STAFF ANALYSIS OF FEDERAL FY 2008 BUDGET AND KEY STATE POLICY INITIATIVES

I. Introduction

The Administration's Proposed FY 2008 Budget of the United States, released on February 4, 2007, 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 Colombia, 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 Proposed Budget

The President's proposed FY 2008 Budget builds on efforts of spending restraints and pro-growth policies offered in last year's budget. The President's priorities are clear: make permanent the tax cuts enacted in 2001 and 2003, hold the rate of growth for non-security discretionary funding below the level of inflation in order to fund war efforts, and achieve a balanced budget by 2012.

The proposed budget of $2.9 trillion increases overall spending by 1.07 percent above last year's budget. Domestic discretionary spending is reduced by almost three percent from FY 2007 funding levels; the cuts start in FY 2008 and grow significantly deeper over the following four years. These reductions essentially shift the burden to states and localities, requiring the need for many essential programs to be abandoned, scaled back, or further burden the property tax.

The Administration's budget plan proposes to save $12 billion by eliminating or drastically reducing 141 programs it deems wasteful and outdated. By slowing the growth of entitlement spending, the Administration projects a savings of $96 billion dollars over five years; much of these dollars will come from Medicare and Medicaid.

III. FY 2008 Budget Implications for the National Capital Region

In addition to Federal Budget implications on these NCR-affecting issues, certain current budgetary actions or considerations in Maryland and Virginia are addressed.

a. Environment and Energy

Under the President's proposed budget the Environmental Protection Agency would receive $7.2 billion in funding, a 6.6% reduction from funds approved in the FY 2007 continuing resolution. The Clean Water State Revolving Fund and the Drinking Water State Revolving Fund, programs which pay for sewage treatment plants, clean drinking water and wastewater infrastructure, are cut by 22% (or $394 million) from FY 2007 funding levels. This reduction continues a multi-year downsizing and amounts to a 40% reduction, or $1 billion, below FY 2001 funding levels.

COG Program / Policy Concern: Chesapeake Bay

The President's proposal provides $29 million dollars for Bay restoration, a $3 million increase from FY 2007 funding. (Note: Although the Chesapeake Bay Watershed Task Force requested $26 million for FY 2007; drafting of a substantially greater Congressional request is currently underway.)

State Action:

- **Maryland**- Several bills are currently pending before the Maryland General Assembly which would have implications for the Chesapeake Bay. One piece of legislation of particular interest address the Chesapeake Bay Green Fund (SB 901 and HB 1220) to be generated through an impervious surface fee on new development and to be applied for projects to reduce and prevent polluted run-off. A second concerns a ban on phosphates (SB 766 and HB 113) which would disallow the use of phosphates in dishwasher detergent, ultimately reducing the operating costs at wastewater treatment plants. Staff will continue to monitor this legislation and will provide an update at the April meeting.
- **Virginia**- The 2007 Virginia General Assembly approved $250 million in bonds for clean water initiatives allowing local governments greater planning for and investment in sewage upgrades critical for the clean-up of state waters and the bay.

The Department of Energy's budget is marginally higher than FY 2007, just under 3%, at $24.2 billion and continues with the President's emphasis on the development of alternative fuels, energy security, and the reduction of the country's dependence on oil. The budget includes $81 million for research on advanced hybrid and vehicle plug-ins and $179 million for research of ethanol production. While increases were made to these areas, some programs were cut, including weatherization projects that support state and local efforts to help families insulate their homes and reduce heating and air-conditioning bills.

b. Health and Human Services

The proposed budget of $67.6 billion dollars for the Department of Health and Human Services results in limited cuts for FY08 but identifies a total of $25 billion cuts over the next 5 years; much of this will come from spending restraints on Medicare and Medicaid services. In addition specific program reductions which will have impact on the region include:

- Social Services Block Grant would be cut in half, to $1.2 billion; community-service programs, including the $630 million Community Services Block Grant, would be eliminated. These programs provide assistance for the underserved including: childcare, domestic-violence, specialized services for the disabled, home-based assistance, and services for the abused and neglected.
- Low-Income Home Energy Assistance grants are reduced by 19% ($400 million), to $1.8 billion, from funds appropriated in FY 2007.

COG Policy/Program Concern: Public Health and Prevention

The Administration has proposed approximately $1.2 billion in new funding for the CDC to continue its pandemic flu preparedness efforts; this funding will allow for increasing vaccine production capacity and stockpiling, the purchase of additional antivirals and the enhancement of response capability.

c. Homeland Security

The Department of Homeland Security's budget is increased by 8.4% over FY 07 enacted levels for a total of $43.6 billion. This increase mostly reflects additional funding for border security and immigration enforcement. In addition, the Administration has proposed a new $1 billion grant program for interoperable communications through DHS and FCC; funds would be available for local governments to use for 700 MHz communications equipment. Grants to state and local governments are proposed to receive a total of $1.7 billion, almost half of what Congress approved for FY 2007. The following are several of those projects which significantly support the region:

- State Homeland Security Grant Program is reduced by $322 million to $187 million; this reduction may ultimately lessen the region's ability to prepare for, respond to, and recover from acts of terrorism.
- State and local training programs are reduced by almost half to $151 million; reducing the region's ability to maintain a high level of training readiness.

COG Policy/Program Area of Concern: UASI

Urban Area Security Initiative Grants (UASI) are reduced by $147 million to $600 million. Funding will continue to be allocated based on DHS assessments of risk and vulnerability and state and local needs identified in statewide homeland security plans.

d. Housing and Urban Development

HUD's proposed budget of $35.2 billion is a slight increase over the FY 2007 requested levels but 8% lower than what was enacted for FY 2007. The President continues to focus on home ownership, ending chronic homelessness, and Section 8 reform; providing modest increases to the corresponding program areas:

- HOME Investment Partnership funding increased by $223 million; this increase would provide state and local governments additional resources for the creation of affordable housing for low-income residents.
- Homeless Assistance Grants funding increased by $117 million; the prisoner reentry initiative in the DOL would receive $25 million of these funds.
- Section 8 would be consolidated into a single program along with Shelter Plus Care, and Supportive Housing; up to $50 million will be available for the Samaritan Housing Initiative to address the supportive housing needs of the chronically homeless.

To make these increases, the following programs are dramatically reduced or eliminated:

- HOPE VI has been eliminated for the sixth year in a row.
- CDBG grants continue to be cut, this year by $795 million for a total of $2.97 billion. The budget proposes reform to "distribute resources more equitably and promote efficiency" stating that "the current funding formula allocates a disproportionate amount of resources to areas with relatively few critical development needs while other more needy areas go underserved."

e. Law Enforcement

The Department of Justice's proposed budget of $20 billion dollars allocates $1.2 billion for state and local law enforcement assistance, a 50% cut.

- Community Oriented Policing Services (COPS) program incurs tremendous cuts receiving just $32 million from $542 million in funds adopted in the FY 2007 continuing resolution.
- Funding for State Criminal Alien Assistance and the Justice Assistance Grant programs is eliminated; these assistance programs have provided state, tribal, and local law enforcement agencies with resources and tools to combat crime and violence in our communities. The budget proposes to replace these, and 18 other programs, with two competitive discretionary grant programs: the Violent Crime Reduction Partnership ($200 million) and the Byrne Public Safety and Protection Program ($350 million); these two programs have been budgeted only half of what is necessary, and currently appropriated for FY 2007, to support the 20 programs.

f. Transportation

The Department of Transportation's budget of $9.4 billion is substantially lower than the $9.7 billion authorized by the Safe, Accountable, Flexible, Efficient Transportation Equity Act- A Legacy for Users (SAFETEA-LU) ignoring the need for public transportation expansion.

- The budget request for public transportation is $318 million dollars below FY 2008 funds authorized by SAFETEA-LU though funding of the federal highway system remains fully funded at authorized levels.
- DOT has requested an additional $175 million for an urban congestion initiative to fund local pilot programs such as rush hour toll measures and staggered work hours.

COG Policy/Program Concern: Metro Dedicated Funding

The budget is silent on funding for WMATA however, HR 401 "The National Capital Transportation Amendment Act of 2007" has been introduced in the House authorizing $1.5 billion dollars in federal funding for capital improvements and maintenance needs of Metro to be incrementally distributed over 10 fiscal years; similar legislation is expected to be introduced in the Senate.

- **Maryland**

Legislation is currently pending before the General Assembly (SB 167) which would alter the distribution of sales and use tax revenue; create a Mass Transit Account within the Transportation Trust Fund; provide for the distribution of specified sales and use tax revenue to the Account at a rate of 5%; and limit the use of the Account to funding specified transit capital and operating expenses. The Maryland Administration is not supporting Sen. Kramer's proposal, in that it utilizes sources currently supporting the general fund, which has a projected shortfall. The Administration has stated, however, that it will explore other sources with the legislature.

- **Virginia**

In the recently concluded session of the Virginia General Assembly, the legislature approved and sent to the Governor a comprehensive transportation funding bill. This bill includes a statewide funding component which relies on the issuance over time of $2.5 billion in bonds. It also includes enabling legislation that allows the local governing bodies in the Northern Virginia and Hampton Roads regions to enact certain taxes and levy fees to generate revenues that would be spent for transportation improvements within these regions. It is likely that the Governor will send amendments to this bill for consideration by the legislature when they return for a one day "veto session" on April 4, 2007. Northern Virginia localities have expressed concern at some of the provisions in the legislation.

Staff will continue to monitor this legislation and provide an update at the April Board meeting.