 million (\$65 million increase) and \$150 million (\$59 million increase), respectively. Wind energy received an increase of \$5 million for a funding level of \$44 million while the fossil energy budget saw a reduction of \$193 million at \$649 million.

COG Policy/Program Concern: Chesapeake Bay

In addition to the reduction to the Revolving Loan Fund, which supports sewage treatment upgrades for the Bay and elsewhere, the administration's budget proposes the elimination of funding for the EPA's small watershed grants and loans, the Chesapeake Bay Watershed Education and Training Program, the National Park Service's Chesapeake Gateways and Watertrails program, and Chesapeake Bay land preservation funds. It also calls for cuts of nearly 86% to the National Oceanic and Atmospheric Administration's oyster restoration funding, allotting only \$850,000. The Nation's other massive endangered waters are receiving significantly more federal funding than the Chesapeake Bay (Everglades – ten times the funding; Great Lakes – twice the funding).

Homeland Security

The Administration proposes to reallocate approximately 13% in First Responder grants for an overall funding increase for the Department of Homeland Security. The budget proposal would eliminate the Law Enforcement Terrorism Program and would cut the Firefighter Assistance Grants Program by a little more than half, leaving the funding level at \$294 million. Emergency Management and Performance grants would also see a reduction of \$15 million. The administration's budget requests \$184 million for EPA's homeland security activities, a 43% increase from FY06. In addition, the budget proposes to expand the Water Sentinel, which provides early warning of a terrorist or other intentional water contamination events, requesting \$38 million to fund the program.

COG Policy/Program Concern: UASI

The budget proposes increases for Urban Area Security Grants for those metropolitan regions most at risk and continues the Targeted Infrastructure Protection grants for securing transportation assets and other critical infrastructure. UASI funding is proposed at \$838 million, a \$100 million increase from FY 2006.

Transportation

The administration's budget request fully funds the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). However, the budget would reduce the Airport Improvement Program capital grant program by 22% to \$2.75 billion. In addition, the budget sets aside \$102 million to be available for additional projects. Both the Dulles Corridor Metrorail Project Extension and the Largo Metrorail Extension are potential competitors for funding under this set aside.

COG Policy/Program Concern: Metro Dedicated Funding

The Administration's budget is silent on specific funding for WMATA capital expansion and maintenance needs. No reference is made to the Davis bill or the issues raised by that bill or the Blue Ribbon Metro Funding Panel.

Community Development, Public Safety, and Human Services

The Administration's budget continues to reduce appropriations designed to assist states and local governments in the provision of basic services. Community Development Block Grant funds are reduced by over \$1 billion – a reduction of 25 percent. Aid to state and local justice programs (non-Homeland Security) are reduced by 60 percent – from \$2.9 billion to \$1.2 billion, including elimination of several programs, e.g. COPS and juvenile justice programs. Modifications in Medicaid and Medicare formulae and reduced appropriations will result in significant projected shortfalls in health care funding over the next five years -- \$36 billion in Medicare and \$13.8 billion in Medicaid.

COG Policy/Program Concern: Public Health and Prevention

The Administration's budget proposes a reduction of \$276 million in the Centers for Disease Control and Prevention, elimination of \$99 million in grants for preventive health and health services, and reduction of health promotion funds by \$34 million.

