



THE CALIFORNIA INSTITUTE FOR FEDERAL POLICY RESEARCH

419 New Jersey Avenue, SE, Washington, D.C. 20003 202-546-3700
Fax: 202-546-2390 E-mail: randsell@calinst.org Web: <http://www.calinst.org>

SPECIAL REPORT: President's Budget Proposal for Fiscal Year 2006, California Implications - February 8, 2005

On Monday, February 7, 2005, President George W. Bush released the Administration's Budget Proposal for Fiscal Year 2006, which begins October 1, 2005. The Budget proposes outlays of \$2.57 trillion for fiscal year 2006, and projects a \$390 billion deficit in fiscal 2006 and a \$233 billion deficit in 2009. Discretionary funding would grow by 2.1 percent, less than the 2.5 percent predicted rate of inflation. The President's FY 2005 Budget had proposed a discretionary spending increase of 3.9 percent over 2004.

In more than 2500 pages, the budget documents outline the Administration's recommendations for discretionary and mandatory spending, as well as its revenue proposals. Developing a reliable analysis of any budget is difficult. This document provides a California-oriented analysis of the proposal prepared by the staff of the California Institute for Federal Policy Research. It is available on the Institute's website at <http://www.calinst.org/pubs/prbdg06.htm> or in Adobe Acrobat (pdf) format at <http://www.calinst.org/pubs/prbdg06.pdf>.

DEPARTMENT OF JUSTICE

The President's Budget for fiscal year 2006 proposes \$20.3 billion in discretionary Budget Authority for the Department of Justice. This amounts to about a one percent increase over 2005, most of which is targeted to the Federal Bureau of Investigation to combat terrorism. Programs that have been considered of particular importance to California are detailed below.

SCAAP - The President's Budget proposes eliminating the State Criminal Alien Assistance Program. The FY 2005 Budget also proposed eliminating the program. The FY05 Omnibus Appropriations bill, however, included \$301 million in funding for the program. California's state and local governments receive about 40 percent of SCAAP funding - \$111.9 million of the \$281.6 million appropriated in FY2004.

State and Local Law Enforcement Assistance Programs - In addition to eliminating SCAAP funding, the Budget proposes eliminating most other State and Local Law Enforcement Assistance Programs and moving funding for the remaining programs to the Justice Assistance Account. The Budget proposes funding Office of Justice Assistance (OJP) programs at \$1.215 billion. Within that amount, is the following:

- \$48.4 million for the Southwest Border Prosecutor Initiative;
- \$59.6 million for State and local law enforcement agencies, non-profit organizations, and agencies of local government engaged in the investigation and prosecution of violent crimes and drug offenses in "Weed and Seed" designated communities; and
- about \$187 million for juvenile delinquency and crime reduction efforts.

Community Oriented Policing Services

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The Budget proposes cutting COPS program funding from \$606 million to \$118 million. Within the funding provided are the following earmarks:

- \$7 million for community policing development initiatives; and
- \$20,000,000 for policing initiatives to combat methamphetamine production and trafficking and to enhance policing initiatives in "drug hot spots". FY05 funding was \$52.5 million

Juvenile Justice Programs

These programs would be transferred to the Justice Assistance Programs. Juvenile Accountability Block Grants (JABG) would be eliminated. They were funded at \$54 million in FY05.

In total, the Budget proposes that about \$1 billion in funding be cut from DOJ state and local assistance programs, the COPS program, and Juvenile Justice Programs.

DEPARTMENT OF HOMELAND SECURITY

Homeland Security Grants

The budget proposes major changes in the structure that provides federal homeland security grant funding to state and local governments, with the primary formula grant program eliminated and replaced by discretionary grants funds for parallel purposes. In doing so, California's share of total homeland security grant funds would likely increase substantially.

Funding for total state and local DHS programs would decline slightly, from \$3.3 billion in 2005 to \$3.1 billion in 2006. The budget deletes the \$1.1 billion allocated to the State & Local Homeland Security Grant Program (SHSGP) and \$400 million for its sister program, the Law Enforcement Terrorism Prevention Program (LETPP). Both programs use a widely-criticized Patriot Act formula that vastly advantages small states over large states (California received \$5 per capita in 2004, whereas Wyoming received \$38 per capita.)

In its place, the President proposes \$1 billion for discretionary grants to states for similar purposes, employing a much smaller (0.25 percent) small state minimum. (Of that amount, \$820 million would be for general state & local grants and 200 million for law enforcement grants.) The Administration would retain the \$170 million Emergency Management Performance Grants (EMPG) program and the \$50 million Citizen Corps program – both of which would still use the Patriot Act formula.

For urban area funding, the Administration proposes \$1 billion, which – after being reduced by the same 20 percent – yields funding of 820 million, the same level as in 2005.

By directing 20 percent of both urban and state program funds for spending on law enforcement activities, the budget would effectively maintain the LETPP program at \$400 million, while eliminating the old formula. In addition, funds for both urban area grants and state grants would be available to pay for personnel and overtime, a change from current law.

The budget would provide \$600 million for "targeted infrastructure protection," including ports, transit, and other infrastructure. The total would replace the 2005 funding that was specifically allocated for port security (\$150 million), rail and transit security (\$150 million), intercity bus security (\$10 million) and trucking industry security (\$5 million), with one larger discretionary grant program.

Citizenship and Immigration Services

The Budget proposes reducing discretionary appropriated funding for Citizenship and Immigration Services from the \$160 million provided in FY05 to \$60 million. However, the Budget estimates that examination fees and other collections will increase. The Budget states that:

"In 2006, USCIS will continue to focus on reducing backlogs, enhancing customer service, and ensuring national security. The 2006 Budget continues to support a five-year, \$560 million initiative to support a universal six-month processing standard for all immigration benefit applications by the end of 2006."

Border and Transportation Security

The Budget proposes an increase in funding from \$9.6 million in FY05 to \$10.6 million in FY06. Funding for the Border Patrol in 2006 includes \$37 million for 210 additional Border Patrol agents, and \$20 million for the acquisition and replacement of aging Border Patrol aircraft.

United States Visitor and Immigrant Status Indicator Technology (VISIT Program)/Office of Screening Coordination and Operations

The Budget proposes to eliminate the VISIT program category and move funding to a newly established Office of Screening Coordination and Operations account. The Budget proposes \$525.5 million for this account. The Office's goal is to enhance the efficiency and security of the process for applying for immigration, travel, and work-related

immigration documents. The Budget includes a \$50 million increase for accelerated deployment of US-VISIT at land border ports of entry and for enhanced access for border personnel to immigration, criminal, and terrorist information.

Customs and Border Protection

The Budget proposes increasing this account from \$4,534,119,000 in FY05 to \$4,730,544,000 in FY06.

Container Security Initiative and Customs Trade Partnership Against Terrorism (C-TPAT)

The Budget provides \$5.4 million in additional funding for CSI over the 2005 level.

In addition, \$8.2 million in additional funding over the 2005 level is requested for C-TPAT will be used for supply chain specialists and increased supply chain security validations. To date, over 4,500 importers, 1,700 carriers, and 1,300 brokers and freight forwarders are participating in C-TPAT.

Immigration and Customs Enforcement

The Budget proposes an increase to \$2,892,281,000 for FY06 for ICE, compared to \$2,438,494,000 in FY05. Included in the funding is an increase of \$176 million for the detention and removal of illegal aliens.

DEPARTMENT OF EDUCATION

Title I - Education for the Disadvantaged

The Budget assumes a \$1.4 billion increase (to \$16.397 billion) in Title I spending, of which California's share has recently risen to more than 14 percent. The primary Title I "Grants to Local Education Agencies" item includes four formula subcomponents - basic grants, concentration grants, targeted grants, and education finance incentive grants (EFIG) - each of which uses a slightly different formula. The Budget proposes cutting funding for basic grants (to \$6.9 billion) while maintaining concentration grants at level funding (\$1.365 billion). The Administration proposes an increase in targeted grants (which would grow by almost \$600 million, from \$2.2 billion to \$2.8 billion), and level funding for EFIG (which would remain steady at \$2.2 billion). This formula change would benefit California -- of the four formulas, the state receives the most from targeted grants and the least from EFIG. Targeted grants rely primarily on numbers of children in poverty to allocate states' shares of funding, and California houses a large share of poor children. EFIG yields a lower California share because it includes a factor that reduces funds to states that spend less of their own money per pupil.

(Note: Above detail provided by the Department of Education.)

In other programs under the Title I umbrella, the 2006 Budget proposes a \$63 million cut (to \$1.04 billion) for Reading First state grants and level funding for Early Reading first grants at \$104 million. For the second year, Budget language calls for the elimination of Even Start (a \$247 million program) and proposes a \$175 million expansion of the new "striving readers" program (from \$25 million in fiscal 2005 to \$200 million).

The State agency migrant education program under Title I (which documents indicate helps 750,000 children of migrant agricultural workers meet state academic standards) would be even funded at \$34 million, although budget language hints at a forthcoming legislative proposal that would shift the program to another account. Two higher education migrant education programs currently exist- the migrant high school equivalency program (HEP) and the College Assistance Migrant Program (CAMP).

Special Education

The Administration proposes a total spending amount of \$12.1 billion for Special Education Grants to States under the Individuals with Disabilities Education Act (IDEA), which was amended and reauthorized by Congress and signed by the President on December 3, 2004. California's share of IDEA spending has also risen recently, with the state receiving 10.6 percent of total funds in 2004, and a 10.7 percent share in 2005.

The President's 2006 Budget proposes \$385 million in funding for special education preschool grants, of which California will likely receive approximately \$40 million. The Budget proposes a \$305 million contraction (from \$10.6 billion to \$10.3 billion) in the Grants to States program, the primary IDEA grant. Grants for infants and families would shrink from \$458 million to \$441 million (California receives approximately 12 percent of these funds).

Impact Aid

For the federal impact aid program, which assists school districts where a significant portion of the potential tax base is exempted from state and local taxation because of federal activity (such as a military installation), the Budget proposes a slight decrease of approximately \$13 million for all programs. The recommendations include \$1.075 billion for impact aid basic grants, \$50 million for supplemental payments for children with disabilities, \$62 million for payments for federal property, and \$46 million for construction. Impact aid is lessening in its importance for California as military installations are closed and personnel move out of the state. Whereas California received as much as 10 percent of impact aid funds ten years ago, the state's share of national receipts has been nearer 6 percent recently.

School Improvement Programs (SIP)

Total budget authority for SIP would decline from \$5.6 billion to \$5.3 billion. Within the account, the Budget proposes level funding or relatively minor cuts for many programs, including an appropriation of \$2.92 billion for part A improving teacher quality state grants, \$991 million for 21st Century community learning centers, \$297 million for innovative program state grants, \$56 million for education for homeless children and youth, and \$14.8 million for the early childhood education professional development program. The President's request however proposes to zero out certain programs; most significantly, educational technology state grants, previously funded at \$511 million, as well as foreign language assistance (\$18 million) and the Javits gifted and talented education program (\$11 million). With some of those funds, the Budget would roll out a new \$250 million high school assessments program. Increases are proposed for mathematics and science partnerships (from \$180 million to \$269 million).

Innovation and Improvement

The Budget includes a total of \$1.3 billion for innovation and improvement, an increase of \$200 million from 2005. The augmentation reverses the \$9 million decline in the program reflected in last year's budget. The Fund for the Improvement of Education (FIE) "programs of national significance" account would be slashed by \$228 million (from \$257 million to \$29 million) under the proposed Budget.

The Budget proposes changes within the account, including elimination of \$20 million for the national writing project, \$15 million for school leadership, \$1.5 million for Close Up fellowships, \$5 million for dropout prevention, \$21 million for Star schools, \$14 million for the ready to teach program, \$36 million for arts in education, and \$42 million for parental assistance information centers. The account provides level funding for a number of programs, including troops-to-teachers (\$15 million), transition to teaching (\$45 million), teaching of traditional American history (\$119 million), magnet schools assistance (\$108 million), credit enhancement for charter school facilities (\$37 million), voluntary public school choice (\$27 million), and Ready-to-learn television (\$23 million). It proposes an increase of \$2 million to the Charter Schools Grants program. Programs receiving substantial increases include advanced placement (rising from \$30 million to \$51 million). And the Budget would establish a new teacher incentive fund at (\$500 million), fund a new choice incentive program at \$50 million, a new Adjunct Teacher Corps at \$40 million, and a new State Scholars Capacity Building program at \$12 million. The teacher incentive account would be used to credit teachers and schools responsible for raising student achievement and closing the achievement gap.

Safe and Drug Free Schools

The 06 Budget proposes level funding of \$397 million for state grants for safe and drug-free schools and communities, \$24 million for character education, \$55 million for physical education, and \$49 million for the mentoring program. The Budget proposes elimination of \$34 million for elementary and secondary school counseling, \$29 million for civic education, \$22 million for state grants for incarcerated youth offenders, and \$10 million for a literacy program for prisoners.

English Language Acquisition

Formerly known as the office of Bilingual and Immigrant Education, the Office of English Language Acquisition at the Department of Education provides a large portion of its funding to California, with formula grants based on states' shares of the nation's limited English proficient (LEP) students and recent immigrants.

The Budget provides a total of \$675.8 million for English Language Acquisition programs, a dip of \$5.5 million. The principal account under this section known as the State Grants program would be cut by \$ 7 million.

Rehabilitation Services and Disability Research

The Budget proposes a \$15 million cut from \$3.076 billion to \$3.059 billion for Rehabilitation Services and Disability Research. The primary component of the account is vocational rehabilitation state grants, which would increase from \$2.64 billion to \$2.7 billion. California's share of vocational rehabilitation state grants is typically about 10 percent.

No change is proposed in funding for client assistance state grants (\$12 million), independent living grants (\$131 million).

According to the Budget, demonstration and training programs would be slashed by \$20 million, whereas the Budget proposes elimination of a \$2 million program for migrant and seasonal farmworkers, as well as a \$37 million supported employment grants program and a \$21.8 million program entitled projects with industry.

Vocational and Adult Education

The Budget proposes major cuts in vocational and adult education programs, with a total reduction of \$969 million in the overall account (from \$2.1 billion in 2005 to \$1.1 billion in 2006).

Within the vocational and technical education account, the administration rolls back funding for vocational education basic grants from \$1.3 billion to \$807 million, more than halves adult education appropriations from \$585 million to \$223 million and eliminates tech-prep education state grants (\$106 million), and occupational and

employment information grants (\$11 million). California has typically received approximately 11 percent of vocational education basic grants and slightly more than 11 percent adult education program grants .

The \$173 million smaller learning communities program slated for elimination in last year's Budget proposal would be cut to \$94 million.

Postsecondary Education Student Financial Assistance

The budget provides \$111 billion for higher education and training programs (a cut of \$5.7 billion) and institutes several accounting shifts and restructuring plans consistent with the Administration's proposed Higher Education Act (HEA) reforms. HEA expired in 2003 but student and institutional aid programs remain in operation due to the passage of temporary legislation. The most recent extension lasts through the end of the 2005 fiscal year.

Pell Grants

The Budget assumes policy changes to the federal Pell Grant system while proposing to increase the maximum Pell grant award by \$100 per year over five years (\$4050 to \$4550). According to the Budget document, a total appropriation of \$18 billion is included to support Pell Grants -- \$13.2 billion to cover discretionary expenses, \$420 million to improve the Pell Grant maximum and \$4.3 billion to pay for shortfalls in the prior year. The actual \$13.6 billion in new obligations eclipses FY05 levels (\$12.9 billion) by \$700 million. The Budget would create a \$33 million merit based Pell Grant component, make Pell Grants available year-round, and index minimum awards to the incremental growth in maximum awards. California typically receives about 11.3 percent of Pell Grant funds.

Importantly for California, the budget would also eliminate the tuition sensitivity rule that currently reduces Pell Grant maximums to students attending low cost institutions. Only one institution in the country has tuition rates so low that Pell Grants are reduced by the tuition sensitivity rule – the California Community College system. In 2001, tuition sensitivity cost California Community College students \$12.5 million in Pell Grant assistance.

Campus-Based Aid (CBA) Programs

The Budget partially intends to pay for Pell Grant augmentations by targeting the Perkins Loan program (funded at \$1.1 billion) for elimination. The two remaining CBA programs would be level funded at \$985 million for Federal Supplemental Educational Opportunity Grants (SEOG) and \$1.184 billion for the federal work study (FWS) program. Of the three CBA formula grants, California benefits least from the Perkins loan program, receiving 9.8 of distributions. Historically the state receives a 10.6 percent share of SEOGs and 11.1 percent of FWS grants. In place of Perkins loans, the Budget proposes the establishment of a \$284 million loans for short-term training program.

Leveraging Educational Assistance Partnership (LEAP)

This student aid program provides up to \$5,000 per year in stipends to students demonstrating need. LEAP grants are awarded to states as formula grants and require a one-to-one match from state treasury resources. The Budget would eliminate the \$167 million (LEAP) program. California receives a generous 15.4 percent of LEAP funds.

Higher Education Institutional Aid, including TRIO and GEAR UP

Within a total of \$1.12 billion for institutional development grants and assistance to students, the Budget would provide level funding of \$81 million for the strengthening institutions program, \$24 million for tribally controlled colleges, \$58 million for historically black graduate institutions, \$30 million for graduate assistance in areas of national need activities and continue the \$1 million annual uptick in funds for the Hispanic serving institutions (HSI) program (to \$96 million) for the third consecutive year. California receives a disproportionately high share of funds under HSI, taking in 55.5 percent of new institutional development grants in 2003 and 30 percent of cooperative arrangement grants. Some programs under this section stand to be drastically cut or eliminated among them being the \$41 million Byrd scholarship program, the \$68 million teacher quality enhancement program.

The TRIO program, which provides outreach and support for serving low-income and first-generation college students, would be slashed by \$468 million (to a 06 level of \$369 million). In fiscal 2003, California share of the TRIO national total was \$68.2 million or 8.2 percent of the national total.

Under the President's Budget, the GEAR UP program, which helps minority and disadvantaged students prepare for and succeed in college, would be zeroed out. California was awarded 14.9 percent of GEAR UP funds in 2004.

NATIONAL AERONAUTICS & SPACE ADMINISTRATION (NASA)

The budget proposes spending \$16.5 billion for the National Aeronautics & Space Administration (NASA), an increase of approximately 2 percent from 2005. California perennially receives a large portion of federal NASA expenditures.

The Administration recommends restructuring NASA funding, moving funds from various science and research accounts into a new, consolidated account for science programs.

NASA proposes to stay on course to cease operation of the space shuttle in 2010, conduct the first manned flight of a new exploration vehicle in 2014, and return humans to the moon by 2020. The Administration has worked recently to

realign NASA programs to focus on its renewed space exploration priority, and it has streamlined management and operations.

Within NASA, space science operations would be funded at \$5.5 billion, with increases slated for lunar and Mars robotic exploration (growing 17 percent to \$858 million), the Explorer spacecraft program (up 17 percent to \$218 million), and a physics and astronomy research program (up \$33 million to \$56 million). Within \$1.1 billion for robotic and human exploration, the budget includes \$753 million for the Project Constellation expeditionary vehicle.

Funding for aeronautics would be cut substantially, from \$1.02 billion in 2005 to \$811 million in 2006. (The 2004 level had been \$880 million.) Projected expenditures for aeronautics would decline to \$718 million.

Space Shuttle operations would be funded at \$4.5 billion, including \$366 million for launches and return-to-flight projects, including five shuttle flights in 2006. Funding for the International Space Station would be set at \$1.9 billion, an amount slated to rise to \$2.4 billion by the end of the decade. NASA education programs would receive \$167 million.

The budget notes that NASA, in collaboration with the United States Geological Survey, has sponsored the development of the Rundle/Tiampo earthquake forecasting algorithm that "identifies small geographic zones of high earthquake risk in California." The budget notes that thirteen of the last 14 earthquakes greater than magnitude 5 have occurred within these narrowly defined hotspots.

The budget proposes a reduction to \$48.3 million for the SOFIA program, an astronomical observatory consisting of a 2.5-meter aperture telescope permanently installed in a specially modified Boeing 747. The aircraft is based in part at Moffett Field in Sunnyvale, CA. The budget also includes \$5 million to rehabilitate the electric distribution system at Moffett Field.

At the Jet Propulsion Laboratory in Pasadena, the budget proposes to replace the current Administration Building and visitor control and education facilities with a new Administrative and Education Center Complex at a cost of \$22.5 million. In addition, the budget includes \$5 million for a Seismic Upgrade of the Caltech Telecommunications Building.

DEPARTMENT OF DEFENSE

The President would raise spending for the Department of Defense to \$419 billion, a 5 percent increase from 2005. However, whereas defense spending increases typically benefit California because the state's aerospace firms compete strongly for procurement dollars, the proposed 2006 increase would come not in procurement but in personnel and operations and maintenance. The procurement account would receive \$78 billion, which is less than an inflation increase from 2005. The defense R&D budget would be similarly flat, funded at \$69.4 billion. Thus, the state is less likely to benefit from the proposed defense spending increase.

California defense procurement advantage is particularly strong in aircraft and missile activities, and some significant reductions are proposed there. In particular, the budget proposes a 2 percent reduction in Air Force procurement, which includes a 6 percent reduction in the F/A-22 Raptor fighter. In addition, the missile defense would be reduced by nearly 30 percent, to a total of \$7.8 billion.

On a more positive note for the aerospace industry, the budget maintains funding for the Navy's F/A-18E/F Superhornet fighter.

Implementation of the decisions of the Base Realignment and Closure (BRAC) Commission, which this spring is slated to begin the process of assessing base closure proposals, would receive \$1.9 billion in 2006 and an anticipated \$5.7 billion in 2007.

Within procurement, the budget proposes level funding of \$2.8 billion for Army aircraft, a reduction from \$13.6 billion to \$12 billion in Air Force aircraft procurement, and a sharp increase, from \$8.8 billion to 10.5 billion for Navy aircraft procurement. The Air Force's missile procurement account would grow by \$1 billion to \$5.5 billion in 2005.

For the Navy, aircraft procurement is slated to include \$5.9 billion for combat aircraft, \$1.5 billion for aircraft modification, \$1.1 billion for aircraft spares and repair parts. All three amounts represent significant increases over 2005. Of the combat aircraft total, \$2.7 billion is provided for the F/A-18E/F.

For the Air Force, the aircraft program cuts are borne largely by the combat aircraft account (reduced from \$4.2 billion to \$3.9 billion) and airlift aircraft account (reduced from \$5.1 billion to \$3.3 billion). The F-22 Raptor account would be reduced from \$4.1 billion in 2005 to \$3.7 in 2006. The C-17 cargo airlifter would receive a slight increase, whereas the C-130J would be reduced substantially.

For unmanned aerial vehicles (UAVs) such as the Global Hawk and Predator, the budget included \$350 million.

The budget proposal would increase spending on research, development, testing and evaluation of emerging defense technologies by \$600 million to \$69.4 billion, with increases to continue for several years. Total spending for R&D at the Defense Advanced Research Projects Agency (DARPA) would be set at \$3.1 billion, including \$242 million for electronic devices; \$201 million for cognitive computing systems; \$199 million for information and

communications technology; \$190 million for advanced supercomputing programs; \$189 million for sensor technology; \$137 million for technologies that would integrate the armed services; and \$55 million for counter-terrorism measures. It would also provide \$1.2 billion for an advanced, high-frequency satellite system.

DEPARTMENT OF TRANSPORTATION

In FY2006, the President proposes a \$57.5 billion investment in transportation activities to: ensure safety for the traveling public, improve the Nation's transportation system, and build and maintain US transportation infrastructure. The proposal reflects a one percent cut from the 2005 enacted level of \$58 billion.

Transportation Planning Research and Development

The 2006 budget recommends a \$9.03 million appropriation to finance research activities and studies concerned with planning, analysis, and information development needed to support national transportation policy formulation.

Federal Aviation Administration

The President's Budget requests \$13.3 billion in Federal Aviation Administration (FAA) budget authority, sub-allocated in the following way: \$8.05 billion for operations; \$2.5 billion for Grants-in-aid for Airports expenses; \$2.45 billion for facilities and equipment programs; and \$130 million for research, engineering and development. This represents a \$753 million cut from the 2005 enacted amount.

Federal Highway Administration

The 2006 FHWA budget includes \$35.445 billion in new budget authority (a \$5.4 billion reduction from the prior funding level), and \$34.7 billion in obligation limitations for federal highway programs. According to the Department of Transportation, California is estimated to receive \$3,077,532,000 in total highway planning and construction distributions in 2006 or 9.45 percent of the national total. The Transportation Equity Act for the 21st Century (TEA-21) authorized surface transportation programs through 2003. TEA-21 provided authority for the various programs of the Federal Highway Administration (FHWA) designed to improve highways and bridges throughout the nation. The Bush Administration issued a reauthorization proposal for Congress' consideration known as the Safe Accountable and Efficient Transportation Equity Act (SAFETEA) in 2003; however since no long term surface transportation plan has been enacted to this date, 2006 budget language remains consistent with TEA-21's funding structure, i.e. highway spending levels will correspond to Highway Trust Fund (HTF) receipts. The fiscal 2006 Budget supports an updated 6-year surface transportation bill reauthorization level of \$299 billion (\$283.9 billion in outlays) up from the proposed level of \$256 billion, through 2009.

Intelligent Transportation Systems (ITS): Under the 2005 FHWA budget, \$462.5 million was set aside for research activities, of which \$232 million was included for ITS projects. Eight California projects that were highlighted for earmarks in 2005 are eliminated in the President's 2006 proposal.

Federal-Aid Highways (FAH): \$34,700,000,000 is requested for Federal-aid highways and highway safety construction programs for FY 2006. The Administration proposes to slash core highway formula programs by \$3.3 billion or 9.8 percent from fiscal 2005 levels, with the most significant cuts handed to the Transportation Research Program (50.2 percent), the Surface Transportation Program (17.8 percent) and Minimum Guarantee (15.4 percent) budgets. The Federal Lands Program, the only core program that grew from fiscal 2005 levels, experienced an increase of \$209 million or 28 percent.

Federal Motor Carrier Safety Administration: The 2006 Budget requests \$232 million for Motor Carrier Safety Grants. Of this amount, \$172 million of this appropriation is dedicated to finance grants to help states implement highway safety programs. \$33 million is provided to support state safety enforcement activities at both northern and southern borders. \$228,000,000 is requested for Motor Carrier Safety Operations and Programs including federal safety enforcement activities along the US-Mexico border though no line item funding is included for Border Enforcement Program (BEP) activities. An additional \$23 million is provided to support state efforts to improve commercial driver's license (CDL) oversight and a \$4 million allocation is proposed for the PRISM program which helps states monitor unsafe commercial vehicles. Furthermore, the 2006 Budget requests \$233 million for Motor Carrier Safety Operations and Programs. This account is used to support federal enforcement of safety regulations at the US/Mexico border to ensure Mexican carrier compliance with federal standards. No funding is requested to support the MCSA's Border Enforcement program which was budgeted \$17 million in 2005.

National Highway Traffic Safety Administration (NHTSA): \$696 million is appropriated for this agency an increase of \$244 million from the 2005 estimated appropriation. These funds are split with \$231 million proposed for operations and research expenses, while \$465 million is set aside for grants to states to fund targeted highway safety projects and initiatives.

Federal Railroad Administration (FRA)

The President proposes \$552 million to support FRA programs, this includes \$360 million for the National Railroad Passenger Corporation (Amtrak). The amount requested for Amtrak would reflect a dramatic \$847 million cut from the FY05 Omnibus enacted level and would keep in operation Amtrak routes along the northeast corridor (NEC). The Budget release notes that Amtrak's debt payments have more than doubled while the railroad's efficiency has declined. The Administration's Amtrak restructuring proposal known as The Passenger Rail Investment Reform Act has not gained traction in Congress. The proposal would split Amtrak into three segments, lease NEC maintenance and operations to states, allow states to develop routes in partnership with private companies outside NEC, and after a transition period transfer maintenance and train operations costs to states.

The '06 Budget recommends no funds to support Next Generation High Speed Rail activities, although \$19 million was appropriated in 2005.

Federal Transit Administration (FTA)

The Federal Transit Administration (FTA) provides funding to transit operators, State and local governments and other recipients for the construction of facilities; the purchase of vehicles and equipment; the improvement of technology, service techniques, and methods; the support of region-wide transportation planning; and transit operations. FTA also provides financial assistance to help implement other national goals relating to mobility for the elderly, people with disabilities, and economically disadvantaged individuals.

The 2006 Budget proposes \$7.781 billion for transit formula and discretionary programs, an increase of \$134 million from the 2005 enacted level. Of a total budget of \$6.9 billion in transit formula grants and research, California is estimated to receive \$1.3 billion or 18.8 percent of the national total, according to budget support materials.

Transit Formula Grants and Research:

The 2006 Budget proposal reflects accounting changes included in the Administration's SAFETEA transit reauthorization plan formulated in 2003. Increasing flexibility, one reauthorization principle, would be accomplished by consolidating a patchwork of former programs into a single Formula Grants and Research account directly fed by the Mass Transit Account. This account would encompass research programs, Job Access and Reverse Commutes (JARC) grants, urbanized area formula grants, fixed guideway modernization grants, nonurbanized area grants, Elderly and Persons with Disabilities grants and a portion of planning grants, among other initiatives. Formula Grants and Research funds would be available for all transit purposes under the Administration's proposal including planning, bus and railcar purchases, facility repair and construction, maintenance and, where eligible, operating expenses. New Starts would be shifted to a new funding source known as Major Capital Investment Grants, whereas the Bus discretionary program would be eliminated, under the President's budget.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

The President's budget proposes \$67.2 billion in discretionary budget authority for the Department of Health and Human Services, which is 1 percent and \$788 million less than FY05 funding. The budget funds the entire Department's, including mandatory funding obligations, at \$642.5 billion, which is 9 percent and \$58 billion more than FY05.

Food and Drug Administration

The President's budget proposes \$1.5 billion for the FDA, \$54 million than FY05 funding. **Health Resources and Services Administration**

The President proposes \$6.0 billion for the Health Resources Administration, which \$824 million less than FY05 funding. Ryan White HIV/AIDS Activities would receive proposed funding of \$2.1 billion, which is \$10 million more than FY05 funding.

Indian Health Services

Under the Indian Health Services account, the President's budget deletes a \$2.6 million earmark for the purchase of land at two sites for the construction of the northern and southern California Youth Regional Treatment Centers.

Centers for Disease Control and Prevention

Included in the budget proposal is \$4.0 billion for the Centers for Disease Control. In FY05, the Centers received \$4.5 billion in funding.

National Institutes of Health

The budget proposal includes \$28.6 billion for the National Institutes of Health, which is \$146 million more than FY05 funding.

Substance Abuse and Mental Health Services

Substance Abuse and Mental Health Services are funded at \$3.2 billion in the President's budget, which is \$53 million less than FY05 funding.

Centers for Medicare and Medicaid Services

The President's budget request anticipates net outlays of \$546 billion for the Center for Medicare and Medicaid Services in 2006, which it notes would be a \$56 billion (11.4 percent) increase from 2005. (As mandatory programs, outlays are examined rather than budget authority.) The Administration proposes tightening various loopholes in an effort to save \$45 to \$60 billion over 10 years.

Medicaid - The budget predicts federal spending of approximately \$193 billion for Medicaid Grants to States in 2006. It predicts slightly less than 10 percent of that amount, or \$19 billion, will be spent in California. (Because state and local Medicaid expenditures are reimbursed after they are made, a fiscal year's actual spending is not known until later.)

Tables included in one budget document predict that Medicaid grants to states nationwide would increase slightly, but that California's 2006 receipts would decline by \$550 million from 2005 – from \$19.51 billion to \$18.96 billion. The state would be one of only four states with a reduction (the others being Washington, Wisconsin, and North Dakota). No explanation is given for the differences among states' predicted levels. However, recent anecdotal conversations with experts indicate that this predicted reduction comes from secondhand reports of expected state-level expenditures, and so an actual reduction is highly speculative and probably not likely.

Medicaid's formula determines each state's federal share of health care payments on a continuum between 50 and 83 percent, with a national average of 55 percent. California's 50 percent reimbursement percentage (or FMAP - federal medicaid assistance percentage) is artificially low because the formula incorrectly assumes that states with high per capita incomes will have low poverty -- an assumption that is valid for most states but not for California, with large populations of both poor and wealthy individuals. Of total federal Medicaid spending, California's share is typically between 10 and 11 percent.

In addition to the state's low FMAP rate, California's share of federal Medicaid funding is also relatively low because the state has a relatively young population, with fewer long-term care patients that tend to raise program costs.

The President proposes various changes in the Medicaid program. The President proposes an early reauthorization of the SCHIP program (currently not scheduled to expire until 2007). Such a reauthorization process could provide a vehicle to make changes to Medicaid, which – as an entitlement program – has no expiration date.

Proposed Medicaid Program Elimination of Intergovernmental Transfers (IGTs) and Implications for the Upper Payment Limit (UPL) -- The Administration proposes to restrict states' ability to employ a variety of methods that it claims have inappropriately increased federal receipts. It proposes eliminating the use of intergovernmental transfers (IGTs), a legal method used by a number of states – including California – to maximize federal receipts.

Until recently, Medicaid rules have allowed states to be reimbursed for spending that may have in fact amounted to no more than a transfer from one level of government to another -- from a county to a state, for example -- via complicated budgetary accounting practices. For instance, if a state pays some hospitals less than others for similar services, it may create a discrepancy between the actual amount paid and the maximum amount Medicaid allows: the upper payment limit (150 percent of what a Medicare (*not Medicaid*) would have provided in the same circumstance). The state could then make a separate payment to public hospitals related to that discrepancy, but require the public hospital to return those funds in whole or in part -- but only after federal matching funds were generated by the state's payment to the county hospital.

In 2001, the federal government began to curb use of the mechanism to increase reimbursements via IGTs, but 24 states were allowed transition periods to end the process more slowly. California was one of six states with the longest transition period: eight years.

According to the California Association of Public Hospitals and Health Systems, California uses IGTs to bring \$2 billion annually into the state. A CMS statement in 2004 estimated that, by the end of its 8-year transition period, California will have received total transition payments of \$3.8 billion, or 14.7 percent of the \$25.8 billion for all states.

The budget proposes to "build on current CMS efforts to curb these questionable financing practices by matching only those funds kept by providers as payments for services."

In addition, the budget proposes to "limit reimbursement levels to no more than the cost of providing services."

Although specifics are limited, the budget language appears likely to require an immediate reduction (rather than a phase-out) in the use of the UPL.

Medicaid Disproportionate Share Hospital (DSH) Payments – In addition, language stating that reimbursements may be "no more than the cost of providing services" may lead to a change in rules that allow enhanced payments to be made to financially assist hospitals that provide care to a large number of Medicaid beneficiaries and uninsured patients -- the disproportionate share hospitals (DSH). Medicaid rules allowed DSH hospitals to receive up to 100 percent of the costs incurred by a hospital for non Medicaid patients. For certain years, however, that limit was increased to 175 percent for two years. Moreover, Congress later specifically extended California's authority to use the 175 percent limit beyond the 2-year limit.

If the budget language were to reduce from 175% to 100% in the excess amount that could be paid for Medicaid Disproportionate Share Hospital payments, the state could be impacted significantly.

State Children's Health Insurance Program (SCHIP) - The budget compliments the SCHIP program, suggesting that it be used as a model for improving Medicaid. The Administration's Budget anticipates SCHIP outlays of \$5.4 billion in 2006. California received 16.8 percent of SCHIP funds in 2004, a total of \$534 million of the nation's \$3.1 billion total. As noted, the budget proposes to reauthorize SCHIP early, before its 2007 expiration.

Reimbursement for Cost of Emergency Health Services for Undocumented Aliens - The President Budget notes that HHS will spend \$250 million in previously appropriated funding to provide federal reimbursements to states to help cover the costs of providing emergency health care services to undocumented immigrants. A California Institute analysis estimates that California will receive \$72 million per year from this account from 2005 through 2008, nearly 29 percent of the U.S. total. The provision was created by the 2003 Medicare prescription drug benefit bill, which mandated the appropriation of \$1 billion, to be spent over four fiscal years.

Health Care Trust Funds

Under the Health Care Trust Funds, the President's budget deletes three earmarks for California projects: \$1,900,000 is available for AIDS Healthcare Foundation, Los Angeles, California, for a demonstration of residential and outpatient treatment facilities; \$1,500,000 is available for San Francisco Department of Public Health, San Francisco, California, for a demonstration project to improve HIV/AIDS treatment and prevention services; \$300,000 is available for Santa Clara County, California, for outreach and enrollment assistance activities of the Children's Health Initiative.

Administration for Children and Families

For the Administration for Children and Families, the President's budget proposal would provide \$13.1 billion in discretionary funds, \$410 million less than FY05. Mandatory ACF spending would total \$33.5 billion, a \$150 million increase from 2005. Total funding, including mandatory and discretionary funds, would total \$45 billion.

TANF - The mandatory federal welfare program now known as TANF (Temporary Assistance for Needy Families) would receive level funding of \$16.5 billion in 2005. Of this amount, California continues to receive \$3.7 billion, more than 20 percent of the total program.

The budget eliminates the TANF supplemental grants program for population increases, funded at \$300 million in 2004 and \$191 million in 2005. California has not received supplemental grant funding in the past.

The budget reiterates the President's support for the Administration's welfare reauthorization measure, which would maintain the current \$16.5 billion annual level through FY 2009. It would reinstate authority for Supplemental Grants for Population Increases, previously funded at \$319 million annually, reauthorize the Child Care and Development Fund, make the TANF contingency fund more accessible to states, and continue to allow for 10 percent transfer of TANF funding to the Social Services Block Grant program. Programmatically, it would require TANF participants to engage in work-related activities and employment for 40 hours a week (with at least 24 hours in direct work activities), allow states to count certain activities like substance abuse treatment or rehabilitation as meeting the work requirement for three months, and broaden demonstration programs.

Payments to the States for Child Support Enforcement and Family Support Programs - The Administration proposes funding of \$4.2 billion for Payments to the States for Child Support Enforcement and Family Support.

Low Income Home Energy Assistance (LIHEAP) - The President propose to fund LIHEAP at \$1.8 billion, which is \$100 million less than FY05 funding.

Refugee and Entrant Assistance - The budget includes \$552 million for Refugee and Entrant Assistance, which is an increase of \$30 million from FY05 funding.

Child Care Entitlement to States - The proposed budget notes the expected expenditure of level funding of \$2.7 billion for Child Care Entitlements to States.

Payments to the States for Child Care and Development Block Grant - The budget includes level funding of \$2.1 billion for Payments to the States for Child Care and Development Block Grants - a discretionary-spending counterpart child care program.

Social Services Block Grant - The proposed budget requests level funding of \$1.7 billion for Social Services Block Grants.

Children and Families Services Program - The President's budget includes \$8.4 billion for Children and Families Services Program, which is \$628 million less than FY05 funding. That total includes \$6.9 billion for Head Start (\$41 million increase from FY05, California's share of Head Start is slightly more than 12 percent); \$290 million for Child Welfare Centers (level funding); and \$138 million for abstinence education (\$39 million increase.) The President's proposal eliminates \$678 in FY05 funding for the Community Service programs, including the Community

Services Block Grant, Community Economic Development, and Rural Community Facilities programs, and includes those programs in the Commerce Department's budget. For more information on this consolidation of programs, see the section on Community Development Block Grants above.

Payments to the States for Foster Care and Adoption Assistance - The President's budget proposal includes \$6.6 billion for Payments to the States for Foster Care and Adoption Assistance, which is \$150 million more than FY05 funding. Within these funds are \$4.6 billion for Foster Care and 1.8 billion for Adoption Assistance. In recent years, California has received more than 25 percent of federal foster care entitlement spending.

The budget also includes a legislative proposal that available to all states to participate in an alternative financing system for child welfare that will better meet the needs of each state's foster care population. States choosing to participate face far fewer administrative burdens and will receive funds in the form of flexible grants.

DEPARTMENT OF VETERAN AFFAIRS

Under President Bush's budget, the Department of Veteran Affairs receives discretionary budget authority (with collections) of \$33.4 billion, representing a 3 percent increase over FY05 funding of \$32.5 billion.

Medical Funding

The vast majority of VA funding is devoted veteran health care expenses. For FY06, the President budgets \$28.9 billion of the department's funding for medical expenses (86 percent of the total VA budget.) The \$28.9 billion figure is \$111 million more than FY05 funding.

Capital Asset Realignment for Enhanced Services (CARES)

Under the Capital Asset Realignment for Enhanced Services (CARES) activities, which funds major and minor construction projects, the budget proposes \$639 million, compared with \$607 million in FY05. In FY 05, California received \$151 million in CARES funding.

National Cemetery Administration

Additionally, the budget proposes building a new VA cemetery in California, under the authority of the National Cemetery Administration.

DEPARTMENT OF LABOR

The President's budget proposes \$11.5 billion in funding for the Department of Labor, a 4 percent decrease from FY05 funding levels. Overall, the Department's budget will increase 7.5 percent to \$54.5 billion, largely spurred by anticipated increases in unemployment benefits.

Job Training

The Administration proposes a significant change to the budgetary structure of the Labor Department, attempting to combine four job training programs into a single block grant to states. The ultimate goal of the change would be to provide more flexibility in how funds can be allocated at the state level. Overall funding for job training programs would be cut to \$7.5 billion, down from \$8 billion in FY05.

Migrant and Seasonal Workers Program

For the second year in a row, President Bush's budget eliminates funding for the Migrant and Seasonal Workers program, citing the program's ineffective rating from its PART assessment. In particular, the budget states that the One-Stop Career Centers, also funded under the Department of Labor, provide many of the same services. California, with its large immigrant population and agriculture industry, typically receives a significant share of the Migrant and Seasonal Worker funds.

DEPARTMENT OF AGRICULTURE

The President's budget proposes discretionary funding of \$19.3 billion for the Department of Agriculture, representing a 12 percent cut from the FY05 funding level of \$21.4 billion.

Crop Subsidies

Central to the cuts is a proposed lowering of the maximum federal crop subsidy available to an individual recipient to \$250,000 from its current level of \$360,000. While this change has a relatively small direct impact on California farmers, the decrease in federal subsidies may be an indication that the nation is moving toward a fairer distribution of agriculture dollars. Presently, California, which has the nation's largest agricultural economy, receives an extremely small portion of the federal subsidies that were included in the 2002 Farm Bill.

Research

Along with the proposed subsidy reduction, the President's budget cuts all research efforts by 13 percent. For FY06, the budget proposes \$2.3 billion for agricultural research, \$347 million less than FY05 funding. Within the budget, \$15 million is dedicated for improved pest control, a small decrease from FY05, and \$108 million is proposed

for special research grants, which may also be used to improve pest control and eradication. Special research grants were funded at \$156 million in FY05. In the past, programs from research accounts have been used to study Glassy-Winged Sharpshooter/Pierce's Disease, Sudden Oak Death, and other agricultural pests and diseases that negatively impact California's agriculture economy.

Conservation

Similarly, the budget proposes significant cuts to conservation funding. The conservation budget would be cut to \$814 million, down 17 percent from FY05 and more than 30 percent from FY04. The President's budget does not include \$12.5 million that was provided to California for the Tree Assistance Program in FY04 (no funds were provided for FY05). Funding for the water conservation activities at the Klamath Basin, which is in California and Oregon, is continued at \$11 million.

Forest Service

Under the President's plan, the Forest Service would also experience deep cuts, down 9 percent from FY05 and 14 percent from FY04.

Wildland Fire Management - The President's budget includes \$1.4 billion for Wildland Fire Management, which is \$645 million less than FY05 funding.

Animal and Plant Health Inspection Service - The proposed budget funds the Animal and Plant Health Inspection service at \$1.1 billion, \$22 million less than FY05 estimated spending. Of those funds, the budget allocates \$342 million for pest and disease management programs, \$239 for plant and animal health monitoring, and \$306 pest and disease exclusion. Funds from this account have been used to help prevent Glassy-Winged Sharpshooter/Pierce's Disease and Sudden Oak Death in California and throughout the nation.

National Forest Land Acquisition - \$1 million is provided for land acquisition at the boundaries of the Angeles, San Bernardino, Sequoia, and Cleveland National Forests, while necessary sums are allocated to purchase land to minimize erosion and flood damage to critical watersheds within the following the Angeles, Cleveland, San Bernardino, and Sequoia National Forests.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The President's budget proposes discretionary budget authority of \$28.5 billion for the Department of Housing and Urban Development, an 11 percent decrease from \$32.4 of discretionary spending in the FY05 budget. Overall, the HUD budget was cut 14 percent to \$30.4 billion, down from \$35.5 billion in FY05.

Community Development Block Grant program (CDBG)

The Bush budget proposes a major reorganization of the Community Development Block Grant program. Under the plan, nearly all of the programs that comprised the Community Development Fund, including the CDBG, will be moved out of HUD and combined with 17 other programs in the Commerce Department. Within the Commerce Department, the 18 combined programs would receive proposed funding of \$3.7 billion. In FY05, the Community Development Fund had a budget of \$4.7 billion and the combined programs affected by the Bush plan, including CDBG, would have had a total budget of \$5.6 billion. Thus, the move to Commerce and consolidation with other existing programs would lead to a \$1.9 billion cut in community development funds. In FY05, California received 12.8 percent of all CDBG grants worth \$537 million of the programs \$4.1 billion grant funds.

A few of the small Community Development Programs - the Self-Help Homeownership Opportunity program (SHOP), Indian Community Development Block Grant program, and Native Hawaiian Housing Block Grant program - would remain in HUD.

Public and Indian Housing

Continuing the new funding structure that replaced the Housing Certificate Fund, the President's budget funds the majority of housing assistance programs through two main accounts. **Tenant-Based Rental Assistance** - The President's budget funds the Tenant Based Rental Assistance account at \$15.8 billion, \$900 million more than FY05 funding. That funding level includes \$14.1 billion for Section 8 vouchers to tenants. Tenant-based Rental Assistance helps low-income individuals afford housing by subsidizing their rental payments.

Project-Based Rental Assistance - The President's budget funds the Project-Based Rental Assistance account at \$5.1 billion, \$226 million less than FY05 funding. Of that total, \$4.9 billion is dedicated to the renewal of Section 8 property vouchers. Project-Based Rental Assistance helps make housing more affordable by subsidizing the landlords who make a certain portion of their residences available to low income individuals.

Public Housing Capital Fund - The budget proposes \$2.3 billion for the Public Housing operating Fund. FY05 spending for the Fund was \$2.6 billion.

Public Housing Operating Fund - The President's budget requests \$3.4 billion for the Public Housing Operating Fund, which is \$950 million more than FY05 funding.

Revitalization of Severely Distressed Public Housing (HOPE VI) - The President proposes to eliminate the HOPE VI program and rescind the remaining FY05 balance of funds in the HOPE VI for a savings of \$143 million.

HOME Investment Partnership

The President's budget proposes \$1.9 billion in funding for the HOME Investment Partnership program, which is \$40 million more than the FY05 funding.

Homeless Assistance Grants

President Bush's budget proposes a \$200 million increase for Homeless Assistance Grants, bumping total funding for the program up to \$1.4 billion. In FY04, California received \$228 million of \$1.1 billion in grants, representing more than 20 percent of the nation's total awards.

Housing Opportunities for People with Aids (HOPWA)

The budget proposal funds HOPWA at \$268 million, which is \$14 million less than FY05 funding.

Housing for the Elderly

The budget proposal provides level funding of \$741 million for Housing for the Elderly.

DEPARTMENT OF THE INTERIOR

The Budget proposes total funding for the Department at \$10.1 billion, roughly one percent less than in FY05. Areas of particular importance to California are discussed below.

Oregon and California Grant Lands - \$110 million is requested for the management of these lands. FY05 funding was about \$109 million. \$105 million is proposed for payments to the 18 Oregon & California counties as required by the Secure Rural Schools and Community Self-Determination Act.

Jobs in the Woods - Provides for the "Jobs in the Woods" program, which began in the early 1990s as a temporary program to assist displaced timber workers in the Pacific Northwest by offering resource-based job opportunities to improve water quality and restore Oregon's coastal salmon populations. The Budget proposes to eliminate this program in 2006 stating: "it is no longer necessary. However, the programmatic effects of this change will be partially offset by funding increases for other ecosystem restoration activities, including increased thinning of late successional forests to improve their old-growth characteristics."

Wildland Fire Management - \$756,564,000 is proposed, versus \$743,099,000 in FY05 funding. The program funds preparedness, fire suppression operations, hazardous fuels reduction and other related activities.

Wildland Fire Rural Fire Assistance - The budget proposes to terminate this program. The Budget states that partnerships with local fire departments, formerly funded in the Rural Fire Assistance program, will be addressed through a combination of wildland fire preparedness funding and working with FEMA on prioritization of rural fire needs in the FEMA fire assistance program.

Forest ecosystems health and recovery - Funds in this account are derived from revenue generated from the Federal share of receipts from the sale of salvage timber from the Oregon and California grant lands, public domain lands, and Coos Bay Wagon Road lands. This account was established to allow the Bureau of Land Management to more efficiently and effectively address forest health issues. Funds can be used for other forest health purposes, including release from competing vegetation and density control treatments. The Budget requests \$13 million in new budget authority.

Bureau of Reclamation

The Budget proposes \$946.7 million in new budget authority for BOR, a decrease of \$18.2 million from the FY 2005 enacted level of \$964.9 million. Included in that funding is the following:

- \$22.0 million for the Klamath Project to continue funding for studies and initiatives related to improving water quality and water supplies to meet irrigation, endangered species, wildlife refuges, and tribal trust obligations; continue a water bank; and coordinate Reclamation's Conservation Implementation Program;

- \$52.2 million for the Central Valley Project Restoration Fund, as opposed to \$54,695,000 in FY05 funding;

- \$313 million in forest and range health programs to implement the President's Healthy Forests Initiative; and

- \$30 million for Water 2025 projects that address chronic water supply issues in the West.

Land and Water Conservation Fund

The 2006 budget terminates funding for Land and Water Conservation Fund state grants, a reduction of \$89.6 million from the 2005 level. The state grants support local parks that DOI contends have alternate sources of funding through state revenues and bonds.

San Gabriel Basin Restoration Fund - No new funding is requested. The fund is intended to design, construct, operate and maintain water quality projects to remediate contamination of groundwater in the San Gabriel and Central Basins of Southern California, contingent on receipt of local cost share. Administration of the fund was transferred from the Secretary of the Army to the Secretary of the Interior by Public Law 107-66.

United States Fish and Wildlife Service

The Budget proposes \$985,563,000 in FY06 funding, compared to \$977,205,000 for FY05. Programs covered by the funding include: ecological services covered by the Endangered Species Act, the National Wildlife Refuge System, and fisheries programs among others

National Park Service.

A total of \$1,734,053,000 is proposed for the National Park Service, an increase over the 1,707,282,000 funding level for FY05.

Payments in Lieu of Taxes (PILT)

The Budget proposes \$200,000,000 for the PILT program, as opposed to \$230,000,000 in FY05 funding.

Indian Land and Water Claim Settlements and Miscellaneous Payments to Indians

The Budget proposes, \$24,754,000 for miscellaneous payments to Indian tribes and individuals and for necessary administrative expenses. FY05 funding was \$44,771,000. Included is funding for the settlement of reservation lands between the Hoopa Valley Tribe and the Yurok Indians in northern California as provided for in the Hoopa-Yurok Settlement Act (Public Law 100-580).

General Provisions

Section 104. As in previous years, section 104 prohibits funds from being spent for the conduct of offshore preleasing, leasing and related activities placed under restriction in the President's moratorium statement of June 12, 1998, in the areas of northern, central, and southern California.

Section 201. (a) None of the funds appropriated or otherwise made available by this Act may be used to determine the final point of discharge for the interceptor drain for the San Luis Unit until development by the Secretary of the Interior and the State of California of a plan, which shall conform to the water quality standards of the State of California as approved by the Administrator of the Environmental Protection Agency, to minimize any detrimental effect of the San Luis drainage waters.

(b) The costs of the Kesterson Reservoir Cleanup Program and the costs of the San Joaquin Valley Drainage Program shall be classified by the Secretary of the Interior as reimbursable or nonreimbursable and collected until fully repaid pursuant to the "Cleanup Program-Alternative Repayment Plan" and the "SJVDP-Alternative Repayment Plan" described in the report entitled "Repayment Report, Kesterson Reservoir Cleanup Program and San Joaquin Valley Drainage Program, February 1995", prepared by the Department of the Interior, Bureau of Reclamation. Any future obligations of funds by the United States relating to, or providing for, drainage service or drainage studies for the San Luis Unit shall be fully reimbursable by San Luis Unit beneficiaries of such service or studies pursuant to Federal reclamation law.

CALFED

The Budget includes a crosscut of Federal funding by each of the CALFED agencies, in partial fulfillment of the reporting requirements of P.L. 108-361, the CALFED reauthorization bill. Federal agencies contributing to CALFED projects and programs include: the Department of the Interior's Bureau of Reclamation, Fish and Wildlife Service, and U.S. Geological Survey; the Department of Agriculture's Natural Resources Conservation Service; the U.S. Army Corps of Engineers; the Department of Commerce's National Oceanic and Atmospheric Administration; and the Environmental Protection Agency.

Across these agencies, the President's Budget proposes a total of \$203.4 billion in FY06 funding for CALFED projects. Directly-related projects account for \$77 billion of that. (Note: The cross-cut budget table contained in the Budget's Analytical Perspectives indicates the figures are given in millions. That would, however, translate to \$203.4 billion in FY06 CALFED funding – an apparent error.) The Budget estimates FY05 funding for CALFED related projects at \$154 billion.

New FY06 CALFED funding includes \$35 billion for the Interior Department's Bureau of Reclamation with almost one-third of that targeted to water storage studies. The Program's storage studies were funded at \$4 billion for enlargement of Shasta Reservoir, \$2.5 billion for Upper San Joaquin River storage studies, \$3.2 billion for Los Vaqueros Reservoir enlargement and \$300,000 for Sites Reservoir.

DEPARTMENT OF COMMERCE

The Budget proposes consolidating most community and economic development programs and combining them under a newly created Strengthening America's Communities Grant Program. (See the Department of Housing and Urban Development section for the analysis of the transfer and funding of the Community Development Block Grant Program.) The Budget proposes funding the new program at \$3.7 billion for FY06.

The Budget also proposes a new Opportunity Zone Initiative, combined with tax incentives (see Tax Provisions analysis elsewhere in this report), to assist economically disadvantaged communities.

Economic Development Administration and Trade Adjustment Assistance

No new funding is requested for EDA's economic development assistance programs in 2006. The \$26 million in administrative expenses requested for FY06 will be used to close-out and monitor existing grants. In FY05, funding for EDA and the Trade Adjustment Assistance program was \$257,423,000.

National Oceanic and Atmospheric Administration

The Budget proposes \$2,528,168,000 in FY06 funding, compared to the FY05 funding of \$2,804,065,000. Funding for the National Ocean Service is proposed at \$394 million, compared to the \$544 million estimated in FY05 spending.

Pacific Coastal Salmon Recovery - \$90 million is provided for this program, \$2 million over the FY05 funding. However, the Budget states that the funds will be available for grants to the states, rather than as direct payments, and that the grant award will be subject to a matching requirement of funds or documented in-kind contributions of at least thirty-three percent of the Federal funds. California received about \$13 million in FY05 funding.

Coastal Impact Assistance/coastal and Ocean Activities - No FY06 funds are provided for these programs. **Advanced technology program (ATP)** - No new awards are expected in 2005 and the 2006 Budget proposes to terminate the Program.

CORPS OF ENGINEERS - Department of the Army - Civil

The Budget proposes about \$1.6 billion in Construction funding for FY06, as compared to \$1.782 billion in FY05, and \$1.979 billion in Operations and Maintenance funding, rather than \$1.943 in FY05.

FY 2006 funding for the Corps of Engineers includes numerous California projects, including the following:

Oakland Harbor 50 Foot Construction Project - The Budget places this project on its national priorities list, which focuses on the highest-performing projects. Funding for FY06 of \$48 million for construction is proposed.

American River Watershed - \$28,960,000 is proposed for construction.

Santa Ana River Mainstem - \$50 million for construction is proposed.

Hamilton Airfield Wetlands Restoration - \$13 million is proposed for construction.

Success Dam, Tule River (Dam Safety) - \$8 million for construction.

Folsom Dam Permanent Bridge - \$7 million for construction.

Guadalupe River - \$5.6 million for construction.

Stockton Metropolitan Flood Control Reimbursement - \$5 million for construction.

For a complete list of Corps of Engineers projects in California, go to the Corps website at:

<http://www.usace.army.mil/civilworks/cecwb/budget/budget.pdf> .

DEPARTMENT OF ENERGY

Office of Science Programs - \$3,462,718,000 is proposed in FY06 funding, compared to \$3,628,902,000 in FY05.

Fusion Energy Sciences - The fusion program -- which seeks to advance plasma science, fusion science, and fusion technology -- would be funded at \$290 million, an increase from the \$274 million estimated in FY05 funding. The budget includes \$49.5 million for the U.S. contribution to the International Thermonuclear Experimental Reactor (ITER) program, a burning plasma physics experiment that is an essential next step toward eventually developing fusion as a commercially viable energy source.

Without noting specific funding amounts, the budget request also provides for support of basic research in plasma science in partnership with NSF, and investigation of innovative confinement concepts, along with continued operation of DIII-D and Alcator C-Mod to develop a fuller understanding of the physics of magnetically confined plasma and to identify approaches that may improve the economical and environmental attractiveness of fusion in the long run. The DIII-D program is run by General Atomics in San Diego.

California wins a large share of federal fusion expenditures.

Other DOE Office of Science Programs - The Budget proposes \$714 million for high-energy physics, compared to the \$736 million estimated in FY05 funding. Advanced scientific computing research (ASCR) would receive \$207 million, versus \$233 in FY05. Basic energy sciences (BES) would increase to \$1.146 billion from the \$1.105 billion received in FY05. BES funding for the multiagency national nanotechnology program is \$204.3 million and includes funding for the nanoscale science research centers (NSRCs) at the Lawrence Berkeley, Brookhaven, and Sandia national laboratories. The request also includes \$2.5 million for project engineering and design and \$83 million for construction of the Linac Coherent Light Source at the Stanford Linear Accelerator Center. The request also includes \$32.5 million for hydrogen and fuel cell research as part of the President's Hydrogen Initiative. In the Biological and

Environmental Research account, the Genomics:GTL activity, aimed at understanding the composition and function of biochemical networks that carry out essential processes of living organisms, is funded at \$87.2 million.

Energy Supply - The FY06 Budget includes a number of items within this account, including \$99 million for hydrogen technology – up \$5 million from FY05; \$84 million for solar energy, a slight drop from the \$86 million estimated for FY05; and \$44 million for wind energy, an increase of \$4 million over the FY05 figure.

Non-defense Site Acceleration Completion - These non-defense environmental management site acceleration completion activities are funded at \$172 million, up from the \$152 million for FY05. For 2006 accelerated completions, the Budget states: This account includes geographic sites with an accelerated cleanup plan closure date of 2006 or earlier (such as Lawrence Berkeley National Laboratory).

Naval Petroleum and Oil Shale Reserves - - The Budget states: “Following the sale of the NPR-1 (Elk Hills) site mandated by the National Defense Authorization Act for Fiscal Year 1996 (P.L. 104–106), the most significant post-sale activity is the settlement of ownership equity shares with the former unit partner, Chevron USA Inc. Additional activities include environmental remediation and cultural resource activities. The account also funds activities at the two remaining Naval Petroleum Reserve properties:

The **Buena Vista Hills Naval Petroleum Reserve 2** in California - A checkerboard pattern of government and privately owned tracts adjacent to the Elk Hills field. Of the 30,181 acres, 10,446 acres are owned by the government and leased by private oil companies. Discussions have begun with the Department of the Interior on transfer of this asset.”

Energy Conservation - Slight increases over FY05 funding are included for fuel cells technologies and weatherization assistance grants.

Elk Hills - The Budget states: “Title XXXIV, Subtitle B of Public Law 104–106 required the Department to sell the government’s interest in Naval Petroleum Reserve No. 1 (Elk Hills) pursuant to the terms of the Act. The sale occurred in February 1998, following a statutorily- required 31-day congressional review period. Section 3415 of the Act required, among other things, that the Department make an offer of settlement based on the fair value of the State of California’s longstanding claims to two parcels of land (“school lands”) within the Reserve. Under the Act, nine percent of the net proceeds were reserved in contingent fund in the Treasury for payment to the State. In compliance with the Act and in order to remove any cloud over title which could diminish the sales value of the Reserve, the Department entered into a settlement agreement with the State on October 11, 1996. That agreement calls for payment to the State, subject to appropriations, of nine percent of the net proceeds of sale, payable over a seven-year period (without interest), commencing in 1999. Under the settlement agreement and provided that funds are appropriated, the first five installments are for \$36 million each year, and the remaining balance is to be paid in two equal installments in years six and seven unless the seventh payment needs to be deferred in whole or in part due to the equity finalization schedule. The 2004 advance appropriation of \$36,000,000 was the sixth payment in 2005. In keeping with the revised equity finalization schedule, the 2006 Budget requests \$48,000,000 in new budget authority in addition to the FY 2005 advance appropriation for the seventh installment payment of \$36,000,000.”

National Nuclear Security Agency (NNSA) - The Budget states that beginning in 2006, NNSA will assume the management of newly generated waste at Lawrence Livermore National Laboratory and the Y–12 National Security Complex. The Budget proposes \$709 million for safeguards and security programs, which provides for security at Lawrence Livermore National Laboratory (LLNL) and other NNSA sites, a decrease from the \$797 million in FY05 funding.

NATIONAL SCIENCE FOUNDATION

Under the President’s 2006 budget, the National Science Foundation (NSF) would be funded at \$5.6 billion, representing a 2.4 percent increase. Despite the increase in funding, some argue that the NSF is still nearly \$3 billion behind funding levels promised by Congress in 2002.

Research Activities

Of that budgeted total, \$4.5 billion is allocated for research activities, an \$106 billion increase over FY05 funding. The budget for the NSF emphasizes the National Nanotechnology Initiative, funded at \$344 million in FY06, and the Networking and Information Technology Research and Development (NITRD), funded at \$803 million for FY06; the President highlights those two programs’ long-term economic benefits. Included in the budget is \$94 million for cybersecurity to protect America’s IT infrastructure.

Education and Human Resources

The budget funds NSF Education and Human Resources activities at \$847 million, which is \$135 million less than FY05 funding.

ENVIRONMENTAL PROTECTION AGENCY

The President's budget provides \$7.6 billion in discretionary budget authority for the Environmental Protection Agency, which is \$452 million less than FY05.

Science and Technology

The proposed budget includes \$760 for the Science and Technology account, which is \$47 million less than FY05 funding. Funds in this account are used to provide the scientific and technology basis for EPA's regulatory actions and specifically focus on clean air and water, land preservation, and ecosystem research.

Environmental Programs and Management

The budget proposes \$2.5 billion for Environmental Programs and Management, \$164 million more than FY05 funding. This appropriation supports core Agency programs. For 2006, the main goals of the EPA are: Clean Air and Global Climate Change; Clean and Safe Water; Land Preservation and Restoration; Healthy Communities and Ecosystems; and Compliance and Environmental Stewardship. Additionally, the Administration put forth a legislative proposal that would generate \$50 million in user fees.

State and Tribal Assistance Grants

The proposed budget provides \$3.0 billion for State and Tribal Assistance Grants, which is \$644 million less than FY05. This fund includes the Clean water State Revolving Funds (\$730 million), the Drinking Water State Revolving Funds (\$850 million), \$309 million for making grants for the construction of drinking water, wastewater and storm water infrastructure and for water quality protection, and \$1,181,300,000 shall be for grants, including associated program support costs, to States, federally recognized tribes, interstate agencies, tribal consortia, and air pollution control agencies for multi-media or single media pollution prevention, control and abatement and related activities.

Superfund

The budget funds the Hazardous Substance Superfund at \$1.2 billion, which is \$33 million less than FY05.

GENERAL SERVICES ADMINISTRATION

- \$230,803,000 is proposed for construction of a United States Courthouse in San Diego.

TAX PROPOSALS

R&D Tax Credit - The President's Budget proposes permanently extending the Research and Experimentation Tax Credit, commonly called the R&D tax credit. The R&D credit is scheduled to expire on December 31, 2005. The Budget estimates that the cost to make the credit permanent will be about \$27 billion through FY2010. California's high technology industries strongly support making the R&D Tax Credit permanent to provide certainty in making long-term research and experimentation decisions.

Tax Relief for Federal Emergency Management Agency (FEMA) Hazard Mitigation Assistance Programs - The Budget proposes amending the Tax Code to exclude FEMA mitigation grants from the gross income of individuals or businesses receiving the assistance. To prevent a double benefit, businesses that receive a tax-free mitigation grant and use the grant to purchase or repair property could not claim a deduction for those expenses. The exclusion would apply only to FEMA mitigation grants, and not to any compensation from FEMA in connection with the acquisition, through a mitigation assistance program, of property situated in a disaster or hazard area.

Deduction for Qualified Out-of-Pocket Classroom Expenses - The Budget would expand to \$400 and make permanent the above-the-line deduction allowed to K-12 teachers and certain other school personnel for out-of-pocket expenses related to books, supplies, computer equipment and other equipment and supplemental materials used in the classroom. The current allowable deduction of up to \$250 is set to expire in at the end of taxable year 2005.

Opportunity Zones - Currently, the Internal Revenue Code contains various incentives to encourage the development of economically distressed areas, including incentives for businesses located in empowerment zones, enterprise communities and renewal communities, the new markets tax credit, the work opportunity tax credit and the welfare-to-work tax credit. The President's Budget proposes the creation of forty opportunity zones—28 urban and 12 rural. The zone designation and corresponding incentives for these 40 zones would be in effect from January 1, 2006, to December 31, 2015. The tax incentives applicable to opportunity zones would include: (1) an exclusion of 25 percent of taxable income for opportunity zone businesses with average annual gross receipts of \$5 million or less; (2) additional section 179 expensing for opportunity zone businesses; (3) a commercial revitalization deduction; and (4) a wage credit for businesses that employ opportunity zone residents in the zone.

In addition, individuals, organizations, and governments within an opportunity zone would receive priority designation when applying for new markets tax credits and the following other federal programs: 21st Century After-school, Early Reading First, and Striving Readers funding; Community Based Job Training Grants; Community Development Block Grants, Economic Development Administration grants, and HOME Funding; and USDA

Telecommunications Loans, Distance Learning and Telemedicine grants, and Broadband loans. The Budget estimates that it would cost about \$3.9 billion through FY2010.

Expensing of Brownfields Remediation Costs - The Budget proposes permanently extending the expensing of brownfields remediation costs. Currently, this provision applies only to expenditures paid or incurred before January 1, 2006.

Work Opportunity Tax Credit (WOTC) and Welfare-to-Work (WTW) Tax Credit - The Budget proposes modifying the employment incentives for WOTC and WTW tax credits by combining them into one credit and simplifying the rules for computing the combined credit. The credits would be combined by creating a new welfare-to-work target group under the work opportunity tax credit. The minimum employment periods and credit rates for the first year of employment under the present work opportunity tax credit would apply to welfare-to-work employees. The maximum amount of eligible wages would continue to be \$10,000 for welfare-to-work employees and generally \$6,000 for other target groups (\$3,000 for summer youth). In addition, the second-year 50-percent credit currently available under the welfare-to-work credit would continue to be available for welfare-to-work employees under the modified work opportunity tax credit. Qualified wages would be limited to cash wages. The work opportunity tax credit would also be simplified by eliminating the requirement to determine family income for ex-felons. The modified work opportunity tax credit would apply to individuals who begin work after December 31, 2005, and before January 1, 2007. The Budget estimates the cost of the changes would be \$384 million from FY06 to FY10.

Transportation - The budget proposes to extend highway user excise taxes on gasoline and other motor fuels as well as heavy vehicles and tires at current rates through 2011 to maintain the fiscal health of the Highway Trust Fund (HTF). Furthermore, budget language would allow certain tax-exempt private activity bonds to be issued for highway projects and surface freight transfer facilities to encourage private sector investment in these projects.

CROSSCUTTING ISSUES - FORMULA GRANTS

Grants to states are the fastest growing share of the domestic federal budget, totaling \$407 billion in 2002. Formula grants, those that apportion state assistance on the basis of a mathematical construct or formula, make up 85 percent of all grant programs, the remainder being classified as competitive or project grants. The 2006 Budget identifies most of the major grant programs that are driven by formulas and provides estimated state-by-state shares under these programs as proposed in 2006.

Under the budget recommendation, total formula grant outlays in 2006 would grow to \$435.7 billion; however the most significant formula programs detailed in the analytical perspectives portion of the budget document would amount to \$374.8 billion, a \$25.4 billion jump from the prior year (\$349.4 billion). California's estimated share of this total (\$41.053 billion or 11.73 percent) continues to slip from a 12.2 percent share in 2004 and 11.76 percent share in the following year. Although aggregate program levels in 2006 grew by 6.8 percent from the prior year, California's share is estimated to dip by 0.1 percent, according to Budget projections.

The primary reduction for California comes from the Medicaid account. The tables predict that Medicaid grants to states nationwide would increase slightly, but that California's 2006 receipts would decline by \$550 million from 2005 – from \$19.51 billion to \$18.96 billion. However, recent conversations with experts indicate that this predicted reduction comes from secondhand reports of expected state-level expenditures, and so an actual reduction is highly speculative and probably not likely.