



MEMORANDUM

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**DATE:** February 3, 2015

**SUBJECT:** Analysis of President Obama's Fiscal Year 2016 Budget

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On February 2, the Obama administration delivered its fiscal year 2016 budget request to Congress. Release of the tax and spending blueprint represents the first official step in the budget and appropriations process for the fiscal year that begins on October 1. In the coming weeks, White House officials will be appearing before various congressional committees to discuss - and in some cases, defend - the administration's fiscal policies.

As previewed by President Obama in his recent State of the Union Address, the central theme and overriding goal of the fiscal year 2016 budget proposal is to "bring middle-class economics into the 21st Century." According to the White House, the budget is designed to help working families achieve economic security by, among other actions, reforming the tax code, tripling the child care tax credit, ensuring access to health care, and bolstering job-training initiatives.

In addition to emphasizing policies that will spur continued economic recovery, the president's budget proposes to focus federal resources on a variety of administration priorities, including combating climate change, modernizing the nation's infrastructure, fighting terrorism, and preventing and stopping the spread of infectious diseases. The Obama budget also highlights the need for tax reform.

As expected, the president's budget request received a chilly reception from GOP congressional leaders. With Republicans squarely in control of both chambers of Congress, very little of the administration's proposal is expected to become law. However, a number of key features of the budget plan - particularly on the tax-reform side - may very well lay the foundation for a broader tax

deal between the White House and GOP leaders. Additionally, the president's budget will serve as a benchmark for congressional Democrats as they push their party's federal spending priorities.

All told, the president's budget proposes to spend nearly \$4 trillion in fiscal year 2016 while assuming same-year revenues of \$3.53 trillion. The resulting \$474 billion deficit would equate to 2.5 percent of gross domestic product (GDP), slightly down from the estimated 2.6 percent in fiscal year 2015. Over ten years, the administration estimates that its budget policies would reduce cumulative deficits by \$1.8 trillion.

Notably, President Obama's budget would effectively scrap the post-sequester discretionary spending caps that were established under the 2011 *Budget Control Act* (BCA, PL 112-25). Pursuant to the administration's plan, base discretionary spending would amount to \$1.091 trillion in fiscal year 2016, or \$75 billion above the \$1.016 trillion allowed under the BCA. The additional outlays - which would amount to a seven percent funding increase - would be split almost evenly between defense and non-defense programs (\$38 billion and \$37 billion, respectively). The plan also would repeal the post-sequester caps through their scheduled end in 2021.

To pay for the increased spending, the White House is proposing a combination of offsetting budget cuts and tax-code adjustments. On the budget reduction side of the ledger, the administration would trim various mandatory and discretionary programs by roughly \$600 billion over 10 years, with about 70 percent of total savings coming from proposed changes to mandatory health care programs. Among the targeted discretionary spending cuts are reductions to the Community Development Block Grant, elimination of the State Criminal Alien Assistance Program, and cuts to the Environmental Protection Agency's Clean Water State Revolving Fund.

With regard to new revenues, the administration's sequester replacement plan would raise nearly \$640 billion in tax proceeds by limiting itemized deductions for the wealthy. Additional revenue raisers, including higher taxes on capital gains for upper-income taxpayers and a new tax on large financial institutions, would be used to pay for other administration priorities and for long-term deficit reduction.

To follow are highlights of President Obama's fiscal year 2016 budget request.

#### **TRANSPORTATION**

The administration's budget includes an ambitious, \$478 billion six-year surface transportation reauthorization plan. Under the White House proposal, highway and transit spending would increase by roughly 30 percent and 75 percent, respectively over the life of the program. The increased infrastructure investment would be paid for through a combination of gas-tax receipts and a one-time infusion of \$238 billion generated by a tax on overseas corporate profits.

Pursuant to the administration's proposal, the Highway Trust Fund would receive roughly \$40.1 billion in fiscal year 2016 from so-called repatriated tax funds, as well as \$39.6 billion from federal fuel taxes. The administration would boost trust fund spending to \$60.5 billion, or nearly \$7 billion more than the current fiscal year, which would leave the fund with a \$20 billion balance at the end of next fiscal year.

The budget also would expand financing options under the Transportation Infrastructure Finance and Innovation Act (TIFIA), which leverages federal dollars by facilitating private participation in transportation projects and encouraging innovative financing mechanisms to help advance infrastructure projects. The proposal calls for providing \$6 billion over 6 years, which would result in roughly \$60 billion of direct loans.

The proposal also would place the Department of Transportation's competitive TIGER grant program outside of the purview of the congressional appropriations process. Under the administration's budget, TIGER grants would receive \$1.25 billion next year, or more than double the amount the program is receiving in the current fiscal year.

#### **PAYMENTS-IN-LIEU-OF-TAXES**

For fiscal year 2016, the president's budget proposes a one-year extension of mandatory Payments-in-lieu-of-Taxes (PILT) funding at the full entitlement amount. If fully funded, the program is expected to total \$452 million, slightly more than the fiscal year 2015 enacted level of \$442 million. The budget acknowledges that a sustainable, long-term funding solution for PILT must be developed.

#### **SECURE RURAL SCHOOLS**

The budget includes a five-year reauthorization of the Secure Rural Schools (SRS) program, with funding provided through mandatory appropriations beginning in fiscal year 2015. It should be noted that Congress failed to provide funding for the SRS program in the current fiscal year. In the absence of such funding, the law reverts to the *Twenty-Five Percent Fund Act of 1908*, which requires that the federal government share with states 25 percent of the receipts generated on national forests. In January, the Department of the Interior (DOI) announced that it would distribute approximately \$50 million to 746 timber counties under the 1908 Act. In the previous year, by comparison, DOI distributed approximately \$300 million under the SRS program.

#### **STATE CRIMINAL ALIEN ASSISTANCE PROGRAM**

For the third year in a row, the president's budget does not include funding for the State Criminal Alien Assistance Program (SCAAP). Congress appropriated \$185 million for SCAAP in fiscal year 2015, a modest boost over the previous fiscal year's funding level. Nearly all of California's counties receive SCAAP funding to partially offset the cost of housing undocumented criminals in local jails.

#### **DROUGHT RESPONSE**

The president's budget notes that in 2015 the Bureau of Reclamation is implementing its Drought Response program, which is a comprehensive approach to drought planning and implementation actions. The program includes such actions as water marketing solutions to address municipal water shortages, installing water measurement devices to improve efficiency and measure drought impacts, and other small-scale improvements to increase water supply reliability. In 2016, the administration is proposing to increase funding for drought response activities.

The president also is proposing to increase funding for the Department of the Interior's WaterSMART initiative, which is designed to enhance water supplies and help identify adaptive measures to address the impacts of climate change. Specifically, the budget includes \$58.1 million for water

sustainability efforts, an increase of \$7.5 million. The budget also includes \$31 million for the U.S. Geological Survey WaterSMART Availability and Use Assessment initiative, a \$14.6 million increase.

Additionally, the budget notes that the Departments of the Interior, Agriculture, and Commerce are continuing to work with the State of California in an effort to accelerate water transfers and exchanges, provide operational flexibility to store and convey water, expedite environmental review and compliance actions, and pursue new or fast-track existing projects that might help stretch California's water supplies.

#### **INDIAN AFFAIRS**

The White House budget once again includes language that would overturn the U.S. Supreme Court's *Carcieri v. Salazar* decision. In *Carcieri*, the Court ruled that the secretary of the Interior's trust land acquisition authority is limited to those tribes that were under federal jurisdiction at the time of the passage of the *Indian Reorganization Act of 1934*. The president's budget does not propose any reforms to the Bureau of Indian Affairs' (BIA) land-into-trust process.

#### **COUNTY GEOTHERMAL REVENUES**

In the Energy Policy Act of 2005, Congress decided that because of the high burdens geothermal production places on the counties where geothermal development is located, these counties should share in the revenue of the federal receipts. The president's budget again calls for the elimination of the 25 percent county share of geothermal revenues and proposes to return to the 50/50 Federal-State revenue sharing arrangement.

#### **WILDFIRE FIGHTING AND PREVENTION**

The administration's budget calls for a new funding framework for wildland fire suppression, which would allow certain wildfires to be treated as natural disasters and enable emergency funding resources to be used to suppress such fires.

#### **TAX EXEMPT STATUS OF MUNICIPAL BONDS**

President Obama is proposing to cap the value of the tax exemption for interest paid by municipal bonds. Under the budget, the value of tax benefits would be limited for the top two percent of earners to 28 percent from the current 35 percent. This is the fifth time that the Obama administration has suggested capping the value of the tax exemption for high-income earners. The independent, bipartisan tax-reform group, known as Bowles-Simpson, also proposed limiting the tax break.

To follow are charts that provide a comparison between the president's fiscal year 2016 budget request and the current enacted level of funding for select programs. The numbers in the charts are in millions of dollars.

**FISCAL YEAR 2016 PRESIDENT'S BUDGET  
KEY PROGRAMMATIC FUNDING LEVELS**

<b>DEPARTMENT OF TRANSPORTATION</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>FEDERAL-AID HIGHWAY OBLIGATION LIMIT</b>	\$40,300	\$50,070
<b>TIGER GRANTS</b>	\$500	\$1,250
<b>TRANSIT FORMULA PROGRAM</b>	\$8,600	\$13,900
<b>CAPITAL INVESTMENT GRANTS</b>	\$2,100	\$3,250
<b>GRANTS-IN-AID FOR AIRPORT OBLIGATION LIMIT</b>	\$3,350	\$2,900
<b>HIGH SPEED RAIL</b>	--	--

<b>DEPARTMENT OF JUSTICE</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>SCAAP</b>	\$185	--
<b>COPS HIRING GRANTS</b>	\$180	\$249.5
<b>METHAMPHETAMINE ENFORCEMENT</b>	\$7	\$11
<b>BYRNE/JAG</b>	\$376	\$388
<b>RESIDENTIAL SUBSTANCE ABUSE TREATMENT</b>	\$10	\$14
<b>OFFENDER REENTRY PROGRAMS</b>	\$68	\$120
<b>JUVENILE ACCOUNTABILITY BLOCK GRANT*</b>	--	\$30
<b>PART B - STATE FORMULA GRANTS</b>	\$55.5	\$70
<b>TITLE V - DELINQUENCY PREVENTION</b>	\$15	\$42
<b>PRISON RAPE PREVENTION/PROSECUTION</b>	\$13	\$10.5
<b>YOUTH MENTORING GRANTS</b>	\$90	\$58

\*The omnibus zeroed out the JABG program. However, Congress provided \$55.5 million for Part B-State Formula Grants, \$10 million of which could be used for JABG-related activities, including building, expanding, renovating, or operating temporary or permanent juvenile correction facilities.

<b>WATER RESOURCES/AIR QUALITY</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>CALIFORNIA BAY-DELTA RESTORATION (Bureau of Reclamation (BoR))</b>	\$37	\$37
<b>WATER RECLAMATION &amp; REUSE PROJECTS (BoR)</b>	\$21.5	\$20
<b>WATERSMART GRANTS (BoR)</b>	\$19	\$23.4
<b>ESA RECOVERY IMPLEMENTATION (BoR)</b>	\$22.7	\$24.4
<b>CLEAN WATER STATE REVOLVING FUND (EPA)</b>	\$1,450	\$1,116
<b>DRINKING WATER STATE REVOLVING FUND (EPA)</b>	\$907	\$1,186
<b>STATE &amp; LOCAL AIR QUALITY MANAGEMENT GRANTS (EPA)</b>	\$228	\$268
<b>DIESEL EMISSIONS REDUCTIONS GRANTS</b>	\$30	\$10

<b>DEPARTMENT OF HOMELAND SECURITY</b>		
	<b>FY 2015 CONTINUING RESOLUTION</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>ASSISTANCE TO FIREFIGHTER GRANTS</b>	\$680*	\$670
<b>EMERGENCY MGMT PERFORMANCE GRANTS</b>	\$350*	\$350
<b>STATE HOMELAND SECURITY PROGRAM</b>	\$446*	--
<b>URBAN AREA SECURITY INITIATIVE</b>	\$600*	--
<b>NATIONAL PREPAREDNESS GRANTS**</b>	--	\$1,043
<b>BORDER PATROL AGENTS (# OF AGENTS)</b>	21,370*	21,370
<b>CBP OFFICERS (# OF OFFICERS)</b>	24,800*	24,800

\* The Department of Homeland Security is currently funded under a Continuing Resolution that will expire on February 27, 2015.

\*\* For the fourth year in a row, the administration's budget includes a proposal to consolidate several current state and local preparedness grant programs (such as State Homeland Security Grants and the Urban Area Security Initiative) into a comprehensive National Preparedness Grant Program (NPGP).

<b>HOUSING AND URBAN DEVELOPMENT</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>CDBG</b>	\$3,000	\$2,800
<b>HOME INVESTMENT PARTNERSHIPS PROGRAM</b>	\$900	\$1,060
<b>CHOICE NEIGHBORHOODS INITIATIVE</b>	\$80	\$250
<b>HOMELESS ASSISTANCE GRANTS</b>	\$2,135	\$2,480

<b>DEPARTMENT OF AGRICULTURE</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>USDA RURAL DEVELOPMENT PROGRAMS</b>	\$2,674	\$2,875
<b>USDA WATER &amp; WASTE DISPOSAL GRANTS</b>	\$465	\$448
<b>RURAL COMMUNITY FACILITIES GRANTS</b>	\$27	\$62
<b>RURAL BROADBAND GRANTS</b>	\$10	\$20
<b>DISTANCE LEARNING AND TELEMEDICINE</b>	\$22	\$25

<b>HUMAN SERVICES</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>TANF</b>	\$16,500	\$16,500
<b>FOSTER CARE</b>	\$7,343	\$7,601
<b>SSBG</b>	\$1,700	\$1,700
<b>LIHEAP</b>	\$3,390	\$3,390
<b>CHILD SUPPORT ENFORCEMENT</b>	\$4,038	\$4,215
<b>HEAD START</b>	\$8,598	\$10,118

<b>CHILD CARE DEVELOPMENT FUND</b>	\$2,435	\$2,805
<b>OLDER AMERICANS ACT PROGRAMS</b>	\$1,200	\$1,300
<b>ELDER JUSTICE ACT</b>	\$4	\$25
<b>COMMUNITY SERVICES BLOCK GRANT</b>	\$674	\$674
<b>SNAP/FOOD STAMPS</b>	\$81,800	\$83,692
<b>WORKFORCE INVESTMENT ACT PROGRAMS</b>	\$2,843	\$2,951

<b>HEALTH PROGRAMS</b>		
	<b>FY 2015 ENACTED</b>	<b>FY 2016 PRESIDENT'S BUDGET</b>
<b>MEDICAID</b>	\$328,525	\$344,447
<b>RYAN WHITE HIV/AIDS PROGRAM</b>	\$2,319	\$2,323
<b>MATERNAL &amp; CHILD HEALTH BLOCK GRANT</b>	\$637	\$637
<b>PREVENTIVE HLTH/HEALTH SERVICES GRANT</b>	\$160	---

We hope this information is useful to you. Please do not hesitate to contact us if you have any questions.