



PRESIDENT'S FY2008 BUDGET BLUEPRINT: AN ANALYSIS OF FEDERAL COMMUNITY, ECONOMIC, HOMELAND SECURITY, HUMAN SERVICES AND TRANSPORTATION PROGRAMS

On February 5, President George W. Bush unveiled a \$2.9 trillion budget proposal for FY2008 that increases spending on defense and homeland security while limiting growth for domestic discretionary programs. In addition, the budget proposes deep cuts to Medicare and Medicaid, and for the first time, includes war cost estimates for the coming year.

The budget provides \$929.8 billion in discretionary spending, up \$57 billion or 6.5 percent. However, the majority of this increase is devoted to military and security spending. Non-defense domestic discretionary programs would receive only a slight overall boost, mainly for veterans and NASA programs. The President's past two budgets reduced domestic spending by one percent annually.

The President's plan outlines the goal of reducing annual deficits by cutting taxes and slowing the growth of entitlement spending. The budget envisions a \$244 billion spending shortfall for fiscal 2008, a projected decrease of \$6 billion under the prior year and a budget surplus of \$61 billion by 2012.

While the themes of the budget have remained consistent over the past six years – keeping discretionary spending growth below the rate of inflation, freezing non-security domestic spending,

cutting or eliminating underperforming programs and slowing the growth of entitlement programs – the President must now work with a new Democratic majority in Congress that was swept into power on a promise to refocus the nation's priorities.

UNFINISHED FY2007 BUDGET BUSINESS

The FY2008 budget proposal comes at a time when Congress and the White House are still working to finish the remaining FY2007 appropriations bills.

Only two of the must-pass FY2007 spending bills have been enacted, Defense (HR 5361) and Homeland Security (HR 5441). At the end of January 2007, the House adopted a long-term joint funding resolution (H J Res 20) that provides \$463.5 billion in discretionary spending. The Senate is expected to clear the year-long measure for the President's signature before the current short-term continuing resolution expires on February 15.

The FY2007 resolution provides funding for programs through the end of the fiscal year at the FY2006 appropriated levels. The resolution

makes some adjustments for individual programs, but for the most part, maintains programs at their existing funding level. In addition, the resolution contains no individual project earmarks for FY2007.

Note: NADO analysis compares administration's FY2008 request to FY2006 enacted levels or adjusted FY2007 levels contained in year-long funding resolution.

State and local government funding is hit hard. The FY2008 budget would reduce the overall level of grant support to state and local governments by \$3.9 billion in FY2008. Since 2005, grants-in-aid to state and local governments have declined \$6.6 billion, the majority of which has come from declines on the discretionary spending side.

TAX AND ENTITLEMENT PROVISIONS TO RECEIVE SCRUTINY

Another common theme in the budget proposal is permanent extension of the 2001 and 2003 tax relief provisions. The President is again proposing to make permanent a number of tax cuts that are set to expire by the end of the decade. This includes a one-year "patch" providing relief from the Alternative Minimum Tax (AMT) for millions of middle-class citizens and new health care deductions for those without employer provided coverage that would total \$225 billion over the next five years.

Many of the Bush administration tax cuts are set to expire in 2010. The five-year cost of extending the cuts would total nearly \$374 billion through 2012. Many critics of making the tax cuts permanent cite the 10-year cost of \$1.62 trillion through 2017 as justification for providing additional scrutiny to the administration's plan.

The proposal contains provisions to slow the growth of entitlement spending by \$96 billion over five years and \$309 billion over 10 years. The majority of the savings are realized through reductions in Medicare spending that equal \$66 billion over five years and \$252 billion over a decade, with another \$13 billion in gains being realized in Medicaid over five years. Still, entitlement programs will grow from 52.6 percent of the budget today to 59.2 percent in 2012, with domestic discretionary programs declining from 15.7 percent of the budget today to 13.4 percent.

Overall, mandatory programs, including interest payments on the nation debt, account for 63 percent, or \$2.01 trillion, of total federal spending for FY2008. Interest payments on the national debt are projected to increase from \$227 billion in FY2006 to \$261 billion in FY2008, an increase of \$34 billion. By comparison, the annual jump in debt interest payments equals the annual budget of \$34.2 billion for the Department of Homeland Security.

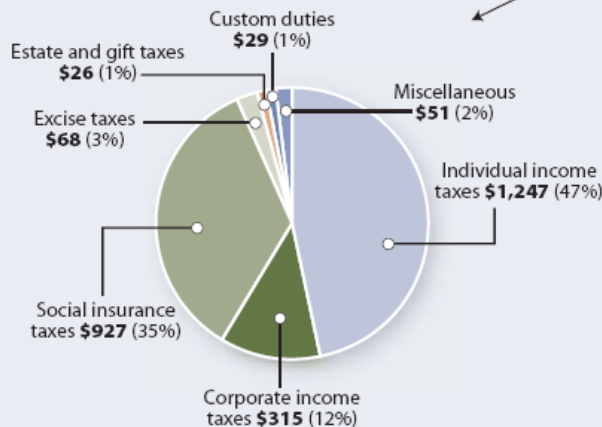
The Numbers: A Breakdown of Bush's Fiscal 2008 Budget

The president's fiscal 2008 budget proposes \$2.94 trillion in new spending, or budget authority. Actual outlays, which include spending approved in prior years, are estimated at \$2.9 trillion. The administration forecasts that outlays will continue to exceed revenue until 2012.

	<i>(fiscal years, in billions of dollars)</i>				
	2008	2009	2010	2011	2012
Budget Authority	\$2,941	\$2,974	\$3,049	\$3,178	\$3,294
Outlays	2,902	2,985	3,049	3,157	3,246
Revenues	2,662	2,798	2,955	3,104	3,307
DEFICIT/SURPLUS	-239	-187	-94	-54	61

Fiscal 2008 Revenue Estimates

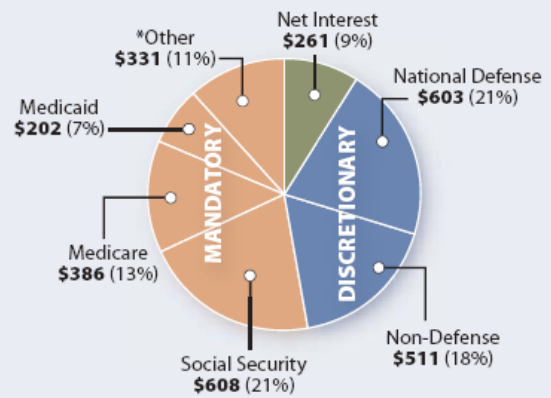
\$2.66 trillion



Source: Congressional Quarterly

Proposed Outlays

\$2.90 trillion



*includes farm payments, food stamps, earned-income tax credit, unemployment insurance and federal worker benefits

BUDGET FOCUS REMAINS ON DEFENSE

Total security spending in the Bush budget approaches \$700 billion for FY2008. This includes \$100 billion in supplemental war appropriations for FY2007 and an additional \$145 billion for FY2008. The Pentagon's regular FY2008 budget is projected at \$481 billion, up from \$410.7 billion in FY2006 and \$178 billion above the FY2001 level of \$303 billion.

PRESSURE ON DOMESTIC PROGRAMS, STATE AND LOCAL GOVERNMENTS CUTS CONTINUE

Like in previous years, the Bush budget request contains eliminations and spending cuts for a number of non-defense programs. In total, 141 programs are either slated for termination or deep funding reductions totaling \$12 billion. Over a five year period, the cuts proposed in the administration budget would total \$114 billion, and, according to the Center on Budget and Policy Priorities, would reach \$34 billion in a single year by 2012.

Overall, non-defense and non-security domestic discretionary programs equal \$375.9 billion, an increase of exactly one percent, or \$3.6 billion, over the previous year. However, the largest share of the increase goes towards sustaining programs within the Veterans Administration and NASA.

State and local governments are hit particularly hard. The budget would reduce the overall level of grant support to state and local governments by \$3.9 billion in FY2008. Since 2005, grants-in-aid to state and local governments have declined \$6.6 billion, the majority of which has come from declines on the discretionary spending side.

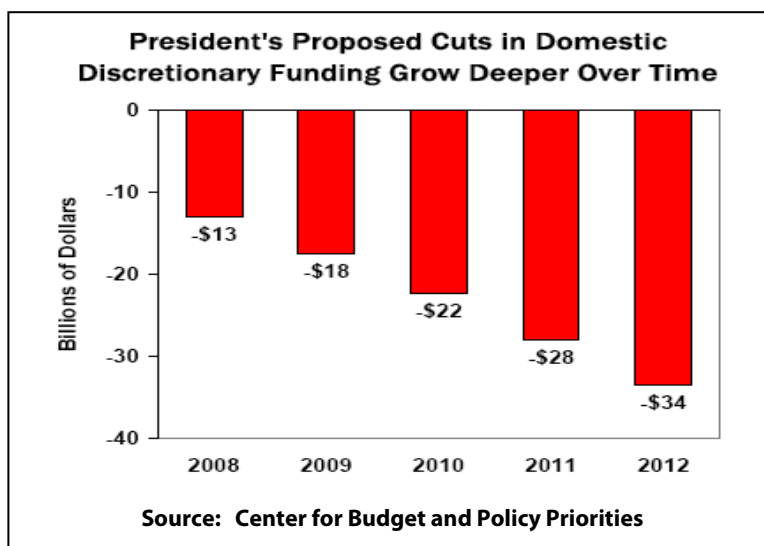
For state and local governments, the recommended budget cuts include nearly \$100 million less in USDA water and waste disposal grants, \$80 million less for the Economic Development Administration's (EDA) public works and economic adjustment assistance grants, \$900 million reduction in state and local first responder grants under Homeland Security, and \$736 million decrease in formula grants under HUD's Community Development Block Grant (CDBG) program.

EPA's Clean Water State Revolving Fund is slated for a \$212 million cut. Interior's Payment in Lieu of Taxes, an important program for many counties, would decline from \$236 million to \$190 million. In addition, many programs for workforce development, healthcare, human services and small business lending are reduced or eliminated.

The budget does maintain the projected increases for highway and transit programs as outlined in the 2005 SAFETEA-LU law, while reducing critical aviation programs for local governments such as the Airport Improvement Program, Essential Air Service and

Small Community Air Service Grants. The administration also increases HUD's HOME program.

While the Democratic Congress is not expected to enact most of the President's budget recommendations, the new majority finds itself in an unfamiliar position of being forced to offer substantive alternatives to the Bush plan. The new Congress is faced with the reality of rising entitlement spending, growing war costs, domestic infrastructure and social service needs and burdensome debt, which will force it to make difficult choices.



USDA RURAL DEVELOPMENT

The President's budget request includes \$91 billion for the Department of Agriculture (USDA), \$6 billion more than current funding. This includes \$20.2 billion in discretionary funding and \$71 billion in mandatory funding. Although the administration released its 2007 Farm Bill proposal prior to the release of the budget proposal, none of the Farm Bill initiatives are included in the request.

Within the USDA Rural Development budget, the administration continues to move away from providing direct grant assistance to relying heavily on loan and loan guarantee programs. As a result, a number of grant programs are proposed for elimination or reduction while funding for loan and loan guarantees programs are generally increased.

In addition, the budget proposes to change the way funds under the Rural Community Advancement Program (RCAP) are appropriated. Currently, RCAP serves as a \$701.94 million umbrella program for rural community facility, water and sewer and business cooperative programs. The RCAP umbrella allows state Rural Development offices the flexibility to target funding on priority needs. Under the budget proposal, funds for rural community facility, water and sewer and business cooperative programs are no longer combined under RCAP. Instead, funds for these programs are appropriated under new and separate accounts within the Rural Housing, Rural Utility and the Rural Business Services. Further, when taken together, the new accounts receive \$131.5 million less than total fiscal 2007 RCAP funding.

RURAL HOUSING

The proposed budget for the Rural Housing Service (RHS) moves away from providing direct housing loans to providing more support for loan guarantees. This shift is reflected in a proposal to eliminate funding for the Section 502 Single Family Housing and Section 515 Multi Family Housing Development direct loan programs. Increases are proposed for Section 502 Single Family and Section 538 Multi Family guaranteed loan programs, funded at \$4.8 billion and \$200 million respectively. The budget

also proposes increasing the fee on new Section 502 guaranteed loans from two percent to three percent.

A number of housing grants receive cuts under the proposed budget. Mutual and Self-Help Housing grants are reduced by \$24 million to just \$9.5 million in FY2008, and the Rural Housing Assistance Grant program is slated for a \$4.9 million reduction, bringing its FY2008 funding to \$39 million.

The budget requests \$567 million for the Rental Assistance Grant program, an \$49 million reduction from current levels. In addition, the request calls for a one-year limit on rental assistance contracts, instead of the current two-year limit. Community facility

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grants, currently funded at \$53 million under RCAP, receive no funding in the budget request as the administration is relying on \$25 million in budget authority to support \$302 million in direct loans and \$210 million in guaranteed loans to support community facilities.

RURAL BUSINESS SERVICE

Program level funding for the Intermediary Relending Program will decrease slightly to \$33 million, while funding for Business and Industry Guaranteed loans jump \$77 million to \$1 billion in fiscal 2008. The administration provides no funding

for Rural Business Opportunity Grants (RBOG), Rural Business Enterprise Grants (RBE) and Rural Empowerment Zone Round II Grants, which represents a total loss of \$56 million in funding. The request provides \$15 million for renewable energy grants and \$195 million for guaranteed loans. Currently, renewable energy grants are funded at \$21 million with a program level of \$24 in guaranteed loans. Rural Cooperative Development Grants would drop from \$29 million to \$21 million.

RURAL UTILITIES SERVICE

The budget recommends no funding for Rural Utility Service (RUS) broadband grants but proposes \$300 million for broadband loans, a \$200 million reduction

USDA water and sewer grants are reduced to \$349 million from \$447 million in fiscal 2007.

over current funding. Grants for distance learning and telemedicine would decline from \$30 million to \$24.75 million and no funding is included for distance learning and telemedicine loans or high cost energy grants. Funding for water and sewer grants is reduced to \$349 million from \$447 million in fiscal 2007. The budget also contains a proposal to decrease the interest rate for water and waste disposal loans from 4.5 percent in fiscal 2007 to 3.9 percent in fiscal 2008. This is intended to help overcome the cut in grants. In addition, guaranteed loan for water and sewer would jump from \$3 million to \$75 million and direct loans increase from \$1 billion to \$1.08 billion.

RESOURCE CONSERVATION AND DEVELOPMENT

Funding for the Resource Conservation and Development (RC&D) program is reduced by \$36 million to \$14.63 million. According to budget documents, as a result of an Office of Management and Budget (OMB) review conducted in 2005, the RC&D program was found to be duplicative of other

USDA programs and unable to “prioritize or target funding effectively.” As a result, the budget proposes to reduce the number of RC&D coordinator positions from 375 to 50. If the proposal is adopted by Congress, RC&D coordinators would need to cover more than one RC&D council. This is similar to a proposal in the fiscal 2007 budget request not adopted by Congress to cut the number of RC&D coordinators in half.

BASE REALIGNMENT AND CLOSURE (BRAC)

Within the Department of Defense, \$8.1 billion is requested for the Pentagon to execute the 2005 Base Realignment and Closure (BRAC) process. As part of the year-long funding resolution (H J Res 20), fiscal 2007 spending for BRAC was set at \$2.5 billion, \$1 billion more than the fiscal 2006 level. The administration’s request also includes \$60 million for the Pentagon’s Office of Economic Adjustment (OEA) to provide planning and redevelopment to local communities and governments impacted by the BRAC process, \$30 million less than current funding.

CENSUS BUREAU

The administration provides \$1.02 billion for periodic censuses and programs of the Census Bureau, nearly \$400 million over current spending. This includes \$797 million for the 2010 Decennial Census program, an increase of \$345 million.

In its budget request, the administration states that the “Census Bureau is preparing for a reengineered, short-form only 2010 Census. The 2010 Census program features three key components designed to reduce risk, improve accuracy, provide more relevant data, and contain cost. They are: (1) a rigorous, multiyear planning, development, and testing process; (2) continuation of the fully implemented American Community Survey (ACS) to replace the census long-form and provide detailed data annually; and (3) enhancing the Census Bureau’s geographic database by correcting and aligning street location information with Global Positioning System (GPS) coordinates.”

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

The budget provides \$28.5 million for the Treasury Department's Community Development Financial Institutions (CDFI) Fund, a decrease of \$26.45 million. Of this amount, no more than \$12.2 million can be used to administer the New Markets Tax Credit program. In addition, no funds are recommended for the Bank Enterprise Awards (BEA) program within the CDFI budget.

ECONOMIC DEVELOPMENT ADMINISTRATION

For FY 2008, the administration is proposing a reduction of \$80 million for the Economic Development Administration (EDA), which would bring funding to \$202.8 million. If enacted, the budget request would represent a 56 percent total cut in EDA funding since FY2001.

The request includes \$32.8 million for salaries and expenses (an increase of \$2.1 million), \$27 million, as mandated by law, for planning and \$13 million for trade adjustment assistance. Funding for EDA's public works, economic adjustment, technical assistance and research and evaluation would be consolidated and replaced by a new Regional Development Account (RDA) funded at \$130 million, nearly \$84 million below the current combined level.

This is the second straight year the administration has proposed eliminating funding for EDA's traditional economic development assistance programs to establish a new regional-based account that would focus on investing in regional-based projects.

According to the budget proposal, "EDA will continue to support its traditional programs of infrastructure development, capacity building, and technical assistance through a more streamlined process that will be more user-friendly and flexible for EDA investment partners (grantees). The RDA will increase EDA's efficiency by providing a single, flexible program account that will avoid the

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challenges inherent in accessing multiple funds, accounting, and management."

Both chambers of Congress have rejected the Regional Development Account (RDA) proposal in past years. In its FY 2007 committee report, the Senate Commerce-Justice-Science Appropriations Committee stated that it was "concerned about the negative impacts of the proposal in the fiscal year 2007 budget request to eliminate funding by separate accounts for public works, technical assistance, research and evaluation, and economic adjustment. By consolidating funding into one new regional development account, the Committee is concerned that this will leave gaps in providing much needed assistance to our rural communities relying on these grants."

ENVIRONMENTAL PROTECTION AGENCY

The budget proposes \$7.2 billion is discretionary spending for the Environmental Protection Agency (EPA), a cut of \$400 million.

State and Tribal Assistance Grants are reduced from \$3.26 billion to \$2.74 billion. Funding for the Clean Water State Revolving Fund (SRF) is again targeted for reduction: \$687.5 million is requested for the program, a reduction of \$312 million from FY2007

and \$662 million below the FY 2004 level of \$1.35 billion. This marks the fourth straight year the program has been slated for cuts. The Safe Drinking Water SRF is reduced \$7.9 million to \$842.1 million.

The request contains a total of \$162.2 million for brownfields activities, slightly below current funding of \$165 million.

The President recommends \$16.8 million for Wetlands Program Development Grants and \$56.9 million for the Tribal General Assistance Program. In addition, \$12.9 million is provided for the Environmental Information Exchange Network and \$5 million for Homeland Security Grants to support state efforts to work with drinking water and wastewater systems to develop and enhance emergency operations plans.

No funding is provided for the Clean School Bus Initiative. However, as authorized in the Energy Policy Act (PL 109-58), the President is proposing \$35 million for the Diesel Emissions Reduction Grant program. Similar to the school bus program, funds are used to support clean fuels and diesel retrofits, rebuilds and replacements.

HEALTH AND HUMAN SERVICES

The budget request contains \$69.3 billion in total discretionary spending for the Department of Health and Human Services (HHS), an increase of \$200 million.

The Administration for Children and Families suffers a reduction of \$1.37 billion to \$12.3 billion. Within this

section, Head Start receives \$6.78 billion, a decrease of \$100 million. Of this amount, \$1.38 billion is an advance appropriation and would only become available October 1, 2008. The Compassion Capital Fund would receive an increase of \$10 million to \$75 million.

As in the previous two budget requests, no funding is requested for the Community Service Block Grant (CSBG) program, currently funded at \$636.79 million.

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The Administration on Aging (AoA) receives \$1.33 billion, a decrease of \$47 million. Congregate meals funding is set at \$383 million, supportive services and centers are provided \$351 million and home-delivered nutrition services are funded at \$181 million.

In addition, the budget request funds the Choices for Independence

demonstration program first proposed in the administration's FY 2007 budget plan. The program aims to provide resources for accessing community-based alternatives to long-term care. For a second year, no funding is provided for the Preventive Health Services or Alzheimer's Disease Demonstration Programs within AoA.

The Low Income Home Energy Assistance Program (LIHEAP) is provided with \$1.78 billion, of which \$282 million is for an emergency contingency fund. This is nearly \$400 million under current funding of \$2.18 billion.

DEPARTMENT OF HOMELAND SECURITY

The budget includes a \$34.6 billion spending request for the Department of Homeland Security (DHS) that would dramatically reduce funding for state and local grant programs. Overall, fiscal 2008 funding for state and local programs would drop to \$1.8 billion from \$2.7 billion in fiscal 2007 and a high of \$3.6 billion in FY 2003.

The proposal for the state homeland security grant program reflects the administration's continued focus on risk-based funding. A total of \$250 million is requested for the state homeland security grant program to be used for prevention, response and recovery activities, \$275 million less than current funding. Under the proposal, funding would be allocated solely at the discretion of DHS according to risk and unmet capabilities and then adjusted to ensure that each state receives at least 0.25 percent of the program total. Under current law, each state is guaranteed .75 percent of the program total.

The Urban Area Security Initiative (UASI) would be funded at \$800 million, \$30 million more than current spending, making it one of the few state and local programs slated to receive a funding increase in the President's budget. Of this amount, \$200 million has to be used to fund local law enforcement activities.

For the second year in a row, the administration is proposing to eliminate a separate funding stream for local law enforcement terrorism prevention (LLETP) grants. Instead, states and urban areas would be required to dedicate a total of \$262.5 million from their terrorism prevention and response funding for LLETP grants, \$112.5 million less than current funding. Congress has not previously been receptive to this proposal and has voted to reinstate line-item funding for LLETP grants.

Like past budgets, the administration is proposing a major reduction for Firefighter Assistance grants. Under the proposal fiscal 2008 funding for the program would be reduced to \$300 million, \$362 million less than current spending.

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The administration is requesting \$456 for separate infrastructure protection grants related to port, rail, bus and trucking security. This is \$3 million less than current funding for those programs. The administration also calls for:

- \$200 million for Emergency Management Performance Grants (EMPG), level with current funding.
- \$15 million for Citizen Corps Grants, level with current funding.
- \$194 million for Flood Map Modernization, \$5 million less than current funding.
- \$100 million for Nation Pre-Disaster Mitigation funds, level with current funding.
- \$1.7 billion for the Disaster Relief Program, \$200 million more than current funding.

The budget request makes note of a \$1 billion Public Safety Interoperable Communication (PSIC) Grant Program, which will be administered by DHS, in partnership with the Department of Commerce. The purpose of the PSIC grants is to assist public safety agencies in the acquisition, deployment and training on interoperable communications systems.

HOUSING AND URBAN DEVELOPMENT

HUD receives \$35.2 billion discretionary budget authority, an increase of \$1.1 billion from the 2007 level. For a third straight year, the administration is proposing a significant reduction in funding for the Community Development Block Grant (CDBG) program, as well as legislation to revise its allocation formula “to better target needy communities, to provide bonus funds tied to performance, and to make further reforms to increase CDBG’s effectiveness.”

CDBG formula grants are provided with \$2.974 billion, a decrease of \$736 million under current spending and more than \$1.3 billion below the annual levels for FY2002-FY2004. In addition, the budget proposes a rescission of \$306.9 million from prior year balances for the Economic Development Initiative (EDI) and \$49.5 million for grants for neighborhood initiatives. The administration will propose legislation to “improve” the CDBG allocation formula. In its

request, the administration states that the “current formula has not been updated in almost 30 years and results in many lower-income communities receiving less assistance than wealthier communities.” The proposal will also include a Challenge Grant Fund to reward high-performing communities.

Like in past proposals, the budget eliminates funding for the Brownfields Economic Development Initiative (BEDI), Community Development Loan Guarantee program (Section 108) and the Rural Housing and Economic Development program, stating the programs are “duplicative” and their activities are

“eligible to be funded by CDBG and other federal programs.”

The HOME Investment Partnership program is provided with \$1.91 billion, an increase of \$241 million. Of this amount, \$9.9 million is for technical assistance. An additional \$50 million is provided for the American Dream Downpayment Act within the HOME program, an increase of \$25 million.

The Self-Help Homeownership Opportunity program is funded at \$69.7 million, an increase of \$50 million. Of this amount, \$30 million is to support the capacity building and affordable housing activities of the Local Initiative Support Corporation.

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An increase of \$233 million is provided for Homeless Assistance Grants, bringing funding to \$1.56 billion. Of this amount, \$25 million is earmarked for HUD’s portion of the President’s Prisoner Re-entry Initiatives, a joint effort with the Departments of Labor and Justice.

The Revitalization of Severely Distressed Public Housing program (HOPE VI) is again slated for elimination in the President’s budget. Congress restored \$99 million in funding for the program; however, the administration is proposing to rescind the \$99 million since it has yet to be obligated. As in previous years, the administration is justifying elimination of HOPE VI by saying the program has “completed its goal of contributing to the demolition of 100,000 severely distressed public housing units.” In addition, the budget proposal states that the program “was found to be more costly than other programs and slow to complete redevelopments.”

INTERIOR DEPARTMENT

The Payments in Lieu of Taxes (PILT) program is recommended at \$190 million, down from \$236 million. In addition, the proposal states that no payments will be made to eligible units of local government if the computed amount of the payment is less than \$100.

The Historic Preservation Fund receives \$63.6 million, \$6 million less than current funding. The total includes \$10 million for the President's Preserve America program, which provides competitive grants to state and local governments for projects that preserve historic resources through tourism initiatives.

JUSTICE DEPARTMENT

The Justice Department's budget increases by \$200 million to \$23.3 billion in fiscal 2008. However, assistance to state and local law enforcement is cut by more than half.

The President proposes to consolidate funding for more than 30 separate law enforcement into three new grant programs totaling \$862.3 million. Funding for the programs currently totals more than \$2 billion.

The first element of this consolidation is a \$550 million proposal for two new discretionary multi-purpose state and local law enforcement grant programs: \$200 million is requested for a new Violent Crime Reduction Partnership Initiative designed to help communities suffering from high rates of violent crime, and \$350 million is requested for the Byrne Public Safety and Protection (Byrne) Program.

According to budget documents, the Byrne Program consolidates "the most successful" state and local law enforcement programs into one grant program. Under the proposal, separate funding streams for the Byrne Discretionary, State Criminal Alien Assistance, Drug Courts, Weed and Seed, the Southwest Border Initiative and Justice Assistance Grant programs are eliminated. Current funding for state and local law enforcement assistance stands at \$1.4 million.

Juvenile justice programs receive a \$62 million reduction under the budget request. A new Child Safety and Juvenile Justice Program, funded at \$280 million, would eliminate Juvenile Justice Delinquency Prevention Block Grants, Juvenile Justice Delinquency Prevention Incentives Grants, Juvenile Justice Accountability Incentive Block Grants and a number of other juvenile justice programs. Current juvenile justice spending stands at \$342 million.

Finally, the President's budget calls for a \$509.7 million funding cut to the Community Oriented

Policing Services (COPS) program. Only \$32.3 million is available for training and technical assistance, police integrity initiatives and research and evaluations. Funding for methamphetamine cleanup, DNA analysis, offender reentry and bullet proof vests is

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transferred to the new Byrne Public Safety and Protection Program. This is the fifth year that the President has proposed major reductions to the COPS program. In the past, the request has been met with resistance from Congress and appropriators have generally elected to restore COPS funding.

LABOR DEPARTMENT

President Bush is proposing again to overhaul and cut spending for a number of federal job training programs as part of a reduced discretionary spending plan for the Department of Labor. The request allocates \$10.6 billion for discretionary spending within the Department of Labor, a 6 percent decrease from the current \$11.3 billion spending level.

The bulk of the cuts will come from Employment and Training Administration (ETA) programs which would be provided with \$4.28 billion, \$900 million under current funding.

The President is again seeking to consolidate adult employment, dislocated workers, youth employment and training funding with Employment Service funding into a single Community Advancement Account (CAA), that provide a single block grant to states. The program would be funded at \$3.4 billion. This includes \$712 million for adult employment, \$902.9 million for dislocated workers and \$840 million for youth activities.

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The administration is preparing to introduce legislation, authorizing CAAs, that would add another \$745 million that is not accounted for in the budget. Amounts up to \$3,000 a year would be made available through one-stop career centers for workers who have lost their jobs or are employed but want to upgrade their skills with career-enhancing education or training.

The 2008 budget allocates \$189.6 million for competitive Workforce Investment Act grants, including \$150 million for a third round of community-based job training grants. That represents an increase over the \$125 million spent on similar grants each of the last two years. The other \$39.6 million would be devoted to a new initiative for employing ex-criminal offenders, which combines President Bush's prisoner re-entry initiative with a program for the reintegration of youthful offenders into a single program.

Funding for Job Corps operations falls slightly to \$1.42 billion in fiscal 2008. New to the budget is a \$50 million request for YouthBuild, a program recently transferred from the Department of Housing and Urban Development (HUD) to ETA. The Community Service Employment for Older Americans program is cut \$163 million to \$350 million.

SMALL BUSINESS ADMINISTRATION

The Small Business Administration (SBA) is provided with \$481 million in budget authority. It had previously received \$1.76 billion, but the majority of it came in supplemental appropriations measures to support rebuilding efforts after hurricanes Katrina and Rita.

As in previous years, the 7(a) general loan program will be sustained by fees paid by lenders and borrowers and would maintain a program level of \$17.5 billion. In addition, the 504 Certified Development Company program would receive \$7.5 billion in lending authority and would continue to operate with a zero subsidy.

The budget provides no funding for the Microloan, Microloan Technical Assistance programs or Program for Investment in Microentrepreneurs (PRIME).

However, according to the administration, the budget “proposes to build upon the success of the zero-subsidy 7(a) program by making the Microloan program self-financing through modest increases to the interest rates paid by program intermediaries.”

No new funding is requested for the Disaster Loan or New Market Venture Capital programs.

DEPARTMENT OF TRANSPORTATION

The President’s budget request provides \$67.35 billion in budget authority for the Department of Transportation, \$1.75 billion over current spending.

Within the Federal Aviation Administration (FAA), the budget provides \$2.75 billion for the Airport Improvement Program, a cut of \$800 million. This is the third straight year the administration has sought drastic funding for the program.

The Small Community Air Service Development program, currently funded at \$10 million, is eliminated and the Essential Air Service (EAS) program is reduced by \$60 million to \$50 million. The administration is again proposing a local cost-share initiative for communities served with Essential Air Service.

Within the Federal Highway Administration (FHWA), funding adheres to the levels established in the SAFETEA-LU reauthorization bill. Federal-Aid Highways are provided with \$39.58 billion, an increase of \$1.34 billion. The Appalachian Development Highway System is provided with \$470 million and the Delta Regional Transportation Development program is provided \$10 million. In addition, the Highway Safety Improvement Program (HSIP) is provided \$1.27 billion.

The budget proposal directs \$175 million for an initiative aimed at reducing highway congestion. The program would fund local pilot programs that meet several criteria, including charging higher tolls

during rush hour and gaining commitments from employers to stagger work hours.

Federal Transit Administration (FTA) formula programs would be provided with \$9.45 billion, nearly \$280 million under the funding authorized in SAFETEA-LU. The decrease comes from a reduction of general funds. Of this amount, \$506.5 million is for non-urbanized areas, an increase of nearly \$70 million, and \$8.8 million is reserved for the Rural Technical Assistance Program (RTAP), an increase of \$700,000. In addition, \$927 million is for Bus and Bus Facility Grants, an increase of \$62 million.

The Job Access Reverse Commute (JARC) program receives \$156 million, \$12 million over current funding. Amtrak receives \$800 million in direct payments and another \$100 million is available for a new Intercity Passenger Rail Grant program for states to support intercity passenger rail. Amtrak is currently funded at \$1.3 billion.

Within the Federal Highway Administration (FHWA), funding adheres to the levels established in the SAFETEA-LU reauthorization bill. Federal-Aid Highways are provided with \$39.58 billion, an increase of \$1.34 billion. Within the Federal Aviation Administration (FAA), the budget provides \$2.75 billion for the Airport Improvement Program, a cut of \$800 million.

FEDERAL-STATE REGIONAL COMMISSIONS:

APPALACHIAN REGIONAL COMMISSION

The administration proposes level funding of \$65 million for the Appalachian Regional Commission (ARC). The budget asserts that ARC will implement a challenge grant program for communities that develop “innovative and entrepreneurial approaches to economic development or that implement regional or multi-jurisdictional strategies.” The budget includes an increase of \$15,000 to \$5.31 million for the network of 72 Local Development Districts.

The Appalachian Development Highway System (ADHS) receives \$470 million annually as part of the 2005 SAFETEA-LU reauthorization bill for federal surface transportation programs.

On February 7, the House Transportation and Infrastructure Committee adopted legislation (HR 799) reauthorizing ARC through fiscal year 2011. ARC would be authorized at \$65 million for FY2007 and increase to \$95 million in the final year. The measure contains provisions in legislation (HR 5812) introduced during the 109th Congress to create a new “at-risk” designation for counties on the verge of becoming distressed. This is consistent with ARC’s current policy. The federal cost share for these counties would be 70-30 percent.

During markup, the committee adopted an amendment offered by Rep. Zack Space (D-OH) to authorize \$12 million annually to provide technical assistance and grants to promote energy efficiency in the region to enhance economic competitiveness and increase the use of renewable energy resources.

The measure also includes provisions, included in last year’s bill, that would require any project earmarks to be removed from an individual state’s allocation.

DELTA REGIONAL AUTHORITY

The administration recommends \$6 million in fiscal 2008 program funding for the Delta Regional Authority (DRA), \$6 million less than current funding. The budget also directs DRA to collect results from grant projects and develop more

outcome-based performance measures to better measure the authority’s impact in the eight-state region.

DRA’s authorization is set to expire on September 30, 2007 and it is anticipated Congress will consider reauthorization legislation in the coming months. NADO will work to ensure DRA is maintained at a robust level and that the existing network of 44 multi-county development districts remains the local delivery mechanism for DRA programs.

The administration proposes level funding of \$65 million for the Appalachian Regional Commission (ARC). The budget includes an increase of \$15,000 to \$5.31 million for the network of 72 Local Development Districts.

DENALI COMMISSION

Core funding for the Denali Commission in Alaska is cut \$48.2 million to \$1.8 million. Congress has typically restored similar reductions in previous budget requests. The budget makes particular note of the Commission’s compliance with fiscal 2007 budget instructions to develop more “outcome based” performance measures. In fiscal 2006 the Commission hired an outside contractor to perform a program evaluation. The evaluation is expected to conclude the spring of 2007 and may result in a revision of the Commission’s strategic plan for the region.

NORTHEAST REGIONAL COMMISSION

In April 2005, Rep. Mike Michaud (D-ME) introduced legislation (RH 1695) to establish a new federal-state regional commission covering the northeastern region of the United States, encompassing Maine, New Hampshire, New York and Vermont. The commission would be modeled after ARC and authorized at \$40 million annually. In December 2006, Sen. Olympia Snowe (R-ME) introduced similar legislation (S 26). Both bills are expected to be reintroduced during the 110th Congress.

NORTHERN GREAT PLAINS REGIONAL AUTHORITY

For a fourth year in a row, the administration's budget request contains no funding for the Northern Great Plains Regional Authority (NGPRA). As a set-aside within USDA Rural Development, the FY2005 omnibus appropriations bill (HR 4848) provided the Authority with \$1.49 million in start-up funding, which remained unobligated by USDA and expired at the end of fiscal 2006. The NGPRA was authorized as part of the 2002 Farm Bill.

SOUTHEAST CRESCENT AUTHORITY

On January 9, Rep. Mike McIntyre (D-NC) introduced legislation (HR 66) that would establish a new federal-state commission, the SouthEast Crescent Authority (SECA), modeled after the Appalachian Regional Commission (ARC) and would cover the seven states in the region: Alabama, Georgia, Florida, Mississippi, North Carolina, South Carolina and Virginia. A total of \$40 million would be authorized to fund economic development activities. Under the proposal, the existing network of EDA-designated development districts would serve as the local program delivery mechanism.

On February 6, Sen. Elizabeth Dole (R-NC) introduced companion legislation (S 503). Sens. Bill Nelson (D-FL), Richard Burr (R-NC), Lindsey Graham (R-SC), Saxby Chambliss (R-GA), Johnny Isakson (R-GA), Trent Lott (R-MS), Thad Cochran (R-MS) and Mel Martinez (R-FL) are original cosponsors of the bill.

– SAVE THE DATE –

**2007 NADO ANNUAL
TRAINING CONFERENCE:
CELEBRATING
40 YEARS OF SERVICE**

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**HILTON AUSTIN HOTEL
AUSTIN, TEXAS**

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AUGUST 25–28, 2007

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**NADO News Special Report on the
President's FY2008 Budget**

(Numbers indicate program level in millions of dollars unless specified)	FY 2002 Final	FY2003 Final	FY2004 Final	FY2005 Final (1)	FY 2006 Final (2)	FY 2007 Final (3)	FY 2008 President's Budget
Department of Agriculture							
Rural Community Advancement Program (4)	806.56	907.73	757.42	716.05	701.94	701.94	0.00
RCAP-Water/Sewer	646.51	723.21	605.00	552.00	530.10	530.10	502.80
RCAP-Community/Facilities	83.55	96.80	75.92	89.18	82.62	82.62	24.51
RCAP-Business-Cooperative	76.50	87.72	76.50	74.18	89.22	89.22	43.20
RCAP-Earmarks/Set-asides:							
High energy costs	30.00	30.00	28.00	28.00	26.00	26.00	0.00
Economic Impact Initiative Grants	25.00	25.00	25.00	21.00	18.00	18.00	0.00
Colonias	20.00	25.00	25.00	25.00	25.00	25.00	10.00
Water & Sewer Technical Assistance	17.47	18.33	17.73	18.30	18.25	18.25	16.21
Alaska	24.00	30.00	28.00	26.00	25.00	25.00	0.00
Circuit Rider	11.00	12.10	13.00	13.50	13.75	13.75	9.50
Delta	2.00	2.00	1.75	1.00	2.00	2.00	0.00
EZ/EC and REAP Zones	37.62	37.62	22.13	22.16	21.37	0.00	13.40
Rural Community Development Initiative	6.00	7.00	6.00	6.30	6.35	6.35	0.00
Northern Great Plains Regional Authority	0.00	0.00	1.50	1.49	0.00	0.00	0.00
Rural Housing Service							
Loans:							
Section 502 - Single Family Housing	4,217.81	5,572.00	4,091.63	4,459.30	4,821.83	4,821.83	4,800.00
Section 504 - Housing Repair	32.32	35.00	35.00	35.00	35.00	35.00	23.00
Section 515 - Rental Housing	114.06	115.80	116.55	100.00	100.00	100.00	0.00
Section 523 - Self-Help Housing Land Development	5.00	4.98	2.40	10.00	5.04	5.04	0.00
Section 524 - Site Loans	5.09	5.01	5.04	5.05	5.00	5.00	5.00
Section 538 - Multi-family Housing	99.77	100.00	100.00	100.00	100.00	100.00	200.00
Grants:							
Rental Assistance Program	701.00	726.00	584.00	592.00	653.10	616.02	567.00
Mutual and Self-Help Housing Grants	35.00	35.00	34.00	34.00	34.00	34.00	9.50
Rural Housing Assistance Grants	38.91	42.49	46.22	44.00	43.98	43.98	39.00
Rural Housing Vouchers	0.00	0.00	0.00	0.00	16.00	16.00	27.80
Rural Business-Cooperative Service							
Intermediary Relending Program	38.17	40.00	40.00	34.21	34.21	34.21	33.72
Business and Industry Loans	732.62	894.15	552.00	595.20	923.00	923.00	1,000.00
Rural Economic Development Loan Account	15.00	14.96	15.00	25.00	25.03	25.03	33.00
Rural Business Enterprise Grants	41.00	46.68	48.00	39.68	40.00	40.00	0.00
Rural Cooperative Development Grants	7.75	9.00	24.00	24.00	29.49	26.72	21.00
Rural Business Opportunity Grants	5.10	2.98	3.00	3.00	3.00	3.00	0.00
Rural EZ/EC Round II Grants	14.97	14.96	12.67	12.50	11.20	11.20	0.00
Renewable Energy Grants (<i>Discretionary & Mandatory</i>)	n/a	n/a	23.00	23.00	23.00	23.00	34.00
Rural Utilities Service							
Rural Electric and Telecomm. Loans Program	4,566.00	5,566.13	5,605.00	4,840.00	6,094.00	6,094.00	4,100.00
Rural Telephone Bank	174.61	174.61	173.50	175.00	2.50	2.50	0.00
Distance Learning & Telemedicine Grants	49.44	48.81	39.00	35.00	30.00	30.00	24.75
Distance Learning and Telemedicine Loans	80.00	80.00	300.00	50.00	25.00	25.00	0.00
Broadband Loans	0.00	0.00	602.00	550.00	500.00	500.00	300.00
Broadband Telecommunications Grants	22.50	10.00	9.00	9.00	9.00	9.00	0.00
National Resource Conservation Service							
Resource Conservation and Development	48.05	51.00	51.95	51.64	51.30	51.30	14.63

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(Numbers indicate program level in millions of dollars unless specified)	FY 2002 Final	FY2003 Final	FY2004 Final	FY2005 Final (1)	FY 2006 Final (2)	FY 2007 Final (3)	FY 2008 President's Budget
Small Business Administration							
Section 504 Development Company Debentures	4,500.00	4,500.00	4,500.00	5,000.00	7,500.00	7,500.00	7,500.00
7(a) General Business Loans	9,435.00	10,000.00	9,550.00	16,500.00	17,000.00	17,000.00	17,500.00
Small Business Investment Company Program Debentures	2,500.00	3,000.00	3,000.00	3,250.00	3,000.00	3,000.00	3,000.00
Small Business Development Centers (SBDC)	90.01	89.00	89.00	89.00	89.00	89.00	89.00
Microloan Technical Assistance	17.75	15.00	15.00	14.00	13.00	13.00	0.00
Microloan Program	27.50	29.00	20.00	15.00	22.00	22.00	0.00
HUBZones	2.00	2.00	2.00	1.97	2.00	2.00	n/a
Program for Investment in Microentrepreneurs (PRIME)	5.00	5.00	5.00	5.00	2.00	2.00	0.00
Department of Transportation							
Federal Aviation Administration							
Airport Improvement Program	3,300.00	3,400.00	3,400.00	3,500.00	3,550.00	3,550.00	2,750.00
Small Community Air Service Development Program	20.00	20.00	20.00	20.00	10.00	10.00	0.00
Essential Air Service	113.00	113.00	102.00	102.00	110.00	110.00	50.00
Federal Transit Administration							
Section 5311 - Nonurbanized Area Formula	223.43	239.40	239.40	252.90	372.24	438.00	506.50
Section 5311(b)(2) - Rural Transit Assistance Program	5.25	5.25	5.25	5.20	7.76	8.08	8.76
Job Access and Reverse Commute Grants (18)	125.00	150.00	125.00	125.00	138.00	144.00	156.00
Over-the-Road Bus Accessibility Incentive Program	6.95	6.95	11.00	6.95	6.89	7.60	8.30
Federal Highway Administration							
Federal-Aid Highways (19)	31,799.10	31,800.00	33,843.00	34,700.00	36,000.00	38,244.00	39,585.00
Highway Safety Improvement Program (20)	0.00	0.00	0.00	0.00	1,236.00	1,256.00	1,276.00
High Risk Rural Roads (21)	0.00	0.00	0.00	0.00	90.00	90.00	90.00
Rail-Highway Crossing Program (21)	0.00	0.00	0.00	0.00	220.00	220.00	220.00

Notes: Numbers indicate program level in millions of dollars unless specified.

1 Final FY2005 funding does not reflect across-the-board reduction of 0.83 percent.

2 Final FY2006 funding does not reflect across-the-board reduction of one percent and extra cuts for SSJC and Interior and EPA programs.

3 Final FY2007 funding does not reflect across-the-board reduction of one percent and extra cuts for SSJC and Interior and EPA programs.

4 FY2008 Budget eliminates stand-alone RCAP account. Transfers funding streams and programs to RHS, RUS and RBS.

FY 2008 numbers for RCAP Water/Sewer, Facilities & Business section represent budget authority not program level.

5 Approximately \$470 million is provided each year by SAFETEA-LU.

6 SAFETEA-LU provides \$10 million in annual funding for the development of Delta region transportation program.

7 SAFETEA-LU provides \$500,000 each year in FYs 2005-2006 for a Delta regional transportation study.

8 Denali Commission figure is direct appropriations only. It does not include earmarks within other federal programs and trust fund revenue.

9 FY2006 & FY2007 funding does not include 0.28 percent rescission in Commerce spending bill.

10 Combined funding from three separate accounts in EPA.

11 FY2006 & FY2007 actual includes \$183 million for Emergency Contingency Fund.

12 FY 2008 budget eliminates LLETTP and reserves \$262.5 for LLETTP type activities within SHSGP and UASI.

13 Funded as stand-alone program. No longer a CDBG set-aside.

14 FY2006 & FY2007 funding does not include 0.48 percent rescission.

15 Administration proposal to consolidate workforce program for FY2008.

16 FY2008 request combines Prisoner Re-entry Initiative with Youth Offender program.

17 Program transferred to DOL from HUD.

18 SAFETEA-LU converts to a formula grant program from national competitive program.

19 Funding for highway programs is distributed on overall federal-aid obligation limitation, as authorized by SAFETEA-LU. Levels are only estimates. SAFETEA-LU allows automatic increases if additional revenue is generated in highway trust fund.

Maintains six major program categories of Interstate Maintenance, National Highway System, Surface Transportation Program,

Bridge Replacement and Rehabilitation Program, Congestion Mitigation and Air Quality Improvement Program and Safety.

20 New core stand-alone program authorized by SAFETEA-LU.

21 Set-aside program within new core safety program.