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FY 2013 Budget Proposal in Detail

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President Obama's FY 2013 budget proposal includes recommendations for up to $3.8 trillion in spending for FY 2013, up from an estimated $3.79 trillion in FY 2012. The administration's budget also includes reauthorization proposals for surface transportation and K-12 education.

While the president's proposal does provide insight into the administration's priorities for FY 2013, the funding recommendations are only suggestions for Congress to consider. Congress has the ability to restructure the president's suggested funding levels during the appropriations process.

As Holland & Knight monitors the congressional hearings on the FY 2013 budget proposal, contact your local Holland & Knight representative with any questions.

I. Defense

The FY 2013 budget request for the Department of Defense (DoD) is $613.9 billion. This includes $525.4 billion for the baseline request and $88.5 billion for overseas contingency operations that support deployed military forces, mostly Operation Enduring Freedom in Afghanistan. The total proposed budget for FY 2013 is $31.8 billion less than FY 2012-enacted levels, with most of the savings coming from the overseas contingency operations account. Compared to FY 2012-enacted levels, $5.2 billion in reductions is proposed for the FY 2013 baseline budget.

Within the FY 2013 baseline budget, $178.8 billion is recommended for the development and purchase of new weapons and technology, including $109.1 billion for procurement and $69.7 billion for research and development. Of the $178.8 billion, $72.3 billion is for major defense acquisition programs. DoD plans to invest $300 million in the development of the next-generation

bomber, $100 million to develop increased cruise-missile capacity for future Virginia-class submarines and $1.8 billion to upgrade tactical sensors and other electronic warfare equipment.

In FY 2013 – FY 2017, the president's proposed DoD budget would reduce existing programs to garner $75 billion in savings. Highlights of the proposed savings include cuts to:

- the F-35 Joint Strike Fighter program ($15.1 billion)
- Navy shipbuilding ($13.1 billion)
- the Army's Ground Combat Vehicle ($1.3 billion)

Conversely, the budget request includes new investments in:

- special operations forces ($10.4 billion)
- unmanned air systems ($3.7 billion)
- cyber capabilities ($3.4 billion)
- missile defense ($9.7 billion)
- space initiatives ($8 billion)
- the new Air Force tanker program ($1.8 billion)
- science and technology ($11.9 billion)

Other program funding levels included in President Obama's FY 2013 DoD budget include:

- $20 billion in contracts to be awarded in Afghanistan to improve contingency contracting
- $2.2 billion for audit and contract management oversight
- $274.2 million for the Defense Acquisition Workforce Development Fund
- $48.7 billion for the DoD Unified Medical Budget to support the Military Health System (MHS) (the MHS currently has 9.6 million eligible beneficiaries)
- $8.5 billion for family support programs, including: childcare; local education schools; spouse employment; morale and recreation
- $179 million for the Task Force for Business Stability Operations, which supports the mission in Afghanistan to reduce violence, enhance stability and restore economic normalcy in areas where insurgency has created a downward economic spiral
- $508 million for the operation of the Office of Security Cooperation — Iraq (OSC-I) — which helps build partnership capacity in the Iraqi Security Forces (ISF)

II. Education

The FY 2013 budget request for the Department of Education totals $69.8 billion in discretionary funds, an increase of $1.7 billion, or 2.5 percent, more than the president's FY 2012 request. In his budget, the president proposes a $14 billion, one-time strategic investment in key reform areas, including aligning education programs with workforce demands, raising interest in the teaching profession, and increasing college affordability and quality. The proposal also consolidates 38 Elementary and Secondary Education Act (ESEA) programs into 11 competitive grant programs to simplify program structure and streamline funding processes. In higher education, the budget recommends making permanent the American Opportunity Tax Credit (AOTC), a partially refundable tax credit worth up to $10,000 per student over four years of college. Below is an outline of other suggested funding levels for key K-12 and higher education programs.

K-12 Funding

- $14.5 billion in level funding for Title I grants to school districts
- $850 million for Race to the Top, compared to $550 million enacted in FY 2012
- $100 million for Promise Neighborhoods
- $534 million for School Turnaround Grants, maintaining FY 2012-enacted levels
- $427 million for the Effective Teaching and Learning (Literacy, STEM and Well-Rounded Education) program, compared to $362 million enacted in FY 2012
- $150 million for Investing in Innovation (i3), maintaining FY 2012-enacted levels
- $2.9 billion for Excellent Instructional Teams (Effective Teachers and Leaders, Teacher and Leader Innovation Fund and Teacher and Leader Pathways), compared to $2.86 billion in FY 2012
- $255 million for the Expanding Educational Options program, maintaining FY 2012-enacted levels
- $260 million in funding for science, technology, engineering and mathematics (STEM) programs

Higher Education Funding

- $1 billion in funding for the first year of a Race to the Top: College Affordability and Completion initiative
- $1.1 billion to reauthorize and reform the Career and Technical Education program
- $5,635 maintained as the maximum Pell Grant award through the 2014–2015 award year
- $8 billion for a new initiative, Community College Partnerships, designed to improve access to job training
- $81 million for the College Pathways and Accelerated Learning program, compared to $76 million enacted in FY 2012
- $302.2 million for Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR UP), the same as the 2012 level
- $839.9 million for federal TRIO programs, the same as the 2012 level, to maintain services to help disadvantaged students enroll in and complete college
- $55.5 million for a “First in the World” competition among colleges and universities to develop, test and scale up effective approaches to education, including a reservation of up to $20 million within the fund for projects involving Minority-Serving Institutions

III. Energy

The president's proposed FY 2013 Department of Energy (DOE) budget provides $27.2 billion in discretionary funds, a 3.2 percent increase above the 2012 enacted level. The administration's budget includes funding for a host of priorities that range from renewable energy to biological research. Below is a brief synopsis of the proposed DOE budget:

Energy Efficiency and Renewable Energy (EERE)

EERE, which supports clean energy research, development, demonstration and deployment, requested $2.34 billion for FY 2013, representing a $527.4 (29.1 percent) increase over FY 2012 levels. Highlights include:

- $270.0 million for biomass and biorefinery RD&D, a $70.7 million (35.5 percent) increase
- $65.0 million for geothermal technologies, a $27.1 million (71.7 percent) increase

- $80.0 million for hydrogen and fuel cells, a $23.6 million (22.8 million) decrease
- $20.0 million for water power, a $38.8 million (66 percent) decrease
- $310.0 million for solar energy, a $21 million (7.3 percent) increase
- $95.0 million for wind energy, a $1.7 million (1.9 percent) increase
- $290.0 million for advanced manufacturing, a $174 million (150.9 percent) increase
- $420.0 million for vehicle technologies, a $91.2 million (27.7 percent) increase
- $195.0 million for weatherization and intergovernmental activities, a $67 million (52.3 percent) increase

The monies allocated here will fund key departmental priorities, including the SunShot initiative, a Critical Materials Energy Innovation Hub, along with biofuels and vehicle technologies programs.

Advanced Research Projects Agency — Energy (ARPA-E)

ARPA-E, which focuses on high-risk, high-impact innovation, requested $350.0 million in FY 2013 funding, a $75.0 million (27.3 percent) increase over FY 2012 levels. The program has identified the following areas as funding priorities for FY 2013:

- transportation systems, including batteries, natural gas and drop-in biofuels
- stationary power systems

Clean Energy Tax Credits

The budget request includes $5 billion for a competitively awarded tax credit for investments in advanced energy manufacturing facilities. This is to supplement the $2.3 billion that was awarded through the American Recovery and Reinvestment Act in 2009.

The renewable energy production tax credit is extended for wind and other facilities placed in service before 2014. The current credit stipulates that facilities must have commenced construction in 2011 and be placed in service by the end of 2012. Further, the 1603 grant program would be extended.

The proposal would make the Research & Experimentation (R&E) tax credit permanent and increase the rate of the alternative simplified research credit from 14 percent to 17 percent, effective after December 31, 2011.

As part of the Better Buildings Initiative, the budget request includes replacing the existing deduction for energy efficient commercial building property with a tax credit equal to the cost of property that is certified as being installed. This is part of a plan designed to reduce the total annual energy and power costs with respect to the interior lighting, heating, cooling, ventilation and hot water systems of the building by 20 percent or more.

Natural Gas Vehicle Credits

The administration proposes extending a 50 percent credit of medium- and heavy-duty natural gas and other alternative fuel vehicles to January 1, 2019. The credit would be $25,000 for vehicles between 14,000 and 26,000 pounds, and $40,000 for vehicles weighing more than 26,000 pounds.

Loan Guarantee Programs

No funding was requested for FY 2013, as authorizations for these programs expired last year. This program was not funded in FY 2012.

Advanced Technology Vehicles Manufacturing Loan Program (ATVM)

ATVM, which manages an $8 billion loan portfolio, requested $9.0 million in FY 2013 to fund administrative expenses. This is $3 million, or 50 percent more than FY 2012. The primary purpose of this increase is to be able to fund new loans up to the program's $25 billion authorization.

Office of Electricity Delivery & Energy Reliability (OE)

OE, which is charged with leading the effort to modernize the electric grid, requested $143.0 million, a $3.9 million (2.8 percent) increase over FY 2012. $20 million of its budget will go to fund a new Electricity Systems Hub, created by Congress last year.

Fossil Energy

The Office of Fossil Energy, which manages the Strategic Petroleum Reserve and conducts research and development on the clean use of fossil fuels, requested $650.8 million, or $86.4 million (15.3 percent) more than FY 2012. Of this, $420.6 million was requested for fossil energy research and development — a 21.3 percent increase over FY 2012.

Natural gas research will receive a slight $2 million bump over its $15.0 million FY 2012 levels, while Carbon Capture and Storage research will decline by $8.5 million to $60.4 million.

Office of Science

The Office of Science supports basic research in areas that include fundamental research in energy, matter, and the basic forces of nature; biological systems; climate change and the environmental consequences of energy production, development and use; fundamental science that supports the foundations for new energy technologies and environmental mitigation; a knowledge base for fusion as a potential future energy source; and advanced computational and networking tools critical to research. The total FY 2013 budget request is $5.0 billion, an increase of $118.4 million, or 2.4 percent over FY 2012.

- Basic Energy Sciences was proposed at $1.80 billion, an increase of $111.5 million (6.6 percent) over FY 2012; this is primarily to continue an Energy Innovation Hub focused on Batteries and Energy Storage, and to purchase lab equipment
- Biological and Environmental Research was proposed at $625.3 million, an increase of $15.8 million (2.6 percent) over FY 2012
- Workforce Development for Teachers and Scientists was proposed at $14.5 million, a $20.4 million (21.6 percent) decrease over FY 2012; funding was rescinded for the Science Graduate Fellowship Program

Nuclear Energy

The Nuclear Energy office, which conducts applied research in advanced reactor and fuel and waste management technologies, requested $770.4 million for FY 2013, which is $88.3 million (10.3 percent) less than FY 2012. Research funding for light water reactors and small modular reactors decreased by $41.2 million, from the $113.9 million the program received in FY 2012.

National Nuclear Security Administration (NNSA)

The NNSA, which manages the nation's nuclear arsenal, requested $11.54 billion for FY 2013, a $535.9 million (4.9 percent) increase over FY 2012.

Oil Subsidies

The proposed DOE budget eliminates more than $4 billion per year in tax subsidies to oil, gas and other fossil fuel producers.

IV. Environment

The president's proposed FY 2013 EPA budget provides $8.3 billion in discretionary funds, a 1.2 percent decrease, or $105 million, below the 2012 enacted level. A budget overview of key programs of interest is provided here:

Stationary Source Regulation

The FY13 budget requests $31.4 million, a $6.8 million increase over FY 2012. The increase will go toward developing New Source Performance Standards for greenhouse gasses and completing a periodic review of other Clean Air Act pollutant standards.

Diesel Emission Reduction Act (DERA) Grants

DERA, which provides grants and loans to improve efficiency in the nation's diesel fleet, requested $15.0 million, or 50 percent less than the $30.0 million FY 2012 level. This comes as EPA seeks to reduce this program's reliance on sustained federal support and transition it to a revolving loan and grant fund.

Air and Radiation Grants

The FY 2013 budget requests $315.1 million, a 22 percent increase, or $58.0 million above 2012 levels, to fund air pollution control efforts. $301.5 million of this request will be in the form of state and local grants to assist with air quality monitoring and pollution regulation efforts. The radon grant program was zeroed out from a 2012 budget of $8.0 million.

Water Grants

The EPA requests $445.2 million in water pollution control and environmental restoration grants, a 4 percent or $17.3 million increase over 2012 levels. Funding for state and local grants to support ongoing pollution control efforts was increased by $26.9 million, to $265.3 million. The $9.9 million beaches protection program was zeroed out.

Water State Revolving Funds

The FY 2013 budget requested $2 billion for ongoing state estuary revitalization and pollution control efforts, a decrease of $359.3 million over FY 2012. $1.175 billion of this will go toward clean water efforts, while $850 million will be dedicated to drinking water efforts.

Brownfields

The FY 2013 budget requests $93 million for brownfields cleanup projects, a $1.6 million decrease from 2012. This funding is expected to support the cleanup of 45 petroleum-contaminated sites, and the assessment of an additional 1,200 brownfields properties.

Superfund

The Superfund program, which helps fund hazardous waste site cleanup efforts, requested $1.18 billion for FY 2013, largely flat with the FY 2012 funding level of $1.21 billion. The minor decrease is due to a reduction in the number of planned new site assessments and will not affect cleanup efforts.

V. Healthcare

The president’s proposed FY2013 budget for the Department of Health and Human Services (HHS) includes a reduction in discretionary funding and legislative proposals that would save an estimated $350.2 billion over 10 years. The budget totals $940.9 billion in outlays and proposes $76.7 billion in discretionary authority.

Prevention and Public Health Fund (PPHF)

The president's proposal calls for a $4 billion cut, starting in FY 2014, to the Prevention and Public Health Fund. The PPHF is a $15 billion, 10-year fund authorized and fully funded as part of the Patient Protection and Affordable Care Act (PPACA) to support evidence-based disease prevention and health promotion interventions and to support state and local health departments. Building on the administration's proposal, “The Middle Class Tax Relief and Job Creation Act of 2012," which passed Congress last week, cuts the PPHF by $5 billion over 11 years.

Centers for Disease Control and Prevention (CDC)

Under the president's proposal, the CDC would have its base funding cut by $664 million, or 11 percent, from the previous year. The CDC provides funds to state and local health departments to carry out a wide array of programs across the country.

Medicare and Medicaid Spending

As part of an overall deficit reduction plan, the president's proposal would require a $360 billion cut in Medicare and Medicaid spending over 10 years. The largest share of the proposed savings — about $155 billion — would come from allowing Medicare to benefit from the same rebates that Medicaid receives for brand-name and generic drugs provided to low-income beneficiaries under Medicare's prescription drug program.

Head Start

The budget requests over $8 billion for Head Start programs, which reflects an increase of $85 million over FY 2012 funding. Head Start currently maintains services for 962,000 children. Head Start provides grants to local public and private non-profit and for-profit agencies to provide comprehensive child development services to economically disadvantaged children and families, with a special focus on helping preschoolers develop the early reading and math skills they need to be successful in school.

National Institutes of Health (NIH)

The president's proposal would maintain funding for the NIH at $31 billion while implementing new grant management aimed at increasing the number of new research grants awarded, and to continue to focusing resources for first-time grantees.

Ryan White HIV/AIDS

The budget proposal includes $3.3 billion for domestic HIV/AIDS activities for people living with HIV/AIDS in the United States, including adherence to medications and support prevention programs in states and communities. This total includes $1 billion (an increase of $67 million) to increase access to the AIDS Drug Assistance Program, and $236 million (an increase of $20 million) to support care provided by HIV clinics across the country.

Low Income Heating Assistance Program (LIHEAP)

The president’s budget also calls for essentially a $452 million cut in LIHEAP, to $3 billion.

Community Services Block Grant program (CSBG)

The administration proposes to reduce the funding for CSBG to $350 million. In addition, it proposes restructuring CSBG into a competitive program. The funding goes to support senior programs, nutrition programs, childcare and other support for low-income individuals.

VI. Housing

The president's FY 2013 budget proposes $44.8 billion in new discretionary budget authority for the Department of Housing and Urban Development (HUD), an increase of 3.2 percent, or $1.4 billion,

above the 2012 program funding level. Increases would go to protect vulnerable families, revitalize distressed neighborhoods and advance investments in sustainable development. Savings are created through measured reforms to the Department's rental assistance programs without reducing the number of families served.

Public Housing Operating Fund

This program would be increased by $562 billion, from $3.962 billion to $4.524 billion in FY 2013.

Public Housing Capital Fund

This fund would be increased to $2.07 billon, compared to $1.875 billion in FY 2012. Of the amount requested, more than $1.9 billion will fund capital grants to Public Housing Authorities (PHAs). The balance includes up to $50 million for a Jobs-Plus pilot, $15 million for public housing financial and physical assessment support, up to $20 million for emergency capital needs resulting from non-presidentially declared emergencies and natural disasters, and up to $5 million for administrative and judicial receiverships.

It's important to note that the administration proposes to combine the separate Operating Fund and Capital Fund programs into a single Public Housing subsidy stream. The proposed merger will complete the transition of Public Housing to asset management and is designed to simplify the program and reduce administrative burden on PHAs. Also, in 2013 HUD will begin implementation of the Rental Assistance Demonstration (RAD) authorized by the Consolidated and Further Continuing Appropriations Act of 2012 (P.L. 112–55). RAD provides PHAs and other owners of rental properties assisted under the Public Housing, Section 8 Moderate Rehabilitation, Rent Supplement and Rental Assistance Payment programs provide the option to convert the assistance on their properties to long-term Project-Based Rental Assistance (PBRA) or Project-Based Voucher contracts. The budget reflects a total estimated transfer of $46 million from the Capital Fund (in addition to $102 million from the Operating Fund) to the PBRA and Tenant-Based Rental Assistance accounts to support the conversion of approximately 48,000 Public Housing units in 2013. There is concern that simplifying the programs into one funding stream may make the program a target for cuts during the appropriations process, resulting in less overall funding for capital and operating funds.

Homeless Assistance Grants

Homeless assistance grants would be increased by $330 million, from $1.901 billion in FY 2012 to $2.231 billion in FY 2013. The budget also provides $75 million in new housing vouchers set aside for homeless veterans; these are paired with health care and other services from the Department of Veterans Affairs. HUD further estimates it will use $1.91 billion for competitive renewals in the Continuum of Care (CoC) program, $286 million for the Emergency Solutions Grant Program and approximately $35 million for new competitive projects in the CoC and other programs.

Tenant Based Rental Assistance (TBRA/Section 8 Housing Vouchers)

This program would be increased from $18.9 billion in FY 2012 to $19.1 billion in FY 2013. For contract renewals, the president requests $17.238 billion, a one percent increase over FY 2012 levels. It should be noted that Congress's FY 2012 allocation for contract renewals was not sufficient to renew all existing vouchers in FY 2012. The FY 2013 request, though a slight increase, would also fall short of funding all existing vouchers. HUD hopes to make up this underfunding by implementing revenue-generating measures in the voucher program. One such measure would establish mandatory minimum rents in the TBRA, Project-Based Rental Assistance, public housing, Section 202, Section 811 and Section 236 programs. The president's budget request also includes a proposal to modify unit inspections, allowing less frequent inspections in order to generate savings.

Housing Program for Persons with AIDS (HOPWA)

This program would be slightly cut in FY 2013, from $332 million to $330 million, and would undergo a formula allocation update designed to distribute HOPWA funds based on the current population of HIV-positive individuals, fair market rents and poverty rates in order to target funds to

areas with the most need. The program modernization also aims to makes the program more flexible, giving local communities more options to provide targeted, timely and cost-effective interventions.

Below are other recommended funding levels for housing programs of interest:

- $8.7 billion for Project-Based Rental Assistance, more than $600 million less than was given in FY 2012
- $100 million for Sustainable Communities, which was not funded in FY 2012
- $2.9 billion for the Community Development Block Grant formula program, maintaining FY 2012 funding levels (funded at $3.99 billion in FY 2010, the CDBG formula grants program has been cut by more than 25 percent since then)
- $1 billion for the HOME Investment Partnerships Program, which has been cut by over $800 million since FY 2010
- $150 million for the Choice Neighborhoods Initiative, an increase of $30 million from the FY 2012 enacted level
- $1 billion for the initial capitalization of the National Housing Trust Fund; this is the fourth consecutive year President Obama has included the recommendation in his proposal
- No funding is provided for Section 108, the Loan Guarantee Program, and the Brownfields Development Assistance program

VII. Labor

The President's FY 2013 budget proposal provides $30.9 billion in funding for the Department of Labor (DOL), an increase of $20.2 billion from FY 2012 levels. This includes $8.98 billion for existing discretionary programs, $1.4 billion for existing mandatory programs and $20.5 billion for new initiatives.

The budget funds job training grants to states at $2.83 billion. These grant programs include Workforce Investment Act (WIA) Adult Training, which is funded at $769 million (a $2 million increase over FY 2012 levels); Youth Training, which is funded at FY 2012 levels; and Dislocated Worker Assistance, which is funded at $1.24 billion, a $232 million increase over FY 2012 levels.

DOL's FY 2013 budget proposal also includes a $12.5 billion Pathways Back to Work Fund to support summer and year-round jobs for low-income youth, and connect the long-term unemployed and low-income adults to subsidized employment and work-based training opportunities. Complementing this investment in the budget would be $100 million in continued support for the Workforce Innovation Fund to encourage cities, states and regions to break down barriers among programs, test new ideas and replicate proven strategies for delivering better employment and education results in a more cost-effective way.

The budget also provides $8 billion to the Departments of Education and Labor to fund a new initiative designed to improve access to job training across the nation and support state and community college partnerships with businesses to build the skills of American workers.

The budget proposes a cut in funding for Job Corps from $1.7 billion in FY 2012 to $1.65 billion in FY 2013 and launches a reform effort to improve program outcomes and strengthen accountability. Included in this effort would be the closing of a number of chronically underperforming Job Corps centers.

The budget provides $85 million for DOL programs that provide employment-centered services to adult and youth ex-offenders and at-risk youth. In addition, the budget recommends $80 million for the YouthBuild program, maintaining FY 2012 levels.

VIII. Public Safety

In the president's FY 2013 budget, the Department of Justice (DOJ) is provided $27.1 billion in discretionary funding, a decrease of 0.4 percent below the 2012 level. The Department of Homeland Security is provided $48.69 billion in discretionary funding, compared to $49.59 billion enacted in FY 2012. FEMA grant programs, under the Department of Homeland Security, are provided $2.9 billion for FY 2013, compared to $2.37 billion in FY 2012.

Below is a list of funding levels of key programs related to public safety:

- $2.9 billion for Homeland Security State and Local Programs, more than $500 million than was appropriated in FY 2012
- $257 million for the Community Oriented Policing Services Hiring program (COPS-Hiring), an increase of $91 million from FY 2012 funding levels
- $413 million for the Byrne Justice Assistance Grants, up from $352 million in FY 2012
- $25 million for Byrne Competitive Grants, up from $15 million in FY 2012
- $312 million for the Juvenile Justice Program, up from $263 million in FY 2012
- $80 million for the Second Chance reentry programs, up from $63 million in FY 2012
- $420 million for the Assistance to Firefighter Grants, up from $338 million in FY 2012
- $250 million for SAFER Grants, down from $338 million in FY 2012

IX. Transportation

For FY 2013, $74 billion is recommended in the president's budget for the Department of Transportation (DOT). Included in the proposal are details on the administration's $476 billion, six-year surface transportation reauthorization proposal. This plan increases funds for highways and bridge improvements, and doubles investment levels in public transportation during the authorization period. It also provides a $2.5 billion down payment on a proposed six-year, $47 billion investment in rail infrastructure. The request also includes $500 million for TIGER grants, indicating that this would be the first year of a $3.4 billion, six-year commitment. The budget also includes $500 million for the TIFIA program.

This substantial increase in investment in surface transportation reflects the Administration's commitment to invest half of the savings from ending the wars in Afghanistan and Iraq in infrastructure. These additional resources — an estimated $231 billion — will supplement existing Highway Trust Fund revenues.

The budget also includes a FY 2012 supplemental request of $50 billion to boost jobs and the economy, while accelerating infrastructure improvements consistent with the administration's broader infrastructure investment strategy. This proposed supplemental funding would be allocated as follows:

- $28 billion for highways and bridges
- $9 billion for public transit
- $6 billion for high-speed rail
- $4 billion for competitive funding for transportation projects
- $3 billion for airport construction and FAA facilities

The FY 2013 budget also includes more than $1 billion to modernize America's air-traffic control system and transition to a satellite-based system, known as NextGen.

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