



**The New England Council's
Analysis of the President's FY 2007 Budget**

On February 6, the President proposed a \$2.7 trillion FY 2007 budget that would increase defense spending by about five percent while reducing non-defense and homeland security discretionary spending for the second straight year. The President calls for slowing the growth of Medicare by \$36 billion over the next five years and he proposes the elimination or reduction of 141 programs from throughout the federal government that would generate savings of \$14.5 billion.

Below is a targeted analysis of the President's budget that examines programs of importance to the New England region.

Department of Transportation

Amtrak Funding

In last year's budget, the President proposed cutting off funding completely for Amtrak unless the intercity rail provider undertook a series of reforms to reauthorize and strategically restructure the rail provider's finances, infrastructure and operations. Amtrak and lawmakers responded by proposing reforms and Amtrak subsequently received \$1.3 billion in funding. This funding level was a victory for New England's economy, which benefits from Amtrak's Northeast Corridor intercity rail system. This year, funding for Amtrak has started off on a brighter note, but the President's FY 07 funding request of \$900 million, if enacted, would likely still result in Amtrak's shutdown. Of the President's proposed \$900 million in funding for Amtrak in FY 2007, \$500 million would be provided for capital costs to assist in the restoration of the Northeast Corridor.

Department of Health and Human Services

Medicare/Medicaid

The Administration's FY 2007 budget request for Health and Human Services would increase funding by \$58 billion over last year, bringing total budget authority to \$698 billion. Discretionary spending, however, would fall by \$1.5 billion to \$66 billion. Of the Department's budget, mandatory spending programs Medicare and Medicaid will consume 84 percent of the budget. Last year, the President proposed trimming Medicaid

growth by \$45 billion over 10 years. Congress reduced that to a \$5 billion cut over five years. The new budget calls for Medicaid savings of \$13.5 billion over five years.

Net Medicare costs, which include revenue from premiums, are expected to reach \$387 billion in fiscal 2007. The Administration proposes a \$36 billion cut in the rate of growth of Medicare over the next five years, by cutting hospital payments, establishing competitive bidding for lab service, and increasing premiums for high income seniors. The New England Council has concerns over the President's proposal to cut the automatic payment increases that hospitals receive under Medicare. Hospitals in New England, especially the community hospitals, would be significantly impacted.

Health Information Technology (HIT)

Expanded use of health information technology is a priority of the New England Council. The President's FY 2007 budget includes \$169 million to develop national standards and an interoperable infrastructure for electronic medical records, including \$116 million for the Office of the National Coordinator for HIT (ONCHIT). ONCHIT's budget would increase 90 percent if the President's request was funded. The proposed funding level also includes \$50 million for the Agency for Healthcare Research and Quality and \$3 million for the Office of the Assistant Secretary for Planning and Evaluation. The Council applauds these efforts to accelerate the development of HIT.

Low Income Home Energy Assistance Program (LIHEAP)

The Low Income Home Energy Assistance Program's (LIHEAP) budget has not kept pace with rising energy costs over the last several years. Although LIHEAP has been authorized for up to \$5.1 billion in funding per year, actual funding has failed to adequately address the growing disparity between federal home heating assistance and actual home energy expenses.

In FY 06, the President requested \$2 billion for LIHEAP. Congress has initially funded the program at \$2.162 billion for FY 06, and a group of New England Senators continue to fight for more funding. In FY 07, the President proposes \$1.78 billion for LIHEAP. Combined with \$1 billion in additional FY 07 funding provided in the recent budget reconciliation package, total FY 07 funding for LIHEAP is estimated at \$2.78 billion. However, several senators continue to work on a proposal that would move the additional \$1 billion in LIHEAP funding from FY 07 to FY 06. While the Council is encouraged at the prospect of increasing FY 06 funding, the resulting funding level for FY 07 would be inadequate to serve the 32 million low-income Americans eligible for energy assistance and would fail to address the problem of rising energy costs for those most in need.

Department of Energy

Yucca Mountain Project

The New England Council has long supported the construction of the Yucca Mountain

Nuclear Repository to help expedite the removal of high level radioactive waste and to avoid long-term storage at commercial nuclear power plant sites throughout our region. Last year's budget included \$494 million for the Yucca Mountain Nuclear Repository. For FY 2007, the Administration's Budget requests \$544.5 million toward continued construction of the Repository. The Department of Energy, however, has raised concerns that the costs of building and licensing the project might not be covered by rate payer fees and federal government contributions. Without adequate funding, the project, which is already behind its original completion date of 2010, may be delayed even further. The Council continues to support efforts to get the Yucca Mountain Nuclear Repository functional as soon as possible.

American Competitiveness Initiative

The Administration's FY 2007 budget requests \$5.9 billion for the American Competitiveness Initiative (ACI) to increase investments in research and development, strengthen education, and encourage entrepreneurship and innovation. The amount includes \$1.3 billion in new Federal funding and an additional \$4.6 billion in R&D tax incentives. Over ten years, the ACI commits \$50 billion to increase funding for research and \$86 billion for R&D tax incentives.

The Council is supportive of the ACI. New England is a world leader in areas such as information technology, defense technology, biotechnology and healthcare. These industries drive our regional economy. But the engine for these industries is fueled by bright, enthusiastic individuals who have gained the knowledge and have been taught the skills to become valuable employees at our leading companies and institutions of learning.

Action like the President's ACI is needed to ensure that America and New England continue to lead the world's innovators. The quality of teaching in science, technology, engineering and math (STEM) needs to improve and the number of teachers and students majoring in these disciplines needs to significantly increase.

R&D Funding

The President's budget would increase federal investment in research and development to \$137 billion in FY 2007, which is a 1.9 percent increase or \$2.6 billion above last year's funding level. The increase is short of the 2.2% increase needed to keep pace with expected inflation. In inflation-adjusted terms, the total R&D portfolio would decline for the first time since 1996.

Total defense R&D would increase 2.1 percent to \$78.4 billion. Department of Defense development would increase by \$4.2 billion and NASA development of space vehicles would increase \$851 million. Combined, these two increases are more than the overall increase in requested R&D funding.

As part of the President's American Competitiveness Initiative, funding for key federal agencies that support basic research programs in the physical sciences and engineering would receive substantial budget increases. These agencies include the National Science Foundation (NSF), the Department of Energy's Office of Science (DoE SC), and the Department of Commerce's National Institute of Standards and Technology (NIST).

However, the overall federal investment in basic and applied research would decline 3.4 percent to \$54.7 billion.

Overall, non-defense research funding would increase 1.7 percent to \$58.5 billion. Funding for the Department of Energy's Office of Science would increase 14 percent to \$3.8 billion. NIST intramural research would increase 18 percent to \$383 million, however the President proposes eliminating the NIST's Advanced Technology Program and would cut the budget of the Manufacturing Extension Partnership by half. The Environmental Protection Agency's R&D funding would fall 7.2 percent to \$557 million. The National Oceanic and Atmospheric Administration (NOAA) would see its R&D budget fall 6.3 percent to \$578 million. Also, the Department of Homeland Security, which has received R&D increases over the last several years, would see a decline of 5.6 percent to \$1.3 billion in FY 07.

National Science Foundation (NSF)

As part of the American Competitiveness Initiative, the Administration's 2007 Budget provides a 7.9 percent boost in the National Science Foundation's total budget to \$6.0 billion in FY 07, compared to \$5.5 billion in FY 06. NSF's R&D investments would total \$4.5 billion, an 8.3 percent increase from last year. Most research directorates would receive increases between 5 percent and 9 percent after several years of flat or declining funding. All the research directorates would increase average award sizes, numbers of research grants, and success rates for grant applications.

National Institutes of Health (NIH)

The President's FY 2007 Budget proposes level funding for NIH at \$28.6 billion, after receiving a small cut in FY 06. Proposed increases in some of the institutes are offset by decreases in the budgets for others such as the National Cancer Institute and the National Institute for Biomedical Imaging and Bioengineering. The agency anticipates a decline in the number of research project grants for a third year in a row to 35,805, a two percent decline in the amount of an average research grant, and another decline in the grant success rate to 19 percent.

The New England Council will be advocating for an increase in NIH funding, which is an important driver of our regional economy. Council staff will meet with interested members over the next month to identify key institutes within NIH that are of interest to members and prepare a plan to address funding issues within these institutes.