



SPECIAL REPORT: *President's Budget Proposal for Fiscal Year 2005, California Implications - February 2004* (updated 2/5/2004)

On Monday, February 2, 2004, President George W. Bush released the Administration's Budget Proposal for Fiscal Year 2005, which begins October 1, 2004. The Budget proposes outlays of \$2.4 trillion for fiscal year 2005, and assumes a deficit of \$364 billion. The discretionary portion of outlays would be \$914 billion, whereas mandatory outlays would total \$1.3 billion. The Budget proposes discretionary spending of \$818.4 billion in new budget authority, a 3.9 percent increase from 2004. President Bush has urged keeping spending growth increases at 3 percent per year through 2009.

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. Updated on February 5, 2004, it is available on the Institute's website at <http://www.calinst.org/pubs/prbdg05.htm> or in Adobe Acrobat (pdf) format at <http://www.calinst.org/pubs/prbdg05.pdf>.

DEPARTMENT OF HOMELAND SECURITY

Formula Grants from the Office of Domestic Preparedness (ODP)

Funding for ODP's primary homeland security formula grant would be reduced more than half, from \$1.7 billion in 2004 to \$750 million in 2005 (which includes an increase for the Citizen Corps program from \$40 million to \$50 million), and law enforcement terrorism prevention grants would remain steady at \$500 million. The Budget thus proposes total homeland security formula funding cuts (from \$2.2 billion to \$1.25 billion), but it would make positive changes in the formula. It would be changed to use a formula similar to that proposed in a bill by Rep. Christopher Cox (based on population density, terrorist threats, and critical infrastructure), instead of the existing USA Patriot Act formula that strongly favors small states. California received \$175 million or 7.95 percent of the nation's \$2.2 billion grants in 2004. (The California amount was \$5 per capita, whereas Wyoming received \$38 per capita.) The changed formula would likely yield a larger share for California.

Urban Area Grants - Urban Area Security Initiative

In addition, funding would double for urban area homeland security grants (up nationwide from \$725 million to \$1.45 billion), which historically has been a lucrative area for California. The state received \$142 million - or 20 percent - of urban area funds in 2004, and a doubling of funding might yield a similar amount. The funding is distributed at the discretion of the Department, so no state funding assumptions should be drawn. Within the urban area funding, the budget proposes specific high-threat urban areas funding of \$1.2 million, targeted infrastructure protection of \$200 million, and port security funding of \$46 million.

Homeland Security - Other Areas

In other homeland security grant areas, the budget proposes that Emergency Management Performance Grants (EMPG) remain level at \$170 million -- the USA Patriot Act's excessive small-state minimum applies to each of these programs and leaves California receiving about 8 percent of each. Funding for the Assistance to Firefighters Grant Program would decline from \$750 million in 2004 to

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\$500 million in 2005 (funds for this program are flowing slowly, and California had received 4 percent of the nation's distributed total by the end of fiscal year 2003). The Budget proposes \$5.3 billion for the Transportation Security Administration (TSA). In addition, it would urge spending of \$1.04 billion in new money (plus \$66 million in redirected funds) for homeland security science and technology accounts, and an increase from \$124 million to \$162 million for expenses of the Information Analysis and Infrastructure Protection Directorate.

Bureau of Citizenship and Immigration Services - \$140 million is provided for the citizenship and immigration services backlog reduction efforts. The Budget documents state that "The 2005 Budget continues to support a five-year, \$500 million initiative to support a universal six-month processing standard for all immigration applications by 2006." \$236,126,000 was appropriated in FY04 for citizenship and immigration services.

Total funding for the Bureau of Citizenship and Immigration Services is provided at \$1.751 billion, about \$80 million more than estimated for FY04.

Border and Transportation Security - United States Visitor and Immigrant Status Indicator Technology (VISIT) - \$340,000,000 is requested for FY05, as compared to the \$330,000,000 appropriated in FY04. Obligation of the funding is contingent on meeting federal requirements and obtaining congressional approval of a plan.

Bureau of Customs and Border Protection (CBP) - \$4,580,491,000, as compared to the FY04 appropriation of \$4,396,350,000, is requested for enforcement of laws relating to border security, immigration, customs, and agricultural inspections and regulatory activities related to plant and animal imports; acquisition, lease, maintenance and operation of aircraft; purchase and lease of up to 4,500 (3,935 for replacement only) police-type vehicles; and contracting with individuals for personal services abroad.

Container Security Initiative - Of the \$4.58 billion requested for Customs and Border Protection \$126,162,000 would be for inspection and surveillance technology, unmanned aerial vehicles, and equipment for the Container Security Initiative. This compares to about \$100 million appropriated in FY04.

Construction - \$91,718,000 is requested for construction, as compared to \$90,363,000. Resources are used to maintain and improve border crossing stations and checkpoints, video surveillance systems, and barriers and fences along the borders.

Immigration and Customs Enforcement (ICE) - \$2,370,906,000 is requested, and increase from the \$2,151,050,000 appropriated in FY04. The resources are for the enforcement of immigration and customs laws, detention and removals, and investigations; and purchase and lease of police-type vehicles.

Automation Modernization - \$39,605,000, slightly less than the \$40,000,000 provided in FY04 funding, is requested for automation modernization. This account funds information technology (IT) investment projects for ICE. The ATLAS transformation initiative is intended to provide the IT infrastructure that will enable ICE to meet requirements mandated in the Border Security Act. It is also aimed at redesigning, streamlining, and transitioning IT into an environment that will support changes in DHS information systems. The seven projects within this account under ATLAS are: (1) Connectivity; (2) Enterprise; (3) Information Assurance; (4) Common Computing Environment; (5) Electronic Access & E-Government; (6) Infrastructure Engineering & Operations; and (7) Transformation Planning. Implementation of Atlas is contingent on federal and congressional approval of a plan.

Note that other homeland security-related funding is included in other departments, including funding under HHS for bioterrorism preparedness grants.

DEPARTMENT OF JUSTICE

The President requests total funding for the Department of Justice for FY05 of \$18.7 billion in discretionary spending, a 3.2 percent cut from FY04. Mandatory spending would be reduced from \$5.6 billion to \$3 billion, most of which comes from the September 11th Victims Compensation Fund, which has paid out most awards now. The FBI would receive an 11 percent increase, and the Drug Enforcement Administration a 4.8 percent increase. Some programs of specific interest to California are detailed below.

Integrated Automated Fingerprint Identification System - \$5.054 million is requested, as compared to the \$5.1 million appropriated in FY04, for the system to plan, development, and deploy an integrated fingerprint identification system. The System includes the Joint Automated Booking System and the IDENT/IAFIS biometric identification system.

Office of Justice Programs - Justice Assistance - The President requests \$1,710,664,000. As it did last year, the FY05 Budget request consolidates numerous existing programs under a single administrative decision unit called "Justice Assistance," which is broken down into broad mission categories. Those categories are: Counterterrorism Research and Development; Improving the U.S. Criminal Justice System; Research and Demonstration, Evaluation and Statistics; Technology for Crime Identification; Strengthening the Juvenile Justice System; Substance Abuse; Direct Services for Victims of Crime; and, Education and Training to Better Serve Victims of Crime. These categories are proposed to replace previously funded State and Local Law Enforcement Assistance programs, including the Local Law Enforcement Block Grants, State Criminal Alien Assistance Program, Juvenile Justice Programs, Edward Byrne Formula Grants, and Edward Byrne Discretionary Grants.

Specific FY05 allocations requested within the proposed mission categories include:

- \$861,577,000 for the criminal justice system, with a specific allocation request of \$508,937,000 for the Justice Assistance Grants Program, which is about \$77 million less than the President requested last year. The budget also states that local funding in this category may be combined with other jurisdictions funding to form a regional project. Also, \$47,431,000 is requested for the Southwest Border Prosecutor Initiative, up from \$30 million in the FY 2004 omnibus bill; and \$51,169,000 for the Weed and Seed Program.

\$180,355,000 is requested for the juvenile justice category, including: \$89,961,000 for State and local programs; \$39,074,000 for juvenile delinquency prevention block grants; and \$37,335,000 for delinquency prevention. Juvenile Justice Programs received \$352,700,000 in the FY04 Omnibus Appropriations bill.

State Criminal Alien Assistance Program (SCAAP) - No funding is requested for SCAAP, which partially reimburses state and local governments for the cost of incarcerating illegal criminal aliens. The FY04 Omnibus Appropriations included \$300 million for SCAAP. California generally receives about 40 percent of SCAAP funding, so its elimination would result in a reduction in California receipts by approximately \$120 million.

Community Oriented Policing Services - \$97,089,000 is proposed, of which new funding of \$44 million is requested and the remaining \$53 million would be carried over from FY04. Congress appropriated \$756,283,000 for the COPS program in the FY04 Omnibus bill. Within the President's figure, the following allocations are requested: \$17.6 million for hiring local law enforcement officers, compared to the \$120 million appropriated in FY04; \$20 million to combat methamphetamine production and trafficking and for police initiatives in "drug hot spots," compared to the \$54 million appropriated in FY04.

The Budget also provides that of the unobligated balances available under this heading, \$53.5 million are cancelled.

DEPARTMENT OF EDUCATION

Title I - Education for the Disadvantaged

The Budget assumes nearly a \$1 billion increase (to \$13.3 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. In keeping with several recent years' appropriations bills, the Budget proposes no change in funding for either basic grants (level at \$7 billion) or concentration grants (level at \$1.365 billion). The Administration proposes a major increase in targeted grants (which would more than double, from \$1.97 billion to \$4.15 billion), part of which would come from a reduction in EFIG (which would fall by more than half, from \$1.97 billion to \$793 million). 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. The President's Budget documents from the Office of Management and Budget did not show these items and indicated a reduction in 2005 outlays (but not budget authority).

In other programs under the Title I umbrella, the 2005 Budget proposes a \$101 million increase (to \$1.1 billion) for Reading First state grants and a \$38 million increase (to \$132 million) for Early Reading first grants. It would eliminate Even Start (a \$247 million program) and create a new "striving readers" program at \$100 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 remain level funded at \$394 million, as would the two higher education migrant education programs – the migrant high school equivalency program (at \$18.9 million) and the College Assistance Migrant Program (CAMP, at \$15.7 million).

Special Education

The Administration proposes a \$1 billion increase, to a total spending amount of \$11.1 billion for Special Education Grants to States under the Individuals with Disabilities Education Act (IDEA), which is currently up for reauthorization. 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 likely in 2005.

As have past appropriations bills and budgets, the President's 2005 Budget proposes no change in funding for special education preschool grants, which remains at \$387.7 million California's share of preschool grants is approximately \$39.5 million. The Budget proposes a \$22 million increase in IDEA Part C grants for infants and families, from \$444.4 million to \$466.6 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 approximately level funding for all component programs. The recommendations include \$1.064 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 increase by \$82.7 million, from \$5.86 billion to \$5.94 billion. Within the account, the Budget proposes level funding for many programs, including \$2.93 billion for part A improving teacher quality state grants, \$692 million for educational technology state grants, \$1 billion 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. Increases are proposed for mathematics and science partnerships (from \$149 million to \$269 million) and state assessments (from \$390

million to \$410 million). Funding would be eliminated for foreign language assistance (\$16.5 million) and the Javits gifted and talented education program (\$11.1 million), as well as for several comprehensive centers: the regional technology in education consortia (\$9.9 million), Eisenhower regional mathematics and science and education consortia (\$14.8 million), and the Eisenhower National Clearinghouse for Mathematics and Science Education (\$4.9 million).

Innovation and Improvement

The Budget includes a total of \$885 million for innovation and improvement, a reduction of \$217 million from 2004. The entire reduction represents an elimination of arguably one-time earmarks included in the 2004 omnibus appropriations bill. Last year's \$280 million for the Fund for the Improvement of Education (FIE) "programs of national significance" is reduced to \$45 million for 2005. Once these earmarks are eliminated, the innovation and improvement account total represents a small (\$18 million) funding increase.

The Budget proposes changes within the account, including elimination of \$17.9 million for the national writing project, \$12.3 million for school leadership, \$1.5 million for Close Up fellowships, \$5 million for dropout prevention, \$20.3 million for Star schools, \$14 million for the ready to teach program, \$35 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), charter school grants \$219 million), voluntary public school choice \$27 million), Ready-to-learn television (\$23 million), and magnet schools assistance (\$109 million). Programs receiving substantial increases include advanced placement (rising from \$24 million to \$51 million), and credit enhancement for charter school facilities (up from \$37 million to \$100 million). And the Budget would fund a new choice incentive program at \$50 million, a new Adjunct Teacher Corps at \$40 million, and a new Military Families Initiative at \$10 million.

Safe and Drug Free Schools

The Budget proposes level funding of \$441 million for state grants for safe and drug-free schools and communities, \$25 million for character education, \$70 million for physical education, and \$29 million for civic education. The Budget proposes elimination of \$34 million for elementary and secondary school counseling, \$20 million for state grants for incarcerated youth offenders, and \$5 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 \$681.2 million for English Language Acquisition programs, and it proposes a greater concentration of funds in the formula grants (increased by \$39 million to \$592.4 million) and less in competitive grants (reduced by the same \$39 million to \$44.5 million). Department of Education budget documents indicate that many competitive projects concluded in 2004, reducing the need for competitive grant funds.

Rehabilitation Services and Disability Research

The Budget proposes an increase from \$3.01 billion to \$3.05 billion for Rehabilitation Services and Disability Research. The primary component of the account is vocational rehabilitation state grants, which would increase from \$2.58 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 state grants (\$22 million), or independent living centers (\$73.6 million).

The Budget proposes elimination of a \$2.3 million program for migrant and seasonal farmworkers, as well as a \$37.7 million supported employment grants program and a \$21.8 million program entitled projects with industry.

Vocational and Adult Education

The Budget proposes major restructuring of and cuts in vocational and adult education programs, with a total reduction of \$500 million in the overall account (from \$2.1 billion in 2004 to \$1.6 billion in 2005).

Within the vocational and technical education account, the administration references proposed legislation in calling for a consolidation of five programs, previously funded at \$1.328 billion, into one "secondary and technical education state grants" item, funded at \$1.012 billion. The programs proposed for consolidation include vocational education state grants, tech-prep education state grants, and tech-prep demonstration. California has typically received approximately 11 percent of vocational education basic grants.

The Budget proposes level funding \$574 million for adult basic education state grants, of which California historically has received slightly more than 11 percent.

Two other programs, the \$174 million smaller learning communities program and the \$9.9 million community technology centers programs would be eliminated.

Student Financial Assistance - Pell Grants

The Budget assumes federal Pell Grant expenditures of \$12.9 billion in 2005, up from \$12.0 billion last year, with a maximum grant maintained at \$4,050.

Campus-Based Programs

The Budget proposes level funding \$770 million in Federal Supplemental Educational Opportunity Grants (SEOG). The federally-supported work study program would be level funded at \$998.5 million.

LEAP

The Budget would eliminate the \$66.6 million for the leveraging educational assistance partnership (LEAP) program. Language in the Budget documents imply that past appropriated funding levels are such that excess funds are to be reserved to carry out program purposes.

Higher Education, including TRIO and GEAR UP

Within a total of \$1.98 billion for higher education programs, the Budget would provide level funding of \$81 million for the strengthening institutions program, and \$95.9 million for the Hispanic serving institutions program (an increase of \$1.9 million from 2004). Teacher quality enhancement would receive level funding of \$88.9 million.

The TRIO program, which provides outreach and support for serving low-income and first-generation college students, would receive the same \$833 million as in 2004.

Under the President's Budget, the GEAR UP program, which helps minority and disadvantaged students prepare for and succeed in college, would receive level funding of \$298 million.

DEPARTMENT OF TRANSPORTATION

In FY2005, the President proposes a \$57.9 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.

Transportation Planning Research and Development

The 2005 budget recommends a \$10.8 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 \$13.972 billion for Federal Aviation Administration expenditures, sub-allocated in the following way: \$7.85 billion for operations (\$6 billion derived from the Airport and Aviation Trust Fund); \$3.5 billion for Grants-in-aid for Airports; \$2.5 billion for facilities and equipment; \$117 million for research, engineering and development.

The Budget proposed zeroing out compensation for air carrier program funds. This program was budgeted at \$278 million in 2004.

Aviation Safety: The 2005 Budget proposal allots \$8.8 billion to fund aviation safety programs broken down as follows: \$7.4 billion, Operations and Personnel; \$1 billion, Grants-in-Aid for Airports; \$0.3 billion, Information Technology; \$0.1 billion, Aviation Research.

Federal Highways Administration

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 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); however since no long term surface transportation plan was enacted last year, FY2004 and FY2005 budget language remains consistent with TEA-21's funding structure, i.e. highway spending levels will correspond to Highway Trust Fund (HTF) receipts. Like the FY04 budget request, the '05 Budget proposes to redirect 2.5 cents per dollar in gasohol tax revenue currently tagged for the General Fund to the Highway Account of the HTF. This proposal is projected to increase HTF reserves by \$600 million exclusively for highway spending. The 2005 FHA budget includes \$34.382 billion in new budget authority.

Intelligent Transportation Systems: Under the FAHP limitation level, the President's Budget provides \$232 million in obligation authority for ITS projects. A number of California projects are highlighted for earmarks under this section including:

- \$1.2 million, Alameda Corridor-East Gateway to America Project Phase II, Los Angeles
- \$750,000, Bay County Areawide Traffic Signal System
- \$300,000, Carson Passenger Information System
- \$1 million, Corona Citywide Traffic Management system
- \$960,000, Elk Grove Traffic Operations Center
- \$500,000 ITS Deployment Project, Inglewood
- \$500,000 Los Angeles MTA, Regional Universal Fare System
- \$1,175,000 Sacramento Area Council of Govts. ITS projects
- \$400,000 San Diego Joint Transportation Operations Center
- \$1,000,000 Ventura County, ITS

Federal-Aid Highways: \$33,643,326,300 is requested for Federal-aid highways and highway safety construction programs for FY 2005. Estimated obligation limitations in FY2004 totaled \$33,843,000,000, a cut of almost \$200 million. (The Senate appropriations Committee estimated California's total obligation limitation share of FY 2004 formula programs to be \$2,883,896,599).

The Administration proposes the inclusion of a new \$1 billion per year core highways formula program entitled the "Infrastructure Performance and Maintenance Program." The new \$1 billion core formula grant proposal in the President's budget for "ready to go" projects. The ostensible purpose of the program is to stimulate economic activity while addressing congestion concerns. Funds from the program would be distributed to states based on the formula structure currently employed in the Surface Transportation Program (STP). California's share of STP funds (9.6 percent) is considerably smaller than the 21.3 percent share going to the state from the existing FAHP congestion relief program known as CMAQ. Some in California are concerned that inclusion of a new congestion-focused program in a tight budget environment might at some stage prompt a reprogramming of funds from existing sources such as CMAQ, to a new program that yields far less return for the state. CMAQ is the only major FAHP core program that yields California more than 10 percent of total U.S. funds.

Motor Carrier Safety Administration: The 2005 Budget requests \$455 million for the Federal Motor Carrier Safety Administration. \$277 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. This program received \$27 million in 2004, though no request for BEP funding is included in the 2005 budget. The Border Enforcement Program supports federal and state safety enforcement efforts at the U.S./Mexico border to ensure that Mexican carriers entering the U.S. are in compliance with Federal Motor Carrier Safety Regulations.

National Highway Traffic Safety Administration: \$689 million is requested for this agency an increase of \$391 million from the 2004 estimated appropriation. \$233.3 million is proposed for operations and research expenses, while \$456 million is set aside for grants to states to fund targeted highway safety projects and initiatives.

Federal Railroad Administration

The President proposes \$1.148 billion in support for FRA programs, this includes \$900 million for the National Railroad Passenger Corporation (Amtrak). This FY05 Amtrak request total constitutes a \$434 million reduction from the FY04 Omnibus enacted level; however the Administration proposes increasing Amtrak's allocation to \$1.4 billion for FY 2006 and beyond should Congress enact a plan that would privatize the passenger rail system and eliminate expensive long-distance routes; possibly the Sunset Limited route (Los Angeles to Chicago) and the Southwest Chief (Los Angeles to Orlando) would be among these discontinued routes to reduce operations costs.

The FY05 Budget recommends \$10 million to fund Next Generation High Speed Rail. This program was budgeted \$27 million in 2004.

Federal Transit Administration

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 Transportation Equity Act for the 21st Century created the new discretionary Mass Transit Budget Category. Approximately 80% of transit funding in 2003 is derived from the mass transit account of the Highway Trust Fund. The 2005 Budget proposes \$7.26 billion for transit programs, the same as FTA's enacted FY2004 funding level.

Transit Formula Grants and Research: The President's budget states "Beginning in 2005, formula grants will be funded as a Trust Fund account." The President's budget directs \$5.622 billion in transit formula grants and research expenditures to be distributed from the Mass Transit Account of the Highway Trust Fund. Of this amount, \$2.585 billion would be credited to the urbanized area formula programs; \$1.239 billion would be spent on fixed guideway modernization programs; \$567 million on state administered programs; \$115 million on metropolitan and statewide planning activities; \$367 million on formula grants to non-urbanized areas; \$153 million on job access and reverse commutes projects; and \$51 million on national research.

Formula Grant funds can be used for all transit purposes including planning, bus and railcar purchases, facility repair and construction, maintenance and, where eligible, operating expenses.

\$329 million is directed to the major capitol investments grant account, shifting capital investments to a new financing source. This program has historically funded major transit capital programs such as New Starts, Fixed guideway Modernization and Bus and Bus Related Facilities.

DEPARTMENT OF HEALTH AND HUMAN SERVICES (HHS)

Health Resources and Services Administration

For Health Resources and Services, the President's Budget requests \$6,022,833,000, which is \$675.6 million lower than the \$6.7 billion amount appropriated in FY04. The total requested includes \$783,872,000 in funding for the State AIDS Drug Assistance Program.

Centers for Disease Control and Prevention

The FY05 Budget proposes \$4,213,554,000 in funding for disease control, research, and training, of which \$12.5 million is made available for grants to the states. The FY 2004 comparable allocation was \$4.545 billion.

National Institutes of Health

The President's FY05 Budget proposal requests the following amounts for the National Institutes of Health: \$4,870,025,000 for the National Cancer Institute (FY04 appropriation was \$4,770,519,000); \$2,963,953,000 for the National Heart, Lung, and Blood Institute (FY04 appropriation was \$2,897,145,000); \$394,080,000 for the National Institute of Dental and Craniofacial Research (FY04 appropriation was \$385,796,000); \$1,726,196,000 for the National Institute of Diabetes and Digestive and Kidney Diseases (FY04 appropriation was \$1,682,457,000); \$1,545,623,000 for the National Institute of Neurological Disorders and Stroke (FY04 appropriation was \$1,510,776,000); \$4,425,507,000 for the National Institute of Allergy and Infectious Diseases (FY04 appropriation was \$4,335,155,000); \$1,959,810,000 for the National Institute of General Medical Sciences (FY04 appropriation was \$1,916,333,000); \$1,280,915,000 for the National Institute of Child Health and Human Development (FY04 appropriation was \$1,250,585,000); \$671,578,000 for the National Eye Institute (FY04 appropriation was \$657,199,000); \$650,027,000 for the National Institute of Environmental Health Sciences (FY04 appropriation was \$636,974,000); \$1,055,666,000 for the National Institute on Aging (FY04 appropriation was \$1,031,311,000); \$515,378,000 for the National Institute of Arthritis and

Musculoskeletal and Skin Diseases (FY04 appropriation was \$504,300,000); \$393,507,000 for the National Institute on Deafness and Other Communication Disorders (FY04 appropriation was \$384,477,000); \$139,198,000 for the

Institute on Alcohol Abuse and Alcoholism (FY04 appropriation was \$431,471,000); \$1,019,060,000 for the National Institute on Drug Abuse (FY04 appropriation was \$997,414,000); \$1,420,609,000 for the National Institute of Mental

(FY04 appropriation was \$482,222,000); \$297,647,000 for the National Institute of Biomedical Imaging and Bioengineering (FY04 appropriation was \$288,900,000); \$1,094,141,000 for the National Center for Research

Alternative Medicine (FY04 appropriation was \$117,752,000); \$196,780,000 for the National Center on Minority Health and Health Disparities (FY04 appropriation was \$192,724,000); \$67,182,000 for the John E. Fogarty

(FY04 appropriation was \$311,635,000).

Substance Abuse and Mental Health Services

million above the FY04 appropriation. Within the total proposed the Administration requests a \$10 million funding level for a new competitive grant program, Samaritan Initiative, which aims to end chronic homelessness.

Grants to the States for Medicaid - The President's FY 2005 Budget proposal assumes Medicaid obligations of authority, it requests \$119.1 billion for Medicaid, to be combined with \$58.4 billion in advance appropriations. A separate legislative proposal would reduce payments by \$617 million.

measure. In May 2003, Congress enacted \$20 billion in temporary federal fiscal relief for states, half of which came in as an increase in the federal share of Medicaid during fiscal years 2003 and 2004. The fiscal relief package expires in matching rate is relatively low).

The Administration's proposal is \$11,767,709,000 under the amount appropriated in FY04. The total requested

residential and outpatient treatment facilities, and \$100,000 for Santa Clara County for its Children's Health Initiative program to provide outreach and enrollment assistance for families under 300 percent of federal poverty level.

Disproportionate Share Hospital (DSH) Impact

The Budget proposes significant restrictions on states' ability to use intergovernmental transfers (IGTs),

exactly how this would be accomplished. Some observers predict that this will play out as an immediate reduction (rather than a phase-out) in the use of the Medicaid Upper Payment Limit, which permits higher payments (up to 150%

over the next several years, so such a change would be impactful. Alternatively, the provisions might be used to cut from 175% to 100% the excess amount that could be paid for Medicaid Disproportionate Share Hospital payments,

UPL costs in FFYs 2004 through 2009 of which \$9.2 billion fall in the 5-year period of 2005-2009.)

State Grants and Demonstrations

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

December 2003, and appropriations were mandated therein.)

State Children's Health Insurance Program (SCHIP)

billion above the \$3.175 billion for FY04. California received 16.8 percent of SCHIP funds in 2004, a total of \$534 million.

Temporary Assistance for Needy Families (TANF) - \$16.881 billion is requested to fund this block grant, which of these funds - more than 21 percent of the total.

Payments to the States for Child Support Enforcement and Family Support Programs

requests \$2,873,802,000 in funding to support such programs, which constitutes a \$419.168 million decrease from the amount appropriated in the FY04. According to the President's proposal, Administration plans submit a legislative

increase child support collections and to direct more of these payments to families.

Low Income Home Energy Assistance (LIHEAP)

program, of which \$500,000 is set aside for evaluation purposes. The FY 2004 appropriation for LIHEAP was \$1.8 billion. LIHEAP makes grants to states and Indian tribes to aid low-income households with high energy costs through

Refuge and Entrant Assistance - To cover the necessary expenses for refugee and entrant assistance activities and for costs associated with the care and placement of unaccompanied alien children, the President requests \$473,239,000. The FY04 funding level for this program was \$450,276,000.

Child Care Entitlement to the States - The President's proposal requests \$2.717 billion in child care funding for welfare recipients and low-income working families, which is essentially the same amount as was appropriated in FY04.

Payments to States for the Child Care and Development Block Grant - To subsidize the states for providing child care assistance for low-income families, the Administration requests \$2.1 billion, which is the same amount as was allocated in FY04.

Social Services Block Grant - \$1.7 billion for the Social Services Block Grant is requested by the Administration, the same as the funding level appropriated in the FY04.

Children and Families Services Program - The President's proposal requests a total of \$9,056,025,000 to fund the Children and Families Services Program, of which \$32.103 million is set aside for grants to states for adoption incentive payments. The amount requested is close to \$240 million higher than the amount appropriated last year. The total requested includes: \$6,943,580,000 for the Head Start Program (The FY04 allocation was \$6,815,570,000), of which \$45 million is set aside for grants to the states that directly administer the Head Start Program (California's share of Head Start is somewhat more than 12 percent); \$552,350,000 to fund the Community Services Block Grant (which is a decrease of \$133.3 million from the FY 2004 funding level of \$735,686,000); \$100,000,000 for a compassion capital fund to provide grants to charitable organizations to emulate model social service programs and to encourage research on the best practices of social service organizations (The FY04 appropriation for this program was \$48 million). The Administration plans to submit a legislative proposal that establishes the Responsible Fatherhood and Healthy Marriage programs.

Payments to States for Foster Care and Adoption Assistance - The President's FY05 Budget proposal requests \$5,037,900,000 for making payments to states for foster care and adoption assistance in FY05. In addition, the proposal requests \$1,767,200,000 for making payments in the first quarter of FY06. The proposal estimates that an average of 375,900 foster children per month will be served in 2005. The proposal indicates that the Administration has a legislative proposal that includes provisions to introduce an option 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 will face fewer administrative burdens and will receive funds in the form of flexible grants. Also included is a legislative change to clarify the process for determining Title IV-E eligibility in the Foster Care program.

Administration on Aging

The proposal requests \$1,376,527,000 in funding for the Administration on Aging, which is \$5.2 million under the FY04 appropriation. Within the total, the proposal provides \$5.5 million for activities regarding medication management, screening, and education to prevent incorrect medication and adverse drug reactions. According to the proposal the proposed level will provide continued funding for core formula grant programs that provide nutrition, supportive services and caregiver support services through the aging network.

Project BioShield

The Budget proposes to increase HHS funding for Project BioShield from \$1.6 billion to \$2.5 billion.

HHS Bioterrorism Grants

The Budget would maintain funding for two HHS bioterrorism preparedness formula grant programs for state and local health care first responders. A Health Resources and Services Administration (HRSA) hospital infrastructure bioterror grant would receive \$476 million, and a Centers for Disease Control (CDC) public health capacity grant would be funded at \$829 million. California received 9.8 percent of funding from both programs in 2003 and 2004, due in part to a significant small-state minimum in the programs' formulas.

Departmental Management

Public Health and Social Services Emergency Fund - The proposal requests \$1,725,058,000 to fund expenses necessary to support activities related to countering potential biological, disease, nuclear, radiological and chemical threats to civilian populations, of which \$1,109,571,000 is provided for the Centers for Disease Control and Prevention, \$47,400,000 for the National Institutes of Health, and \$545,870,000 for the Health Resources and Services Administration.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT (HUD)

Community Development Block Grant (CDBG) - \$4.6 billion is requested for this block grant, of which \$4.3 billion is for formula grants, and \$65 million is for grants under the Self Help Homeownership Opportunity Program. In recent years, California has received as much as 16% of formula grant funding from the CDBG. The President's proposal notes that HUD is considering proposals to change the program in ways that would increase local accountability, improve targeting of funds, and better demonstrate results. The Administration is also proposing new pilot programs to test ways to better coordinate, target, and leverage Federal community and economic development programs, including the Development Challenge Pilot, for which it requests \$10 million as part of the total CDBG amount.

Public and Indian Housing

Housing Certificate Fund - The Administration proposes an \$18,465,800,000 funding level for the Housing Certificate Fund, which is \$905,681,768 lower than the FY04 appropriation. The proposal makes recaptured amounts in this account available for spending. The Housing Certificate Fund funds Section 8 renewals and tenant protections. The total proposed includes funding for the following: \$16,920,000,000 to fund expiring or terminating Section 8

was \$17,635,130,745); \$100 million in discretionary funding for emergencies such as natural disasters and for unforeseen and validated market changes (this proposed allocation replaces FY04 discretionary funding of \$136,846,017

assistance for relocation and replacement of housing units that are demolished or disposed of (FY04 appropriation was \$206,495,000). The total excludes funding for family self-sufficiency coordinators, which was funded at \$48 million in

to HUD in FY04 under the "Working Capital Fund" and "Annual contributions for assisted housing" headings. The budget proposal establishes a new Flexible Voucher Program, which replaces the previous Housing Choice Voucher

Public Housing Capital Fund - To carry out capital and management activities for public housing agencies, the housing agencies identified as "troubled" under the Section 8 Management Assessment Program, and \$40 million in discretionary funding for grants to public housing agencies for emergency capital needs resulting from emergencies and

Public Housing Operating Fund - The President's FY05 Budget proposal requests \$3.573 billion in funding for housing agencies that move program participants away from dependency on public housing assistance programs. The FY04 allocation for this Fund was \$3.6 billion.

- The Hope VI program funds grants to public housing agencies for demolition, site revitalization, replacement housing, and tenant-based assistance grants. The

FY04.

Community Planning and Development

- \$294.8 million is requested to fund this program.

The FY04 comparable allocation was \$296.5 million.

- The proposal does not include a request to fund this program, which helps revitalize city neighborhoods by attracting business development and providing employment opportunities

Brownfields Redevelopment - The President's Budget proposal does not include a funding request for this

HOME Investment Partnerships Program - \$1,884,200,000 is requested in the Administration's proposal to

Homeless Assistance Grants - For the Homeless Assistance Grants Program, which funds the Shelter Plus Care, programs, \$1,282,400,000 funding level is requested. The total requested is \$15.4 million above the FY04 appropriation.

- The FY05 Budget proposes a \$50 million funding level for a new competitive grant program aimed at ending chronic homelessness by 2012. The proposal notes that the Administration will submit legislation for

Rural Housing and Economic Development - The President's Budget proposal requests no funding for this Community Development Block Grant, which the Administration has requested be funded under the Community Development Fund subsection of Community Planning and Development).

Agricultural Research Service (ARS)

The request is \$101.3 million lower than the \$1,088,892,000 in the FY04 Omnibus appropriation to fund ARS. ARS uses coordinated interdisciplinary approaches to perform basic and applied research on soil and water conservation,

For the Buildings and Facilities, the President's Budget requests \$178 million, which is \$114.2 million above the FY04 allocation.

- The President requests \$501,540,000 in FY 2005 to fund research and education activities, including \$3.341 million for special grants for agricultural research on appropriation made for FY 2004.

Animal and Plant Health Inspection Service (APHIS)

Service, including \$4,119,000 in emergency funding for the control of outbreaks of insects, plant, and animal diseases. The FY 2004 allocation for this service was \$720,580,000, which is \$107.8 million lower than the FY05 request.

diseases and to protect the environment.

Agricultural Marketing Service (AMS)

The President requests \$85,998,000 to fund the Agricultural Marketing Service, which assists producers and handlers of agricultural commodities by providing marketing services. The FY05 request is a \$10.568 million increase above the FY04 appropriated level. The total requested includes \$1.347 million in payments to the states for marketing activities.

Farm Service Agency (FSA)

The Budget proposes \$1,007,877,000 in FY 2005 for the Farm Service Agency, which is \$19.1 million under the FY04 appropriation. The FSA administers, among others, farm income support programs, the Conservation Reserve Program (CRP), and the Commodity Operation Program (COP). The President's proposed Budget does not include a request for the Tree Assistance Program (TAP) or the Emergency Conservation Program (ECP). The FY04 Omnibus included a \$12.5 million appropriation under TAP for the southern California program, and a \$12 million allocation for the purpose of repairing damage caused by wildfires in southern California as part of ECP funding.

Natural Resources Conservation Service (NRCS)

The Natural Resources Conservation Service is responsible for preparation of conservation plans and establishment of measures to conserve soil and water, among other things. The President's proposal calls for a \$710,412,000 allocation for NRCS, which is \$142.6 million lower than the comparable FY04 allocation.

Farm Security and Rural Investment Programs - The President's 2005 Budget requests \$985 million to fund the Environmental Quality Incentive Program (EQIP), which promotes agricultural production and environmental quality as compatible goals. The Budget proposal also includes a request of \$11 million to fund the Klamath Basin program, which is located in California and Oregon.

Watershed and Flood Prevention Operations - The President requests \$40.173 million for Watershed and Flood Prevention Operations, which represents half of the amount appropriated in FY04.

Watershed Rehabilitation Program - The President proposes to fund the Watershed Rehabilitation Program at \$10.091 million. The FY 2004 funding level for this program was \$29.1 million.

Rural Housing Service (RHS)

Rural Housing Assistance Grants - For grants and contracts for very low-income housing repair, supervisory and technical assistance, compensation for construction defects, and rural housing preservation, the President's Budget proposal requests \$42.5 million; the FY04 appropriation for such grants was \$46.222 million.

Rental Assistance Program - \$592 million is requested for the Rental Assistance Program, which is \$8 million higher than the comparable FY 2004 appropriation. The Rental Assistance Program is designed to reduce rents paid by very low-income and low-income families living in RHS-financed rural rental and farm labor housing projects.

Mutual and Self-Help Housing Grants - The President's Budget proposes to fund such grants at \$34 million in FY 2005, the same amount as appropriated in FY04.

Rural Business-Cooperative Service

Rural Empowerment Zones and Enterprise Community Grants - The President's Budget does not request funding for grants in connection with second and third rounds of empowerment zones and enterprise communities, because "sufficient carryover balances are expected" in FY 2005.

Food and Nutrition Service

The FY 2005 Budget proposal requests \$152,227,000 to fund Nutrition Programs Administration, including no less than \$7 million for activities aimed at improving integrity in the Food Stamp and Child Nutrition programs.

Food Stamp Program - For the Food Stamp Program, the Budget proposes an FY05 funding level of \$33,641,798,000, of which \$3 million is placed in reserve. The FY04 allocation for this program was \$30,945,981,000, including a reserve of \$3 million.

Child Nutrition Programs - The President proposes an FY05 funding level of \$11,380,557,000 for the Child Nutrition Programs, which is \$36.9 million less than was appropriated in FY04.

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) - The President's Budget requests \$4,787,250,000 in funding for WIC, which is \$148 million higher than the amount allocated in FY04.

Commodity Assistance Program - \$169,416,000 is requested for the Commodity Assistance Program in the President's FY05 Budget proposal, which is \$19.416 million above the FY04 appropriation.

U.S. Forest Service

National Forest System - The President's Budget proposes \$1,655,837,000 to fund the National Forest System, which is \$272.9 million above the FY04 appropriation of \$1,382,916,000. Within the total proposed, there is funding available to conduct hazardous fuel reduction activities in order to reduce the risk of catastrophic fires as part of the implementation of the Healthy Forest Initiative.

Forest and Rangeland Research (FS R&D) - The President requests \$280,654,000 to fund Forest and Rangeland Research and Development, which is lower than the \$269,710,000 appropriated in FY04. FSR&D is responsible, among other things, for research on how to control exotic plants, insects, and pathogens.

State and Private Forestry - For provision of technical and financial assistance to the states and for forest health management, including treatments of pests, pathogens, and invasive or noxious plants, the proposal requests \$294,388,000, which is a decrease of \$13.752 million from the amount appropriated in FY04. The total requested includes \$10 million in funding for rapid responses to new introductions of non-native or invasive pests or pathogens for which no previous Federal funding has been provided. Though no specific amount is requested, the President proposes to allocate from the total for this program funding to enhance the capacity of states to provide coordinated fire suppression response, reduce hazardous fuels in and adjacent to communities, and to promote safe and effective initial fire attack in wildland/urban interface areas by volunteer fire departments.

Wildland Fire Management

Forest System lands, for emergency fire suppression on or adjacent to such lands or other lands under a fire protection agreement. The FY04 allocation for this program was \$1,643,212,000. The total requested includes \$19.361 million for

Acquisition of Lands for National Forests Special Acts - The President's Budget proposal requests \$1.069

Angeles, San Bernardino, Sequoia, and Cleveland National Forests, located in California.

DEPARTMENT OF THE INTERIOR

Bureau of Land Management - Management of Land and Resources - \$837,462,000 is requested for FY05 for appropriated in FY04 for this program.

Construction

appropriation, for buildings, recreation facilities, bridges, roads, and trails.

Oregon and California Grant Lands

appropriated in FY04. The request provides, however, that 25 percent of the aggregate of all receipts during the current fiscal year from the revested Oregon and California

to the General Fund in the Treasury.

Jobs In The Woods

timber workers in the Pacific Northwest to improve water quality and restore Oregon's coastal salmon populations. Projects include: forest health treatments, improving fish passage structures, improving instream habitat, reducing

Wildland Fire Management - \$743,099,000 is requested, a reduction of about \$50 million from the \$792,725,000 emergency rehabilitation, hazardous fuels reduction, and rural fire assistance. Of the money requested, \$99 million is to repay prior year advances from other appropriations from which funds were transferred for wildfire suppression and

Land Acquisition - \$24,000,000, is requested, an increase of about \$5.4 million over the \$18,600,000 appropriated

Payments for Oregon and California and Coos Bay Wagon Road Grant Lands, Receipts - Under provisions of the 18 Oregon & California (O&C) counties will be derived from any revenues, fees, penalties, or miscellaneous receipts received by the Federal Government from activities by the BLM on O&C and Coos Bay Wagon Road lands.

Ecosystem Health and Recovery funds, or permanent operating funds.

Bureau of Reclamation

- \$828,476,000 is requested for FY05, a decrease from the \$857,498,000 appropriated in FY04. Of that amount, \$53,299,000 would be available for transfer to the Upper Colorado River Basin

addition, the Budget provides that \$10 million of the funding will be deposited in the San Gabriel Basin Restoration Fund. Amounts in this fund will be used to design, construct, operate and maintain water quality projects to remediate

local cost share.

California Bay-Delta Restoration

Bay-Delta Program, including activities that would improve fish and wildlife habitat, water supply reliability, and water quality, consistent with plans to be approved by the Secretary of the Interior, \$15,000,000 is requested. The Budget

purposes and/or be used for the federal share of the costs of CALFED program management. This is the same amount requested by the President in the FY04 budget.

- For carrying out the programs, projects, plans, and habitat restoration, improvement, and acquisition provisions of the Central Valley Project Improvement Act, \$54,695,000 is provided. It

\$39,600,000. Fund resources are derived from donations, revenues from voluntary water transfers and tiered water pricing, and Friant Division surcharges. The account is also financed through additional mitigation and restoration

United States Fish and Wildlife Service - \$950,987,000, as compared to \$963,352,000 in FY04, is requested, of

National Park Service - \$1,686,067,000 is requested, about \$57 million that the FY04 appropriation of

Conservation Fund.

Land Acquisition and State Assistance requested.

Land and Water Conservation Fund - The Budget requests the full \$900 million funding from the Land and Water Conservation Fund to be used for various programs that promote cooperative conservation.

Recreation Fee Permanent Appropriations - Hetch Hetchy Rental Payments, Yosemite Management Fund - A legislative proposal put forth by the Department would authorize the National Park Service to charge rental payments to the City of San Francisco for the Hetch Hetchy Reservoir in Yosemite National Park. The proposal would also authorize NPS to retain and expend the receipts, without further appropriations, for activities in Yosemite National Park. The rental payments would increase from \$30,000 per year to \$8 million per year, the first such increase in nearly a century.

Payments in Lieu of Taxes - \$226,000,000 is requested, compared to the \$227,500,000 appropriated in FY04, of which not to exceed \$400,000 shall be available for administrative expenses.

General Provisions - Offshore Leasing - No funds may be expended by the Department 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, as well as other areas of the U.S.

San Luis Unit - None of the funds appropriated 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.

Kesterson Reservoir Cleanup 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.

Giant Sequoia Timber - None of the funds may be used to plan, prepare, or offer for sale timber from trees classified as giant sequoia (*Sequoiadendron giganteum*) which are located on National Forest System or Bureau of Land Management lands in a manner different than such sales were conducted in fiscal year 2004.

Presidio - The Budget eliminates language contained in last year's budget request authorizing the National Park Service, through cooperative agreement, to allow the Golden Gate National Parks Association to provide fee-based education, interpretive and visitor service functions within the Crissy Field and Fort Point areas of the Presidio. The Interior Budget does not contain a request for FY05 funding for the Presidio.

DEPARTMENT OF COMMERCE

The Budget proposes discretionary spending of \$5.7 billion for the Department in FY05.

Economic Development Administration - The Budget requests \$30,565,000 in funding to administer the EDA.

Economic Development Assistance Programs - For Economic Development Assistance and for Trade Adjustment Assistance, the Budget requests \$289,762,000, almost the same as the \$288,115,000 appropriated in the FY04 Omnibus Appropriations bill.

National Oceanic and Atmospheric Administration - The Budget proposes spending of \$2,377,841,000, down from the \$2,686,520,000, appropriated in FY04, including \$623 million for the National Marine Fisheries Service, down from the \$657 million FY04 estimate.

Pacific Coastal Salmon Recovery - \$100 million is requested for this program, with an estimated payout to California of \$19 million, up from the \$13 million estimated in FY04 funding.

Advanced Technology Program - The President's 2005 Budget proposes to eliminate the ATP program and, therefore, no funds are requested for FY 2005. The FY04 funding estimate was \$195 million

Manufacturing Extension Program - MEP, which provides startup help to small manufacturers, would remain level at \$39 million. (In 2003, the program was funded at \$109 million, but federal funds were reduced to \$39 million in 2004 -- the 2005 Budget continues the program at \$39 million.)

General Provisions - The Budget provides that the Federal Communications Commission may sell the monitoring facilities in Honolulu, Hawaii, and Livermore, California, including all real property, and credit the proceeds of such sales as offsetting collections to its Salaries and Expenses account. Such funds shall be available until September 30, 2007, to be used to replace these facilities and to improve other FCC-owned facilities.

DEPARTMENT OF DEFENSE

The Budget requests \$401.7 billion in discretionary budget authority for the Department of Defense, a 7 percent increase in outlays over the 2004 funding level of \$375.3 billion (not including supplemental appropriations), but a substantial reduction in budget authority from the total 2004 BA level of \$441.4 billion. Included in the total request is \$74.9 billion for procurement, down from \$75.3 billion in 2004, and \$68.9 billion for RDT&E (research, development, testing and evaluation), up from \$64.3 billion in 2004.

Relative to the 2004 non-supplemental spending level, the President's budget proposes an increase in funding for all service areas, including the Army (up from \$95.4 billion to \$97.2 billion), the Navy/Marine Corps (up from \$115.1 billion to \$119.3 billion, Air Force (up from \$110.9 to \$120.5 billion), and so called defense-wide programs (up from \$53.9 billion to \$64.7 billion).

Base Closures

The Budget discusses realigning resources, including the upcoming 2005 Base Realignment and Closure (BRAC) Commission process. The Budget states that, "The work of this commission will be critical to streamlining DoD facilities and saving billions of dollars that would be better spent on transformation, not excess facilities. The budget includes funding beginning in fiscal 2006 for implementation of BRAC 2005 decisions."

A 2005 closure round was approved in a defense authorization bill for fiscal year 2002. Under those provisions, the President, in consultation with the Senate, would appoint a nine-member base closure (BRAC) commission in March 2005 to recommend closures. Unlike authorizing statutes from prior closure rounds, the language provides specific guidance regarding what should constitute military value, with some priority placed on (1) training facilities which further readiness, (2) homeland defense staging areas, (3) diversity of climate and terrain for training, (4) joint interservice activities, and (5) "contingency, mobilization, and future total force requirements at both existing and potential receiving locations to support operations and training." The bill also specifies four special considerations for each facility considered, including (1) cost recovery amount and timetable, (2) community economic impact, (3) local infrastructure's ability to accommodate military needs, and (4) environmental costs. Agreement of a supermajority of seven commissioners would be required to add a facility to the list, while a simple majority of four could remove a proposed base. As in prior closure rounds, neither the President nor Congress would be able to alter the list -- they will only approve or disapprove the entries. Under the bill, closed facilities could be placed on indefinite inactive status.

On December 23, 2003, the Department of Defense announced draft criteria for recommending military installations for closure or realignment. Priority would first be given to military value (criteria 1-4), and then to other criteria (5-8):

1. The current and future mission capabilities and the impact on operational readiness of the Department of Defense's total force, including the impact on joint warfighting, training, and readiness.
2. The availability and condition of land, facilities and associated airspace (including training areas suitable for use of the Armed Forces in homeland defense missions) at both existing and potential receiving locations.
3. The ability to accommodate contingency, mobilization, and future total force requirements at both existing and
4. The cost of operations and the manpower implications.
5. The extent and timing of potential costs and savings, including the number of years, beginning with the date of
6. The economic impact on existing communities in the vicinity of military installations.
7. The ability of both the existing and potential receiving communities' infrastructure to support forces, missions,
8. The environmental impact, including the impact of costs related to potential environmental restoration, waste management, and environmental compliance activities.

disapprove the criteria.

California shouldered a vastly disproportionate share of the impact from the last four rounds of base closures, which were conducted in 1988, 1991, 1993 and 1995. While California began in 1988 with just 15% of the nation's DOD personnel, the state suffered 60% of the nation's net cuts during those base closure rounds.

The Science and Technology (S&T) program at DOD, the Budget request is \$10.5 billion, a 1.6 percent increase over the fiscal 2004 request.

The Budget would provide \$9.2 billion, an increase of \$1.5 billion above fiscal 2004, for missile defense agency activities.. The increase includes \$0.9 billion to continue to field an initial defensive capability for the Ballistic Missile

States from ballistic missile attack is scheduled to be operational by the end of 2004 and, by the end of 2005, is scheduled to include 20 ground-based interceptors, up to 10 sea-based interceptors and upgraded radars and command

In addition, for cruise missile defense, the Budget proposes \$239 million to accelerate the Joint Land Attack Cruise Missile Elevated Netted Sensor System, begin integrating the Surface Launched Advanced Medium-Range Air-to-Air

control capability.

Communications

and track moving ground targets, which will significantly strengthen U.S. intelligence capabilities. It would also provide \$775 million for Transformational Satellite Communications to continue development of a new system based

constraints and enhance interoperability and connectivity to support net-centric operations. A joint tactical radio system would be funded at \$600 million, in order to provide Internet protocol-based, ad-hoc mobile wireless networking

Aircraft

Military aircraft procurement would be increased somewhat by the President's Budget proposal, with reductions in Army and Navy aircraft purchases more than offset by a large increase in Air Force purchasing.

For Navy aircraft procurement, the Budget proposes \$8.768 billion, a reduction from \$9.165 in combined appropriations in 2004. Aircraft procurement by the Army would also decline, from \$2.137 billion to \$1.831 billion. Air Force aircraft procurement, on the other hand, would increase by more than \$1 billion, to \$13.163 billion from \$12.023 billion.

Navy totals include a \$53 million reduction to \$2.9 billion in funding for the F/A-18E/F Superhornet fighter program. In Air Force funding, the Budget assumes purchase of 24 F-22 Raptor fighters with a \$3.6 billion spending total (a \$12 million increase from 2004 levels). The C-17 Globemaster cargo jet would be slated for an increase of \$423 million, to \$2.5 billion, enough to increase the purchase total from 11 planes in 2004 to 14 planes in 2005. In addition, the Budget proposes Joint Strike Fighter (JSF) funding of \$4.6 billion. Documents state that the program is being restructured "to provide for cost growth in its system development and demonstration (SDD) phase, with a total cost estimate for SDD increasing from \$33.0 billion to \$40.5 billion."

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)

The Budget proposes to increase spending for NASA. California typically receives a large share of NASA spending, at times in excess of one fourth. NASA spending is allocated between two major account areas. However, the Budget proposes significant changes in NASA sub-accounts, making program by program comparisons somewhat difficult. The Budget would eliminate the Space Launch Initiative.

Exploration, Science and Aeronautics

The Budget proposes to reduce budget authority for NASA's exploration, science and aeronautics accounts by \$153 million, from \$8.5 billion to \$8.4 billion, and discretionary appropriations from \$7.8 billion to \$7.7 billion. However, because of the reprogramming of unobligated balances carried forward from 2004, the budget states that total obligations for 2005 would rise from \$8.1 billion to \$8.4 billion. Within the exploration, science and aeronautics account area, the budget assumes an increase in Space science from \$3.8 billion to \$4.1 billion and an increase for biological and physical research from \$936 million to \$1.045 billion. Several accounts are reduced, including earth science from \$1.532 billion to \$1.492 billion, aeronautics from \$983 million to \$925 million, and education from \$215 million to \$171 million.

There is concern that NASA restructuring plans would move some space research work from California sites such as NASA Ames Research Center to facilities in Alabama, Mississippi, Texas and other sites.

At NASA, a 13% R&D increase (from \$1.65 billion to \$1.85 billion) would be slated for a new R&D account entitled "Exploration Systems and Crosscutting Technology" (which would combine space launch initiative, mission and science measurement technology, and integrated technology transfer partnerships). However, the Aeronautics Technology research account at NASA would be cut 11%, from \$1.03 billion to \$919 million, and biological and physical research would reduce 8%, from \$1.6 billion to \$1.5 billion.

Exploration Capabilities (formerly Space Flight)

The newly renamed Exploration Capabilities account area would see more than a \$1 billion increase, growing from \$7.5 billion to \$8.5 billion. Within this account area, the budget anticipates spending \$6.634 billion for space flight (up from \$5.581 billion) and \$1.842 billion for exploration systems (up from \$1.564 billion).

DEPARTMENT OF ENERGY

DOE Office of Science

The Budget would very slightly reduce spending for the DOE Office of Science, from \$3.451 billion to \$3.431 billion.

Fusion energy sciences - The fusion program -- which seeks to advance plasma science, fusion science, and fusion technology -- would remain level at \$264 million in the Budget proposal (California wins the lion's share of federal fusion science spending).

The Budget includes \$38.0 million for the DOE to prepare for participation in the International Thermonuclear Experimental Reactor (ITER) program. Without specifying amounts, the Budget notes support of "basic research in plasma science in partnership with NSF, plasma containment research, and investigation of tokamak alternatives, along with continued operation of DIII-D, Alcator C-Mod, and the National Spherical Torus Experiment." The DIII-D program is run by General Atomics in San Diego.

Regarding inertial confinement fusion, the budget states, "The inertial fusion energy activity will be refocused around the scientific goals of high energy density plasma physics. Theory and modeling efforts will be supported to develop a predictive capability for the operation of fusion experiments. Enabling technology research will also be conducted in support of the science experiments."

Other DOE Office of Science Programs - The DOE Office of Science account also includes nearly level funding of \$737 million for high energy physics programs (language specifically notes that the B-Factory at Stanford would be supported with these funds), \$401 million (up from \$391 million) for nuclear physics programs, level funding of \$204 million for Advanced Science Computing Research (ASCR, which supports advanced applied mathematics, computer science, and networking), and a \$50 million increase (to \$1.064 million) for basic energy sciences (BES). Within BES, the Budget asks that \$209 million be used for the multi-agency national nanotechnology program, which includes project engineering and design at four laboratories, including Lawrence Berkeley lab. The request also includes \$30 million to initiate long lead procurement activities for the Linac Coherent Light Source at the Stanford Linear

Accelerator Center, and it urges that \$29.2 million be used for hydrogen and fuel cell research as part of the President's Hydrogen Initiative.

One DOE Office of Science account would be sharply reduced – biological and environmental research would fall from \$644 million to \$502. Within this item, the request asks that \$67.5 million of funds be used for the Genomics: GTL project.

Energy Supply

The Budget includes a variety of items under energy supply, including an increase from \$82 million to \$95 million for hydrogen technology, a slight drop from \$83 million to \$80 million for solar energy, and near level funding of \$42 million for wind energy, a reduction from \$90 million to \$73 million for biomass, and level funding of \$26 million for geothermal energy. In non-renewable energy accounts, the Budget proposes a reduction from \$310 million to \$299 million for nuclear energy R&D, and slight increases for electric transmission and distribution (from \$88 million to \$91 million) and environment safety and health (from \$24 million to \$30 million).

Within a slightly reduced Energy Conservation account, the Budget proposes increases for fuel cell technologies and weatherization assistance grants, accompanied by reductions in vehicle technologies, state energy program grants, and other accounts.

National Nuclear Security Agency (NNSA)

For DOE weapons activities, the Budget proposes an increase from \$6.273 billion to \$6.568 billion. The Administration anticipates a 2005 spending reduction from \$1.76 billion to \$1.41 billion for directed stockpile work (which maintains specific weaponry), level funding of \$2.4 billion for campaigns (which focuses on scientific, technical and engineering efforts to maintain other stockpile elements and technical capability in the absence of nuclear testing), and a reduction from \$1.61 billion to \$1.47 billion in the “readiness in technical base and facilities” account. Increases are proposed for secure transportation, and for facilities and infrastructure recapitalization. The safeguards and security account, which provides for security at Lawrence Livermore National Laboratory (LLNL) and other NNSA sites, would increase from \$557 million to 677 million, and the Budget proposes a new \$100 million account for nuclear weapons incident response. The Budget anticipates nearly level funding of \$2.15 billion for accelerated completion of several DOE sites slated for cleanup by 2012, which includes activities at LLNL.

Other Provisions

Western Power Administration - Under the power marketing administrations section, the Budget proposes \$5.5 million for three substation rehabilitation effort starts, including one at establishing a new 230-kV TL connection at Trinity County power plant and acquisition and/or modification of Cottonwood and Round Mountain Substations. The latter start would be provided \$3.2 million, but only upon a finding of the venture's appropriateness, which has been questioned by some.

Elk Hills School Lands - the Budget states: “Under the settlement agreement . . . , 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. The FY 2004 advance appropriation of \$36,000,000 for the sixth payment in 2005 is in keeping with the revised equity finalization schedule. The 2005 Budget does not propose any new appropriation. In light of the delays in equity finalization, the Department expects to consult with the State of California in calendar year 2004 to discuss a revised payment schedule.”

NATIONAL SCIENCE FOUNDATION

The Budget requests \$5.7 billion in new discretionary funding for FY2005. Overall NSF's budget has increased 21 percent since 2001.

Two top priority areas for FY05 are the National Nanotechnology Initiative, funded at \$305 million, a 20-percent increase over 2004, and Networking and Information Technology R&D, funded at \$760 million, a four-percent increase over 2004. Since 2001, NSF funding for nanoscale science and engineering has increased by 104 percent, from \$150 million to the \$305 million proposed in 2005.

In other program areas, the biological sciences funding would increase to \$600 million from the FY04 estimate of \$587 million; computer information science and engineering would go to \$618 million from the FY04 estimate of \$606 million; engineering would rise from \$565 million in FY04 to \$576 million in FY05; and geosciences would increase from \$713 million in FY04 to \$728 million in FY05.

ENVIRONMENTAL PROTECTION AGENCY

The President's 2005 Budget calls for total discretionary authority of \$7.8 billion to cover EPA operations and activities, as compared to \$8.4 billion enacted in the 2004 Omnibus Appropriations measure.

Environmental Programs and Management expenditure levels are set at \$2.3 billion under the new budget to support five core EPA goals and their corresponding agency programs: clean air; clean water; land preservation and restoration; healthy communities and ecosystems; and compliance and environmental stewardship.

The President's Budget calls for \$3.232 billion in State and Tribal Assistance grants, of which \$850 million is assigned to the Clean Water State Revolving Fund to provide capitalization grants available to states. As well, \$850 million is provided to fund Drinking Water State Revolving Fund capitalization grants. The Global and Cross-Border program is funded at \$50 million in FY2005 (\$7 million above the FY'04 level). This program assists US-Mexico border states with the construction of high priority water and wastewater facilities to manage untreated, industrial and municipal sewage. \$1.252 billion of State and Tribal Assistance funds are dedicated to assisting states, tribes and interstate agencies with air pollution control and abatement activities.

The Budget requests no specific earmark to fund Brownfields cleanup and revitalization of contaminated sites throughout the US, although it notes that Brownfields program administrative costs are authorized under programs and management funds.

The 2005 Budget requests \$1.38 billion for general fund payments to the "Superfund" to cleanup hazardous waste sites, as compared to \$1.27 billion appropriated in 2004.

DEPARTMENT OF LABOR

The Budget proposes \$11.9 billion for Department of Labor programs that finance job training and related services.

Training and Employment

The Administration budgets \$5.922 billion for Training and Employment activities, much of it would fund Workforce Investment Act (WIA) programs. The 1998 Act, currently awaiting Congressional reauthorization, is meant to revitalize national job training and to inform, advise, assist, and train the workforce so that laborers may acquire and retain good jobs. The Bush Administration in its WIA reauthorization plan proposes restructuring the formula grant component of the program to consolidate the Adult Dislocated Worker and Employment Services State grants into a single block grant thereby improving state flexibility, added coordination and reduced duplication of adult services. For youth grants, all formula funds will be directed to out of school programs to prohibit administrative overlap with the Department of Education. If and when this legislative proposal succeeds, the President's FY 2005's Budget proposes \$1.186 billion to fund consolidated grants to adults and \$776 million for youth-related activities.

Welfare-to Work Jobs

This program, enacted by the Balanced Budget act of 1997, provides formula grants to states to assist hard to employ welfare enrollees. \$2 million in mandatory outlays is identified for this program in the Budget while its estimated 2004 appropriation is noted as \$181 million.

Unemployment Administration

\$2.711 billion is recommended for this account in FY 2005. The Budget proposes the consolidation of the Employment Services Grants to States and the Adult and Dislocated Worker programs into a single block grant, hence it assumes the transfer of \$696 million in Grants to States from the Unemployment Administration to the Training and Employment Services account. Budget language pledges forthcoming legislation that would establish new user fees under the permanent labor certification program.

Occupational Safety and Health Administration

The Administration's budget provides \$462 million for the Occupational Safety and Health Administration of which \$92 million is available to states in the form of grants.

DEPARTMENT OF VETERANS AFFAIRS

Among the Department of Veterans Affairs benefits available to veterans are health care, monthly disability payments, education assistance, life insurance, home loans, and vocational rehabilitation and employment services. The 2005 Budget appropriates \$29.7 billion for VA discretionary activities, \$519 million above the levels enacted in the previous budget. \$27,051,893,000 is requested to fund medical programs, \$347 million more than the 2004 enacted amount. Of this amount, \$661 million is allotted to finance capital investments known as major and minor construction projects, including Capitol Asset Realignment for Enhanced Services (CARES) projects. This total represents an estimated \$180 million increase from the 2004 budgeted amount for major and minor construction.

The Administration is proposing the establishment of a \$250 fee to cover health care costs of veterans seeking medical care.

Administrative Provisions: Section 119 of this section authorizes VA to expend unobligated balances of the funds originally appropriated to Medical Care for emergency expenses resulting from the January 1994 earthquake in Southern California in Public Law 103-211, Emergency Supplemental Appropriations Act of 1994, for the same purposes of the Medical Care account, to remain available until expended.

GENERAL SERVICES ADMINISTRATION

Though this agency is provided only \$232 million in budgetary authority, the rest of its \$24 billion budget is covered by revenue generated from rent receipts from government owned and leased buildings, services, and the sale of goods, according to GSA officials.

New Construction

The Administration's 2005 Budget includes funding for the new construction of the following federal buildings in California:

- \$14,054,000, Federal Bureau of Investigation Facility, Los Angeles
- \$314,385,000, United States Courthouse, Los Angeles
- \$3,068,000, United States Courthouse, San Diego

Of 29 major repair and alteration appropriations projects totaling \$987 million, California is budgeted zero funds in the 2005 Administration Budget plan.

CORPS OF ENGINEERS

The Budget proposal requests \$4.215 billion in new Federal funding for the Civil Works program of the U.S. Army Corps of Engineers (Corps). The new budget consists of \$3.303 billion from the federal general fund, \$610 million from the Harbor Maintenance Trust Fund, \$115 million from the Inland Waterways Trust Fund, \$37 million from

Special Recreation Use Fees, and, under proposed legislation, \$150 million from the direct financing of hydropower operation and maintenance costs by three Federal power marketing administrations.

The new funding would be distributed as follows: \$1.926 billion for Operation and Maintenance; \$1.4215 billion for Construction; \$270 million for Flood Control, Mississippi River and Tributaries; \$167 million for General Expenses; \$150 million for the Regulatory Program; \$140 million for the Formerly Utilized Sites Remedial Action Program; \$90.5 million for General Investigations; and \$50 million for Flood Control and Coastal Emergencies.

The Corps allocates funding in FY05 to the following California projects:

- Aliso Creek Mainstem, \$265,000
- American River Watershed (Folsom Dam Modifications), \$6,175,000
- American River Watershed, \$415,000 for preconstruction engineering and design, \$5,000,000 for construction
- Arana Gulch Watershed, \$100,000
- Black Butte Lake, \$1,882,000
- Buchanan Dam, H V Eastman Lake, \$1,958,000
- California Coastal Sediment Master Plan, \$32,000
- Channel Islands Harbor, \$4,985,000
- Coyote Dam, \$200,000
- Coyote Valley Dam, Lake Mendocino, \$4,348,000
- Dry Creek (Warm Springs) Lake And Channel, \$4,779,000
- Farmington Dam, \$526,000
- Guadalupe River, \$6,000,000
- Hamilton Airfield Wetlands Restoration, \$5,100,000
- Hidden Dam, Hensley Lake, \$1,828,000
- Humboldt Harbor And Bay, \$2,864,000
- Inspection of Completed Works, \$1,271,000
- Isabella Lake, \$2,080,000
- Kaweah River, \$5,624,000
- Laguna De Santa Rosa, \$200,000
- Los Angeles Long Beach Harbor Model, \$175,000
- Los Angeles County Drainage Area, \$5,376,000
- Los Angeles County Drainage Area, Cornfields, \$32,000
- Los Angeles County, \$630,000
- Los Angeles Harbor Main Channel Deepening, \$23,000,000
- Lower Cache Creek, Yolo County, Woodland And Vicinity, \$300,000
- Malibu Creek Watershed, \$325,000
- Marina Del Rey And Ballona Creek, \$175,000
- Martis Creek Lake, NV & CA, \$612,000
- Marysville/Yuba City Levee Reconstruction, \$3,686,000
- Matilija Dam, \$375,000
- Merced County Streams, \$292,000
- Midvalley Area Levee Reconstruction, \$2,300,000
- Mojave River Dam, \$328,000
- Mugu Lagoon, \$140,000
- Napa River, \$7,000,000
- Napa Valley Watershed Management, \$200,000
- New Hogan Lake, \$2,044,000
- New Melones Lake, Downstream Channel, \$1,335,000
- Oakland Harbor (50 Foot Project), \$20,000,000
- Oakland Harbor, \$7,098,000
- Ocean Beach, \$200,000
- Oceanside Harbor, \$1,110,000
- Pajaro River at Watsonville, \$400,000
- Petaluma River, \$3,404,000
- Pine Flat Lake, \$2,941,000
- Poso Creek, \$200,000
- Project Condition Surveys, \$2,173,000
- Richmond Harbor, \$7,572,000
- Russian River Ecosystem Restoration, \$200,000
- Sacramento-San Joaquin Delta, \$200,000
- Sacramento And San Joaquin Comprehensive Basin Study, \$500,000
- Sacramento River (30 Foot Project), \$2,745,000
- Sacramento River And Tributaries (Debris Control), \$1,246,000
- Sacramento River Bank Protection Project, \$1,000,000
- Sacramento River Shallow Draft Channel, \$145,000
- San Bernardino County, \$100,000

- San Clemente Shoreline, \$178,000
- San Francisco Bay, Delta Model Structure, \$1,277,000
- San Francisco Harbor And Bay (Drift Removal), \$2,674,000
- San Francisco Harbor, \$2,255,000
- San Joaquin RB, West Stanislaus County, Orestimba Creek, \$200,000
- San Joaquin River Basin, Frazier Creek, \$130,000
- San Joaquin River Basin, Tuolumne River, \$200,000
- San Pablo Bay Watershed, \$300,000
- Santa Ana River And Tributaries, Big Bear Lake, \$1,000,000
- Santa Ana River Basin, \$4,023,000
- Santa Ana River Mainstem, \$13,200,000
- Santa Rosa Creek Ecosystem Restoration, \$500,000
- Scheduling Reservoir Operations, \$1,285,000
- Sonoma Creek And Tributaries, \$274,000
- South Sacramento County Streams, \$1,000,000
- Southern California Wetlands Restoration, \$100,000
- Success Dam, Tule River (Dam Safety), \$4,000,000
- Success Lake, \$2,007,000
- Suisun Bay Channel, \$4,559,000
- Sutter County, \$275,000
- Terminus Dam, Lake Kaweah, \$2,268,000
- Tule River, \$3,500,000
- Upper Penitencia Creek, \$46,000
- Upper Sacramento Area Levee Reconstruction, \$2,400,000
- Ventura Harbor, \$2,910,000
- Walnut Creek Basin, \$300,000
- Westminster, Coyote And Carbon Canyon Creek Watersheds, \$122,000
- Westminster, East Garden Grove, \$416,000
- White River And Deer Creek, \$100,000
- Wildcat And San Pablo Creeks, \$100,000
- Yuba River Basin, \$100,000
- Yuba River, \$126,000

For further details regarding these projects, or to view a state-by-state tabular breakdown of all Corps FY05 projects, go to <http://www.usace.army.mil/civilworks/cecwb/budget/budget.pdf>.

TAX PROPOSALS

The Budget includes several tax proposals, including making permanent the tax cuts enacted in 2001 and 2003. These include permanently extending the reduction in individual tax cuts, making the capital gains 15 percent rate (5 percent for lower income taxpayers) permanent; and making permanent the \$100,000 expensing limit for small businesses.

In addition, the President proposes establishing two new tax-free savings accounts – the Lifetime Savings Account (LSA) and the Retirement Savings Account (RSA). Regardless of age or income, taxpayers could make annual nondeductible contributions of \$5,000 to either an LSA or RSA. As tax would be paid on contributions, distributions from an LSA would be excluded from income. However, the distributions could be made at any time, for any purpose, without penalty, unlike current restrictions on IRA and other tax-free savings distributions. RSA distributions would be excluded from income after the taxpayer reaches age 58, or in the event of death or disability. Existing Roth IRAs would be renamed RSAs and would be subject to the new RSA rules. Traditional and nondeductible IRAs could be converted into an RSA by including the conversion amount in gross income. Taxpayers could spread the conversion amounts over several years to spread out their increase in taxes. Other rules would also apply.

The President also calls for consolidating all employer-based savings accounts (e.g. 401(k), 403(b), and 457 plans) into one Employee Retirement Savings Accounts (ERSA). ERSA non-discrimination rules would be simpler, according to the Budget, than current non-discrimination rules and would include a new non-discrimination safe-harbor. Under one of the safe harbor options, outlined in the Budget, a plan would satisfy non-discrimination with respect to employee deferrals and employee contributions if it provided a 50-percent match on elective contributions up to six percent of compensation.

The Budget also proposes a refundable tax credit or the purchase of health insurance, as well as several other proposals related to health care insurance and costs. Among several proposals relating to charitable contribution, deductions would be allowed for nonitemizers, and tax-free withdrawals from IRAs could be made for charitable contributions.

Extend Permanently the Research and Experimentation (R&E) Tax Credit - The Administration proposes to extend permanently the 20-percent tax credit for qualified research and experimentation expenditures above a base amount and the alternative incremental credit, which are scheduled to expire on June 30, 2004. In addition, the Budget states that “the Administration is concerned that features of the R&E credit may limit its effectiveness in encouraging taxpayers to invest in R&E. Consequently, the Treasury Department has been directed to study how the credit can be

restructured to make it more effective. The Administration will work closely with the Congress to develop and enact reforms to rationalize the R&E credit and to improve its incentive effect.”

Extend and Modify the Work Opportunity Tax Credit and the Welfare-to-Work Tax Credit - Under present law, the work opportunity tax credit and the welfare-to-work tax credit are available for a qualified individual who begins work before January 1, 2004. The Administration proposes to simplify employment incentives by combining the credits into one credit and making the rules for computing the combined credit simpler. The newly proposed, modified work opportunity tax credit would apply retroactively (provided specified filing deadlines are met) to individuals who begin work after December 31, 2003 and before January 1, 2006.

In other areas, the President would extend permanently the expensing of brownfields remediation costs and provide energy production and conservation incentives.

The Budget makes various assumptions regarding lost revenues due to waivers and other shifts. It assumes that the federal government will forego \$123 million in 2004 and \$65 million in 2005 due to the a Medicaid waiver that has been granted to Los Angeles County, and a Medicaid family planning waiver for California will shift \$159 million for 2004 and \$27 million for 2005. Likewise, an SCHIP waiver for California assumes that federal government revenues will decline by \$466 million in 2004, \$487 million in 2005, and \$337 million in 2006.

Debt Interest

The Budget assumes that the federal government will in effect spend \$371.1 billion in 2005 for interest payments on the national debt, down from \$507.2 billion in 2004.

CROSS-CUTTING AREAS: RESEARCH & DEVELOPMENT

Generally, the Budget proposes to increase R&D nationwide by \$5.9 billion (5%), from \$126 billion to \$132 billion. More than half of the nation's R&D expenditures are made by the Department of Defense, which would receive a \$4.4 billion (7%) increase, so combined non-defense R&D spending would increase by \$1.5 billion (3 percent). The defense R&D increase falls entirely in the “D” side ... defense research would actually decline by 11% (\$660 million), from \$5.8 billion to \$5.2 billion, whereas DOD development spending would increase 8% (\$5 billion), from \$59.6 billion to \$64.6 billion.

HHS would receive most of that non-defense increase, with other winners – a total of \$1.1 billion (4%) more – with other increases slated for NASA (up \$415 million or 4% to \$11.3 billion), Department of Homeland Security (up \$163 million or 15% to \$1.2 billion), and the National Science Foundation (up \$137 million or 3% to \$4.3 billion).

R&D Reductions are proposed for the Department of Agriculture (down \$203 million or 9% to \$2.1 billion), Commerce (down \$51 million or 5% to \$1.1 billion), Veterans Affairs (down \$51 million or 6% to \$772 million), and Interior (down \$27 million or 4% to \$648 million). Separately, on the Science and Technology side of Interior ledger, research at the U.S. Geological Survey would fall \$18 million, from \$938 million to \$920 million).

Some multi-agency R&D programs would receive budgetary changes, such as the National Nanotechnology Initiative (NNI), which would increase 3% from \$864 million to \$886 million.

At NASA, a 13% R&D increase (from \$1.65 billion to \$1.85 billion) would be slated for a new R&D account entitled “Exploration Systems and Crosscutting Technology” (which would combine space launch initiative, mission and science measurement technology, and integrated technology transfer partnerships). However, the Aeronautics Technology research account at NASA would be cut 11%, from \$1.03 billion to \$919 million, and biological and physical research would reduce 8%, from \$1.6 billion to \$1.5 billion.

CROSS CUTTING AREAS: FORMULA AND COMPETITIVE GRANTS

The Budget assumes that the federal government will spend \$416.5 billion in outlays for grants in aid to state and local governments in fiscal year 2005, a slight reduction from \$418.1 billion in 2004. In budget authority, the corresponding predicted figures are \$403 billion for 2005 and \$418.1 billion for 2004.

Although such forward-looking estimates are highly speculative, the Budget attempts to make 2005 spending estimates for 26 grant programs, which account for 80 percent of total grant spending.

For these 26 formula grant programs, the Budget estimates total spending obligations of \$333.6 billion nationwide, with California to receive \$39.2 billion, or 11.76% of the nation's total.

Program	CA 2004	CA 2005	CA % (2005)
Medicaid Grants to States	18,425	18,215	9.95
Highway Planning & Construction	2,960	2,991	9.34
TANF	3,683	3,683	21.37
Title I - Education for the Disadvantaged	1,978	1,893	14.19
Special Education Grants to States	1,093	1,185	10.73
Head Start	825	832	12.10
School Lunch	898	920	13.56
Foster Care	1,374	1,412	29.08
WIC (Women Infants & Children)	836	850	17.70

SCHIP (child health insurance)	534	687	16.82
Food Stamp matching	338	345	14.50
Vocational Rehabilitation	245	255	9.46
Child Support Enforcement	859	862	19.64
LIHEAP	81	81	4.50
CCDBG	236	237	11.31
CCDF mandatory	86	86	6.93
CCDF matching	195	195	13.13
Public Housing operations	130	130	3.62
Public Housing capital	160	129	5.18
Housing choice	2,750	2,513	18.84
CDBG Entitlement	503	503	16.62
CDBG Discretionary	50	50	3.82
Airport Improvement	270	273	8.70
Transit Fixed Guideway	141	203	12.41
Transit Urbanized Formula	608	273	17.08
Transit Formula and Research combined	--	442	17.08
<i>DATA SOURCE: President's Budget Request, Fiscal Year 2005</i>			

For additional information or clarification, contact the California Institute for Federal Policy Research at 202-546-3700, by fax at 202-546-2390, by email at ransdell@calinst.org or on the web at <http://www.calinst.org>