AUTHENTICATED
U.S. GOVERNMENT
INFORMATION
GPO

S. HRG. 108–162

Senate Hearings

Before the Committee on Appropriations

Departments of Veterans Affairs and Housing and Urban Development and Independent Agencies Appropriations

Fiscal Year 2004

108*th* CONGRESS, FIRST SESSION

H.R. 2861/S. 1584

AMERICAN BATTLE MONUMENTS COMMISSION
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE
DEPARTMENT OF HEALTH AND HUMAN SERVICES: AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY
DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
DEPARTMENT OF THE ARMY—CIVIL
DEPARTMENT OF THE TREASURY: COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
DEPARTMENT OF VETERANS AFFAIRS
ENVIRONMENTAL PROTECTION AGENCY
EXECUTIVE OFFICE OF THE PRESIDENT: OFFICE OF SCIENCE AND TECHNOLOGY POLICY
FEDERAL DEPOSIT INSURANCE CORPORATION: OFFICE OF INSPECTOR GENERAL
NATIONAL AERONAUTICS AND SPACE ADMINISTRATION
NATIONAL CREDIT UNION ADMINISTRATION
NATIONAL SCIENCE FOUNDATION
NEIGHBORHOOD REINVESTMENT CORPORATION
NONDEPARTMENTAL WITNESSES
SELECTIVE SERVICE SYSTEM
U.S. CHEMICAL SAFETY AND HAZARD INVESTIGATION BOARD
U.S. COURT OF APPEALS FOR VETERANS CLAIMS

VA, HUD, and Independent Agencies Appropriations, 2004 (H.R. 2861/S. 1584)

S. HRG. 108–162

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

ON

H.R. 2861/S. 1584

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND FOR SUNDRY INDEPENDENT AGENCIES, BOARDS, COMMISSIONS, CORPORATIONS, AND OFFICES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2004, AND FOR OTHER PURPOSES

American Battle Monuments Commission
Corporation for National and Community Service
Department of Health and Human Services: Agency for Toxic Substances and Disease Registry
Department of Housing and Urban Development
Department of the Army—Civil
Department of the Treasury: Community Development Financial Institutions Fund
Department of Veterans Affairs
Environmental Protection Agency
Executive Office of The President: Office of Science and Technology Policy
Federal Deposit Insurance Corporation: Office of Inspector General
National Aeronautics and Space Administration
National Credit Union Administration
National Science Foundation
Neighborhood Reinvestment Corporation
Nondepartmental Witnesses
Selective Service System
U.S. Chemical Safety and Hazard Investigation Board
U.S. Court of Appeals for Veterans Claims

Printed for the use of the Committee on Appropriations

Available via the World Wide Web: http://www.access.gpo.gov/congress/senate

U.S. GOVERNMENT PRINTING OFFICE

85–944 PDF WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
Fax: (202) 512–2250 Mail: Stop SSOP, Washington, DC 20402–0001

COMMITTEE ON APPROPRIATIONS

TED STEVENS, Alaska, *Chairman*

THAD COCHRAN, Mississippi	ROBERT C. BYRD, West Virginia
ARLEN SPECTER, Pennsylvania	DANIEL K. INOUYE, Hawaii
PETE V. DOMENICI, New Mexico	ERNEST F. HOLLINGS, South Carolina
CHRISTOPHER S. BOND, Missouri	PATRICK J. LEAHY, Vermont
MITCH MCCONNELL, Kentucky	TOM HARKIN, Iowa
CONRAD BURNS, Montana	BARBARA A. MIKULSKI, Maryland
RICHARD C. SHELBY, Alabama	HARRY REID, Nevada
JUDD GREGG, New Hampshire	HERB KOHL, Wisconsin
ROBERT F. BENNETT, Utah	PATTY MURRAY, Washington
BEN NIGHTHORSE CAMPBELL, Colorado	BYRON L. DORGAN, North Dakota
LARRY CRAIG, Idaho	DIANNE FEINSTEIN, California
KAY BAILEY HUTCHISON, Texas	RICHARD J. DURBIN, Illinois
MIKE DEWINE, Ohio	TIM JOHNSON, South Dakota
SAM BROWNBACK, Kansas	MARY L. LANDRIEU, Louisiana

JAMES W. MORHARD, *Staff Director*
LISA SUTHERLAND, *Deputy Staff Director*
TERRENCE E. SAUVAIN, *Minority Staff Director*

SUBCOMMITTEE ON VA, HUD, AND INDEPENDENT AGENCIES

CHRISTOPHER S. BOND, Missouri, *Chairman*

CONRAD BURNS, Montana	BARBARA A. MIKULSKI, Maryland
RICHARD C. SHELBY, Alabama	PATRICK J. LEAHY, Vermont
LARRY CRAIG, Idaho	TOM HARKIN, Iowa
PETE V. DOMENICI, New Mexico	ROBERT C. BYRD, West Virginia
MIKE DEWINE, Ohio	TIM JOHNSON, South Dakota
KAY BAILEY HUTCHISON, Texas	HARRY REID, Nevada
TED STEVENS, Alaska *(ex officio)*	

Professional Staff
JON KAMARCK
CHEH KIM
ALLEN CUTLER
PAUL CARLINER *(Minority)*
GABRIELLE A. BATKIN *(Minority)*
ALEXA SEWELL *(Minority)*

Administrative Support
JENNIFER STORIPAN

CONTENTS

THURSDAY, MARCH 6, 2003

Page

Department of Housing and Urban Development 1

THURSDAY, MARCH 13, 2003

Department of Veterans Affairs 75

THURSDAY, MARCH 20, 2003

Environmental Protection Agency 141

THURSDAY, APRIL 3, 2003

Executive Office of the President: Office of Science and Technology Policy 221
National Science Foundation 221

THURSDAY, APRIL 10, 2003

Corporation for National and Community Service 271
Department of the Treasury: Community Development Financial Institutions Fund 325

THURSDAY, MAY 1, 2003

National Aeronautics and Space Administration 351
Material submitted by agencies not appearing for formal hearings: 403
- American Battle Monuments Commission 440
- Department of Health and Human Services: Agency for Toxic Substances and Disease Registry 417
- Department of the Army—Civil 424
- Federal Deposit Insurance Corporation: Office of Inspector General 427
- National Credit Union Administration 403
- Neighborhood Reinvestment Corporation 444
- Selective Service System 451
- U.S. Chemical Safety and Hazard Investigation Board 408
- U.S. Court of Appeals for Veterans Claims 413

Nondepartmental witnesses 455

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, MARCH 6, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:03 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

STATEMENT OF MEL MARTINEZ, SECRETARY

ACCOMPANIED BY:

MICHAEL LIU, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUSING

KENNETH DONOHUE, INSPECTOR GENERAL

JOHN C. WEICHER, ASSISTANT SECRETARY, HOUSING, AND FEDERAL HOUSING COMMISSIONER

PHILIP MANGANO, EXECUTIVE DIRECTOR, INTERAGENCY COUNCIL ON HOMELESSNESS

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning, Mr. Secretary. The hearing of the Senate VA–HUD Appropriations Subcommittee will come to order.

As we begin our hearings on the fiscal year 2004 requests, it is a pleasure to welcome Secretary Martinez and other guests from the Department of Housing and Urban Development who have joined us here this morning to testify on the President's fiscal year 2004 budget request. This is your third visit before the subcommittee on HUD's budget, Mr. Secretary, and I hope not the last.

As we have discussed, the Department remains a troubled agency plagued by a morass of program and management problems that, in most cases, you inherited from previous administrations. I think I warned you privately before you took it on that you were taking on a huge challenge and I know you have found it to be everything that I promised you it would be.

Your committed leadership and steady hand has made a big difference already, and continued stability at the top can only strengthen and enhance the reforms that have already occurred

within HUD. Please remember I said that, because there will be some comments I have later on that really point out some problems that you and I face together, and we have to resolve them because we want to see HUD be the kind of agency of which all of us can be proud.

The request for fiscal year 2004 proposes $31.3 billion, an increase of $872 million over the fiscal year 2003 funding level of $30.43 billion. As was the case with the fiscal year 2003, the Subcommittee will be facing some very difficult funding decisions in fiscal year 2004, including funding decisions for HUD. In addition, the tightness of the HUD budget request for fiscal year 2004 only makes these decisions more difficult, especially since, as always, we will have to stack up the funding by priorities of the many needs and priorities of many other agencies and programs within the jurisdiction of this Subcommittee, including such priorities as VA medical care, National Science Foundation, the Environmental Protection Agency and NASA, which itself faces a whole set of special needs as we attempt to understand what went horribly wrong with the reentry of the Space Shuttle Columbia.

In addition, HUD's fiscal year 2004 budget request is tied to a number of very ambitious legislative recommendations and program changes, which if enacted, and you and we know the likelihood of that, would represent a landmark restructuring of many of the Department's most important and largest programs. I will highlight a few of the most important and potentially controversial funding decisions and legislative recommendations.

First, the administration is proposing to restructure the various Section 8 programs by creating a new Section 8 tenant-based voucher program that would be called Housing Assistance for Needy Families, or HANF. HANF would be funded at about $12.5 billion in fiscal year 2004 and would transition to a block grant program of the States in fiscal year 2005. As part of this proposals, the Section 8 project-based programs would continue to be administered by HUD through State housing agencies and PHAs.

While I understand the administration's frustrations with the Section 8 tenant-based voucher program with its annual rescissions and poor cost projections, HANF does not appear to be the best possible replacement for the existing voucher program. Being a former governor and having been an advocate of block grants, I believe there are areas in which they can be very helpful, but instead we need to provide more flexibility in a low-income-housing program based on local decision making, I fear that HANF merely moves the responsibility for voucher administration to the States and otherwise appears to duplicate much of what the HOME program already is capable of doing. HANF likely will put new burdens on States and localities to meet rising housing costs as well as low-income housing needs. And as history tells us, block grant programs seldom receive any significant increased funding once the programs are established. I think that is particularly troubling during a period of time when most States and localities are facing increasingly difficult financial decisions and large budget shortfalls, and I find it unlikely that the States would be willing to pick up any of these responsibilities.

In summary, in my view, HANF is premature. The fiscal year 2003 appropriations bill created a new funding structure for Section 8 vouchers where PHAs receive the funding for all the vouchers in use and will be able to apply for any vouchers they need to help reach the PHA authorized level. This funding approach, we believe, if we worked it out in cooperation with my colleagues, this results in a more realistic assessment of Section 8 funding needs, reducing the need to go through the annual ritual of rescinding large amounts of unused excess Section 8 assistance. And as we all know, that becomes a piggy bank which gets raided not for use in the HUD budget but for everything else under the sun, and I think it is going to take several years for us to see if this new system will work, but I am optimistic that it is a better solution and will give us a better gauge of both the actual cost and the use of vouchers.

As for public housing, the HUD budget request of $3.57 billion for the Public Housing Operating Fund is roughly the same as the fiscal year 2003 funding. The HUD budget request of $2.6 billion for the Public Housing Capital Fund is some $70 million less than the fiscal year 2003 level. I compliment Mr. Liu, the Assistant Secretary for Public and Indian Housing, on taking much needed corrective measures when it was discovered that the Department has been inappropriately awarding PHAs with additional operating funds by raiding current year public housing operating funds for prior year obligations. The fiscal year 2003 appropriations bill put a final stop to this activity while funding for at least one last time the existing prior year obligations owed to a few PHAs for fiscal year 2003. While not a perfect solution, I believe it is a fair solution and should leave all PHAs on an equal footing. I never ever want to see this problem again.

I am also troubled by the Department's decision to eliminate all funding for the public housing HOPE VI program. I want to give you some history with that HOPE VI program. It started in the authorizing committee when we finally committed to tear down the very troubled almost uninhabitable public housing in St. Louis, and replace it with a model public housing program. Working through this Subcommittee we designed the HOPE VI program to carry on with tearing down the most distressed and obsolete public housing, while replacing the housing with new mixed income and public housing developments. This not only provides good housing for low-income families, but helps to anchor the economic and fiscal redevelopment of many distressed communities. Frankly, despite the fact that HOPE VI had problems at its inception, I think it is a program that works.

The loss of this $574 million HOPE VI program is particularly disturbing to me because there has never been any real attempt to have a meaningful dialogue between the administration and the Congress on the future of HOPE VI. We have asked and asked, and we have received no discussion, no dialogue, which puzzles me, why the administration has failed to discuss the various options related to HOPE VI, eliminating the program, continuing it, improving it, or creating a substitute program.

No matter how one views the HOPE VI program, the loss of $574 million will mean a huge reduction in available resources, both

public and private, for public housing capital needs. This is a critical concern since HUD has identified some $20 billion and more in deferred maintenance and capital needs. These issues are further compounded by the loss of funding associated with the elimination of the Public Housing Drug Elimination program in fiscal year 2002.

Now I know the administration is proposing a new public housing loan guarantee program that could possibly meet some or many of the goals of the HOPE VI program. We need to know more about the program, especially its goals and its projected impact. I am concerned that the $131 million price tag for the credit subsidy for this new loan guarantee program is paid for from the public housing capital fund, further eroding needed funds for capital and deferred maintenance needs.

Many of these policy and funding decisions under this budget request further underline the need for a housing production program with many extremely low-income families who are unable to find affordable housing, and we are willing to continue to work to find such a program and the funding for it. We would welcome the opportunity to have input from your Department and we look forward to working on this question in a bipartisan basis to come up with a program that meets the needs.

There are many proposals out there, most of which chase the elusive phantoms, and they are not the magic pixie dust that is going to allow us to avoid the Budget Act if we try to raid that money for a new housing production program.

The HUD budget also calls for consolidating the Homeless Assistance Grants, as well as a revised formula for the Community Development Block Grant program. I have supported the block granting of homeless assistance for many years, so long as the legislation insures that HUD accountability and oversight are part of the process. A new formula for the CDBG program that better targets poor and distressed communities is a laudable goal. Nevertheless, part of the success of the CDBG program is that it is a national program that can reach all of our communities, and that all of the communities have a stake in the program. Also, I would hate to see that many of the good ideas in the HUD budget being lost because of the distraction of a food fight over the formula by which the CDBG program allocates funding.

There is also a number of other HUD propositions that merit discussion but in the interest of time, I am only going to focus on a few more.

The administration has proposed $50 million for what is called the Samaritan Housing Initiative. The program is designed as a broad interagency strategy to address homelessness, involving HUD, HHS and VA and is consistent with a 2-year innovative demonstration included in the VA–HUD fiscal year 2003 appropriations bill. The administration is also proposing $25 million for a lead-based paint abatement program. Again, this proposal is basically consistent with the new $50 million lead paint abatement program that was included in the fiscal year 2003 bill. I am very gratified by these common priorities, but I am going to match these programs and raise them.

The proposed FHA home ownership program for persons with poor credit is also a good idea. This proposal would allow these persons an opportunity to repair their credit and demonstrate their financial reliability while providing an opportunity for home ownership. All too often, low-income persons make financial mistakes while young and without resources. Unfortunately, these persons are often haunted by these mistakes and are unable to obtain housing and other credit as they mature and become more financially responsible. This is the type of program where the Federal Government can make a difference and provide a second chance opportunity to make home ownership a reality.

I am unhappy about a number of HUD funding recommendations for fiscal year 2004. Most especially, I am unhappy that the administration continues in every HUD budget request to recommend eliminating the Rural Housing and Economic Development Program. I guess nobody listens to us up there. Urban areas always get the attention of Congress while rural areas too often are ignored and underfunded. I live in a rural area where the housing needs are very strong, and I trust you will find it in other States as well. It has been estimated that over the last 2 fiscal years, some 4,000 jobs have been created and over 8,200 persons have been trained. In addition, over 2,200 housing units have been constructed with some 3,700 rehabilitated. In the last year, 367 businesses have been created and 1,400 existing businesses assisted. This program is a good program. It makes a difference with a small price tag and big results.

I also feel compelled to reiterate that HUD faces many challenges and there is much more work to be done. As I have discussed already, the Department has been misleading Congress for some 10 years by overpaying PHAs for their operating costs from current year funding for prior year obligations. I understand this problem has been corrected and I expect it has been.

However, equally or more serious, at the very end of the conference on the fiscal year 2003 appropriations bill, the House and Senate VA–HUD Appropriations Subcommittees were advised that HUD exceeded its stated employee levels by upwards of 300 FTEs, with a cost of $30 million that was not reflected in the HUD fiscal year 2003 budget justification and budget request. These hires occurred during the spring and summer of 2002 and despite the significant impact on HUD's budget needs for fiscal year 2003, HUD never once made any attempt to inform the Congress of its decision to hire significantly more staff than provided for in the HUD fiscal year 2003 budget justifications. In addition, HUD only reported these staff increases when it determined that the fiscal year 2003 budget request for salaries and expenses could not support the added staff.

In addition, there are many significant questions as to whether HUD comported with existing staffing requirements and hiring procedures, including requirements consistent with HUD's resource estimation and allocation process or REAP. In fact, it appears that some HUD offices hired significantly more staff than needed while other offices hired significantly less. It is unclear whether there was top level management controls or any adult supervision during this hiring spree. HUD and the responsible officials will be held ac-

countable for this mess. In any case, a $30 million funding shortfall as well as HUD's failure to provide timely notice of the problem is unacceptable.

The reform of HUD remains a huge and daunting challenge. It has been troubled and dysfunctional, but we believe it serves a critical role, and so we will continue to work together to rebuild the public confidence in HUD as it performs its many housing and community development needs.

Mr. Secretary, I look forward to your testimony, and I now turn to my ranking member, Senator Mikulski.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Mr. Chairman, the public has been waiting with bated breath to not only talk to Secretary Martinez, but also to wish you happy birthday. On behalf of the Subcommittee and myself I am glad your birthday comes before mine. I know today is your birthday and we want to wish you well.

This is a bipartisan, low-fat muffin, and I want to present it to you.

This is in no way to indicate that an adequate appropriation is to let them eat muffins. We really do wish you good health.

Senator BOND. Thank you.

Senator MIKULSKI. I want to welcome Secretary Martinez, and in the interest of time, I will summarize my opening statement.

For fiscal year 2004, the administration's request, which is a $300 million increase over last year, is only 1 percent. That indeed, I think is too skimpy to be able to meet the compelling needs facing us in the area of housing.

My primary principle for HUD is absolutely simple. I believe that HUD needs to be in the community development business and not think of itself as just being in the building business. I think that HUD needs to be able to build communities, not only houses, communities where people can live, work, worship and shop, to strengthen communities, whether in small town U.S.A. or big town America.

And I know, Mr. Secretary, you share my principles that these homes not only need to be affordable, but the neighborhoods have to be safe, and that whatever the Federal Government does, we protect both the taxpayer and the consumer against fraud.

Looking at what we need to do in terms of neighborhood and community development, I wanted to first focus my comments on HOPE VI. The administration has zeroed out HOPE VI at the end of this year. This means that there is going to be $600 million cut out of community development. HOPE VI was not about building new housing for the poor, it was about building new opportunities for the poor. It was about using typical architecture, tearing down decrepit housing, and at the same time using a new empowerment architecture, insisting that the residents be involved in both the stake in the community as well as in job training, since public housing should be seen not only as a way of life but a way to a better life.

We would hope as the loans have been zeroed out, we take a look at this because the administration does not provide continued funding for the program, or even suggest how to improve HOPE VI by

simply eliminating it or taking $600 million out of the people development program and out of the community development. I think we need a vigorous conversation about HOPE VI and I will be asking you some questions about it.

It is a program that needs to be reformed or if it is not going to stay as HOPE VI, we need to then think about how else we can create hope. Remember, it is not about housing, it is about opportunity.

The other issue that I am concerned about is brownfields. Brownfields were eliminated from the budget request last year. With brownfields, the cleanup responsibility lies with EPA, but part of the economic development responsibility lies with HUD. In my own home State of Maryland and in the Baltimore metropolitan area, a study done for the Maryland Port Authority showed that we have 3,000 acres of brownfields in and around the Baltimore waterfront, in Baltimore City and east Baltimore County.

What a cornucopia of opportunity to turn brownfields into green fields, not only from the environmental standpoint, but a tremendous opportunity to create new jobs, new places for work, and even new housing. Let us take a look at these brownfields and let us work with Administrator Whitman to look at not only large communities, but in others that we could do this.

Third, we need to look at the funding and attitudes related to housing for the elderly. Most of the housing for the elderly was built in the 1970's and 1980's. It is old. We have many, many units that were built in the 1960's to the 1980's. We now have elderly who are now frail elderly, and the buildings themselves are getting decrepit. We need to look at this and how they are going to renew those buildings, and also look at the way the elderly have been aging in place at something called the naturally occurring retirement communities.

Let us take a look at how with the boomers coming on line, what are we going to be able to do about this, and I think we have to have a commitment to what we offer the elderly. And Mr. Martinez, this could be a successful faith-based program, and I believe it has been, because it has been a partnership between the Federal Government with Catholic charities, Jewish charities, other faith-based organizations. I just think this is a great opportunity to continue the faith-based initiative and yet at the same time look at both the housing and the people who are aging in place.

The other area that I appreciate your work on is fraud. I know you share with me the total frustration and outrage when people try to scam the consumer and scam the taxpayer. I want to salute you for what you have been doing in the area of fraud. Your approach in trying to deal with the scams and schemes in settlement costs for home ownership I think should be absolutely commended, because when people buy their home, they are looking at not only the price of the home, but also the price of the settlement, and often there are those hidden fees that really do gouge that home buyer, particularly that first-time home buyer. So kudos to you for that.

Second, I want to thank you for your work against predatory lending. The way you have worked with both me in Baltimore City and this Committee with Senator Bond to make sure that when we

have FHA mortgage, we are able to provide first-time home ownership, that we were not using them to gouge people by selling them houses that were bought at $15,000 and sold 72 hours later for $85,000, with balloon payments of $100,000. So, congratulations.

But you know, the schemers and the scammers are really scummers. Wherever you go, they think of something new. We had a new situation in Baltimore, and you wonder why is it in Baltimore, because we are pretty tough. But we now have a new situation where a company is buying up mortgages, and in the process of buying up these mortgages, what they are doing is essentially telling, foreclosing people who are making payments.

There was an investigative report revealed on local Baltimore TV about this corporation sending false letters to home buyers telling them they were delinquent in their loan, that they were going to foreclose, scaring the heck out of home buyers, actually moving to foreclosure, and creating chaos in their minds, chaos in the marketplace.

This company provides customer service but they are not the lender. The Community Law Center in Baltimore has gotten 90 complaints from people being scammed by this corporation. We do not know whether any of these loans have FHA insurance on them, but they are approved as an FHA partner. I am going to give you more information about this. I want to discuss this with the Inspector General, because we want to know who is this company and what are they doing. How can we stop the fraud? If someone has been a victim, where can they go? We want to get at the system of the fraud, and we want to help the local consumer that has been once again, schemed and scammed, and get to the bottom of it. And I know your deep commitment on this, and I say thank you.

Money is in short supply in the Federal Government, in the Federal checkbook and it is in shorter supply in the family checkbook, and we have to stand firmly against any fraud scheme, scam or scum. I am prepared now to hear your testimony.

Mr. Chairman, thank you very much.

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Senator BOND. Senator Leahy has submitted testimony which he would like submitted for the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Mr. Secretary thank you for taking the time to come and testify before us today, as always it is a pleasure to have you before the VA–HUD and Independent Agencies Subcommittee.

Last year was a long and trying one where Federal appropriations were concerned. We had not yet finished our work on the fiscal year 2003 bills when the President's proposal for fiscal year 2004 was delivered to Capitol Hill.

I know that both Senator Bond and Senator Mikulski worked very hard to produce VA–HUD appropriations bill for fiscal year 2003 that met the needs of our Nation's most vulnerable populations and for that I thank them. They made the best of a very difficult situation.

In the end however under an artificially low spending cap imposed by the administration it was difficult to adequately fund many important domestic programs. I am concerned that if we follow up on this fiscal year with the meager budget proposed by the administration—by most calculations it amounts to a mere 1.3 percent increase for HUD programs—we would only entrench this country's affordable housing crisis.

Mr. Secretary, this administration has talked at length about the importance of housing and homeownership in creating stability and promoting wealth—but this budget does not reflect those sentiments.

The administration's proposal to block grant Section 8 voucher assistance to States is particularly troubling. This program serves over 5 million low-income families who rely on the rental assistance to help maintain stable housing. One preliminary study of this policy estimates that over 137,000 vouchers could go out of circulation if this proposal is implemented.

Most troubling is that the proposal to block grant is made in the wake of the bipartisan Millennium Housing Commission report that found the voucher program to be successful in its mission and at a time when voucher utilizations rates are going up.

I doubt there is anyone on this Subcommittee who would argue that the Section 8 program does not have its flaws, and I am not averse to looking at new ways to make the system more efficient; however we simply do not have enough details to thoroughly evaluate this proposal. I look forward to seeing more details as soon as possible.

For the third year in a row, the administration also proposes severe cuts to public housing. By most estimates the President has proposed over $2.5 billion in cuts to public housing over the last 3 years.

The Public Housing Capital Expenses program is recommended at $200 million less then fiscal year 2002, and the administration suggests we eliminate the HOPE VI program that has helped many communities around the Nation revitalize.

Last year by HUD's own miscalculations there was a $250 million dollar shortfall in the Public Housing Operating Fund—a shortfall HUD must make up by borrowing from the fiscal year 2003 allocation. Yet the administration proposes only a $44 million increase for this fund from the fiscal year 2002 level, leaving many of us to wonder how HUD will make up the difference.

Mr. Secretary, it is one thing to argue the merits of expanding programs in this economic environment, but shouldn't at least live up to our current obligations?

This budget does not do that.

There is no question that we are facing an affordable housing crisis in this Nation. Nearly 5 million households in the United States are paying over half of their incomes to rent alone—leaving precious little to put groceries on the table, gas in their cars, or buy clothes for their kids.

My home State of Vermont has not been immune to this trend. The number of homeless families being served by homeless shelters in Chittenden County has risen 400 percent over the last 3 years. Many of these families are working families.

It is in this light that I am troubled by the priorities set forth in the administration's proposed budget for the Department of Housing and Urban Development.

Mr. Secretary, I know you did not take on an easy task when you came on board at this Department, and I look forward to working with you throughout the year to address these concerns.

Again, I thank you for coming before us today; I have some additional questions that I will submit for the record.

Senator BOND. Thank you, Senator Mikulski. We are supposed to have a vote coming up, but I think we will try to move along. We will go to your testimony and try to get it in before we have to go to vote.

STATEMENT OF MEL MARTINEZ

Secretary MARTINEZ. Mr. Chairman, in the interest of time what I would like to do is just offer my full remarks for the record.

Senator BOND. We will be happy to include them.

Secretary MARTINEZ. And rather than go through more prepared remarks, perhaps what I could do is just try to go through some of the things that I know are of interest to the Chairman and the Ranking Member.

Senator BOND. Please.

Secretary MARTINEZ. First of all, let me say to both of you that it is a real pleasure to come before you, and it is a real pleasure to meet with you as your commitment and concern with this Department and its work, show by your depth and breadth of knowl-

edge of our programs and your interest in what we do. That is gratifying and I understand, Mr. Chairman, that at times with that level of interest and knowledge also comes a little bit of scolding, and I am prepared for that today as well, because I do understand that from time to time this Department, as you well foretold for me at the time of my arrival in this city, can be a little daunting. So we will be prepared to discuss some of those issues with you as well.

PROMOTING HOME OWNERSHIP

Let me say that our Department continues to focus on the issue of home ownership with our $31.3 billion budget, but we obviously have some things that are very important to us to move American families into home ownership. The American Dream Downpayment Initiative contributing $200 million into the HOME program is the cornerstone of that.

Related to the issue of predatory lending or fraud abuse, and frankly of providing families with, as you so well said, Madam Senator, is not a way of life but a way to a better life. We also believe that home ownership provides that way to a better life, and so home ownership education is a big component of this budget. We have made a continuing commitment to increasing funding in that. In this year's budget, $45 million is dedicated to home ownership counseling and education.

But we hope to bring families from our minority communities into home ownership and teach them skills to avoid predatory lenders, how to avoid bad credit, how to fix that credit, how to approach the whole home buying process is important.

As you pointed out again, I am working on the issue of reform, we are proud of that commitment and we continue to look for that to occur in the late spring or early summer.

In addition to that, we are continuing to promote housing Section 8 vouchers for home ownership.

HOME PROGRAM

All of these we believe to be significant and important commitments. In the HOME program, which we believe to be a real hallmark for providing affordable opportunities for housing for many families, we, this year, are very proud of the President's commitment to this aspect of our work. The increase of 5 percent, $113 million devoted to the HOME program, will enable us with the additional funds that have been committed by the Congress over many years of over $2 billion yearly, to produce over 1 million units of housing over the next 10 years.

We believe that is a very substantial production program that will help us to continue in two veins. Number one, not add any more rent programs and number two, not raid and lose the money which is frankly, no more than the insurance reserve fund, in order to provide about an equal number of homes. So, I believe that is the right way to go.

HANF

I am willing to engage in vigorous debate over our block granting of Section 8. I do think it is important to look at this proposal as a possible way to avoid some of the pitfalls of Section 8 in the past. I would point out to the Chair that it is a flexible program where States who might not be in a position to undertake it, it could still be managed in the traditional way that we have done it in the past. But it would open a window of opportunity for those States who would be in a position to manage it, and perhaps do so in a way that is more direct and close to the people and perhaps in a more efficient way that would avoid the problem of recapture that you so aptly pointed out in your remarks, Mr. Chairman.

HOPE VI

The issue of HOPE VI is one that I find painful to have it appear as something that we are not committed to. I believe HOPE VI has been a very successful and good program. I believe that while it has done a great deal that much of its promise remains unfulfilled.

One of the things I would like to point is out is the commitment of HOPE VI over the last 10 years, and it is a 10-year program, and OMB felt that it was a program for 10 years, this being the 10th year, and coming up for reauthorization that we should take a pause and look. The reason for that also is that while we have funded over 165 programs or projects, only 14 have been completed to date. So when I say that the promise remains largely unfulfilled, that is because $2.5 billion that have already been awarded have not come out of the ground yet.

In addition to that, the round of grants from this year, which we should be announcing, as well as the ones from next year, would add an additional billion dollars in grant monies that would be out.

I am not being critical of those who put these deals together. They are complicated and by the nature of the deal, they leverage funds with the private sector. So they are very good deals and they do take time to come together. But I would like to just point to a chart that we prepared that would give you a graphic visual of exactly where the program is in terms of the spend-out.

As you can see, we have the number of units that have been planned or funded, and on the right in the red you see the number of units that have been completed through today. But in the reinvention of the future of HOPE VI, we could look to a program that is going to be continuing, that is not going to end. I will clarify for you that those projects that have received the grant will continue to see that grant paid out and their projects will all be done. So no one who was expecting to do a HOPE VI because they received a HOPE VI grant will be disappointed, and any who are still hoping to do one can still enter the next round of funding.

We are also excited, Mr. Chairman, about utilizing the private resources and private capital to attract private capital. Some cities like Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods, and HUD is also seeking additional approval of Congress such as the Public Housing Reinvestment Initiative.

So we look forward to continuing the discussion with you. Senator Mikulski mentioned the possibility of a task force; I think that would be helpful. I believe that in coming together with those who have had an interest or stake in the past, who have offered possibilities, who have dealt with some of the problems of displacement of the people and things of that nature, would also come up with good solutions for us on that issue.

MANAGEMENT ISSUES

With respect to the issue of management issues of HUD, Mr. Chairman, I will say to you first and foremost and from the top, that the buck stops here. You made me well aware of what I was taking on and I realize that.

And with respect to the hiring issues that have arisen, I am the person responsible. I am though, and I assure you, Mr. Chairman, that I am going to be looking into the details of how the hiring problems occurred. We are taking steps to ensure that no such lack of coordination at the top takes place in what traditionally has been a problem since we have traditionally been undermanned and that has impacted our program performance.

What we did this year was to try and employ a number of means to reach our staffing levels. What we did is we overdid it, and it lacked a certain top control that we clearly recognize was a mistake, and that we already have and continue to look to correcting that deficiency in our management. But we do know that all the hires were from the critical hire list, so we are hiring people that needed to be there to perform an important function for HUD.

I will be happy to answer more questions in detail on that issue, but I did want to let you know of my deep concern for it and my great commitment not only to this but other areas of management, to ensure that HUD does not continue to be a troubled agency.

PREPARED STATEMENT

Mr. Chairman, with that, I think I will just assure you of my continued desire to work with the Committee and to look forward to doing so as we go through this next budget cycle, and look forward to answering your questions.

[The statement follows:]

PREPARED STATEMENT OF MEL MARTINEZ

OVERVIEW

Chairman Bond, Ranking Member Mikulski, Distinguished Members of the Committee: Thank you for the invitation to join you this morning. I am honored to outline the Fiscal Year 2004 Budget proposed by President Bush for the U.S. Department of Housing and Urban Development (HUD).

HUD has achieved measurable success since 2001 in carrying out its mission and meeting the many challenges confronting a Cabinet-level Department. Today, HUD annually subsidizes housing costs for approximately 4.5 million low-income households through rental assistance, grants, and loans. It helps revitalize over 4,000 localities through community development programs. The Department provides housing and services to help homeless families and individuals become self-sufficient. HUD also encourages homeownership by providing mortgage insurance for more than 6 million homeowners, many of whom would not otherwise qualify for loans.

Supported by HUD's proposed $31.3 billion fiscal year 2004 budget, this important work will continue. Housing remains a critical component of both the President's

plan to promote economic growth and his focus on meeting the common challenges faced by Americans and their communities.

The President does not intend to change his 2004 Budget based on the program or agency levels included in the 2003 Omnibus bill the Congress adopted in mid-February. The President's 2004 Budget was developed within a framework that set a proposed total for discretionary spending in 2004, and each agency and program request reflected the administration's relative priority for that operation within that total. While we recognize that Congress may believe there is a need to reorder and adjust some of these priorities, the administration intends to work with Congress to stay within the 2004 overall amount.

HUD's proposed budget offers new opportunities for families and individuals—and minorities in particular—seeking the American Dream of homeownership.

It offers new opportunities for renters by expanding access to affordable housing free from discrimination.

It provides new opportunities for strengthening communities and generating renewal, growth, and prosperity—with a special focus on ending chronic homelessness.

And our budget creates new opportunities to improve HUD's performance by addressing the internal management issues that have long plagued the Department.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

Americans place a high value on homeownership because its benefits for families, communities, and the Nation as a whole are so profound.

Homeownership creates community stakeholders who tend to be active in charities and churches. Homeownership inspires civic responsibility, and owners vote and get involved with local issues. Homeownership offers children a stable living environment that influences their personal development in many positive, measurable ways—at home and in school.

Homeownership's potential to create wealth is impressive, too. For the vast majority of families, the purchase of a home represents the path to prosperity. A home is the largest purchase most Americans will ever make—a tangible asset that builds equity, credit health, borrowing power, and overall wealth.

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, more Americans were homeowners in 2002 than at any time in this Nation's history. The national homeownership rate is 68 percent. That statistic, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities: while the homeownership rate for non-Hispanic whites is nearly 75 percent, it is less than 50 percent for African-Americans and Hispanics.

The administration is focused on giving more Americans the opportunity to own their own homes, especially minority families who have been shut out in the past. In June 2002, President Bush announced an aggressive homeownership agenda to increase the number of minority homeowners by at least 5.5 million by the end of this decade. The administration's homeownership agenda is dismantling the barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process.

Through "America's Homeownership Challenge," the President called on the real estate and mortgage finance industries to take concrete steps to tear down the barriers to homeownership that minority families face. In response, HUD created the Blueprint for the American Dream Partnership, an unprecedented public/private initiative that harnesses the resources of the Federal Government with those of the housing industry to accomplish the President's goal.

Additionally, HUD is proposing several new or expanded initiatives in fiscal year 2004 to continue the increase in overall homeownership while targeting assistance to improve minority homeowner rates.

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at $200 million. First introduced in fiscal year 2002, this program targets funding under the HOME program specifically to low-income families wanting to purchase a home. The fiscal year 2003 appropriations provided for $75 million for this initiative, which will be sufficient to begin the program. The fiscal year 2004 budget provides funding to assist approximately 40,000 low-income families with down payment and closing costs on their homes.

The HOME Investment Partnerships Program (HOME) plays a key role in addressing the shortage of affordable housing in America. As reflected in this year's program assessment, the HOME program is successful because it is well managed and its flexibility ensures local decision-making. In 2004, a total of $2.197 billion is being provided to participating jurisdictions (States, units of local government,

and consortia) to expand affordable housing, which represents a 10 percent, or $200 million, increase for HOME from the 2003 enacted level. The funds dedicated to expanding and improving homeownership will be spent rehabilitating owner-occupied buildings and providing assistance to new homebuyers. Based on historical trends, 36 percent of the homeownership-related funds will be used for new construction, 47 percent for rehabilitation, and 14 percent for acquisition.

Recipients of HOME funds have substantial discretion to determine how the funds are spent. HOME funds can be used to expand access to homeownership by subsidizing down payment and closing costs, as well as the costs of acquisition, rehabilitation, and new construction. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 288,000 low-income households.

To promote the production of affordable single-family homes in areas where such housing is scarce, the administration is proposing a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home. This new tax credit targets low-income individuals and families; eligible homebuyers would have incomes of not more than 80 percent of their area median.

HUD is committed to helping families understand the homebuying process and how to avoid the abuses of predatory lending. Housing counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The fiscal year 2004 budget will expand funds for counseling services from $40 million in fiscal year 2003 to $45 million. This will provide 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling.

The fiscal year 2004 budget strengthens HUD's commitment to the Self-Help Homeownership Opportunity Program (SHOP). SHOP provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The fiscal year 2004 budget request for $65 million triples the funding received in 2002, reflecting President Bush's commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families. Funds are provided as a set-aside within the Community Development Block Grant account.

The Federal Housing administration (FHA) is the Federal Government's single largest program to extend access to homeownership to individuals and families who lack the savings, credit history, or income to qualify for a conventional mortgage. In 2002, FHA insured $150 billion in mortgages for almost 1.3 million households, most of them first-time homebuyers, which represents a 21 percent increase over the previous year. Thirty-six percent were minority households.

FHA offers a wide variety of insurance products, the largest being single-family mortgage insurance products. FHA insures single-family homes, home rehabilitation loans, condominium loans, energy efficiency loans, and reverse mortgages for elderly individuals. Special discounts are available to teachers and police officers who purchase homes that have been defaulted to HUD and who promise to live in their homes in revitalized areas.

HUD is proposing legislation for a new mortgage product to offer FHA insurance to families that, due to poor credit, would either be served by the private market at a higher cost or not at all. It is anticipated that borrowers will be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance Fund (MMI) mortgage loan program is expected to generate an additional $7.5 billion in endorsements for 62,000 additional homes.

Through its mortgage-backed securities program, Ginnie Mae helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as VA and the Rural Housing Service of the U.S. Department of Agriculture.

During fiscal year 2002, Ginnie Mae surpassed a total of $2 trillion in mortgage-backed securities issued since 1970. Reaching this milestone means that more than 28.4 million families have had access to affordable housing or lower mortgage costs since Ginnie Mae's inception. HUD is proud of Ginnie Mae's accomplishments and its important role in helping to support affordable homeownership for low- and moderate-income families in America. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The fiscal year 2004 budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

The Native American Housing Block Grants (NAHBG) program provides funds to tribes and to tribally designated housing entities for a wide variety of affordable-

housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable-housing activities but who cannot borrow from private sources without the guarantee of payment by the Federal Government. Because the grantees have not applied for all funds appropriated in prior years, the amount of subsidy required in fiscal year 2004 is reduced from $2 million to $1 million, and the loan amount supported is reduced from $16.6 million to $8 million. Prior-year funds remain available until used.

The Indian Housing Loan Guarantee (Section 184) program helps Native Americans to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In fiscal year 2004, $1 million is requested in credit subsidy for 100 percent Federal guarantees of approximately $27 million in private loans.

The Hawaiian Homelands Homeownership Act of 2000 established the Native Hawaiian Home Loan Guarantee Fund, which is modeled after Section 184. The fiscal year 2004 budget will provide $1 million in credit subsidy to secure approximately $35 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant (NHHBG) was authorized by the Hawaiian Homelands Homeownership Act of 2000. The fiscal year 2004 budget will provide $10 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support acquisition, new construction, reconstruction and rehabilitation. Activities will include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning.

PROMOTING DECENT AFFORDABLE HOUSING

Ideally, homeownership would be an option for everyone, but even with its new and expanded homeownership initiatives, the administration recognizes that many families will have incomes insufficient to support a mortgage in the areas where they live. Therefore, along with boosting homeownership, HUD's proposed fiscal year 2004 budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing States and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Finally, HUD subsidizes the operation, maintenance, and modernization of an additional 1.2 million public housing units.

HUD is proposing a new initiative—Housing Assistance for Needy Families (HANF)—under which the funding for vouchers, which has been allocated to approximately 2,600 public housing authorities (PHAs), would be allocated to the States. States, in turn, could choose to contract with PHAs or other entities to administer the program. The funding for both incremental and renewal vouchers will be contained in the HANF account.

There are a number of advantages to providing the voucher funds to the States. The allocation of funds to States rather than PHAs should allow for more flexibility in efforts to address problems in the underutilization of vouchers that have occurred in certain local markets. The allocation of funds to the States will be coupled with additional flexibility in program laws and rules, to allow States to better address local needs and to commit vouchers for program uses that otherwise would go unused. In the former Housing Certificate Fund, more than $2.41 billion has been recaptured over the last 2 years from the Housing Choice Voucher program. These large recaptures have resulted in a denial of appropriated housing assistance for thousands of families, which will be avoided under HANF. The administration of the HANF program should run more smoothly, with HUD managing fewer than 60 grantees compared to approximately 2,600 today.

Allocation of the funds to the States should allow for more coordinated efforts with the Temporary Assistance for Needy Families (TANF) program, and the One-Stop Career Center system under the Workforce Investment Act, successfully administered by the States, to support the efforts of those now receiving public assistance who are climbing the ladder of self-sufficiency.

HUD proposes that fiscal year 2004 be a transition year in which PHAs would continue to receive voucher funds directly while States ramp up in preparation for administering the HANF program. Up to $100 million would be made available to assist States with this effort. In addition, States could apply for incremental vouchers if they are ready to do so, and could request waivers that would assist in the implementation of their programs.

The HANF account would contain $13.6 billion in funding for voucher renewals and incremental vouchers. This would include funding for up to $36 million in incremental vouchers for persons with disabilities, additional incremental vouchers to the extent that funding is available, $252 million for tenant protection vouchers to prevent displacement of tenants affected by public housing demolition or disposition of project-based Section 8 contract terminations or expirations, and $72 million for Family Self-Sufficiency Coordinators.

For fiscal year 2004, the administration proposes separate funding for vouchers under the new HANF account. The Project Based Rental Assistance Account will retain funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. An appropriation of $4.8 billion is requested for these renewals in fiscal year 2004, which is a $300 million increase over the current fiscal year. In addition to new appropriations, funds available in this account from prior-year balances and from recaptures will augment the amount available for renewals and will be available to meet amendment requirements for on-going contracts that have depleted available funding, as well as a rescission of $300 million.

It is anticipated that approximately 870,000 project-based units under rental assistance will require renewal in fiscal year 2004, an increase of about 50,000 units from the current fiscal year, continuing the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle. The HANF account funds an estimated 30,300 units in subsidized or partially assisted projects requiring tenant-protection vouchers due to terminations, opt-outs, and prepayments.

Public Housing is the other major form of assistance that HUD provides to the Nation's low-income population. In fiscal year 2004, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,050 PHAs. Like the Section 8 program, tenants pay approximately 30 percent of their income for rent and utilities, and HUD subsidies cover the remaining costs.

HUD is programmatically and financially committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHAs for both operating expenses and modernization costs. Legislation to implement a new financing initiative is included and enhanced in the fiscal year 2004 budget. This will allow for the acceleration of the reduction in the backlog of modernization requirements in public housing facilities across the Nation.

The formula distribution of funds through the Public Housing Operating Fund takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In fiscal year 2004, HUD will increase the amounts provided for operating subsidies from $3.530 billion to $3.559 billion, plus $15 million to fund activities associated with the Resident Opportunities and Supportive Services (ROSS) program.

The Public Housing Capital Fund provides formula grants to PHAs for major repairs and modernization of its units. The fiscal year 2004 budget will provide $2.641 billion in this account. This amount is sufficient to meet the accrual of new modernization needs in fiscal year 2004.

Of the funds made available, up to $40 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to $30 million can be used for demolition grants—to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in fiscal year 2004, up to $40 million will be available for the ROSS program (in addition to $15 million in the Operating Fund), which provides supportive services and assists residents in becoming economically self-sufficient.

To address the backlog of capital needs, the Department is including a legislative proposal in its 2004 budget called the Public Housing Reinvestment Initiative

(PHRI) that will allow PHAs to use their Operating Fund and Capital Fund grants to facilitate the private financing of capital improvements. This initiative also will encourage development-based financial management and accountability in PHAs.

These objectives would be achieved by authorizing HUD to approve, on a property-by-property basis, PHA requests to convert public housing developments (or portions of developments) into project-based voucher assistance. The conversion of units to project-based vouchers will allow the PHAs to secure private financing to rehabilitate or replace their aging properties by pledging the property as collateral for private loans for capital improvements.

The fiscal year 2004 budget enhances this proposal, which was made in last year's budget request, by also proposing a guarantee of up to 80 percent of the principal of loans made to provide the capital for PHRI. There was substantial interest by PHAs and others in last year's budget proposal; the loan guarantee should greatly facilitate the involvement of private lenders. The budget includes $131 million in subsidy for this guarantee, which would allow the guarantee of almost $2 billion in loans and significantly accelerate the improvement in public housing conditions.

The PHRI reflects our vision for the future of public housing.

For 10 years, the HOPE VI program has been the government's primary avenue for funding the demolition, replacement, and rehabilitation of severely distressed public housing. With $2.5 billion already awarded but not yet spent, and an additional $1 billion to be awarded in 2002 and 2003, HOPE VI will continue to serve communities well into the future.

When HOPE VI was first created, it was the only significant means of leveraging private capital to revitalize public housing properties. But that is no longer the case. Today, HUD has approved bond deals that have leveraged over $500 million in the last couple of years. PHAs can mortgage their properties to leverage private capital. In Maryland, PHAs are forming consortiums to leverage their collective resources and assets to attract private capital. Cities such as Chicago are committing hundreds of millions of dollars of their own money to revitalize public housing neighborhoods. HUD is also seeking additional tools from Congress such as the Public Housing Reinvestment Initiative.

HOPE VI has served its purpose. Established to revitalize 100,000 of the Nation's most severely distressed public housing units, the program has funded the demolition of over 115,000 severely distressed public housing units and the production of over 60,000 revitalized dwellings. There are also more effective and less costly alternatives. The average cost per rebuilt HOPE VI unit is approximately $120,000, compared to $80,000 in HUD's HOME program. Only 20,000 new HOPE VI units have been completed to date. On average, 5 years pass between the time a HOPE VI award is made and a new unit is occupied. In contrast, during the same period, HUD's HOME program produced 70,000 new rental units with an average construction time of about 2 years. It is time to look to the future and pursue new opportunities, such as those I have noted, which can more effectively serve local communities.

Among HUD's other rental assistance programs, FHA insures mortgages on multifamily rental housing projects. In fiscal year 2004, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the second year in a row—from 57 basis points to 50 basis points. With this reduction, the Department estimates that it will insure $3 billion in apartment development loans through this program, for the annual production of an additional 42,000 new rental units, most of which will be affordable to moderate-income families, and most of which will be located in underserved areas. Additionally, because this program is no longer dependent on appropriated subsidies, FHA avoids the uncertainty and the suspensions that have plagued the program in prior years. When combined with other multifamily mortgage programs, including those serving non-profit developers, nursing homes, and refinancing mortgagors, FHA anticipates providing support for a total of some multifamily 178,000 housing units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. The program has, in fact, supported the building, rehabilitation, and purchase of more than 322,000 rental units. Program funds have also provided direct rental assistance to more than 88,000 households.

The Native American Housing Block Grant (NAHBG) and Native Hawaiian Housing Block Grant (NHHBG) are also used for a wide variety of affordable-housing activities. Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant (CDBG) program can be used to support rental housing activities.

Regulatory barriers on the State and local level have an enormous impact on the development of rental and affordable housing. HUD is committed to working with

States and local communities to reduce regulatory and institutional barriers to the development of affordable housing. HUD plans to create a new Office of Regulatory Reform and commit an additional $2 million in fiscal year 2004 for research efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Through this office, researchers will develop the tools needed to measure and ultimately reduce the effects of excessive barriers that restrict the development of affordable housing at the local level.

STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The fiscal year 2004 budget provides States and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address locally determined development priorities through decisions made locally.

The mainstay of HUD's community and economic development programs is the CDBG program. In fiscal year 2004, total funding requested for CDBG is $4.732 billion. Funding for the CDBG formula program will increase $95 million from the fiscal year 2003 enacted level, to $4.436 billion. Currently, 865 cities, 159 counties, and 50 States plus Puerto Rico receive formula grant funds.

HUD is analyzing the impact of the 2000 Census on the distribution of CDBG funds to entitlement communities and States. Based on this review, revisions to the existing formula may be proposed so that funds are allocated to those communities that need them the most and will use them effectively. Any proposals will, of course, consider measures of need and fiscal capacity, as well as other factors.

Of the $4.732 billion in fiscal year 2004, $4.436 billion will be distributed to entitlement communities, States, and insular areas, and $72.5 million will be distributed by a competition to Indian tribes for the same uses and purposes. This budget presumes legislative changes proposed in fiscal year 2003 to fund CDBG grants to insular areas as part of the formula, and to shift administration of the Hawaii Small Cities program to the State. The remaining $224 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis.

As it did in fiscal year 2003, the fiscal year 2004 budget again proposes $16 million for the Colonias Gateway Initiative (CGI). The CGI is a regional initiative, focusing on border States where the colonias are located. Colonias are small, generally unincorporated communities that are characterized by substandard housing, lack of basic infrastructure and public facilities, and weak capacity to implement economic development initiatives. The fiscal year 2004 funds will: provide start-up seed capital to develop baseline socio-economic information and a geographic information system; identify and structure new projects and training initiatives; fund training and business advice; and provide matching funds to develop sustainable housing and economic development projects that, once proven, could be taken over by the private sector.

HUD participates in the privately organized and initiated National Community Development Initiative (NCDI). The fiscal year 2004 budget will provide $30 million for the NCDI and Habitat for Humanity, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community-based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation.

The fiscal year 2004 budget provides $31.9 million to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

Grant funds are awarded competitively to work study and other programs to assist institutions of higher learning in forming partnerships with the communities in which they are located and to undertake a wide range of academic activities that foster and achieve neighborhood revitalization.

The fiscal year 2004 budget requests $65 million for the YouthBuild program. This program is targeted to high school dropouts ages 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The fiscal year 2004 request will serve more than 3,728 young adults.

The Community Renewal Tax Relief Act of 2000 authorized the designation of 40 Renewal Communities (RCs) and nine Round III Empowerment Zones (EZs), and provided tax incentives which can be used to encourage community revitalization efforts. Private investors in both RC and EZ areas are eligible for tax benefits over the next 10 years tied to the expansion of job opportunities in these locations. These programs allow communities to design and administer their own economic development strategies with a minimum of Federal involvement. No grant funds have been authorized or appropriated for RCs or Round III EZs. Round II Empowerment Zone communities have received grant funding in the past, but after 4 years of funding, still have balances of unused funds available. Of course, all of the tax and other benefits associated with Zone designation remain intact. Also, both HOME and CDBG funds can be used for the same activities.

The administration is deeply engaged in meeting the challenge of homelessness that confronts many American cities. Across the scope of the Federal Government, funding for homeless-specific assistance programs increases 14 percent in the fiscal year 2004 budget proposal. We are fundamentally changing the way the Nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is leading an unprecedented, administration-wide commitment to eliminating chronic homelessness within the next 10 years. Persons who experience chronic homelessness are a sub-population of approximately 150,000 individuals who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. For the most part, these individuals get help for a short time but soon fall back to the streets and shelters. Research indicates that although these individuals may make up less than 10 percent of the homeless population, they consume more than half of all homeless services because their needs are not comprehensively addressed. Thus, they continually remain in the homeless system.

As a first step, the administration reactivated the U.S. Interagency Council on Homelessness. Reactivating the Council has provided better coordination of the various homeless assistance programs that are directly available to homeless individuals through HUD, HHS, VA, the Department of Labor, and other agencies. $1.5 million is earmarked within the Homeless Assistance Account for the operations of the Council in fiscal year 2004.

HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and make the funding process simpler for those who provide homeless services. The fiscal year 2004 budget continues to provide strong support to homeless persons and families by funding the HUD homeless assistance programs at the record level of $1.528 billion.

Several changes to the program are being proposed that will provide new direction and streamline the delivery of funds to the local and non-profit organizations that serve the homeless population.

The fiscal year 2004 budget includes funding for a new program to address the President's goal of ending chronic homelessness in 10 years: the Samaritan Initiative. Funded by HUD at $50 million, the Samaritan Initiative will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. This program is part of a broader, coordinated Federal effort between HUD, HHS, VA and the Interagency Council on Homelessness.

In order to significantly streamline homeless assistance in this Nation and increase a community's flexibility in combating homelessness, HUD will propose legislation to consolidate its current homeless assistance programs into a single program.

The administration is also proposing legislation that would transfer intact the Emergency Food and Shelter Program (EFSP) that was administered by FEMA to HUD. The transfer of this $153 million program would allow for the consolidation of all emergency shelter assistance—EFSP and the Emergency Shelter Grant program—under one agency. EFSP funds are distributed to a National Board, which in turn allocates funds to similarly comprised local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the American Red Cross, Salvation Army, and the United Way, as well as other experts.

In addition to funding homeless supportive services, the fiscal year 2004 funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

Nearly two million households headed by an elderly individual or a person with disabilities receive HUD rental assistance that provides them with the opportunity to afford a decent place to live and oftentimes helps them to live independent lives.

The fiscal year 2004 budget will provide the same level of funding for Housing for the Elderly and Housing for Persons with Disabilities as was requested for fiscal year 2003. The effectiveness of the Housing for the Elderly program was evaluated this past year using the Office of Management and Budget's new Program Assessment Rating Tool (PART), and received low performance scores. The administration recognizes the need to improve delivery of housing assistance to the elderly (Section 202) and will examine possible policy changes or reforms to strengthen performance. Funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are then provided with rental assistance, enabling them to accept very low-income residents. In fiscal year 2004, $773 million plus $10 million in recaptures will be provided for elderly facilities. Many of the residents live in the facilities for years; over time, these individuals are likely to become frailer and less able to live in rental facilities without some additional services. Therefore, the program is providing $30 million of the grants for construction to convert all or part of existing properties to assisted-living facilities. Doing so will allow individual elderly residents to remain in their units. In addition, $53 million of the grant funds will be targeted to funding the services coordinators who help elderly residents obtain needed and supportive service from the community.

The budget for fiscal year 2004 proposes to separately fund grants for Supportive Housing for Persons with Disabilities (Section 811) at $251 million. The disabled facilities grant program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In fiscal year 2004, $42 million of the grant funds will be provided to renew "mainstream" Section 8-type vouchers so that, where appropriate, individuals can continue to use their vouchers to obtain rental housing in the mainstream rental market. The Housing for Persons with Disabilities program also received low performance scores when it was evaluated using the PART. The Department proposes to reform the program to allow faith-based and other nonprofit sponsors more flexibility in using grant funds to better respond to local needs. In addition, the reformed program would recognize the unique needs of people with disabilities at risk of homelessness, and give priority to serving this group as part of the administration's Samaritan Initiative to end chronic homelessness.

One of the targeted uses of new incremental vouchers under the Section 8 program is for non-elderly disabled individuals who are currently residing in housing that was designated for the elderly. Disabled individuals are provided Section 8 vouchers to continue their subsidies elsewhere. If a sufficient number of applications for these vouchers are not received, the PHAs may use them for any other disabled individuals on the PHAs' waiting lists. In fiscal year 2004, the Department will allocate $36 million for the non-elderly disabled to fund approximately 5,500 vouchers.

HUD will also provide $297 million in fiscal year 2004 in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families. This is an increase of $5 million over the fiscal year 2003 level and is based on the most recent statistics prepared by the Centers for Disease Control and Prevention. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion are provided through competition for projects of national significance. The program will renew all existing grants in fiscal year 2004 and provide new grants for an expected three new jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 114 in fiscal year 2004.

HUD's Lead-Based Paint Program is the central element of the President's program to eradicate childhood lead-based paint poisoning in 10 years or less. In fiscal year 2004, funding for the lead-based paint program will increase to $136 million from $126 million provided in the President's request for fiscal year 2003. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards. Included in the total funding is $10 million in funds for Operation LEAP, which is targeted to organizations that demonstrate an exceptional ability to leverage private sector funds with Federal dollars, and funding for technical studies to reduce the cost of lead hazard control. The program also conducts public education and compliance assistance to prevent childhood lead poisoning. The President's budget requests an additional $25 million for a new, innovative lead hazard reduction demonstration program to eliminate lead-based paint hazards in homes of low-income children, funded under the HOME program. This new program will provide creative ways of identifying and eliminating lead-based paint hazards—methods that will serve as models for existing lead hazard control programs, such as replacing old windows contaminated with high levels of lead paint dust with new energy-efficient windows.

Also included is $10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. Working with other agencies such as the Centers for Disease Control and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

HUD is requesting $17 million in fiscal year 2004 to meet the expanded costs of its Manufactured Housing Standards Program. This is a $4 million increase over the current fiscal year. These funds will meet the costs of hiring contractors to inspect manufacturing facilities, make payments to the States to investigate complaints by purchasers, and cover administrative costs, including the Department's staff. Fees have been set by regulation to support the operation of this program.

ENSURING EQUAL OPPORTUNITY IN HOUSING

In this land of opportunity, no one should be denied housing because of that individual's race, color, national origin, religion, sex, familial status or disability. The administration is committed to the fight against housing discrimination, and this is reflected in HUD's budget request for fiscal year 2004.

HUD is the primary Federal agency responsible for the administration of fair housing laws. The goal of these programs is to ensure that all families and individuals have access to a suitable living environment free from discrimination. HUD contributes to fair housing enforcement and education by directly enforcing the Federal fair housing laws and by funding State and local fair housing efforts through two programs: the Fair Housing Assistance Program (FHAP) and the Fair Housing Initiatives Program (FHIP).

The fiscal year 2004 budget will provide $29.7 million—an increase of $4 million above the fiscal year 2003 level—under FHAP to support State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The increase will provide: (1) an education campaign to address persistently high rates of discrimination against Hispanic renters (as identified by the 2000 Housing Discrimination Study); (2) funding for a Fair Housing Training Academy to better train civil rights professionals and housing partners in conducting fair housing investigations; and (3) additional funding for expected increases in discrimination cases processed by State and local fair housing agencies as a result of increased education and outreach activities. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, special enforcement efforts, training, and the enhancement of data and information systems. FHAP grants are awarded annually on a noncompetitive basis.

The fiscal year 2004 budget will provide $20.3 million in grant funds for non-profit FHIP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHIP program for fiscal year 2004 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Fighting predatory lending is an important activity for FHIP agencies, as reports continue to show that abusive lenders frequently target racial minorities, the elderly, and women for mortgage loans that have exorbitant fees and onerous conditions.

Educational outreach is a critical component of HUD's ongoing efforts to prevent or eliminate discriminatory housing practices. HUD will continue its work to make individuals more aware of their rights and responsibilities under the Fair Housing Act. A major study titled "How Much Do We Know" emphasized the continuing need for public education on fair housing laws; in fiscal year 2004, FHIP organizations throughout the country will continue to fund a major education and public awareness campaign in support of study findings.

The colonias have many barriers to fair and affordable housing in both rental and homeownership. Many of the residents are recent immigrants unaware of their rights under the Fair Housing Act. Funds will be targeted to FHIP agencies that provide education and enforcement efforts in those areas. FHIP-funded fair housing organizations with grants targeted to the colonias will provide residents with information on the Fair Housing Act and substantially equivalent laws and respond to allegations of discriminatory practices.

The FHIP program will continue to emphasize the participation of faith-based and community partners. Recognizing the tremendous impact that education has on the implementation of fair housing laws, virtually any entity (public, private, profit, and

non-profit) that actively works to prevent discrimination from occurring is eligible to apply for funds under this initiative.

Faith- and community-based partnerships in FHIP will empower citizens by: (1) encouraging networking of State and local fair housing enforcement agencies and organizations; (2) working in unison with faith-based organizations; and (3) promoting a fair housing presence in places where little or none exists today. HUD will emphasize partnerships with grassroots and faith-based organizations that have strong ties to those groups identified in the 2000 Housing Discrimination Study as being most vulnerable to housing discrimination, particularly the growing Hispanic population.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHIP. Fair Housing Act accessibility design and construction training and technical guidance is being implemented through Project Fair Housing Accessibility First (formerly called the Project on Training and Technical Guidance). The project, which is now in its second year, will provide training at 48 separate venues to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. During that same period, Project Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

HUD's Center for Faith-Based and Community Initiatives ("the Center") was established by Executive Order 13198 on January 29, 2001. Its purpose is to coordinate the Department's efforts to eliminate regulatory, contracting, and other obstacles to the participation of faith-based and other community organizations in social service programs.

The Center will continue to play a key role in fiscal year 2004 in facilitating intra-Departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnership with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." Its intent is to ensure that faith-based and community organizations are not unjustly discriminated against by regulations and bureaucratic practices and policies. The Order directs the Center to: (1) amend any policies that contradict the Order; (2) where appropriate, implement new policies that are necessary to further the fundamental principles and policymaking criteria set forth in the Order; (3) implement new policies to ensure collection of data regarding the participation of faith-based and community organizations in social service programs that receive Federal financial assistance; and (4) report to the President the actions it proposes to undertake to implement the Order.

In compliance with Executive Orders 13198 and 13279, the Center will continue to participate in implementing HUD's strategic goals and objectives, as well as the following key responsibilities: conduct an annual Department-wide inventory to identify barriers to participation of faith-based and community organizations in the delivery of social services; initiate and support efforts to remove said barriers; widen the pool of grant applicants to include historically excluded groups; identify and reach out to faith- and community-based organizations with little or no history of working with HUD; work with HUD program offices to strengthen and expand their faith-based and community partnerships; and educate HUD personnel and State and local governments on the faith-based and community initiative.

EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

Improving the performance in HUD's critically needed housing and community development programs begins at home in the Department, by embracing high standards of ethics, management and accountability. The President's Management Agenda is focused on how we can better manage to fulfill our mission by addressing the Department's longstanding major management challenges, high-risk program areas, and material management control weaknesses. Accountability begins with clarity on the Department's goals, priorities and expectations for performance results. We have integrated the goals of the President's Management Agenda with our budget, our

annual management operating plans, and our management performance evaluation processes, to better assure accountability and results.

A key focus of the President's Management Agenda is to address deficiencies in HUD's management of its financial and information systems and human capital, which have hindered the Department's ability to properly control and mitigate risks in the rental housing assistance and single family mortgage insurance programs. There are no quick fixes for these longstanding problems, but we continue to pursue a deliberate and methodical improvement process that is clearly demonstrating progress in improving HUD's program delivery structure and performance results.

Financial Management and Information Systems

A primary focus of the past 2 years has been on addressing the Department's most significant financial management systems deficiencies in the FHA, and on stabilizing and enhancing HUD's existing core financial management systems operating environment. The FHA Subsidiary Ledger Project is proceeding on-schedule as a multi-year, phased effort to replace FHA's commercial accounting system with a system that fully complies with Federal requirements, including budgetary accounting and funds control and credit reform accounting. A major project milestone was accomplished with the successful implementation of the new FHA general ledger system in October 2002. Enhanced funds control capabilities of the new system are scheduled for implementation in 2004, and FHA will continue to adapt and further integrate its 19 insurance program feeder systems over the next several years to achieve full systems compliance by 2006.

While FHA awaits the completion of these systems improvements, they have been working with the HUD Chief Financial Officer on a Department-wide effort to improve HUD's funds control. HUD's handbook on policies and procedures for the administrative control of funds had not been updated since 1984. We updated and strengthened these policies and procedures in a new Administrative Control of Funds Handbook issued in December 2002.

With respect to HUD's core financial management system, the HUD Central Accounting and Program System (HUDCAPS), we have been focused on stabilizing and enhancing systems operations to support the accelerated preparation and audit of HUD's consolidated financial statements. We eliminated two reportable conditions from the OIG's fiscal year 2000 financial statement audit related to: (1) the reliability and security of HUD's critical financial systems, and (2) controls over fund balance with Treasury reconciliations. We prepared mid-year financial statements in fiscal year 2002 and have begun the preparation of quarterly statements in fiscal year 2003. Our year-end audit and reporting process was accelerated by 1 month for fiscal year 2002, and we have plans for further acceleration the next 2 years to meet the OMB mandate for issuance of our fiscal year 2004 audited financial statements by November 15, 2004.

HUD has received unqualified audit opinions on the Department's consolidated financial statements for the last 3 consecutive years—a strong indicator of financial management stability and accountability. However, the audit of our fiscal year 2002 financial statements was not trouble free. It contained 3 material weakness and 10 reportable conditions. Addressing these remaining internal control deficiencies is a high priority for the Department.

While HUD's core financial management system, HUDCAPS, is substantially compliant with Federal financial management systems requirements, it is inefficient and expensive to maintain. We initiated the HUD Integrated Financial Management Improvement Project (HIFMIP) to study options for the next generation core financial management system to replace HUDCAPS. Previous HUD systems integration improvement efforts failed to fully meet their intended objectives due to inadequate planning and commitment. HUD is taking the time to properly plan this project. A HIFMIP Executive Advisory Committee was convened in January 2003—with representation from the Principal Staff of HUD's major organizational components, including FHA and GNMA, and an advisory role has been provided for the HUD OIG. A new Assistant CFO for Systems was hired in October 2002, and Project Manager was hired for HIFMIP in February 2003. The HIFMIP Vision is scheduled for completion by January 2004, and feasibility studies with a systems recommendation by July 2004.

HUD's overall fiscal year 2004 information technology (IT) portfolio will benefit from our continuing efforts to improve the IT capital planning process, convert to performance-based IT service contracts, strengthen IT project management to better assure results, extend the data quality improvement program, and improve systems security on all platforms and applications. HUD is also continuing to pursue increased electronic commerce and is actively participating in the President's "E-Government" projects to better serve our citizens and realize cost-efficiencies through

standardized systems solutions in common areas of information and processing need.

Human Capital Management

HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission. Effective human capital management is the purview of all HUD managers and program areas, and improvements have been geared towards meeting HUD's primary human capital management challenges. HUD has taken significant steps to enhance and better utilize its existing staff capacity, and to obtain, develop and maintain the staff capacity necessary to adequately support HUD's future program delivery. Building upon the REAP and TEAM management tools, a new staff resource estimation and allocation system implemented in 2002, HUD will complete a Comprehensive Workforce Analysis in 2004 to serve as the main component to fill mission critical skill gaps through succession planning, hiring and training initiatives in a Five-Year Human Capital Management Strategy.

HUD is working to determine where application of competitive sourcing to staff functions identified as commercial would result in better performance and value for the government. We have worked with OMB to ensure the appropriate amount and mix of competitive sourcing opportunities, taking into account the workforce we have inherited, including the significant downsizing and extensive outsourcing of administrative and program functions over the past decade. HUD's Competitive Sourcing Plan identifies some initial opportunities for consideration of possible outsourcing, in-sourcing or direct conversion studies to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Strengthening Controls Over Rental Housing Assistance

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing projects are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005 and are raising the bar with new goals. However, HUD overpays hundreds of millions of dollars in rental housing subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the President's Management Agenda, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD has established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004.

To achieve our erroneous assistance payments reduction goal, we have taken steps to reestablish an adequate HUD monitoring capacity in the field to oversee intermediary performance. Field staff is conducting intense, on-site monitoring reviews to detect and correct income verification and subsidy calculation errors. We are also working to provide intermediaries with improved program guidance and automated tools to more efficiently and effectively administer the rental assistance programs. Program simplification proposals are also under consideration, along with a pending legislative proposal for increased authority to perform more effective computer matching with tenant income data sources to enable intermediaries to perform upfront verifications of income used in rent and subsidy calculations. Updated error measurement studies will be performed on program activity in 2003 through 2005 to assess the effectiveness of our efforts to reduce program and payment errors.

Improving FHA's Single Family Housing Programs Risk Management

FHA manages its single-family housing mortgage insurance program area in a manner that balances program risks with the furtherance of program goals, while maintaining the financial soundness of the Mortgage Mutual Insurance (MMI) Fund that supports these programs. The MMI Fund is financially sound and the single-family housing programs are contributing to record homeownership rates, with a focus on homebuyers that are underserved by the conventional market. Nevertheless, overall program performance and the condition of the MMI Fund could be further improved if all lenders, appraisers, property managers and other participants in FHA's program delivery structure fully adhered to FHA program requirements designed to reduce program risks and further program goals.

In the past 2 years, FHA has initiated or completed numerous actions to improve the content, oversight and enforcement of its program requirements, including consideration of alternative business processes. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch program, improvements to the Credit Watch program that will identify problem loans and lenders earlier on, new standards for home inspectors, a final rule to prohibit prop-

erty "flipping" in FHA programs, and rules to prevent future swindles like the 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

In addition, FHA continues to enhance its staff capacity for administering this program area, and continues to achieve favorable property disposition results through its performance-based management and marketing (M&M) contracts. M&M contracts have resulted in a steady decline in FHA's property inventory, from 36,000 homes at the end of fiscal year 2000 to 30,113 at the end of fiscal year 2002. The loss per claim on insured mortgage defaults has been cut from 37 percent to 29.5 percent.

CONCLUSION

As we implement our proposed fiscal year 2004 budget, we will also judge our success by the lives and communities we have helped to change through HUD's mission of compassionate service to others: the young families who have taken out their first mortgage and become homeowners, the homeless individuals who are no longer homeless, the neighborhoods that have found new hope, the faith-based and community organizations that are today using HUD grants to deliver social services, and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by HUD's proposed budget for fiscal year 2004, our communities and the entire Nation will grow even stronger. And more citizens will come to know the American Dream for themselves.

I would like to thank each of you for your support of my efforts, and I welcome your guidance as we continue our work together.

Thank you.

Senator BOND. Thank you very much, Mr. Secretary. Senator Mikulski has agreed that she would go ahead and vote, and she has a couple of other responsibilities this morning. I am going to ask some questions and adjourn temporarily until she returns, and I have asked her since she has some commitments, to take all the time she needs when she comes back, and then I will pick up from there.

First, I appreciate your willingness to work with us on HOPE VI. Surely everybody understands the program has been around and there are obviously ways that it can be improved or changed, and I am not resistant to that. But as I believe Senator Mikulski very clearly indicated, we both have a strong commitment that this is a vitally needed part of so many communities in this country. And yes, there are a lot fewer completed than planned. It takes a long time, as you well know, to get these things out of the grand. Maybe they could be doing a better job, but from what I know of the projects, they spend about 2 or 3 percent in the first year, and then they really take off over time.

So if there are problems, let us figure out how to proceed, whether you can revise the program or a new program. As I said, I am skeptical about a loan program that is structured to replace it, but we will work together.

HIRING

With respect to the problems in hiring, the personnel problems, we will look forward to discussing those with you privately, which I believe would be more appropriate, but clearly, that one, we have had a couple of thoughts like that in some of the other departments this committee is fortunate enough to fund, and for the life of me,

I cannot understand why people cannot count. I know it is complicated, but there are basic math skills that are needed.

HANF

Let me go back to your proposal for block granting for needy families. I have expressed my concerns. Clearly you recognize and we recognize that there has been some problems in the Section 8 program. Why should we convert it to a block grant program to the States? Would States be required to maintain the current Section 8 subsidy requirements in 801 of 30 percent? Why would this be good for Section 8 residents? So maybe you can share some of your thoughts on this.

Secretary MARTINEZ. Mr. Chairman, I think that those are all good questions, and questions we should address as we go forward in implementing legislation for something like this.

First of all, let me say that I find it troubling that what I think is basically a retail program should be managed from Washington. The fact that a fair market grant in a given community somewhere in America would have to have that fair market grant adjusted by an approval from Washington sometimes delays that process by 5 or 6 months, which is inevitably built into the bureaucracy of the Housing Authority and that of our own Department, and those things occur.

In addition to that, I believe that dealing with over 2,600 housing authorities on this particular program, versus dealing with 50 States, would ease the way we manage and the way we handle programs.

In addition to that, I believe by giving the States the local flexibility in the utilization of the housing vouchers, that a full utilization of our vouchers would be achieved. I, like you, am terribly troubled by the recurring problem with recapture because unfortunately, we find year after year that that money, as you all pointed out, is not necessarily just spent on housing and it is——

Senator BOND. Almost never. It gets raided. Everybody sees the pot of money and it goes to whatever happens to be hot at the time.

Secretary MARTINEZ. And so you know, I feel like, in any event, however we can fix that problem and put more money in the hands of the people who really need it, which is the intent of the Congress at the time that you appropriated it. So all of those reasons coming together, in addition to the fact, Mr. Chairman, that the intent of the welfare plan which the States are administering, would be a nice conduit for this program to also fit with.

The population of folks that the States are dealing with on the welfare roles or in their medical needs also have housing needs, and now we would put all of that together. It has had a good reception from a number of governors. I think that wound ensure that the money would be preserved for housing, that it would be preserved in the program, much like we now have it. I think all the safeguards that we would want in terms of eligibility or whatever else, I think would be built into the authorizing framework to make it a successful program.

But you know, I know from your experience as a former governor and your strong knowledge of the program, that I would really look forward to a dialogue on this on the shortcomings of this proposal,

and perhaps I could persuade you on helping us to make it better rather than just legislating that it does not work.

SECTION 8

Senator BOND. Clearly, we have to do some things about Section 8. We included, as I said, a change in the approach. The House had one view, we had a different view. I think what we came up with should be workable, we want to work with you to find out whether it is, because there is certainly enough problems in the area, and we have to see how this new fund works.

And I would like your comments on the approach we took for fiscal year 2003 and what steps HUD has taken to assure that HUD has adequate and reliable information to the numbers of vouchers as well as the number of additional vouchers that are likely to be used to obtain housing. We found this information in the past has not been reliable.

Secretary MARTINEZ. Mr. Chairman, I appreciate the new approach that has been taken. I think it is a step in the right direction and should help us to a fuller utilization of the Section 8 vouchers.

What I would like to do with the Chair's permission is to liberally rely on my Assistant Secretaries when you have specific questions, and I ask Assistant Secretary Liu to step up and perhaps address some of those.

Senator BOND. All right. Mr. Liu.

STATEMENT OF MICHAEL LIU

Mr. LIU. Good morning, Mr. Chairman. First of all, we welcome the fiscal year 2003 reforms as passed by Congress for the Section 8 program, and we think it is a step in the right direction for budgetary reform. As the Secretary has mentioned and I think as you have alluded to, there are still things that can be done so the program can make things work.

Specifically as to what we are doing as to implement the fiscal year 2003 proposals, I can assure you that when we first heard of the possibility, we started working to improve our reporting requirements because right now we have been faced with situation where under the best of circumstances they are a year, sometimes a year and a half old, which has compounded our problems. We are working toward refining existing systems, so we are not talking any new systems, but working with the existing systems to gather information on Section 8, to streamline the release of information and usage on a much more current realtime basis, and we are moving forward on that.

Senator BOND. I look forward to working with you on that.

I do have to go for the vote but let me raise one more thing, and that would be in GAO's report, the GAO asserts that errors in determining the amount of rental income from the Section 8 program has resulted in estimated excess of some $2 billion, or 11 percent of the funding in fiscal year 2001. $2 billion would be enough to pay for a new affordable housing production program. If that figure is accurate, the loss means that we really are missing some opportunities to utilize it. What are you doing to reduce that error rate, that overpayment?

Secretary MARTINEZ. Mr. Chairman, we have focused on this issue, and I would ask Assistant Secretary Liu to address the specifics.

Mr. LIU. We have aggressively worked to not only have legislation introduced to get new hires that we need, and hopefully that will pass. But not waiting simply for the legislation we have aggressively been trying to get agreements signed with States around the country to keep better track of wage and hiring information, which is key to our being able to keep track of the truth in terms of what is being required.

Senator BOND. Has the IRS given you any help in that?

Mr. LIU. We have talked to the IRS.

Senator BOND. The Committee will stand in recess until Senator Mikulski returns, and I will be back shortly thereafter.

HOPE VI

Senator MIKULSKI [presiding]. The Subcommittee will reconvene with the concurrence of Senator Bond, and I have a bipartisan responsibility I must attend to as close to 11:00 as I can.

As you can see, we have many commitments, Mr. Secretary, and we know you do as well. Senator Bond is voting and in the interest of your time and ours, I am just going to proceed.

I am going to start off my questions with HOPE VI, and we have had many private conversations on the topic. And second, I also want to thank you and your staff for supporting the study which resulted in a report on lessons learned on HOPE VI. They have completed study one, which I think raises some very significant issues related to the program, but also contains some suggestions, which I think will maximize this very great opportunity that I know you and I are committed to.

Second, there has been always the issues of relocation, where do they go, what happens to them?

And number three, is the focus now on buildings only, or also on the human development services. And remember, the goal is public housing, not a way of life but a way to a better life, and I think we should focus on that.

Now, could you tell us what you are thinking about in terms of HOPE VI, where do you want it to go once it is zeroed out? We are very concerned. This is $600 million that we could use.

Secretary MARTINEZ. Senator, I think the reason we are in this situation is that because of whatever issues did arise within the administration, that the process of developing an alternative did not keep pace with the budgetary cycle which required us to not fund it.

Let us say that our concern on HOPE VI is that we are studying this and we are looking to have many resources come together, people in the academic community who have looked at HOPE VI, in addition to practitioners in the development projects, mayors who have tried to revitalize urban areas, and pull together the best of all of that thinking as to how we should reauthorize a HOPE VI, or whatever we arrive at. We think that the mission of HOPE VI is not over.

I think what has occurred is that we had a 10-year program with a substantial amount of money. With this chart I would like to go

through where they are in terms of the opportunity and the spend-out, and again, it is not to be critical but only to point out to you that we do have a moment here to take a breath as we go forward into the future.

But as you see, in Chicago, there are people there that are doing a terrific job in revitalizing parts of that city, but you can see that there is still the signs where the spend-out is not——

Senator MIKULSKI. Mr. Secretary, my bifocals are not working.

Secretary MARTINEZ. Let me give you a little help, if I might, just to be casual if I may.

Basically we are looking at Chicago for instance; they have been awarded this much, they have only spent this little bit here so they still have a number of projects, they are going to be deferred to later.

Senator MIKULSKI. Let us go to St. Louis and Baltimore.

Secretary MARTINEZ. Baltimore actually has spent well over 50 percent of what they have been granted, so that is the good news, and St. Louis has a little bit less.

Senator MIKULSKI. So Mr. Secretary, we have spent a billion?

Secretary MARTINEZ. Baltimore has been the best relative to what was awarded.

Senator MIKULSKI. Let us look ahead to October 1, 2003, for the fiscal year. Where will we be with this? You indicated that there is money funded that local communities still will be completing their project on that is the completion owe money I got to complete it, so it is not like when it comes to October 1, it stops.

Secretary MARTINEZ. All of these projects, we will still bring them to completion.

Senator MIKULSKI. And then they——

Secretary MARTINEZ. At that point HUD would have to go through one more round of communities out there who today would be anticipating the possibility of doing a HOPE VI or trying to put a deal together or maybe some that were in the running this year but did not quite get to allocation, so next year there would be one more cycle of HOPE VI grants that we could issue, all of whom I hope is, and our challenge is to work with the communities who are doing a good job but who still have problems.

Senator MIKULSKI. Let us move on, because I do have to go. Here is what I am going to say. First of all as I understand HOPE VI, we spent a total, since the program was created a decade ago, over a billion dollars, and the results show there are successes here as well as lessons learned. I do not want to give up on the HOPE VI framework. I think what you have just said is you are asking for the opportunity to pull together a group of people who know the most about HOPE VI, which is the advocates who have had criticism, academics like the Urban Institute who have done studies on it, and the mayors who have to run it. And I think what you are asking for as we have this small window, is the opportunity to pull together a task force that could bring forth either a HOPE VI reform package or a new building on lessons learned, a new framework for legislation.

Secretary MARTINEZ. I would love to pull that kind of thing together. I would also seek the authority to also commit a funding package to go with it.

Senator MIKULSKI. I understand that and also that there is the authorization issue as well.

Secretary MARTINEZ. Correct. Something has to happen this year in any event.

Senator MIKULSKI. I would like to talk about a timetable. First of all, we asked HUD for a report that was due in June 2003 on the status of severely distressed units, we want to know what is left out there and the need.

There is a second need that is not related directly to HOPE VI but it is also important, and that is the backlog on public housing capital repair. That is both regular public housing—but I understand there is a huge backlog. I also do not know if it includes the housing for the elderly. Remember when I said that most of this housing was built in the 1970's and 1980's.

Secretary MARTINEZ. The 202's would not be included.

Senator MIKULSKI. So that is a whole other issue there.

Secretary MARTINEZ. Right.

Senator MIKULSKI. So really this is the program that was initiated by President Ford, it gained momentum under President Carter, it was one of the really signatures of the Reagan Administration, so this is really a bipartisan effort among the seniors.

I do not know that we want this to go to a commission, that requires presidential appointments and executive directors, et cetera, but I am going to ask you internally that you pull together a task force among the categories of stakeholders that you have just enumerated, and we will work with you on this to say where do we go next. And then bring this to the authorizers and we appropriators to see if we can do something this year so when the money in the pipeline runs out, we have a new framework. I really do not believe that President Bush, who I believe is a real conservative, wants to in fiscal year 2004, a presidential election year, have a program that just sputters out.

So much has been done on a truly bipartisan basis, let us now look at the new framework based on needs both of residents and the distressed housing, and also on the lessons learned and where we might need to be placing emphasis on human capital. So I really extend my hand to you in partnership to work on this. The only outcome I am interested in is to keep the framework, physical architecture that develops human capital, and people have a way of moving to a better life, just like welfare to work.

Secretary MARTINEZ. Alright.

PUBLIC HOUSING—ELDERLY/MINIMUM RENT

Senator MIKULSKI. I am very concerned about the issues related to the elderly housing and we would welcome your ideas on what we are doing and can do about housing for the elderly as well as in public housing.

Another issue with which I am concerned is public housing minimum rent. As I understand it, there are many residents that are going to be affected by this change. Could you tell me why HUD should determine minimum rents and not the local public housing authorities?

Secretary MARTINEZ. Senator, for a long time, housing authorities have, for the most part, determined a minimum rent, and in

fact today out of the 4 million families that are currently receiving Federal assistance, only 250,000 will be affected by this new minimum rent proposal, which is only about 8 percent of the families that are currently served by public housing.

So the idea is that, at a time when it is felt that a minimum rent of $50 would be something that all families who reside in public housing should be contributing, that it is appropriate to set out a place where all should go. What occurs often times is that if there is not some clarity on this, that on the one hand maybe minimum rents will go beyond $50, which is not appropriate in many cases, or that folks who next door may be making their $50 contribution have a neighbor who is equally able to make it or even better off and yet does not make it.

So our goal is to try to insure that there is some equity in this. Most housing authorities have a minimum rent fee today of $25 to $50. Over 50 percent of housing authorities have a $50 minimum rent, and so we believe that this is trying to create a little equity in public housing.

And also, this is teaching a certain responsibility because as you have said, it is not a way of life and there is no such thing as free rent. So if people have a sense of obligation to pay in some amount of their money for rent, it can begin to lead them to a path of self sufficiency and out of the public housing morass and into a life of their own.

Senator MIKULSKI. As you know, there are advocates who are very troubled by this. And local public housing authorities are troubled. I know Mr. Grazziano and the Baltimore folks are also troubled by this, and I would ask, number one, that you take a look at this decision and number two, consult with the local public housing authorities and see what they think about it.

And the thing we do not want to do with any of these policies is penalize the poor. I understand the need for responsibility, we encourage responsibility, but where there is some unexpected hardships like illness, they may not be able to pay.

Secretary MARTINEZ. Let me also say, I did not point this out, Senator, but the elderly and the disabled, of course, are exempt from the $50 rent, so it is only for the rest of the population.

FRAUD

Senator MIKULSKI. Let us go now to issues of fraud. I would like to bring up the issue that I talked about earlier.

Secretary MARTINEZ. Could I ask the Inspector General to join me?

Senator MIKULSKI. Yes.

First of all, I do find it commendable what you have been doing. We have had prosecutions, we have had indictments, and even jail sentences as well as FHA reform.

I am not going to name the company but we will share it with you privately, but it is a Utah based loan server. And what they do is they send false letters to home buyers telling them they were delinquent on their loans, that they were going to be foreclosed on their loans, and to send them money, when there was nothing wrong with the loan. People panicked and of course as you know, people will do anything not to lose their home.

What the TV station has identified, because people went to TV and the community law center, this company provides customer services but again, they are not the lender. The Community Law Center in Baltimore has received 90 complaints from the one same company. We do not know if any of these loans have FHA insurance on them. We do know that it is an approved FHA partner.

And so my questions would be number one, to ask both the Department and the FHA to look into this and Mr. Donohue, for you to look into this particular company to stop this, to identify what they are doing and to stop it, and to see if this is even going on in other parts of the country, because I do not believe they are a national company. And then we need to know if someone has been a victim, where should they go to get help. Do you want to comment, any of you, on this?

Secretary MARTINEZ. I have also Housing Commissioner Weicher.

Senator MIKULSKI. It just seems with flipping when we close 3 loopholes and the scammers and the scummers find 5 more. That is what a predator is.

STATEMENT OF KENNETH DONOHUE

Mr. DONOHUE. Senator, we became aware of some of these tactics in the midwest United States, and we have also seen, just to add to, we have seen additional types of activities of this sort. Such as global operations used to identify and target mortgages facing foreclosure, soliciting financing that involves high fee structures and charges that add to the cost of the loan and the price of the mortgage. We have found entities that pray upon mortgages that——

Senator MIKULSKI. Can you just tell me what we are going to do on it?

Mr. DONOHUE. We are aware of it, we are opening an investigation with regard to this matter, specifically to the matter at hand in Maryland.

Senator MIKULSKI. To the general issue or to this company as well?

Mr. DONOHUE. We are looking at the general issue and we are going to take a specific look at the matter that you have raised.

Senator MIKULSKI. Thank you very much. And I want to here more of your testimony, but I do have this obligation with Senator Frist. And I want to thank you for listening. Did you want to add something, Mr. Weicher?

STATEMENT OF JOHN C. WEICHER

Mr. WEICHER. Senator, simply that if these are FHA loans, and you indicated that that has not been established, if they are FHA loans, we do have the ability to intervene. We have loss mitigation requirements in the event borrowers are in fact delinquent. And we certainly have the ability to prevent foreclosures when borrowers are not delinquent.

Senator MIKULSKI. And I do not know if they are foreclosing. I just think they are sending scare letters. They are not a lender, they are providing so-called customer services, but they send scare letters and accept payments when there is no payment to be accepted. These are when loans are current, when loans are current.

Mr. WEICHER. If that is happening, I am not a lawyer, but to me that sounds like fraud and we would be certainly interested in sanctioning that entity insofar as it has FHA approval, and we would be certainly working with the IG.

Senator MIKULSKI. What I would like to suggest is that at the conclusion of this hearing, my staff present to you what we currently know about this, and second, I would ask that you contact the Community Law Center in Baltimore, they are energetic lawyers who have gotten 90 complaints from people. So they have kind of a documentation staff there, and someone could then see that.

If someone has received one of those, what should they do and where should they go? Or do you want to think about that and tell us?

Mr. DONOHUE. If I may. I would think that if it is a matter with regard to a violation of Federal law, I think they should contact us, or speak to the appropriate HUD Field Office—we work very closely in Baltimore with the FBI and U.S. attorney's office, any means to get that information to us or contact directly is fine.

Senator MIKULSKI. Well, what I would like you to understand is the specific method, and I would like you to really think about this, because we do need a method for them to either come to the Community Law Center or they come to you. So please think about it, so we can let these 90 people know, but I have a feeling that there are others out there.

Mr. Chairman, thank you. I hope we pursue this. And then second, where we are on all of these aspects related to predatory lending. And if they know we are on it, then it tends to have a chilling effect. So thank you very much.

Secretary MARTINEZ. You are very welcome.

PUBLIC HOUSING OPERATING FUND

Senator BOND. Thank you very much, Senator Mikulski. I think that your questions covered a number of the questions I had, so I am going to try to move on, and Mr. Secretary, I would also like to discuss with you in private what internal steps you have taken to ensure that the public housing operating fund over-expenditure does not happen again. We will talk about that in a one-on-one conversation.

FAITH-BASED ORGANIZATIONS

With respect to faith-based organizations, I understand HUD is revising a number of the regulations to make it easier for faith-based organizations to participate in HUD programs, including enhanced eligibility for grants. I strongly support the role of churches and other faith-based organizations in making our communities strong and safe, but there have been a number of news reports that infer that HUD is trying to divide churches and faith-based organizations with expanded access to Federal funds including grants to build churches where a church is involved with community issues.

What programs are involved, and is their truth about this providing grants for church construction, and how would you deal with this constitutional potential problem here?

Secretary MARTINEZ. Mr. Chairman, we have embraced the President's call to level the playing field for faith-based organiza-

tions to insure the full participation of the faith community in a lot of our programs and to insure that the regulations and other rulings of the game are fair, even, no matter what the program may be. We are in the process of finalizing some regulations which we hope will not have the conclusions that I think some of those news reports have reached.

We believe that if there is a building related to a church but not the church itself, which may be involved in a social service of some sort, that perhaps some funding for accommodating that work could be done, but we are going to try to be very clear that we stay away from any direct funding of church buildings, things of that nature. Houses of worship are different from places where social services may be rendered.

So we are looking very carefully at these regulations, they are not final. As we go forward, I think the caution that you have raised certainly needs to be kept in mind.

Senator BOND. I think it is important to steer that path very carefully, and I certainly endorse wholeheartedly the President's initiative.

PUBLIC HOUSING REINVESTMENT LOAN GUARANTEE INITIATIVE

Your budget request for new public housing loan guarantee program and $131 million in credit subsidy, according to the budget representation, this program will leverage some $2 billion in loans and accelerate capital improvements. That sounds like a fairly complex program for most PHAs.

How quickly do you think you could get it up and running, what do you think the cost of the actual per unit basis will be, and how will it compare with HOPE VI, what kind of tax credits are expected to be part of any financing? Mr. Liu?

Mr. LIU. Mr. Chairman, we certainly are excited about the public housing reinvestment loan guarantee initiative. We appreciate the concept of loan guarantees which was proposed by the chairman last year, because we think that credit enhancement has to be a key component for this concept of utilizing private sector debt financing to work.

We are building this program on the experience over the past 4 or 5 years where similar deals without credit enhancement have gone forward. Over the past 4 or 5 years and really mainly in the past 2 years, we have raised over $500 million through the debt markets, over 80 transactions of various sources, where capital fund grants have been used as either equity and/or as leveraged capital for bond deals, loans, and other situations.

We have done some analysis of cities where this tool might be used, and per unit costs ranged from $17,000 to $55,000. This is really in line with what we are doing now in rehabilitation and modernization use of the capital fund at this point in time. So we think that the program can be up and running fairly quickly. In fact, we have proposals already at the door from public housing authorities that are interested in being first in line should the concept move forward.

FHA

Senator BOND. All right, thank you. Let me turn now to an FHA question. According to the GAO 2003 high risk report on HUD, the FHA single family mortgage insurance program remains a high risk area because of continued weakness in the insurance process, evidence of fraud, and a variety of challenges that HUD faces in implementing correcting action. What steps are being taken by HUD to address these concerns?

Secretary MARTINEZ. The FHA Commissioner, Mr. Weicher, is going to address that, Mr. Chairman.

Mr. WEICHER. Yes, Mr. Chairman. We have taken a number of actions to address the problems of fraud and lender incompetence in our programs. Senator Mikulski alluded to our flipping rule. We have a series of rules in process, literally a dozen rules to address fraudulent or deceptive practices in FHA loans.

We established a program called Credit Watch where we track the loan performance of individual lenders to see how their loans are performing the first couple of years after origination, compared to other lenders in the market area. We know that if they are bad loans, the problems arise the first couple of years.

We originally set a threshold of 3 times the default rate for the market area as being grounds for sanction. We are in the process of lowering that quarter by quarter from 3 to 2¾, 2½, and by next fall, next October, it will be double. We are chasing out, removing their ability to do business with us, those lenders who show early default rates in excess of their market by a substantial amount unless they can provide some evidence that there is a reason for that.

We are in the process of extending that to appraisers, because you cannot really have a predatory loan without a bad appraisal, or corrupt appraisal. We have issued advance notice of proposed rule making on that program, we received comments, and we are in the process of developing a rule to put that into place.

We are moving on these and it shows up in the overall performance of the FHA funds as you alluded to in your opening remarks. We are having fewer claims, fewer losses, and that is one significant reason why our reserves are increasing.

Senator BOND. Okay. Let me ask you on your risk management, you launched a demo in 2002 known as the 2001 Accelerated Claim Disposition Program to reduce foreclosure losses. On October 31 last year, you awarded Salomon Brothers Realty a 70 percent equity interest in a joint venture to dispose of 5,100 nonperforming loans. HUD said this would help restructure the mortgage notes to improve performance. What is the status of that particular program?

Mr. WEICHER. This is the Section 601 demonstration authorized by Congress in, I believe, the 2000 Appropriations Act. We have, as you described, conducted that auction and made that transaction with Salomon Brothers, and we are in the process of providing loans to—and these are loans which have gone into default but which we have not had to foreclose and take title.

We pay a claim on the loan to Salomon Brothers. Salomon Brothers in turn takes the responsibility for management of the loan. There are a couple of purposes to this. One is that it is more cost

effective for us to sell the notes than to proceed to foreclosing, taking title and funding the property ourselves. The other is the private sector has more ways of avoiding a foreclosure than we do, the private sector can take it down on a partial basis and write down in ways that we cannot.

In conversations we have had with Salomon Brothers, they have indicated that over 70 percent of the families in these homes want to work with them on work-out programs. If they are able to make that work, then many of those families will remain in their homes, and they could not have remained in their homes if they had gone to claim with us, gone to foreclosure with us, and I think that is going to strengthen the communities, as Senator Mikulski stressed in her opening remarks, by keeping stability, keeping people in their homes.

ASSET CONTROL AREA DEMO

Senator BOND. Thank you. In last year's appropriations bill, we directed HUD to enter into contracts and agreements under the Asset Control Area demonstration program to design and promote home ownership. What is the current status of that?

Mr. WEICHER. We did, in fact, issue new procedures for the program on September 15 of last year. We actually issued two sets of procedures, one, the program as prescribed specifically by statute, and a second based on our experiences in the program under our pilot authority. We put together a program which seemed to us likely to work significantly better. We received a number of comments on the programs and a number of expressions of interest from individual communities.

We have received applications under the pilot program from Baltimore, Camden, Cleveland and Hartford. We have received expressions of interest and have had conversations with Rochester, Chicago and Los Angeles. All of those except Baltimore and Camden participated in the earlier program. We have revised our proposed procedures in light of conversations we had with many of these groups and we sent out letters saying we are ready to accept your application, we sent those out in late February and we expect that program will be fully operational soon.

Senator BOND. Why did it take so long?

Mr. WEICHER. We met the September 15 deadline. We then received comments from local organizations on a wide variety of issues, issues they wanted to have addressed, and we have been working to address those issues so we have a consistent program that would work.

Secretary MARTINEZ. One thing I would point out is that some of these programs that we have inherited, while well intended, sometimes do not have the built-in tools for us to properly monitor them like you would want us to do. So I think we wisely stopped the program when we felt that it just could not be managed in a way that would ensure good oversight and then restart them. I understand we may have taken a little longer than we should have in restarting it, but we put it back on track and allowed the communities to participate in them.

But the program we had which was littered with fraud and problems, since we have reinitiated it after stopping it for only 90 days,

I think is really being successful and is, in fact, fulfilling the promise of what it was intended to do, and we look forward to the same with this particular program.

INTERAGENCY COUNCIL ON HOMELESSNESS

Senator BOND. Mr. Secretary, you soon will be coming to the end of your term as Chairman of the Interagency Council on Homelessness. Our thanks for working with this Committee on resuscitating the Council, and hopefully you will continue to play a strong role.

Can you tell us what you think the Council accomplished during your chairmanship, and I would just ask you to address the efforts of the council, whether agencies such as VA and HHS have come forward with adequate resources.

Secretary MARTINEZ. Clearly the revitalization of the Council on Homelessness by this administration, I think is one very important step and milestone in the fight to end homelessness in America. We have taken the approach of attacking the chronic population as a way of attacking homelessness in general.

By dealing with the chronic population, the interagency council's focus on the chronic population, a program designed to deal with that population, and encouraging others to jump on that band wagon, has been one of the real successes of the program. We have cities now like Chicago who are embracing the concept of ending homelessness, ending chronic homelessness as a step to ending homelessness.

The Council was able to pull together the resources and the interests of HHS and VA, along with HUD, to do the Samaritan Grant program. We think this is an innovative approach which is going to allow us to deal with that chronic population in a way that allows them to be helped not just with shelter, but also with medical needs and the VA with all the programs that they do. The Samaritan program has a contribution of $10 million and $10 million from each of those two other departments, with HUD contributing $50 million from our budget.

We want a greater and fuller partnership because we do know that the chronic population oftentimes lacks medical care, has addiction problems and things of that nature.

Senator BOND. I have seen the figures on the addiction problem, and I would call Mr. Mangano forward to give us a brief update, if you would please. Welcome.

STATEMENT OF PHILIP MANGANO

Mr. MANGANO. The first thing I would like to say, Mr. Chairperson, is that it is really the personal and professional commitment and support of Secretary Martinez that has eased the revitalization of this council in this inaugural year of its existence, and I would say personally it has eased my own Baptism into the Federal Government. So I am very thankful to both Secretary Martinez and to his staff and even as I look at his staff here, every one of them has made a contribution to the well being of the council over the last year.

In the council, as Secretary Martinez indicated, we have developed some themes, and one of the key themes we have developed is prevention of homelessness. That has been something that has

been absent from Federal policy around homelessness in the past. So what have we really engaged in for the last 20 years? We have moved people out of homelessness, but more people have fallen in, and that has been the continuous saga. So a lot of the attention of this administration is on prevention and especially on, as Secretary Martinez indicated, the President's initiative and the Secretary's initiative to end chronic homelessness.

We know that the research indicates that 10 percent of the population consumes over 50 percent of the resources, and our hope is that by focusing on that population and ending that population's homelessness, there will be additional resources to address the homelessness of other populations of homeless people as well.

We are also looking to increase the access to mainstream resources on behalf of homeless people. A GAO report in 1999 indicated that the resources that are targeted for homeless people in the Federal budget are really insufficient, but that there are hundreds of billions of dollars of resources available in the mainstream programs. So we have been working, again, with HUD and HHS and VA and Labor and SSA, to ensure that better access is available to mainstream programs for homeless people.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Thank you. We appreciate your good work on it.

Mr. Secretary, anything you want to add? I have a few more questions but I am going to submit them for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

HOUSING ASSISTANCE FOR NEEDY FAMILIES

Question. Under the proposed funding formula and out-year estimates, how many vouchers would each State be able to fund under this formula? How does this compare to current year voucher use? How does this compare to the number of voucher contracts currently authorized for PHAs in each State assuming that tenants have no income?

Answer. Under HUD's proposal, the State would receive funding sufficient to at least cover all vouchers currently under lease through PHAs within the State. HUD believes that even more families will be assisted due to the ease with which States can utilize the funding. Full utilization will also help justify increases in funding.

HUD expects that lease-up and utilization of funds will increase as a result of the HANF reforms.

Under HUD's proposal any family currently receiving voucher rental assistance would continue to receive such assistance through 2009. HUD also anticipates States being able to serve even more families, both through efficiencies and additional funding.

Question. The administration is proposing to restructure the various Section 8 programs by creating a new Section 8 tenant-based voucher program that will be called the Housing Assistance for Needy Families program or HANF. HANF would be funded at some $12.5 billion in fiscal year 2004 and would transition to a block grant program to the States in fiscal year 2005.

HANF does not appear to be the best possible replacement for the existing voucher program. I have concerns that the funding levels may be inadequate to meet future voucher use and will burden States at a time when States are already facing significant budget shortfalls. Also, while we have not seen the proposed legislation, after the requirement that States maintain the rental subsidy for existing voucher holders, this program looks a lot like the HOME program.

Why should Congress convert the Section 8 program to a block grant program for States? What is the advantage for States? Why would this be good for Section 8 resi-

dents? What is HUD's responsibility under this proposed program? When will the legislation be submitted?

Answer. HUD and Congress share concerns that this key program is not functioning efficiently to the detriment of both needy families and the taxpayer. The tenant-based assistance program now provides rental and homeownership assistance to more than 1.8 million families. Despite this success, during the past several years, billions of dollars of funds appropriated for tenant-based assistance have remained unspent, and as a result several hundred thousand families have not been provided housing assistance made available by Congress.

The advantages to providing tenant-based housing assistance through a State-administered block grant are:

—increasing program flexibility so that funds are used promptly and effectively to assist needy families;

—facilitating greater program responsiveness to local markets and needs by delegating decision-making, such as setting rents, closer to the communities and families affected, by their elected officials;

—allowing flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and

—improving government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

States would have control of the funding to directly address the housing needs of their low-income citizens. States would have the flexibility to ensure that the funds work effectively in their local housing markets. States would have the ability to reallocate the funds or take other actions that may be necessary so that program funds are expended promptly and meet the needs of low-income families in an efficient manner. States will also be able to better coordinate housing assistance with other State-run assistance programs to more effectively target resources and achieve self-sufficiency for those in need.

The program would be more flexible and would work more effectively in local housing markets in increasing housing opportunities for low-income families. Program rules would be greatly simplified, increasing landlord participation in the program. The program would be able to react much more quickly to fluctuations in local rental markets to ensure the subsidy is sufficient to allow families to find housing with the tenant-based assistance. Economic self-sufficiency and homeownership efforts by assisted families would receive greater support through better coordination with other State programs. Under the HANF program the Secretary will establish performance standards for States, including the improved living conditions for elderly and disabled families; the effectiveness of voucher assistance in helping families move toward homeownership and self-sufficiency; and the extent to which State or local governments remove barriers to affordable housing.

HUD is responsible for establishing performance standards for States that include funds utilization, financial management, number of families served, quality of housing, reduction of homelessness, improved living conditions for elderly and disabled families, the effectiveness of voucher assistance in helping families move toward homeownership and economic self-sufficiency, and the extent to which State or local governments remove barriers to affordable housing. HUD, also, is responsible for ensuring that States are administering the program in accordance with Federal law and program regulations and will review the State's performance report. Further, HUD will make such reviews and audits that are necessary to determine whether the State is carrying out the housing assistance activities and objectives in a timely and effective manner, and whether it has met any performance standards established by HUD for the program.

The legislation was introduced in the Senate on April 29, 2003.

Question. Will States be required to maintain the current Section 8 subsidy requirement that families pay no more than 30 percent of adjusted income?

Answer. The legislation proposes to greatly simplify the current income and rent calculations by eliminating the dozens of statutory and regulatory exemptions and deductions. HANF proposes that a family will not be required to pay more than 30 percent of gross income. They may elect to pay more, if they so choose.

SECTION 8 CERTIFICATE FUND

Question. As you know, the VA–HUD Fiscal Year 2003 Appropriations bill created a new funding structure for Section 8 vouchers where PHAs receive funding for all vouchers that are currently in use and for any vouchers that can be used up to a PHA's authorized level through a reserve fund maintained by HUD. This funding approach should result in a more realistic assessment of Section 8 funding needs

and reduce the need to go though the annual ritual of rescinding large amounts of unused, "excess" Section 8 assistance.

I would like your comments on this approach to funding Section 8 vouchers. Also, what steps is HUD taking to ensure that HUD has adequate and reliable information on the number of vouchers in use as well the number of additional vouchers that are likely to be used to obtain rental housing?

Answer. The funding methodology for vouchers introduced in the VA–HUD Fiscal Year 2003 Appropriations bill provides an improved method of providing public housing authorities PHAs with the appropriate level of funding required to manage the voucher program and meet current and future leasing requirements. The methodology also provides the Department current leasing and cost data to be used as a management tool necessary for efficient and effective program management in the following ways:

—significantly reduced program recaptures;
—realistic budget estimates provided to the Congress;
—improved funds control by the Department;
—timely identification of PHAs with poor utilization, to better target technical assistance resources; and
—early identification of the cost impact related to program policies for use in shaping future program policy decisions.

The Department has developed a data collection tool for PHAs to report monthly cost and lease-up levels. The data will be collected via internet transmission from PHAs and used by the Department to determine PHA renewal funding levels, administrative fees, and additional requirements from the Central Reserve. The first submission from PHAs requests actual data for the prior 6 months. Thereafter, the PHA is required to report to HUD quarterly. Renewal funding will be based on more current lease-up and costs identified by the PHA to ensure that the appropriate level of funding is provided to the PHA.

Prior to using the data to determine funding levels, the data will be reviewed using a series of quality control edits for accuracy and reasonableness. PHAs that do not comply with the data collection effort will have funding provided based on prior year leasing and costs. As per the law, failure to report on the administrative fee reserve balance will also prevent the PHA from receiving an administrative fee.

The data collection effort has been reviewed and approved by OMB as meeting the requirements of the Paperwork Reduction Act. To date, the following has occurred:

—PHAs have received advance notification of the new requirements.
—A PHA Focus Group was convened to test the data collection effort.
—Based on the comments of the Focus Group, FAQs have been developed to assist PHAs with reporting.
—A help desk has been established to assist PHAs.
—The website will be launched into production the week of March 24, with the results used to determine funds required for contracts expiring April 30, 2003.
—PHA industry groups have been consulted.

This data collection effort is the first step taken by the Department to ensure that the requirements of the Act are met. The Department will continue to work toward full automation in the coming year.

Question. As you know, my staff recommended that HUD update all Section 8 information as early as last October 2002. Identify all requests to PHAs for Section 8 utilization information in the last 7 months. (In the past much of this information has been unreliable.)

Answer. PHAs traditionally provide data on utilization to HUD with their year-end statements. PHA fiscal year ends cover the four calendar quarters. Therefore, HUD receives year-end information each quarter for a subset of PHAs.

The data collection tool described in the previous question requires that all PHAs provide data to HUD each quarter. This provides HUD with the updated information on utilization for the entire PHA inventory. The first data requested from PHAs was in March 2003, covering the period of July 2002 through January 2003. Going back to a 6-month period provides HUD with some historical information that can be used in trend analysis. The next update will be requested in May 2003, covering the period of February through April 2003. As you can see from the timeline, HUD's database of PHA information will be approximately 45 days behind, a major improvement over data approximately 12–15 months old.

HUD will continue on a cycle of quarterly requests for updates until the final automated system is complete that will require monthly updates from PHAs.

SECTION 8 RENTAL SUBSIDY OVERPAYMENTS

Question. According to GAO's most recent evaluation of HUD's Major Performance and Accountability Challenges, errors in determining the amount of rental assistance under HUD's Section 8 program has resulted in estimated excess rental payments of some $2 billion or 11 percent of the funding for the program in fiscal year 2001. Two billion dollars are enough to pay for a new affordable housing production program and is an unacceptable level of loss for this program. This has been a recurrent problem that has been repeatedly identified over then last 4 years and longer. What is HUD doing to reduce this fraud and abuse and recover these losses? What has HUD done in the last 12 months? In the last 6 months? How much money has been saved?

Answer. Under the President's Management Agenda, HUD has established a goal for reducing both the frequency of calculation/processing errors and the amount of overpayments by 50 percent by the year 2005 with interim goals of 30 percent by 2004 and 15 percent by 2003. These goals apply to all HUD's rental assistance programs, including Section 8 and public housing.

The Department's comprehensive plan for reducing all types of errors and improper payments is carried out through the following Rental Housing Integrity Improvement Project (RHIIP) initiatives: (1) statutory and regulatory simplification, including the Housing Assistance for Needy Families (HANF) proposal which reduces complex income requirements to a simple formula (up to 30 percent gross income); (2) increased HUD monitoring of program processing by HUD intermediaries, using risk-based targeting indicators; (3) increased use of automated sources of tenant income data to address the problem of unreported tenant incomes well as a legislative proposal for access to the National Directory of New Hires Data Base (HR 1030); (4) new Fact Sheets, guidebooks, training and technical assistance for HUD staff and program intermediaries; (5) stronger performance incentives and sanctions; (6) increased IG investigation of serious tenant fraud cases; and (7) an ongoing quality control program.

With respect to RHIIP initiatives for regulatory and statutory simplification, the HANF legislation proposes to greatly simplify the current income and rent calculations by eliminating the dozens of statutory and regulatory exemptions and deductions. HANF proposes that a family not be required to pay more than 30 percent of gross income. Under the proposed HANF program procedures will simplify and streamline the rent calculation process and greatly contribute to reducing the subsidy error. Also, with HANF, States will be motivated to use their own and new hires database to verify tenants' reported income.

Those RHIIPs initiatives implemented during the last 12 months are: (2) increased HUD monitoring of program processing by HUD intermediaries, using risk-based targeting indicators; (4) new Fact Sheets, guidebooks, training and technical assistance for HUD staff and program intermediaries; and (7) an ongoing quality control program. Those initiatives implemented during the last 6 months are: (1) statutory and regulatory simplification, including the HANF proposal which reduces complex income requirements to a simple formula (up to 30 percent gross income); (3) increased use of automated sources of tenant income data to address the problem of unreported tenant incomes well as a legislative proposal for access to the National Directory of New Hires Data Base (HR 1030); (5) stronger performance incentives and sanctions; and (6) increased IG investigation of serious tenant fraud cases.

The Quality Control Program (7) is the Department's approach for measuring the extent to which the above-mentioned goals are met. The measurement of 15 percent error reduction will be reflected in the fiscal year 2003 Performance and Accountability Report.

PUBLIC HOUSING OPERATING FUNDING

Question. As I previously stated, Mr. Liu, the Assistant Secretary for Public and Indian Housing, deserves a lot of credit for taking much needed corrective measures when senior HUD officials discovered that the Department has been inappropriately awarding PHAs with additional operating funds by raiding current year public housing operating funds for prior year obligations. The VA–HUD Fiscal Year 2003 Appropriations bill put a final stop to this activity while providing up to $250 million in funding for one last time for existing prior year obligations owed to a few PHAs for fiscal year 2003.

Nevertheless, how could this overspending happen and how could it happen without the awareness of the senior officials in the Department and OMB?

Answer. There are four main reasons why HUD overspending happened:

—HUD failed to develop a new accounting system to track the Interim Formula and should not have implemented the Interim Rule prior to doing so. Further,

the legacy system had been neglected for at least a year (2000–2001). So the lack of a system to track the interim formula made it very difficult to manage the program.

—No system and poor quality data meant that setting accurate funding levels, or proration levels, were set with old data, causing the level to be inappropriately high, which is what caused the shortfall.

—Culture among PIH staff was such that setting accurate funding levels was never imperative due to the common practice of using next year's funding to make up for any shortfall. Such decisions were apparently made without consulting senior management.

—Funding levels for each fiscal year had been established based on data at least a year old. HUD has changed this practice and will not commit to funding levels until all PHA budgets are submitted, accepted, and analyzed with regard to current appropriated amounts.

No senior officials outside of PIH knew about or had any role in the over commitment of funds.

Question. Identify all HUD officials that knew about this overspending and all corrective measures taken against these individuals.

Answer. The Deputy Assistant Secretary and Office Director managing the Operating Subsidy program are no longer in a management capacity, nor are they involved with the operating subsidy program. No office outside of PIH knew about or had any responsibility for the overage.

Question. What steps have you taken to ensure that this type of mistake does not happen again?

Answer. The Department has taken sound steps to ensure that the amounts provided in appropriations acts for a specific year will be spent only for that year's subsidies and that the commitments being made to PHAs never exceed the amounts provided by Congress. First, the Department has increased the number of resources available for this program, both in the terms of Federal employees and contractors and has created a separate task force to help specifically re-engineer this program in terms of business process and policy.

In addition, the Department has created a new budget collection and accounting tool, which captures that data in a format that allows for easier data analysis, ad-hoc reporting, and program oversight. This collection tool is currently being used for the collection and processing of the fiscal year 2003 data. Enhanced data and quality control checks are being used to ensure accuracy of the data. Full use of actual budget data will be used in the determination of the final proration factor—which will never be set again until HUD has collected all current year budgets and compared total eligibilities with current year funding.

Question. What steps has the Department taken in corrective measures against the staff who are responsible for these errors? Have staff been demoted? Have any of the responsible staff received bonuses for their work in the last year?

Answer. The Deputy Assistant Secretary and Office Director managing the Operating Subsidy program are no longer in a management capacity, nor are they involved with the Operating Subsidy program. None of the staff has received a bonus.

FAITH-BASED ORGANIZATIONS

Question. I understand that HUD is revising a number of regulations to make it easier for faith-based organizations to participate in HUD programs, including enhanced eligibility for grants. While I strongly support the role of churches and other faith-based organizations in making our communities strong and safe, there have been a number of news reports that infer that HUD is planning to provide churches and faith-based organizations with expanded access to Federal funds including grants to build churches where a church is involved with community issues.

What programs are we talking about and is there is any truth that HUD is looking to provide grants to churches for church construction? This would be very controversial and how is HUD dealing with the constitutional issues?

Answer. HUD has proposed a rule that would eliminate unwarranted barriers to faith-based organizations in eight HUD programs. The public comment period closed March 6, 2003, and HUD is currently reviewing the comments and preparing a final rule.

The eight programs affected by the rule are HOME Investment Partnerships; Community Development Block Grants; Hope for Homeownership (HOPE 3); Housing Opportunities for Persons with AIDS; Emergency Shelter Grants; Shelter Plus Care; Supportive Housing; and YouthBuild.

The proposed rule clarifies that HUD funds may not be used for the acquisition, construction, or rehabilitation of structures to the extent that those structures are

used for inherently religious activities such as worship, religious instruction, and proselytization. Where a structure is used for both eligible activities and inherently religious activities, HUD funds may not exceed the cost of the portion of the acquisition, construction, or rehabilitation attributable to eligible activities. HUD has at no time intended that its funds be used to acquire, construct, or rehabilitate sanctuaries and other structures used principally for worship, and it will clarify this intent further in the final rule.

PUBLIC HOUSING HOPE VI

Question. The Public Housing HOPE VI program has been eliminated under HUD's Budget Request for fiscal year 2004. This program was created in large part by this Subcommittee in response to the need to address the approximately 86,000 units that were termed severely distressed by the National Commission on Severely Distressed Public Housing in 1992. However, this program has done much more than just respond to distressed public housing, it has been tremendously valuable in turning this distressed housing into mixed income and public housing developments as well acting as an economic anchor for the redevelopment of distressed communities.

And while it may be time to move on and build on the successes of the HOPE VI program, I am concerned that we have not had a meaningful dialogue on what we have accomplished and need to do next.

The Department has eliminated the program in the Budget Request, including the funding of some $574 million which is critical funding needed to address the backlog of some $22 billion in capital needs. What does HUD believe is the next step?

Answer. The Department is preparing to launch a review initiative that will consist of a series of meetings with industry experts in the field of affordable housing. It is intended to seek advice from a wide range of experts and stakeholders about the state of the program and its future. We are currently working on the details, including meeting topics and participants. Second, the Department has executed a Cooperative Agreement with the Urban Institute to investigate alternative ways to maximize the amount of private capital that can be leveraged using Federal funds, investigate more efficient ways to deliver Federal funds, investigate ways to accelerate project completion and the construction of units, and assist in the development of a new definition for severely distressed.

Question. How does HUD currently define severely distressed public housing and how many units meet this definition now?

Answer. At this time, there are many ways to define severe distress. HUD has had to work with five different definitions of severe distress as provided in Sections 18, 24, and 202 of the 1937 U.S. Housing Act, the HOPE VI appropriations and the Commission of Severely Distressed Public Housing. Even the National Commission on Severely Distressed Public Housing acknowledged the difficulty in identifying, specifically, distressed projects and opted to only estimate the total number of distressed units nationwide rather do an inventory. We believe that a standard definition of severe distress must be agreed upon prior to an evaluation of the entire remaining inventory. The Department is currently working with the Urban Institute to assess, among other things, the various definitions and establish one standard that can be used Department-wide to analyze the entire inventory. Therefore, the Department does not have a mechanism to review the entire public housing inventory and determine how many units are severely distressed at this time.

Question. What criteria did the administration look at in determining this program had outlived its usefulness?

Answer. The Department provided Congress a report, "HOPE VI: Best Practices and Lessons Learned, 1992–2002," on June 15, 2002 which provided a comprehensive, factual, and balanced view of the program. The report provided information about what has been accomplished and what questions still remain to be answered. On balance, the Department believes that it has provided sufficient funds for the HOPE VI program to achieve its goals. HOPE VI has funded grants to relocate 57,000 families, demolish 77,000 units and build 85,000 of which 45,000 are public housing (as of March 31, 2003; fiscal years 1993–2001 grants). We believe the funds already provided, in conjunction with other public housing programs, have more than addressed the 86,000 severely distressed public housing units identified by the Commission. Our report correctly points out, however, that grantees have been slow to spend funds and rebuild housing. Of the $4.5 billion awarded in the past 10 years, PHAs have only spent $2 billion. Only 17 of 165 grants have built all their planned units. In addition, it is important to remember that PHAs have more tools available to them today than 10 years ago. For example, we now have regulations in place to guide mixed-finance developments and PHAs may use capital funds for

accelerated modernization. As of March 31, 2003, the Department has received requests to allow PHAs use Capital funds to collateralize and pay debt service on nearly $933 million, of which $482 million has been approved. Furthermore, the Department believes that the Public Housing Reinvestment Initiative (PHRI) is intended to provide a financing tool for housing authorities to prevent developments from becoming severely distressed. It's another development tool to assist PHAs in addressing the backlog and accrual needs. It's time to reassess how to move forward and find new, creative ways to revitalize public housing.

PUBLIC HOUSING CAPITAL FUND

Question. HUD is proposing some $70 million less in Public Housing Capital Funds for fiscal year 2004 than fiscal year 2003. In addition, the fiscal year 2004 funding request is some $200 million less than the fiscal year 2002 enacted level. These reductions are especially troubling when considered in conjunction with the administration's recommendation to eliminate the HOPE VI program and the fact that public housing throughout the country has a capitalization backlog of over $20 billion. These funding levels will likely result in deferred maintenance and deferred capital investment. How does HUD justify these reductions in funding?

Answer. For fiscal year 2004, the amount of the Public Housing Capital Fund accrual is estimated to be approximately $2.2 billion. However, the Department is requesting approximately $2.6 billion for the Public Housing Capital Fund, which is approximately $400 million more than fiscal year 2004 estimated accrual needs of $2.2 billion. Further, public housing agencies (PHAs) are encouraged to use other vehicles to address needed improvements. For example, PHAs are already permitted to leverage their Capital Funds to finance additional amounts needed to make improvements to existing public housing. Such tools have already leveraged approximately $800 million in the last few years. In addition, the Department proposes the Public Housing Reinvestment Initiative (PHRI) that will provide PHAs with further opportunities to address the physical condition of public housing.

Question. In addition, the HUD Fiscal Year 2004 Budget requests authority for a new Public Housing loan guarantee program and includes $131 million in credit subsidy from the Public Housing Capital Fund. According to HUD budget representations, this program will leverage some $2 billion in loans and accelerate capital improvements. This sounds like a fairly complex program for most PHAs. How quickly do you expect this program to get up and running? What do you expect the actual cost of this program to be on a per unit basis? How will it compare to HOPE VI? Will tax credits be expected to be part of any financing package?

Answer. It is also important to keep in mind that PHRI is voluntary for PHAs. No PHA will be forced to make use of this new tool. For those who do choose to participate, PHRI can be up and running in a matter of months. HUD is giving this initiative the highest priority and will begin preparations even as the proposal progresses in Congress. HUD has already had broad discussions with PHAs, their representatives, and others who would be involved, including potential lenders. Many PHAs have provided substantial expressions of interest in pursuing PHRI. Indeed, many are asking whether there is any way under current law to implement it. Unfortunately, there is not.

The "cost" of PHRI is simply the credit subsidy of $131 million, which comes from public housing capital funds. These funds are set aside to cover any losses resulting from the 80 percent loan guarantee and are based on a credit reform analysis by the Office of Management and Budget. Otherwise, PHRI is not designed to produce any budgetary impact. Rather, public housing subsidies are merely converted into Section 8 subsidies to facilitate financing. While PHAs, with HUD review and approval, have issued debt secured by public housing capital funds, these transactions are not property-based. Thus, the debt service coverage they require limits the amount of debt a PHA can issue. Borrowing under PHRI would not be limited to that degree.

Both PHRI and HOPE VI are programs designed to aid PHAs with renovating public housing stock, however, the operation and focus of these two programs are different. HOPE VI is a competitive grant program directed at enabling PHAs to revitalize severely distressed developments, while PHRI is a voluntary loan guarantee program that enables PHAs to access conventional financing to address their backlog of capital repair needs.

Under the HOPE VI application process, PHAs are scored on their ability to leverage private and public sector financing in the form of tax credit equity, loans, or other grants which will augment their HOPE VI request. The total financing package together with HOPE VI is the amount necessary to address revitalization needs which often encompass an array of public housing and community service projects.

PHRI provides PHAs the ability to access adequate mortgage financing based on projected and specific cost and income analysis for targeted properties. The 80 percent loan guarantee provides the credit enhancement lenders seek before making investments.

HOPE VI rewards some PHAs for seeking private/public sector leveraging; PHRI provides the means to leverage a PHA's greatest asset—its housing stock and thus addresses required repairs across the entire inventory of public housing.

The loan guarantee is structured to permit private financing raised through PHRI to be supplemented by other resources including tax credits. However, in many instances, tax credits would not be required for PHRI to finance sufficient capital needed to address backlog needs. There may be instances where tax credit equity may be necessary to enable a PHA to cover the debt service associated with the financing required to address the current and long-term capital needs of selected properties.

Question. Doesn't this proposal just shift the cost of public housing from the Public Housing Operating and Capital Funds to the Section 8 Fund? Why not tie the costs for loan repayments to the Public Housing Capital and Operating Funds?

Answer. When a PHA obtains capital financing using the PHRI loan guarantee, PHAs voluntarily select properties to be converted from public housing contracts to project-based voucher funded contracts. For PHAs that choose to participate in this program, PHAs could commit capital and operating funds for initial expenses during the first year of the project-based voucher contract. After the first year, the reliance will be on the income and financing stream made possible by the PHRI.

There are currently tools to access Capital Funds to undertake modernization projects, namely the Capital Fund Bond Financing Program. This has been a very successful leveraging mechanism, which has generated close to $500 million in bond financing for approximately 20 PHAs. But even this successful program will take many years to address the estimated $18 billion backlog of capital needs. PHRI has the potential to reach a wide variety of public housing developments in a project-specific manner. It can be a powerful mechanism to help identify those developments most in need of additional assistance.

PHRI and the associated loan guarantee is a more feasible property-based financing tool that is more typical of multifamily rental financing. In these financial transactions, the rents from the property and a mortgage on the property are pledged as security for a loan. Additionally, the Section 8 contract, subject to annual renewals, provides security with which lenders are more familiar.

STAFFING

Question. While the Congress was finishing up the fiscal year 2003 Omnibus Appropriations bill, the House and Senate VA–HUD Appropriations Subcommittees were advised that HUD exceeded its stated employee levels for fiscal year 2003 by upwards of 300 FTEs with a cost of some $30 million that is not reflected in the HUD Fiscal Year 2003 Budget Justifications and Budget Request. These hirings occurred during the Spring and Summer of 2002 and, despite the significant impact on HUD's budget needs for fiscal year 2003, HUD never once made any attempt to inform the Congress of its decision to hire significantly more staff than provided for in the HUD fiscal year 2003 Budget Justifications. In fact, HUD only reported these staff increases when it determined that its Fiscal Year 2003 Budget Request for Salaries and Expenses could not support these added staff.

There also are significant questions as to whether HUD comported with existing staffing requirements and hiring procedures, including requirements consistent with HUD's Resource Estimation and Allocation Process (REAP). It also appears that some HUD offices hired significantly more staff than needed while other offices hired significantly less staff than needed. This clearly raises questions as to whether there were top level management controls on this hiring spree.

Has HUD reviewed these hiring actions?

Answer. Yes, a thorough review of the hiring actions has been completed and a Corrective Action Plan has been developed. This Plan is being submitted to the House and Senate Subcommittees under separate cover.

Question. To what extent do these hiring decisions comport with personnel requirements?

Answer. HUD has undertaken a thorough review of all hiring actions and has determined that there were no violations of any Federal civil service laws, rules, regulations, and merit system principles.

Question. To what extent do these hiring decisions comport with REAP?

Answer. REAP was not used as a basis for hiring. The Corrective Action Plan requires that each program bring their individual offices into alignment with REAP

analyses as well as achieve an overall REAP-based ceiling. This Plan has been submitted to Congress under separate cover.

Question. What steps is HUD taking to ensure that similar hiring binges do not occur in the future?

Answer. Yes, a thorough review of the hiring actions has been completed and a Corrective Action Plan has been developed. This Plan is being submitted to the House and Senate Subcommittees under separate cover.

Question. Are the responsible officials being held accountable for this hiring problem and in what way?

Answer. Yes, responsible parties are being held fully accountable. Corrective actions are in place to ensure over-hiring is not repeated. The Corrective Action Plan will freeze all program offices who are currently over ceiling. The programs will need to align their offices with the REAP analyses.

LACK OF AFFORDABLE HOUSING

Question. There is a lack of affordable housing in many communities throughout the country, especially for extremely low-income families (those at or below 30 percent of median income). Vouchers do not work well in these communities and housing is too expensive to build to assist many of these low-income families. While I support a block grant production program to address these needs, I am willing to look at other approaches such as tax options, interest rate buy-down approaches and loan guarantees or a combination of these approaches. I do not think the proposed HANF proposal will work as currently proposed or funded. How would you get at this need for affordable housing for extremely low-income families?

Answer. The Department is confident that the HANF program will work but remains open to consider other options towards addressing the lack of affordable housing in communities.

GAO HIGH RISK—FHA SINGLE FAMILY INSURANCE

Question. According to GAO's January 2003 High Risk Report on HUD, the FHA single family mortgage insurance programs remain a high-risk area because of continued weaknesses in the mortgage insurance process, evidence of fraud and the variety of challenges that HUD faces in implementing corrective actions. What steps is HUD taking to address these concerns?

Answer. The Department is attacking these weaknesses on two fronts: adopting technological advances to limit HUD's exposure to fraud and misrepresentation and engaging in substantial rule-making to protect HUD and the borrowers it serves from predatory lending practices.

In May 2002, HUD completed a business process reengineering effort on its Single Family Mortgage operations. From this work, HUD identified a number of tools that can be employed to limit exposure, including those that provide estimates of the property's appraised value and alert lenders and the Department of recent property transfer, i.e., "flipped" properties. In addition, to combat identity theft, HUD has been studying various kinds of name and social security number verification tools that can be obtained directly from the Social Security Administration.

Predatory lending practices affect FHA's insurance risk and contribute to community deterioration. To combat such practices, HUD has published a number of rules to reduce the possibility that unwitting and unsuspecting homebuyers and homeowners will become victims of unscrupulous lenders abetted by appraiser collusion. Soon, FHA will no longer insure properties re-sold within 90 days, and will require additional evidence of the property's appraised value if the resale (within 1 year) price exceeds a certain threshold. FHA has also published rules that will make the lender equally accountable for the quality of the appraisal, and require that appraisers meet specific qualification standards in order to make appraisals for FHA insured mortgages.

FHA SINGLE FAMILY MORTGAGE INSURANCE

Question. I am concerned that FHA single family mortgage insurance tends to take the highest risk of default despite currently exceeding actuarial requirements. What is the current rate of default on FHA single family mortgage insurance? How does this compare to the private market? At what point does a downturn in the economy put the Mutual Mortgage Insurance Fund at risk of failing to meet its actuarial floor?

Answer. FHA's total default rate reached 5.276 percent in March 2003. At the same time, FHA's claim rate was an annualized 1.246 percent, which is only slightly above its 10-year average of 1.08 percent. FHA has a higher default rate than the conventional market, but a lower default rate than the subprime market. Compared

to the conventional market, FHA serves borrowers with lower incomes, poorer credit histories, and fewer assets. FHA's capital ratio has continued to grow as the share of first-time and minority homebuyers with FHA-insured purchase mortgages has increased.

In pursuit of its mission to serve first-time and minority homebuyers, FHA reached out to riskier borrowers. These borrowers are more vulnerable to temporary economic setbacks and are more likely, compared to less risky borrowers, to go in and out of default. To assist these borrowers to avoid foreclosure, FHA offers incentives to servicers who practice loss mitigation. By providing borrowers with forbearance and tailored repayment plans, loan modifications, and soft second mortgages, servicers assist borrowers to remain in their homes. Last year, they helped over 68,000 homeowners—up from 50,000 the year before.

While these families are in the loss mitigation program, they are counted as defaults. So FHA's default rate appears higher. But the claim rate has not risen commensurately. Most loss mitigations are successful—two-thirds result in the owner catching up on the mortgage and staying in the house. The program is cost effective—FHA spends about $1,400 per loss mitigation effort, and saves approximately $30,000 every time and avoids a foreclosure.

As reported in the Actuarial Review of FHA's Mutual Mortgage Insurance (MMI) Fund for fiscal year 2002, the performance of the FHA's books of business, measured by the economic value of the MMI Fund, is affected by changes in economic variables. Higher mortgage interest rates raise initial and ongoing payment burdens on household cash flows and claim risks of new originations while decreasing the risk of claims on older loans with below-market interest rates. Lower mortgage interest rates have the reverse effect and tend to accelerate refinancing of earlier originations while increasing insurance claims. Faster average house price growth facilitates the accumulation of home equity, which tends to reduce the likelihood of a claim. It also contributes to greater mobility and household asset portfolio rebalancing, leading to greater turnover of housing and refinancing, thereby increasing prepayment rates. Faster income growth reduces the relative burden of mortgage payments on household cash flows over time, reducing the risk of claims as mortgages mature.

FHA's actuaries projected that under 5 economic scenarios (baseline, low house price appreciation, high interest rates, high unemployment/low personal income, and using 2001 selected loss rates) the Fund will exceed the capital ratio target of 2 percent.

ASSET CONTROL AREAS

Question. Under the Fiscal Year 2002 Supplemental Appropriations Act, HUD was required to enter into new contracts and agreements under the Asset Control Area Demonstration program no later than September 15, 2002. This is an important program designed to promote homeownership in distressed communities. What is the current status of this program?

Answer. On September 15, 2002, via written correspondence, HUD informed former Asset Control Area (ACA) program participants of the terms of the revised ACA program. At that time, former participants also received a chart comparing the Congressionally mandated Program (i.e., Program A which tracks to Section 602) to Program B which tracks to requirements delineated in Section 204(g). They were asked to submit an application for the previous demonstration program, Program A, or Program B, the revised ACA Program. Although HUD is fully prepared to implement both programs, the feedback received from most of our former participants indicated that Program B was the preferred program; however, several former participants requested further policy changes to make this program more effective.

From the end of October 2002 to December 2002, HUD held numerous conference calls and meetings with former program participants to discuss their additional recommended changes for the ACA Program. We were asked to consider revising: (1) our demolition policy; (2) the way we administered the Officer and Teacher Next Door Program in conjunction with the ACAs; (3) the resale price/the percentage of allowable net development costs; (4) the Census data used to determine revitalization areas (i.e., use 2000 data); and (5) our definition of eligible buyers for the purpose of disposing of multi-use and mixed-use properties; and (6) the requirement for all properties to be sold to income eligible buyers (i.e., participants wanted to be allowed to administer a lease purchase program).

During this period, HUD continued to maintain a good rapport with former participants, and offered assistance with our newly expanded ACA application process. Likewise, potential new program participants were given information about the new ACA Program and encouraged to apply. As a result, HUD received seven applica-

tions from new and former ACA program participants. While the HOCs reviewed these applications and worked with participants to obtain missing documents needed to complete the application process, the headquarters' ACA team developed operational procedures to accommodate the suggested policy changes.

In February 2003, former and potential program participants received a letter indicating the final terms of the new ACA Program with the changes highlighted. HUD offered broader latitude in each of the six areas identified above. Currently, HUD is reviewing all six applications and requesting additional documents as required. Concurrently, HUD is requesting that specific areas be identified for the proposed ACAs. Contract language is being modified to incorporate recently agreed to changes. Other concurrent actions include final internal review of draft regulations, completion of an OMB-required Front End Risk Assessment, and updates to HUD's internal standard operating procedures.

FHA MULTIFAMILY AND SINGLE FAMILY CONTRACTOR ACCOUNTABILITY

Question. GAO has indicated that HUD has poor control over its FHA multifamily and single family contractor payment accountability. Please provide an assessment of FHA versus private sector costs associated with single family and multifamily asset control. In other words, what is the per unit cost in the private sector versus FHA of foreclosed housing, both single family and multifamily? Please identify the individual costs associated with all units in the FHA foreclosed multifamily housing inventory. What steps has HUD taken to reduce costs in the last 2 years? What savings have been achieved?

Answer. *Multifamily*.—The Secretary is required by statute to manage and dispose of HUD-held mortgages or HUD-owned multifamily properties in a manner, that among other goals, preserves certain housing so that it can remain available to and affordable by low-income persons; preserves and revitalizes residential neighborhoods, maintains existing stock in decent, safe and sanitary condition; minimizes the involuntary displacement of tenants, and minimizes the need to demolish multifamily housing.

Because of these statutory objectives to maintain and preserve low-income housing resources, the Department's multifamily disposition program is significantly dissimilar to private sector objectives at the time of default or foreclosure of private sector rental housing. Because of the statutory mandates, the Department undertakes repairs to preserve occupied mortgagee-in-possession or HUD-owned multifamily properties. Further, it requires purchasers of many properties, either at foreclosure or HUD-owned sales, to repair and maintain properties as affordable rental housing resources via recorded deed restrictions. All of these actions have a significant impact on the value of these properties at foreclosure or HUD-owned sales and consequently the ultimate return to the Department of the defaulted amount of the FHA insured mortgage or HUD debt.

The preservation and maintenance of these properties is accomplished through the use of area-wide property management service contracts. These contracts are procured on a national, competitive basis. Contracts are awarded on the basis of experience and competency to perform the required management tasks and reasonable price.

The Department's oversight of managed contracts is conducted in several ways. Upon the Department's operational takeover of a property, the property is assigned to a property management contractor. The property manager performs a repair needs assessment and develops an operational budget for the property. One of the Department's two multifamily property disposition centers performs an analysis of the repair assessment and the operational budget and approves, modifies or rejects the proposals, as appropriate. Thereafter, the management and operation of the property is dictated by the approved repair plan and the operating budget for the property.

At the property level, the property manager is required to obtain competitive quotes or bids, as required, to engage in any contracting for services or repairs. Accurate and complete records for all contracting services are required to be maintained by the property managers. All activities must be within the approved budget for the property. Finally, the Department's property disposition centers have an oversight contractor whose services include the comprehensive and detailed review and oversight of the property managers' maintenance and management of the properties. The oversight contractor performs on-site reviews of operational activities/expenditures performed by the property managers against file records and site inspections of actual work performed.

The Department has taken a very aggressive position on expediting the processing of foreclosure and HUD-owned property sales. By reducing the time in the fore-

closure process, where most properties are not making mortgage payments, the Department is able to obtain whatever value remains on the property at the foreclosure sale and eliminate additional expenditures if the Department is mortgagee-in-possession. Similarly, expediting the sale of HUD-owned properties, the Department is able to curtail at an early date funds that may have to be expended on the property above rental income. This management strategy for the foreclosure/HUD-owned inventory has reduced the HUD-owned inventory from approximately 60 properties to 26 properties over the last 2 fiscal years.

The Department does not track private sector foreclosure or lender owned inventory sales. Because there was no Departmental involvement in those transactions, we would have no authority to obtain any of that information. Further, because the Department's foreclosure and HUD-owned inventory sales are required to meet numerous statutory goals and objectives versus private sector unrestricted transactions, the comparison would be difficult, if not impossible to assess two dissimilar transactions.

Single Family.—HUD has been able to increase the net return that we realize on the sale of HUD properties over the past 3 years. In fiscal year 2000, single family property sales numbered 80,628 at a total value of $4.343 billion (average sales price of $53,865) representing a recovery rate of 62.9 percent. In fiscal year 2001, single family property sales numbered 63,581 at a total value of $3.708 billion (average sales price of $58,319) representing a recovery rate of 66.8 percent. In fiscal year 2002, single family property sales numbered 59,736 at a total value of $3.801 billion (average sales price of $63,630) representing a recovery rate of 71.2 percent.

There is no publicly available source of information on asset disposition costs of private sector institutions, such as Fannie Mae and Freddie Mac. Moreover, even if daily holding costs were made public for these institutions, it would be difficult to compare them to FHA holding costs without knowing exactly what cost items were included. In other words, there is no single agreed-upon definition of holding costs in this context.

The Department has done a number of things to be proactive in its sales program. First, HUD has been offering sales incentives to encourage owner-occupant purchasers to buy its properties. HUD and its Management and Marketing Contractors perform outreach to communities to encourage their participation in our sales program.

HUD has established performance standards and developed tighter management controls for its management and marketing contractors to ensure that compliance with contract requirements are adhered to. Property conditions have improved since implementation of these standards.

Question. Please identify over the last 5 years, the number of foreclosed FHA multifamily housing units and the loss per year per unit. Please identify over the last 5 years, the number of foreclosed FHA single-family housing units and the loss per year per unit per State. Please identify over the last 5 years, the number of foreclosed FHA multifamily housing units and the loss per year per unit.

Answer. The Department has provided the chart below that indicates by calendar year, the net loss based on number of foreclosed units where HUD has become the property owner.

Calendar year	Net profit or (loss) acquisition plus holding costs	Units	Income or (loss) per unit
1998	($208,484,235)	5,693	($36,621)
1999	(93,221,230)	3,833	(24,321)
2000	(102,336,898)	3,166	(32,324)
2001	(148,544,223)	4,418	(33,623)
2002	(135,544,682)	2,621	(51,715)
2003 Year to Date 5/1/2003	(165,551,410)	1,571	(105,380)

The Department has provided the chart below that indicates the number of foreclosed FHA Single-Family housing units, the average loss per year, per unit and per State.

State	1998		1999		2000		2001		2002	
	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit	Units acquired	Avg. loss/unit
AK	79	$26,506	79	$32,059	82	$38,493	72	$33,443	76	$39,231
AL	723	$15,106	802	$17,955	890	$20,968	1,072	$22,059	1,441	$24,196
AR	745	$18,793	757	$19,622	780	$20,946	836	$21,303	858	$21,969
AZ	1,311	$11,529	1,192	$15,179	953	$17,150	1,008	$13,737	1,481	$16,831
CA	22,666	$42,741	19,002	$38,687	14,398	$33,215	9,210	$24,645	6,243	$18,683
CO	418	$14,210	526	$15,098	423	$21,381	393	$21,763	696	$27,693
CT	1,101	$66,540	971	$56,236	811	$49,870	630	$43,929	552	$33,893
DC	289	$54,354	292	$54,365	265	$62,230	204	$60,564	149	$38,596
DE	104	$36,380	134	$35,813	138	$37,108	145	$31,193	131	$25,102
FL	7,366	$23,200	7,119	$24,231	6,671	$22,983	5,564	$18,588	5,504	$16,958
GA	2,360	$16,720	2,038	$18,333	1,878	$18,230	1,971	$18,101	2,748	$21,213
GU	0	(1)	2	(1)	0	(1)	5	$77,786	7	$81,262
HI	194	$84,520	295	$92,765	466	$91,216	363	$81,530	247	$64,306
IA	129	$14,785	113	$13,162	139	$19,907	163	$21,231	292	$23,774
ID	249	$22,456	309	$25,340	358	$25,873	381	$25,265	532	$26,835
IL	2,852	$42,198	2,978	$39,844	2,952	$39,612	2,375	$35,842	3,047	$30,595
IN	1,027	$23,053	1,251	$23,864	1,377	$25,842	1,669	$29,106	2,453	$32,121
KS	441	$19,500	487	$19,598	431	$20,516	378	$20,533	621	$21,327
KY	168	$19,739	241	$19,974	270	$22,861	316	$22,571	459	$27,077
LA	842	$20,118	835	$20,889	824	$21,024	1,054	$20,842	1,228	$23,280
MA	422	$56,825	426	$44,347	295	$41,358	191	$34,367	176	$24,620
MD	3,143	$41,193	4,104	$44,518	3,775	$49,429	3,452	$43,663	3,449	$33,650
ME	127	$47,637	125	$44,582	152	$43,105	94	$34,124	103	$31,210
MI	1,246	$16,113	1,067	$17,001	1,057	$19,269	1,215	$22,235	1,859	$26,593
MN	1,091	$17,585	759	$14,441	436	$12,417	292	$12,006	291	$16,040
MO	1,206	$22,170	1,281	$21,754	1,155	$21,027	1,084	$20,365	1,496	$22,989
MS	537	$15,281	557	$16,865	615	$18,082	669	$21,033	793	$20,740
MT	102	$17,966	143	$22,004	133	$25,359	132	$25,963	184	$26,462
NC	760	$16,345	737	$17,675	817	$18,458	882	$21,545	1,462	$25,575
ND	85	$22,443	95	$21,352	96	$22,158	88	$23,646	110	$25,275
NE	147	$13,187	152	$14,669	176	$18,043	190	$19,353	338	$21,644
NH	72	$37,819	78	$35,476	43	$29,850	22	$22,414	31	$19,272
NJ	1,721	$53,531	2,031	$52,850	2,301	$50,446	2,010	$43,931	1,871	$35,393
NM	206	$20,758	338	$25,517	419	$26,800	513	$28,110	622	$29,784
NV	859	$14,383	1,129	$20,249	1,126	$26,376	1,152	$25,020	1,440	$23,627
NY	3,207	$49,408	3,380	$52,135	3,967	$51,535	3,452	$47,229	3,520	$43,040
OH	1,571	$26,331	1,489	$28,046	1,661	$30,333	1,781	$32,275	2,312	$34,653

OK	825	$18,946	929	$15,857	863	$19,535	914	$18,842	1,083	$21,884
OR	102	$21,663	180	$19,409	249	$26,599	343	$27,874	555	$27,799
PA	2,026	$37,809	2,272	$38,554	2,435	$41,183	2,252	$40,126	2,643	$36,158
PR	103	$15,503	76	$15,532	152	$16,167	112	$12,689	159	$10,632
RI	235	$56,414	203	$44,728	202	$45,307	101	$33,135	72	$14,335
SC	553	$22,313	536	$20,958	564	$20,547	489	$20,700	583	$23,186
SD	84	$30,553	82	$26,116	86	$21,780	54	$26,628	59	$27,282
TN	1,504	$17,153	1,694	$17,693	1,620	$19,892	1,893	$20,685	2,562	$24,386
TX	5,261	$18,700	5,257	$17,565	4,714	$16,360	4,214	$16,921	5,675	$21,602
UT	192	$17,209	391	$24,689	530	$30,079	749	$29,030	1,365	$36,083
VA	3,377	$28,653	3,003	$28,846	2,670	$29,281	2,089	$22,937	1,738	$21,378
VI	0	([1])	5	([1])	8	$47,907	7	$64,722	4	$72,287
VT	32	$61,037	25	$50,990	29	$42,263	15	$39,634	16	$41,273
WA	596	$26,862	715	$24,015	790	$29,490	799	$27,887	1,356	$29,268
WI	189	$23,057	170	$24,562	242	$26,600	257	$24,182	289	$27,558
WV	77	$17,610	74	$20,245	63	$26,111	77	$25,655	89	$25,669
WY	88	$18,515	133	$20,098	126	$23,521	121	$20,924	96	$19,662
TOTAL	74,008	$32,166	73,059	$31,311	67,591	$31,380	59,514	$28,430	67,166	$26,151

[1] No sales.

ITAG/OTAG

Question. The HUD IG was required to audit all recipients of technical assistance under the Mark-to-Market program and determine whether each recipient was in compliance with the required uses of such assistance. Under Section 1303 of the fiscal year 2002 Defense Appropriations Act, HUD is prohibited from providing any additional HUD funding for 4 years to any recipient who misused such technical assistance. The HUD IG has identified some 10 instances of abuse. What steps has HUD taken in response to these determinations?

Answer. The IG published its report on March 31, 2003, and the Department is in the process of implementing the required sanctions specified in Section 1303 of the Defense Appropriations Act of fiscal year 2002.

NEW YORK DISASTER ASSISTANCE FUNDS

Question. NY/NYC was provided some $3.5 billion in CDBG Disaster Assistance funds for economic rebuilding efforts in response to the 9/11 terrorist attacks on New York City. The Empire State Development Corporation (ESDC) was charged with the administration of these funds. What steps has HUD taken to ensure these funds have been used in a manner consistent with the funding agreements?

Answer. HUD is taking a number of steps to ensure that the Community Development Block Grant disaster funds for New York are used in a manner consistent with the funding agreement, appropriations statutes, and waivers and alternative requirements granted and established for the use of those funds.

HUD program staff conducts management/compliance reviews of ESDC and Lower Manhattan Development Corporation (LMDC) approximately every 6 months. Reviews of ESDC were conducted in May 2002 and January 2003, and a review of LMDC was conducted in October 2002; the next review of LMDC is planned for late April 2003. In addition, HUD program staff maintains almost daily contact with the grantees either on-site or via telephone and e-mail to provide oversight and technical guidance, and HUD monitors grantee expenditures through HUD's Line of Credit Control System. HUD reviews independent audits of the grantees, as well. Grantees submit quarterly progress reports to HUD via a web-based Disaster Recovery Grant Reporting system that are used in HUD's submission of quarterly reports to the Appropriations Committees.

Also, HUD's Office of the Inspector General submits its reviews of those grants to the Congress in its semi-annual reports.

CDBG FORMULA FUNDING

Question. I understand that HUD is looking to revise the CDBG funding formula to allocate more funds to poorer communities and those in distress. What sort of issues is the Department looking at while performing this analysis?

Answer. The Department is committed to doing a CDBG formula study of the effects of adding all the 2000 Census data and considering options to change the formula factors to ensure that the formula continues to be highly targeted to need and community distress. The first phase will be done shortly, probably in spring of 2003. The second component, which is more complex, will be done in the fall. The second phase is more complex because HUD must develop a basis to explore how effectively the targeting is working for the vast majority of grantees. All aspects of the current formula will be considered, possible new factors and combination of factors as well as how the basic formula is constructed. In developing the CDBG dual formula and assessing the effect of the 1980 and 1990 Census on how the formula allocated funds, the Department has compared per capita allocations to CDBG jurisdictions relative to a broad-based measure of community need. This measure includes indicators of social, economic, and housing needs. The study currently underway will be similar to those done periodically since the mid-1970's. In addition, this year's study will consider the effect of the revisions to the definitions of metropolitan areas, since they affect CDBG eligibility and the distribution of funds.

RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

Question. The HUD Budget request again eliminates the Rural Housing and Economic Development program. This is a small $25 million program that makes a tremendous difference for small, rural communities. It has been estimated that over the last 2 fiscal years, some 4,000 jobs have been created and over 8,200 persons have been trained. In addition, over 2,200 housing units have been constructed with some 3,700 units rehabilitated. In the last year, 367 businesses have been created and 1,400 existing businesses assisted. This is a good program that makes a dif-

ference with a small price tag and big results. Since this program works and HUD has expertise different from the RDA, why eliminate this program?

Answer. There will be $100 million available in fiscal year 2004 for the Rural Strategic Investment Grant Program in USDA pursuant to Section 6030 of the Farm Security and Rural Investment Act of 2002, Public Law 107–171. This new program will "provide rural communities with flexible resources to develop comprehensive, collaborative and locally based strategic planning processes; and will implement innovative community and economic development strategies that optimize regional competitive advantages." These are activities that clearly mirror those in HUD's program. HUD's fiscal year 2004 Budget proposal to terminate the Rural Housing and Economic Development Program reflects the existence of duplicative HUD and U.S. Department of Agriculture (USDA) efforts and the fact that USDA has far greater resources in this area.

In addition, USDA manages a portfolio of rural housing grant programs and economic development grant programs. USDA's current rural development portfolio vastly exceeds HUD's Rural Housing and Economic Development Program in terms of programs and services from budgets to staffing. The rural housing grant programs are the Rural Housing Assistance Program, the Rural Housing Voucher Program, and the Mutual and Self-Help Housing Program. The economic development grant programs are the Rural Development Enterprise Program and the Rural Business Opportunity Program.

SECTION 8 PROJECT-BASED ASSISTANCE

Question. I remain concerned about the administration's longstanding commitment to Section 8 vouchers to the detriment of preserving Section 8 project-based housing especially in tight rental markets. Over the last 3 years, how many projects and units have opted out of the Section 8 project-based program with the tenants converting to Section 8 tenant-based assistance?

Answer. During the past 3 fiscal years, Section 8 opt-outs are estimated at:

Fiscal year	Contracts	Units
2000	254	10,256
2001	224	9,496
2002 (prelim) [1]	169	7,487

[1] The Office of Housing is currently conducting its annual verification survey of potential opt outs. Results of the survey may vary from the estimated, fiscal year 2002 numbers shown above.

Question. How many of these projects have been elderly projects or designated for persons with disabilities? How many projects and units have opted to stay in the program? How many of these projects have been elderly projects or designated for persons with disabilities? How many projects and units have opted to stay in the program?

Answer. Within these totals, opt outs of projects targeted to the elderly or disabled were:

Fiscal year	Contracts	Units
2000	30	1,519
2001	41	1,201
2002 (prelim) [1]	20	876

[1] The Office of Housing is currently conducting its annual verification survey of potential opt-outs. Results of the survey will be available in late spring, and may vary from the preliminary figures shown above.

During fiscal years 2000–2002, 10,742 contracts (782,427 units) were processed for renewal and are still active. This includes 4,347 contracts and 318,804 units targeted for the elderly or disabled.

HOMELESS ASSISTANCE

Question. HUD Budget Request indicates that HUD will be submitting a legislative proposal to block grant or consolidate the McKinney-Vento homeless assistance grant program. I support this approach assuming there is adequate oversight and accountability. Nevertheless, since the current programs work much like a block grant, what significant changes will the Department be proposing?

Answer. Our current homeless programs are all competitive, with the exception of the Emergency Shelter Grant (ESG) program. The proposed consolidation of the competitive programs is intended to make the funds more flexible and get the available funds to the communities that need them more efficiently. The new program

will serve all homeless population, not just particular ones. The program will have a single menu of eligible activities not different menus of activities for different projects. The new program will emphasize and provide more permanent housing and will allow new emphasis on homelessness prevention efforts.

Question. When can we expect this proposed legislation for our consideration?

Answer. The Department is currently developing legislation which will be submitted to Congress in the coming weeks.

MARK-TO-MARKET

Question. The Section 8 Mark-to-Market program was enacted to provide a mechanism to reduce the cost of oversubsidized, expiring Section 8 contracts to market rents while preserving this housing as affordable, low-income housing. How much Section 8 funding has actually been saved since the beginning of the program?

Answer. Section 8 savings from the beginning of the program to March 1, 2003 are approximately $180 million. The Present Value of the future stream of savings from M2M restructures already completed is $1.4 billion.

Question. How many projects have been preserved with Section 8 project-based contracts?

Answer. As of March 1, 2003, 1,579 properties with a total of 131,551 units have been preserved through the Mark-to-Market program.

Question. How many projects have been removed from the Section 8 inventory by owners who opted out of their Section 8 project-based contracts?

Answer. Since fiscal year 1999, 74 properties, with a total of 4,157 units in the Mark-to-Market program, have opted-out of Section 8 project-based contracts.

NATIVE AMERICAN HOUSING BLOCK GRANTS

Question. The Native American Housing Block Grant fund has been largely flat funded at some $650 million since its inception. How many low-income units have been preserved with these funds? How many new units are created each year with these funds?

Answer. The Native American Housing Assistance and Self-Determination Act of 1996, as amended (NAHASDA), provides funds through the Native American Housing Block Grant (NAHBG) Program to Indian tribes or their tribally designated housing entities (collectively "grant recipients"). Grant recipients assist eligible low-income Native American families through NAHASDA's six affordable housing activities. Beginning in fiscal year 1998, the first year that funds were appropriated under the IHBG Program, through fiscal year 2001, the 4 years for which data is available, grant recipients have provided assistance designed to preserve the viability of, on average, 53,463 units each fiscal year. This information differs from the information previously reported due to the collection of more accurate data obtained from the Annual Performance Reports (APR) submitted by grant recipients.

The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management. It does not include other eligible affordable housing activities under the NAHBG, such as down payment and buy down assistance, minor rehabilitation of under $5,000, housing services, housing management services, crime prevention and safety, and model activities. The total does include Section 8-type programs operated by a grant recipient.

Using the 4 years of NAHBG funding data available, on average, 2,536 units have been created each year. Fiscal year 2002 figures are incomplete as of this date because grant recipients' fiscal years vary from tribe to tribe, and APRs are not required to be submitted until 90 days after the end of a grant recipient's fiscal year. The Department will submit information on the first two quarters when it becomes available.

Under the NAHBG Program, grant recipients are involved in a much wider variety of programs and projects, often using innovative, leveraged and mixed financing. Unit totals are not currently available to track these initiatives and projects.

PUERTO RICO PUBLIC HOUSING AUTHORITY

Question. What is the current status of the Puerto Rico Housing Authority (PRPHA)? This has been the most troubled PHA in the country over the last decade. I know there has been a lot of progress made. What is the status now?

Answer. The PRPHA has been making steady progress during the past 2 years in procurement and other areas. Examples of the progressive initiatives that PRPHA has taken are as follows:

—The PRPHA received a clean audit for the first time for fiscal year ending June 30, 2002.

—The procurement review of December 2002 showed significant improvement and no major procurement deficiencies.
—Management decisions to comply with OIG recommendations in Report 00–AT–201–1801 are closed.
—Management decisions to comply with recommendations in OIG Report 00–AT–201–1003 are closed with the exception of those coded J and recommendations 1A and 1B. For these, the termination date was extended to August 2003.
—The PRPHA began implementation of a 2-year pilot project to transfer management of public housing projects to four municipalities. This new initiative is in partnership with municipalities to determine new alternatives for management of public housing. All partners signed a Memorandum of Understanding on February 28, 2003. Four contracts have been signed with the Municipalities of Caguas, Carolina, Manati, and Guaynabo.
—In July, HUD will be providing on-site training and program reviews to these four municipalities. The PRPHA completed the negotiations with Management Agents by the first week of May as scheduled. Report on negotiations and recommendations on contracts with Management Agents should be reviewed by the Bid Board and the PRPHA Board of Directors in their meetings the end of June and beginning of July for appropriate action. To date, two contracts have been cancelled and management of those areas reorganized at substantial savings to PRPHA. Preliminary agreements have been reached with four other Management Agents for renegotiated contracts with lower management fees.
—Executed an agreement to return to PRPHA control of the HOPE VI Program that was put under receivership by HUD on July 6, 2001.

FINANCIAL MANAGEMENT AND INFORMATION SYSTEMS

Question. IT has been a priority for Congress to the extent that recent VA–HUD Appropriations bills have segregated IT funds to ensure the funds are not raided for other purposes. What is the status of HUD's IT systems and when will they be fully up and running and compatible?

Answer. The administration requested and Congress has approved a change in the mechanism for funding the Working Capital Fund (WCF). This change was important for a number of reasons, including the need to begin funding the maintenance of existing systems and the development of new Department-wide systems from a central account rather than the previous process of taxing those program offices which had the authority to transfer funds to the WCF. A number of HUD programs could not legally transfer funds without specific authority in annual appropriations bills.

The Appropriations of the central WCF activities then leaves program offices with the authority to transfer funds to the WCF only for the activities which directly benefit the program and especially the grantees. In doing this we have ensured that program funds are not raided to pay for Department-wide activities and that central activities and systems, such as the central accounting system HUDCAPS is adequately funded through the review and approval process in appropriations acts. Hence this segregation of IT funds between central activities and program specific activities, in the administration's view, will work to strengthen the distinct functionalities of each.

The IT plan called for by Report language in the 2003 Appropriations Act which was submitted to the House and Senate Appropriations staff on December 15, 2002 and again on March 19, 2003. Specifically cites the status of each IT project that is under development. A third submission which will include the information in the OMB 300 submissions and the full life cycle costs and timeframe for each major project (about 40) will be submitted to the Congress mid-June, 2003.

QUESTION SUBMITTED BY SENATOR CONRAD BURNS

ELIMINATION OF THE RURAL HOUSING AND ECONOMIC DEVELOPMENT PROGRAM

Question. Does the Department of Agriculture Budget compensate for the elimination of the HUD Rural Housing and Economic Development Program? If so, why?

Answer. There will be $100 million available in fiscal year 2004 for the Rural Strategic Investment Grant Program in USDA pursuant to Section 6030 of the Farm Security and Rural Investment Act of 2002, Public Law 107–171. This new program will "provide rural communities with flexible resources to develop comprehensive, collaborative and locally based strategic planning processes; and will implement innovative community and economic development strategies that optimize regional competitive advantages." These are activities that clearly mirror those in

HUD's program. HUD's fiscal year 2004 Budget proposal to terminate the Rural Housing and Economic Development Program reflects the existence of duplicative HUD and U.S. Department of Agriculture (USDA) efforts and the fact that USDA has far greater resources in this area.

In addition, USDA manages a portfolio of rural housing grant programs and economic development grant programs. USDA's current rural development portfolio vastly exceeds HUD's Rural Housing and Economic Development Program in terms of programs and services from budgets to staffing. The rural housing grant programs are the Rural Housing Assistance Program, the Rural Housing Voucher Program, and the Mutual and Self-Help Housing Program and the Rural Business Opportunity Program.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

SAMARITAN INITIATIVE

Question. Mr. Secretary, HUD's proposed fiscal year 2004 budget includes a $50 million request for the President's "Samaritan Initiative" to move toward ending chronic homelessness over the next decade. This proposal builds on efforts by this Subcommittee in recent years to push the Federal response on homelessness in this very direction—setting a minimum threshold within McKinney-Vento for permanent supportive housing, ensuring stable funding for Shelter Plus Care renewals and pushing greater Federal interagency collaboration for funding of services to chronically homeless individuals. Your budget proposal includes a reference to an unspecified commitment for $10 million each in fiscal year 2004 from both HHS and the VA toward services funding as part of the Samaritan Initiative.

Can you identify for the Subcommittee from where within the budgets of HHS and the VA these funds will be coming?

Answer. HHS funds will come from both the Substance Abuse and Mental Health Services Administration (SAMHSA) for substance abuse treatment, mental health and related supportive services and from the Health Resources and Services Administration (HRSA) for primary health care services. VA funds will come from its Medical Care appropriation to enable local VA facilities to address the specific needs of chronically homeless veterans.

Question. What role do you envision the Interagency Council on Homelessness playing in allocating these funds?

Answer. The funds being requested for the Samaritan Housing Program, if approved, would be included in the applicable appropriations bills of HUD, HHS and VA and, therefore, would become the responsibility of these agencies to administer. However, there is no question that all three agencies would actively collaborate among themselves as well as consult with the Interagency Council on Homelessness to ensure that the program was established and operated in a coordinated and effective manner.

SECTION 811 HOUSING FOR THE DISABLED

Question. Mr. Secretary, the administration is requesting $251 million for the Section 811 program for people with disabilities for fiscal year 2004. This represents an $8 million reduction from fiscal year 2003 funding. However, according to estimates included in your own budget proposal, renewal of all expiring 811 "mainstream" tenant-based rent subsidies will cost $42 million in fiscal year 2004 ($10 million more than in fiscal year 2003). In addition, renewal of expiring 811 project-based subsidies (known as PRACs) are estimated to cost $8 million ($2 million more than in fiscal year 2003). This appears to increase the proposed reduction to the 811 program to at least $18 million if measured in terms of production of new units for people with disabilities. Further, this renewal burden associated with the 811 program is expected to continue growing in the coming years, consuming an ever greater percentage of the program, severely undermining 811's role as a production program.

The administration's budget contains an unspecified proposal to fold Section 811 into the Samaritan Chronic Homeless Initiative. This appears to be at odds with the targeting requirements for Section 811 that have been established by Congress, i.e. to direct resources to non-elderly people with severe disabilities that need housing related supports to live in the community. While this can include people with disabilities experiencing chronic homelessness, it also includes individuals that are in transition from institutional settings (nursing homes, psychiatric hospitals) or adults living with aging parents that can no longer provide care at home.

Does HUD have an estimate of the reduced number of new production units and new vouchers under the 811 that would result under the administration's budget?

Answer. The estimates included in the Department's Budget reflects that the number of Section 811 units awarded in fiscal year 2004 would be 1,749. The number assumed to be awarded in fiscal year 2003 is 1,804. That is about a 3 percent decrease in the number of units awarded with the same level of appropriations. However, these estimates do not include additional units that may be awarded using recaptures from prior years or from revised estimates of the amount of new appropriations needed for renewals. We have found that in many cases, higher than expected balances remain on contracts approaching expiration. These additional funds can be used to offset the impact of renewal costs.

Question. Does HUD have a plan to deal with the rising burden associated with renewal of project-based and tenant-based subsidies under the 811 program?

Answer. Within the amounts that are made available in future years, the Department is committed to maximizing the level of assistance available to eligible families. The Department has underway an aggressive and comprehensive effort to move greater numbers of projects to completion and occupancy as quickly as possible. This effort is also identifying amounts that can be recaptured from projects that cannot make reasonable progress so that these funds can be applied to additional awards. Over the next few years, these efforts should increase the pace by which additional units are brought into service. Ultimately, however, additional funding will be required each year to continue the current level of newly constructed units and, at the same time, renew expiring contracts.

Question. What measures might be taken to account for this 811 renewal burden as Congress has done for Shelter Plus Care?

Answer. Renewal of expiring rental assistance contracts is an integral aspect of the Section 811 housing program as it is for the Shelter Plus Care program. In both cases, funding of renewals is priority within the amounts appropriated in the account.

Question. Can you please describe for the Committee how HUD's proposal for integrating 811 into the Samaritan Initiative would impact current targeting requirements for 811?

Answer. The Department has a pending budget request of $50 million for the Samaritan Housing Program in fiscal year 2004, in addition to the $251 million requested for the Section 811 program. For the fiscal year 2004 Section 811 grant awards, the Department is proposing a preference for applications that address those disabled fitting the profile of people at risk of homelessness. This effort to prevent homelessness is intended to complement the Samaritan program's focus on addressing the critical needs of those experiencing chronic homelessness. The details on how the new preference will be incorporated into existing Section 811 selection criteria will be developed in the next several months based on discussions with all interested parties.

METROPOLITAN STATISTICAL AREA

Question. Mr. Secretary, although New Mexico is considered one of the Nation's poorest States, there is an odd problem in the Santa Fe and Los Alamos areas with regard to qualifying for HUD assistance. HUD currently combines these two New Mexico cities into one Metropolitan Statistical Area or MSA. Although at one time this practice was a benefit to both communities, it has now become a hindrance to their ability to receive HUD assistance in meeting actual local housing needs.

As it is today, Los Alamos County median income is over twice as high as Santa Fe County, about $82,000 to $40,000. This disparity clearly has negative impacts in both counties for housing assistance when Fair Market Rents (FMR) are calculated and then averaged for this single MSA.

By artificially raising median incomes in one county, Santa Fe, and lowering it in the other, Los Alamos, neither community has housing assistance targeted to their real incomes.

One solution, as has been attempted in the State of New York, is to remove the distortion be separating the affected communities from their shared MSA. I am attempting to do just that through a piece of legislation introduced a few weeks ago.

Do you believe that such a legislative fix would adequately solve this dilemma?

Answer. Separating the counties of Los Alamos and Santa Fe from a shared MSA would reduce the distortions in income and rent calculations for HUD programs. Currently, Santa Fe County benefits from the higher income and higher rents of Los Alamos County. More people could be served in Santa Fe County with lower FMRs, and lower income limits will ensure that the needy receive housing services. How-

ever, in Los Alamos, the reverse will occur. A substantially higher FMR for Los Alamos will mean that there will be fewer people served.

HUD follows the OMB definition of metropolitan areas. New OMB definitions will be released this summer, and the Department will bring the issue to their attention.

SECTION 811 HOUSING FOR THE DISABLED

Question. Would separating Los Alamos and Santa Fe from a shared MSA remove the distortions and allow more people to receive the assistance they need?

Answer. No. Breaking out the two areas would have no impact in the Section 811 distribution. Allocations are done by State or State portion within a field office jurisdiction; consistent with the requirements of 24 CFR 791 and the Section 202 and 811 program requirements. Second, the allocations for Section 811 are not done separately for metropolitan versus non-metropolitan areas. Third, and more importantly, given the level of funding in total, New Mexico's "fair share" in fiscal year 2002 would have been only 10 units (based on the minimum number of units set aside for each office). However, since the New Mexico Office is not a Multifamily Program Center, its development functions are under the jurisdiction of the Ft. Worth Office. Under the Ft. Worth Office's jurisdiction, the sponsors applying to develop Section 202 and Section 811 units in New Mexico had the ability to compete for 45 units of assistance in fiscal year 2002 rather than the 10 units if New Mexico was advertised separately.

NAHASDA FUNDING

Question. Mr. Secretary, I serve a State with over 20 Indian tribes including 19 pueblos and the Navajo Nation. Many of their members live in substandard housing due to economic circumstances facing the tribes. Providing adequate housing for low-income individuals and families is one of the primary tenets of your Department. It is also one tool the Federal Government has for meeting the spirit of its trust responsibility for the tribes.

One powerful tool in our belts is the Native American Housing Assistance and Self-Determination Act of 1996, otherwise referred to as NAHASDA. NAHASDA has been a great boon to the Indian people through its consolidation of prior housing programs and allocation of block grants to the tribes.

That tool, however, seems dulled of late. While the program has led to heartening developments in Indian country, many still wait for adequate housing. It is estimated that over 200,000 housing units are required to meet current needs. While funding for this program is high—at a requested $646.6 million—it has not increased in many years. Inflation and population growth have eaten away at the real value of this money. Perhaps in this round of appropriations we can do something about that.

First, is it fair to say that the real money value of the NAHASDA funds has decreased due to its stagnation and the pressures of inflation and population growth?

Answer. Yes, it would be fair to say this.

Question. In order to combat this situation, would appropriating $700 million for fiscal year 2004 begin to address some of the desperate housing needs in Indian Country?

Answer. The NAHASDA program has made significant improvements in its program delivery and tracking of accomplishments. Grant recipients assist eligible low-income Native American families residing on Indian reservations, in the Pueblos, in Alaska Native Villages, and in other traditional Indian areas. Using NAHASDA's six affordable housing activities, Indian tribes and their tribally designated housing entities (TDHE) create housing opportunities for eligible low-income Native American families.

Beginning in fiscal year 1998, the first year that funds were appropriated under the NAHBG Program, through fiscal year 2001, the 4 years for which data is available, grant recipients have provided assistance designed to preserve the viability of, on average, 53,463 units each fiscal year. The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management.

Using the 4 years of NAHBG funding data available, on average, 2,536 units have been created each year. Under the NAHBG Program, grant recipients are involved in a much wider variety of programs and projects, often using innovative, leveraged and mixed financing. These activities stretch NAHBG dollars and result in increased housing assistance for Native American families.

The 2004 Budget request provides sufficient funding to implement the administration's goals to address the housing needs in Indian country.

QUESTIONS SUBMITTED BY SENATOR MIKE DEWINE

OUTREACH AND TECHNICAL ASSISTANCE GRANTS

Question. Mr. Secretary, I am very thankful for all the great work that your organization has done. As I am sure you are aware, the Outreach and Technical Assistance Grants (OTAG) have played a valuable role in permitting housing organizations to hold many community outreach events including regional and State-wide meetings of housing organizations, HUD, local officials and non-profit developers to stay informed about HUD program and coordinate their efforts to preserve and improve housing in their local communities.

I understand that several organizations have not passed their audits of this program and that this is not uncommon. As a result of these findings, HUD has suspended the work of these organizations and is delaying issuing a Notice of Fund Availability on the basis that the audit findings are not resolved.

I am concerned that HUD's delay in resolving these audits is jeopardizing the future of this valuable program. What are your intentions for the program and how do you plan to deal with this situation?

Answer. The consolidated audit report was published on March 31, 2003, and the Department is currently implementing the management decisions associated with these findings.

Regarding the future funding of Section 514 Grants, the Department has committed to perform a Comprehensive Management Review of the administration of the Section 514 Grant process, including the deficiencies identified by the Inspector General in the recent audit reports. After this review is completed and appropriate program safeguards are incorporated into the program, the Department will be in a position to consider new opportunities for funding under Section 514.

GSE OVERSIGHT

Question. Mr. Secretary, Congress passed legislation in 1992 requiring that HUD review all new programs that Fannie Mae and Freddie Mac are considering before they enter into those programs. In the past decade, that law has been all but ignored. I know you are committed to full implementation of laws duly passed. What are you doing to ensure that a pre-clearance mechanism is established?

Answer. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (FHEFSSA) mandated that the Department review the GSEs' activities for approval in all instances that meet the statutory definition of a new program. As I stated during the recent budget hearing, I take this responsibility seriously. It is my belief that the Department must provide the level of new program oversight envisioned by Congress when it enacted FHEFSSA in order to ensure that new programs initiated by the GSEs are consistent with their charters and public mission. To achieve this objective, I have directed my staff to thoroughly review the Department's current regulatory procedures in an effort to promote more efficient and effective regulation.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

NEW LEAD-BASED PAINT ABATEMENT PROGRAM

Question. In the Public Law 108–7, the Committee created a new lead based paint abatement program and appropriated $50 million for the program. Please provide the following information in regards to this program:

How is the Department collecting the data required to determine which areas meet the criteria for "highest lead based paint abatement needs" as set forth in the Public Law 108–7?

Answer. The Department is requiring that all applicants for these grants report to HUD the total number of documented cases of lead-poisoned children from the most recent calendar year for which data are available and the number of pre-1940 rental units within the relevant jurisdiction. HUD will be working with the CDC and Prevention to conduct quality control on the data submitted by applicants on lead poisoned children. The Department will also compare reported numbers of units to 2000 Census data for quality control. HUD will publish these data in its progress report to the Committee on March 1, 2004 or earlier, as required. In addition, HUD will publish in the Notice of Funding Availability data from the U.S. Census showing the 100 areas with the highest number of pre-1940 rental units.

Question. How many jurisdictions qualify for grants under this program?

Answer. Approximately 100 areas are eligible for grants. These areas are identified in an Appendix to the NOFA.

Question. When will the Department issue a NOFA for this program? When does the Department expect to make awards?

Answer. The NOFA will be published in May 2003. The Department expects to make awards no later than September 2003.

Question. How will the Department monitor the outputs and outcomes of grant awards?

Answer. The Department will track both expenditures and number of units made lead safe through its web-based data system, which helps the Department ensure compliance with the terms and conditions of the grant agreement. In 2004, HUD will also be conducting another national survey of the prevalence of lead-based paint in U.S. housing to measure the impact of this program and other lead hazard control efforts in reducing the number of units with lead-based paint hazards. Previous HUD studies showed that the number of housing units with lead-based paint declined from 64 million in 1990 to 38 million in 2000 (See Jacobs et al., "The Prevalence of Lead-Based Paint Hazards in U.S. Housing," Environ Health Perspect 110:A599–606, October 2002). In addition, HUD will be working with the CDC to quantify the decline in the number of lead poisoned children through the National Health and Nutrition Examination Survey, which showed that the number of lead poisoned children declined from 890,000 in the mid-1990's to 434,000 in 1999–2000.

HOUSING OPPORTUNITIES FOR PERSONS WITH AIDS (HOPWA)

Question. Of the $290,000,000 appropriated to the HOPWA program, how many of the funds are expected to renew existing grants? How many grants does this represent?

Answer. HOPWA competitive programs constitute 10 percent of program funds. In fiscal year 2003, HUD has available $28.811 million to award for HOPWA projects to be selected under the criteria published in the Department's SuperNOFA. As required by the Appropriation Act, HUD will give priority to the selection of competitive grants that provide permanent supportive housing and meet all program requirements. Selections will be made later this year after the receipt of applications and completion of the Department's review of these applications. It cannot be determined which winning applications will renew existing grants until the competitive process is completed.

HOPWA competitive grants are funded for up to a 3-year operating periods. As such, many projects operate for their intended 3-year use period and are likely to seek additional funding to continue program operations. Beginning in fiscal year 2001, the Appropriation Act required that HUD give priority to the renewal of existing projects that meet program requirements. In fiscal year 2002, the renewal requirement specified that projects that provided permanent supportive housing receive priority in the selection process. In those competitions, HUD established the review criteria in the Department's SuperNOFA process. At the completion of these prior competitions, most of the available funding was awarded to renew existing projects, for 22 of 25 projects selected in 2001, and for 14 of 28 projects selected in 2002. In 2001, 3 new projects were selected and in 2002, 11 new projects were selected for funding along with three transitional housing projects that receive funding to continue those efforts.

There are nine grantees operating under fiscal year 1999 awards and 21 grantees operating under fiscal year 2000 awards, which would constitute the likely groups of applicants for renewal requests. Based on prior experience, HUD does not expect that all of these projects will seek renewal funding in this period or qualify for selection under the published criteria as projects that provide permanent supportive housing, since some involve transitional housing activities.

HOPWA RENEWED GRANTEES

Question. Please provide a list of these grantees, and a brief explanation of what each grant is being used for.

Answer. The list of these grantees with brief descriptions of their existing grant is listed below:

Housing Opportunities for Persons with HIV/AIDS (HOPWA)

1999 Competitive Grants—9 Grants Not Yet Renewed

California

City of San Jose, Department of Housing.—$1,346,000, "Shared Housing Assistance Placement and Supportive Services" (SHAPSS) in collaboration with the AIDS Resources Information & Services of Santa Clara County and Health. Services in-

clude: transitional housing, roommate referral service, tenant based rental subsidies and supportive services, serving 80 clients and 15 families.

Colorado

Del Norte Neighborhood Development Corporation.—$959,330, to rehabilitate a 15-bed single-room occupancy (SRO) facility in Denver. Project serves very-low income homeless persons living with AIDS, dually or triply diagnosed with substance abuse and/or mental illness issues. Services are individually tailored including group and individual counseling, transportation assistance, food bank access, HIV education, daily meals, and self-sufficiency training, which are coordinated with the Colorado AIDS Project.

Delaware

Delaware HIV Consortium.—$934,487, for the acquisition, rehabilitation and operation of a housing facility in collaboration with the Connections Community Support Programs, Inc., to develop and operate ten units of permanent housing with intensive supportive services with a primary focus on the needs of women with co-occurring substance use and/or mental health disorders.

District of Columbia

Safe Haven Outreach Ministries.—$1,286,000, to support 46 units of transitional housing for dually and multiply diagnosed homeless adults. This program will convert a public housing building, into one- and two-bedroom units. On-site substance abuse counseling, basic medical care, mental health treatment, case management, assistance with daily living and job readiness training which will stabilize 256 homeless individuals with permanent housing, while clients with former criminal justice issues will receive assists in reentry supports.

Idaho

Idaho Housing and Finance Association.—$1,299,837 for rental assistance, will provide low-income persons with long-term rental assistance in 45 units of short-term rental and utility assistance, case management, dental and psychiatric services. The project will expand the existing supportive service delivery system, assisting 384 persons living with AIDS and their families throughout the State of Idaho.

Massachusetts

Community Healthlink, Inc.—$1,236,000, to establish and operate an eight-unit residence for pregnant homeless women also challenged with substance abuse issues. Services and support will focus on preventing neonatal transmission of HIV and provide prenatal care otherwise not accessible for homeless women. This project will serve an estimated 48 persons with current needs due to homelessness, pregnancy and substance abuse and enable them to transition to more stable and independent living.

Justice Resource Institute (JRI).—$1,256,815, for tenant-based rental assistance program, with scattered-site rental subsidies to access housing for low-income and homeless individuals and families with HIV/AIDS. The program will assist 95 persons and their families.

New Hampshire

State of New Hampshire, Department of Health and Human Services, Office of Community Support and Long Term Care.—$520,448 in conjunction with three service organizations will provide housing and services to 90 persons and 35 families, and an additional 75 persons will only receive supportive services.

Pennsylvania

Asociacion de Puertorriquenos en Marcha, Inc.—$1,193,511, to continue La CASA (Community AIDS Services Advancement), a program of rental assistance, counseling and other services for clients in the Latino neighborhood of north Philadelphia, serving persons with HIV/AIDS and their families through 20 units of tenant based rental assistance, security deposits, housing counseling, case management, medical monitoring, emergency child care, and transportation within a bilingual/bicultural setting.

Remaining 2000 Competitive Awards by State

Alaska

Alaska Housing Finance Corporation.—$572,600, to provide housing and comprehensive support services to 100 households, such as case management, employment services, treatment and transportation, especially in addressing needs to ac-

cess health care in rural areas. State agencies and community-based organizations have committed over $2,000,000 in resources.

California

Salvation Army, Southern California Division.—$927,888 to support operating costs and supportive services at a 45-unit transitional and permanent housing program for families affected by HIV/AIDS. The project will adjust to changes in service needs and help maintain families as they transition to permanent housing.

County of Sacramento, Department of Human Assistance.—$1,300,142 for a collaborative of human service agencies from both the Homeless Continuum of Care and the HIV Services Continuum in Sacramento. This project will complete the continuum of care by addressing an underserved population of persons who are homeless and avoid traditional shelter programs. The City committed 120 tenant-based Section 8 permanent housing for clients who successfully complete the programs.

San Francisco Redevelopment Agency.—$1,370,000 to improve the current housing conditions for underserved homeless persons living with HIV/AIDS in the City and County of San Francisco, by assisting persons with support in getting a job or returning to work. In addition, many clients may also need support to address homelessness, mental health and substance use issues, serving 125 households with access to 10 units of service-enriched SRO housing units.

Colorado

Colorado Division of Housing.—$1,370,000 to provide rental assistance and short-term rent payments and related services in areas outside the Denver metropolitan area. Nonprofits will offer about 50 units of tenant-based rental assistance and assist 487 households with short-term rent payments to prevent homelessness. An estimated 537 individuals and their families will receive some form of housing assistance.

Georgia

City of Savannah, Bureau of Public Development.—$1,197,572 to expand on collaborations with Union Mission, Inc. and six other project sponsors with the Savannah-Chatham AIDS Continuum of Care in a one-stop service and medical center for persons living with HIV/AIDS that will streamline the intake process for housing services and expand substance abuse treatment to 20 persons receiving housing assistance.

Hawaii

Gregory House Programs.—$1,030,000 to continue the supportive housing programs and allow for a continuum of services for persons with multiple diagnoses who are living in the Honolulu metropolitan area. The project uses two housing components: 40 units of tenant-based rental assistance and operational costs for an 11-bed transitional housing facility.

Illinois

AIDS Foundation of Chicago.—$1,362,846 to direct assistance to underserved racial and ethnic minority communities that have been impacted by AIDS and poverty. The Renaissance Care Network assists an underserved population of African-Americans who reside in the greater Roseland area of Chicago. HOPWA funds will be used to lease 21 scattered site apartments and an array of supportive services relating to HIV counseling, testing, outreach, parenting, child care, substance abuse and mental health.

Kentucky

Kentucky Housing Corporation.—$1,320,000 to support more than 490 persons by establishing a substance abuse treatment network that covers all 120 Kentucky counties. The project is an expansion and renewal of the 1997 HOPWA grant in short-term housing assistance which will reach 231 homeless or low-income persons with chemical dependencies in connection with substance abuse treatment services.

Maine

The AIDS Project (TAP).—$1,333,286 to continue a program and expand services to underserved persons in rural areas in the remaining areas of the State where no HOPWA funds have previously been available. Assistance creates a range of housing options, including 63 units of tenant-based rental assistance, 39 units of emergency shelter, 42 units of short-term rent, mortgage and utility assistance as well as 192 security deposits to obtain housing.

Maryland

Health Care for Homeless (HCH), Inc.—$1,301,703 to assist an underserved population of medically fragile HIV/AIDS homeless persons in Baltimore with difficult challenges. The Project will connect housing support for 180 clients with a new level of intensive case management and comprehensive services to address the needs for the homeless or those at risk of homelessness and medically fragile.

Massachusetts

Cambridge Cares About AIDS (CCAA).—$1,326,917 to support the Bay State Supportive Housing Alliance program fill gaps in housing services through 24 units of transitional housing for 24 months to individuals and families living with HIV/AIDS across eastern Massachusetts. Eighty-two persons will be assisted with specialized substance abuse treatment efforts and related supportive services.

Mississippi

South Mississippi AIDS Task Force.—$935,500 to construct and operate Client House, an emergency shelter and transitional housing for low income and homeless people living with AIDS and their families. The facility will house 12 individuals and 2 families in Biloxi and will serve the southern six counties of the State. The project is being coordinated with the Mississippi Department of Health and 25 organizations that provide related supportive services for clients.

New York

Church Avenue Merchants Block Association, Inc. (CAMBA).—$1,080,000 to renew the multiple diagnoses initiative program Housing Start. The project provides scattered site apartments in Brooklyn for 40 low-income homeless persons living with HIV, who have mental illness or chemical addictions or both. The project will link HIV, substance abuse, mental health services, treatment education, health care, intensive independent living skills training and other supportive services with housing assistance to maximize independent living and self-determination.

Housing Works, Inc.—$707,177 to address the needs of women who are exiting the criminal justice system, with 12 units of transitional housing and a range of supportive services to reinforce behavioral changes, that will reintegrate 75 women into the community pending release or recently released from incarceration. A minimum of 20 of these women will receive support such as security deposits and moving expenses into permanent housing, linked to a full range of medical, clinical, psychosocial, case management services.

The Fortune Society.—$1,274,875 to develop Coming Home Program to meet the needs of underserved primarily African American and Latino homeless persons who are released from jails and prisons, with extensive substance abuse issues. The program will assist 125 clients with support in permanent housing, after emergency, transitional, supported permanent and independent permanent housing in addition to 12 beds for emergency and transitional housing in West Harlem that will continue as a permanent resource for the target population.

Center for Children and Families.—$1,278,906 to continue New York City's first system-wide housing assistance program for homeless HIV and multiple diagnosed minority youth from 18–24 years old in the Times Square area. An estimated 270 youth will be assisted with overnight shelter and other support. This program involves the operation of a number of specialized facilities, such as Safe Space, a 24-hour drop in center, and using two mobile units which canvass for homeless youth on the streets.

Pennsylvania

Family Health Council of Central PA, Inc.—$367,040 to establish a program that links health to housing for clients in a 14 county region of south and central Pennsylvania through eight area AIDS sponsors. These providers will deliver rental assistance support to an estimated 150 clients, especially women in rural areas of the State.

Texas

Bexar County, Department of Housing and Human Services.—$1,320,000 to target an underserved population of women with children. Twenty-eight families who are homeless or at risk of becoming homeless will be housed in an acquired and rehabilitated building that consists of eight units of transitional housing. Residents will receive treatment and family services intended to help stabilize women in housing, help address health concerns, and when able, move to permanent housing.

Vermont

Burlington Housing Authority.—$471,392 to continue a program of rental assistance and support services for residents of an 11-unit supportive housing. A wide range of supportive services is available to residents, with a combination of public and private funding.

Wyoming

Wyoming Department of Health.—$588,191 to expand services on a statewide basis through the use of a short-term rent payments program to respond to client requests. Funds will allow the State and its sponsors, the Wyoming AIDS Project and Casper Housing Authority to continue to meet supportive service needs and address short-term housing assistance of 175 low-income persons.

NATIONAL HOMELESS DATA ANALYSIS PROJECT

Question. Please provide a status report on the national homeless data analysis project, including an accounting of how the $11,000,000 will be spent, and estimated future costs of this project.

Answer. Congress has directed HUD to improve the collection of data on the extent and nature of homelessness locally and nationally. HUD has set October 2004 as the goal for each Continuum of Care (CoC) to implement a Homeless Management Information System (HMIS). HUD is providing $4.1 million in technical assistance to CoCs to help ensure they are able to meet this goal. HUD is also undertaking a $3 million 3-year effort to: (1) develop data and reporting standards; (2) develop an 80 jurisdiction national sample; and (3) collect and analyze homeless data from the sample and all CoC systems for an Annual Homeless Assessment Report (AHAR) to Congress. While implementing a HMIS is a complex, time-consuming, and costly process, CoCs have been making progress in meeting the 2004 goal. In spring 2002, 25 percent of the CoCs reported they had implemented or were upgrading or expanding their HMIS, 51 percent indicated they were selecting software and hardware, 22 percent were meeting and considering implementation, and 2 percent had not started to consider a HMIS.

Concerning the fiscal year 2003 funding targeted for additional HMIS technical assistance requirements: HUD is currently assessing the nature of community needs for HMIS technical assistance and will prepare a request for proposals in the near future.

Currently HUD does not have a reliable estimate on the total costs for CoCs to implement and operate a HMIS. In 2001, 49 dedicated HMIS projects were funded, totaling $13 million and in 2002, 83 projects totaling $25 million were funded. Nearly all of these were 3-year grants. We expect a significant number of communities to apply for funds in the 2003 competition. In addition, CoCs are using a variety of public and private sources in addition to Supportive Housing Program to fund their HMIS. We will conduct further analysis of the HMIS costs after awarding the 2003 Continuum of Care competitive grants.

FISCAL YEAR 2003 TECHNICAL ASSISTANCE FOR HOMELESS ASSISTANCE GRANT PROGRAM

Question. Please detail how the Department will spend the $6,600,000 for technical assistance appropriated to the homeless assistance grants program.

Answer. Of the $6.6 million appropriated for homeless technical assistance, $3.6 million is being made available through HUD's 2003 SuperNOFA process for technical assistance on the national level. The remaining $3 million is being distributed to HUD's field offices for award at the local level to winning technical assistance providers.

As announced in the fiscal year 2003 SuperNOFA, the $3.6 million national technical assistance funding is focused on the following 5 types of activities: (1) facilitating the exchange of information between community organizations to assist them to develop and implement a community-wide discharge plan for individuals exiting publicly funded institutions; (2) improving the ability of eligible applicants to develop and operate permanent housing for chronically homeless persons; (3) developing materials on effective grant administration for grantees and sponsors; (4) improving the ability of eligible grantees and sponsors in reaching out to and enumerating chronically homeless persons; and (5) improving the ability of grantees and sponsors in coordinating services available through mainstream resources with current housing units available for homeless persons.

TECHNICAL ASSISTANCE IN CDBG

Question. Why doesn't the Department request funds for the technical assistance (TA) in the CDBG account?

Answer. While CDBG TA has not been funded since fiscal year 1999, the President's Budget requested $7.5 million in 2000, $15 million in 2001, nothing in 2002, $3 million in 2003 and $3 million in 2004. HUD strongly believes that it needs TA to support the $4.4 billion CDBG program.

Question. What need do CDBG grant recipients have for TA?

Answer. CDBG grant recipients need TA for training in basic CDBG implementation as well as in specialized areas as local performance measurement. Instead of requiring individual grantees to develop ways to address an issue or a training program, HUD could be providing methods already proven to be successful. These funds would be provided through contracts or grants and would not be used to pay HUD staff travel or training.

In fiscal year 2004, TA would address new homeownership assistance, affordable housing, timely expenditure of funds, particularly by States, training programs for grantees staff to ensure better understanding of accountability requirements, data enhancements, faith-based community groups, energy enhancement, and meeting lead-based paint safety requirements.

In addition, some of these funds will be used to implement any revisions to the Consolidated Plan Improvement Initiative, as required by the President's Management Agenda, HUD's charge is to streamline the Consolidated Plan and make it more results-oriented and useful to communities in assessing their own progress in addressing the problems of low-income areas.

Question. Has the Department received specific requests for CDBG technical assistance?

Answer. Over the past 3 years, HUD has received a steady stream of requests from CDBG grantees for base level technical assistance (TA) because of considerable staff turnover at the local level as well as requests from stakeholders for TA to address such emerging issues as lead based paint hazards and housing and economic development issues within the colonias.

NEIGHBORHOOD NETWORKS

Question. What is the status of the Neighborhood Networks program in public housing?

Answer. In the 4 years since HUD introduced the Neighborhood Networks (NN) Centers program, the Centers' services and programs have expanded widely. Local partners, such as educational institutions and nonprofits offer tutoring, mentoring programs and other needed services. The program was developed to serve residents of public housing who often lack the skills necessary to become economically self-reliant. The Centers were designed to give these individuals an educational opportunity practically at their doorstep. Learning how to use a computer is the core of the Neighborhood Networks' philosophy because computers have become a gateway to knowledge and employment.

The NN Centers are typically located on-site or near a Public Housing facility. The Centers are equipped with computers and Internet access. They help lower-income residents reach their goals and achieve economic self-sufficiency through access of education and job training; help children become better students; provide parents and adults access to job skills; and assist senior citizens to remain independent.

Question. How many grants have been awarded? What is the average grant award amount?

Answer. Fiscal year 2002 as well as fiscal year 2003 Appropriations Acts appropriated $15 million from the Public Housing Capital Fund and $5 million from the HOPE VI program to establish or expand existing Public Housing NN Centers.

In fiscal year 2002, 78 grants were awarded to PHAs to operate centers across the country. The average award amount is $168,743. The fiscal year 2002 HOPE VI funding has not been awarded at this time, but will be by September 30, 2003. The Department anticipates the award of approximately 28 grants to HOPE VI sites.

Question. How is the Department monitoring the outcomes of the program?

Answer. For the fiscal year 2003 Notice of Funding Availability (NOFA), the Department developed a reporting requirement of performance measures and outcomes known as the Logic Model. Applicants are required to address their previous results, and present proposed program outcomes, outputs, benchmarks, and performance indicators. If the applicant is a successful awardee, then the applicant is required to report semi-annual against their work plan the achievement of these performance measures.

COMMUNITIES SERVED UNDER BROWNFIELDS

Question. How many communities have been served over the life of the Brownfields program? What activities does the HUD Brownfields program fund that are not eligible under the EPA Brownfields program?

Answer. Since 1998, HUD has awarded 108 Brownfields Economic Development Initiative (BEDI) grants to 85 communities. In some cases, additional communities may be served through those applications, such as when a county receives a BEDI grant for the redevelopment of multiple sites in a number of communities within the county.

The 2002 Small Business Liability Relief and Brownfields Revitalization Act expanded the funding that EPA can provide to support the assessment and cleanup of brownfields properties. The authorities granted to EPA under the new law, however, are limited to property characterization, assessment, and cleanup. The law permits recipients of EPA's grants or loans to use funds to conduct planning but only when associated with property assessment and cleanup. In addition, the law permits a recipient of an EPA grant or loan to purchase insurance, but again, only for activities associated with the characterization, assessment or remediation of a brownfields site. EPA has given out approximately 400 grants, and their funds can be used for site beautification projects, known as greenspace.

HUD's objective regarding brownfields is to assist projects whose focus is the end of the redevelopment process, i.e., projects with plans by identified parties that will return contaminated sites to productive economic use, as differentiated from assessment and cleanup which are the beginning phases of the overall redevelopment process.

Because BEDI grants may currently be used only in conjunction with Section 108 guaranteed loans, BEDI may support any activities eligible for assistance under the Section 108 Loan Guarantee program, provided those activities are undertaken in connection with the redevelopment of a brownfields site. Communities may seek BEDI assistance for a wide range of redevelopment activities, including the acquisition, demolition, clearance or preparation of a brownfields site; installation of infrastructure; construction or rehabilitation of housing, commercial or industrial buildings; business loans and job training to attract or expand businesses; and the establishment of public facilities such as child care and community centers (the full scope of eligible activities that may be supported with BEDI funds is provided at 24 CFR §570.703).

The Department did not request funding for the Brownfields Economic Development Initiative in fiscal year 2004, but the Department will continue to support the redevelopment of brownfields through the Community Development Block Grants program.

The following table depicts the activities eligible under the respective EPA and HUD authorizing legislation:

Activity	EPA	HUD
Assessment	Yes	Yes.
Remediation	Yes	Yes.
Acquisition	No	Yes.
Construction and Rehabilitation	No	Yes.
Business Attraction or Expansion	No	Yes.
Housing	No	Yes.
Clearance and Demolition	Only If Integral to Remediation	Yes.
Public Facilities	Only If Integral to Remediation	Yes.

Although BEDI may also finance site characterization, assessment and remediation activities, between 2000–2002, just 9.1 percent of funds provided by BEDI grants and associated Section 108-guaranteed loans were used for this purpose. Indeed, BEDI grantees have demonstrated considerable success in accessing EPA resources for site characterization, assessment and remediation, with nearly 82 percent of BEDI funds allocated to sites that have received EPA brownfields assistance for the early phases of redevelopment.

HANF FUNDING PROPOSAL

Question. The new funding method adopted in the fiscal year 2003 appropriations bill will mean that local agencies will have to draw funds from their reserves, and possibly from the new central fund, in order to have sufficient money to pay rent to owners when additional families succeed in locating units. This could require fairly quick action by HUD. If owners do not receive timely payments, they are unlikely

to agree to participate in the program. What will HUD do to ensure that housing agencies can access the necessary funds quickly, so that owners can be paid on time?

Answer. HUD has implemented a data collection tool that requires PHAs to submit updates to leasing and cost activities quarterly. This current data will be used as the basis to fund expiring contracts on a quarterly basis and provide PHAs with the appropriate level of funding.

There will be times when a PHA must use reserves and/or require additional funding from the Central Reserve. HUD is well aware of the importance of providing this funding to PHAs in a timely manner and is prepared to do so. HUD also has the responsibility to ensure that the funding required, up to the authorized level, is made available to PHAs within 30 days of a request. HUD has developed a PIH Notice that outlines procedures for PHAs to request access to reserves and/or additional funding. The notice is going through an internal clearance process and should be issued in the very near future.

Question. Is HUD planning to issue guidance to housing agencies explaining the new funding method adopted for fiscal year 2003? If so, when do you anticipate the guidance will be issued?

Answer. HUD notified all PHAs by letter and e-mail of the changes in the funding methodology resulting from the fiscal year 2003 appropriations and requirements of PHAs. HUD has also developed an implementation notice that outlines the changes in more detail. The notice is in internal clearance and should be issued in the very near future.

UNUSED BUDGET AUTHORITY

Question. For housing agencies with fiscal years ending 6/30/02, 9/30/02 and 12/30/02, what percentage of total allocated budget authority was used, and what was the dollar amount of unused budget authority?

Answer. See table below.

	2003	2006	2009	2012	Total
Table allocated BA used (percent)	89.7	95.6	96.3	92.1	94.0
Unused BA	$149,506,470	$287,272,551	$107,281,709	$149,018,101	$693,089,101

HOUSING ASSISTANCE FOR NEEDY FAMILIES

Question. Does HUD anticipate recapturing the full amount of unused BA before the end of fiscal year 2003? If not, why not?

Answer. The recapture process in August 2003 will recapture all unused budget authority from fiscal year 2002 and prior appropriations that have accrued to PHAs' program reserves. However, a month reserve amount for all PHAs will be excluded from recapture. In addition, funds provided to Moving-to-Work agencies units under litigation and certain special fees intended for future years will also be excluded from recaptures. Funds provided to Moving-to-Work agencies are excluded from recaptures pursuant to the legal agreement between HUD and the agencies involved.

RESERVES

Question. How much of the BA recaptured during fiscal year 2003 will be needed to replenish PHA reserves?

Answer. PHA program reserves are replenished at the end of each PHA fiscal year. The fiscal year 2003 appropriation allows for the replenishment of reserves up to the authorized level of units due to increased costs from the Central Fund.

The estimate to replenish reserves, based on the cost per unit currently provided by PHAs, is approximately $200 million.

VOUCHER UTILIZATION

Question. What steps is HUD planning to take this year to continue to encourage PHAs to increase the percentage of vouchers they are using?

Answer. The Department proposes the Housing Assistance for Needy Families (HANF) initiative as a means to reform and improve the voucher program. HANF will provide tenant-based housing assistance through State-administered block grants. This initiative will simplify current income and rent calculations by eliminating dozens of statutory and regulatory exemptions and deductions. Implementation of HANF will:

—provide for the program flexibility and oversight so that funds are used promptly and effectively to assist needy families;

—facilitate greater program responsiveness to local markets and needs;
—provide for the administrative decision-making closer to the communities and families affected, by their elected officials;
—provide for additional program flexibility to address local needs;
—allow flexibility at the State level for reallocation of funds or other actions that may be necessary so that program funds are expended promptly; and
—improve government support of self-sufficiency efforts by assisted families, by facilitating greater coordination with the TANF program and other State programs.

Question. Is HUD continuing to notify agencies that fail to use at least 90 percent of their vouchers (or budget authority) that if they do not improve substantially HUD will reallocate some of their vouchers to another agency?

Answer. The Department is reviewing procedures related to the reallocation of vouchers and will determine if reallocation will be conducted this summer. However, budget reform made by Congress in fiscal year 2003 may negate the necessity to do so.

Question. Has HUD reduced the number of vouchers allocated to any agencies due to poor performance during this fiscal year? If so, please provide details on the agencies and number of vouchers affected. Have these vouchers been reallocated to other agencies?

Answer. HUD has not reallocated vouchers from under-performing agencies in fiscal year 2003.

STUDY ON VOUCHER UTILIZATION

Question. HUD has commissioned a study on how high-performing agencies have improved voucher utilization that the study contains more recent data on voucher utilization than HUD has provided to Congress, and that it has been ready to be issued for 6 months. When this study will be made public? Please provide the Committee with a copy of the study.

Answer. The report is being finalized now and should be sent to the printer in the next few weeks.

VOUCHER UTILIZATION

Question. HUD's budget request assumes that the average cost of vouchers in fiscal year 2004 will be $6,468, including administrative fees, yet the average cost of the requested incremental vouchers is $6,545. Please explain the discrepancy. The Congressional Budget Office in its March baseline estimates that the average cost of vouchers in fiscal year 2004 will be $6,842. Please explain the discrepancy between the administration's estimate and CBO's.

Answer. In fiscal year 2004, up to $36 million are requested for non-elderly disabled vouchers as a set-aside that might result in approximately 5,500 units depending on the region or area where they will be utilized. There is a cap on the funding of $36 million that can be used for the non-elderly disabled vouchers. However, there is no floor or ceiling on the number of units that can be awarded from the amount set-aside for this purpose. The estimate of 5,500 units is just an estimate to provide some context and should not be viewed as an absolute final number. It should not be used to calculate a per unit cost of $6,545. The dollar amount is the only limiting factor for non-elderly voucher set-aside. The average per unit cost of $6,648 was calculated based on the PHA's latest year-end financial statements and the actual cost of approximately 2 million units was taken into consideration. In addition, the local and regional inflation factor was used to project cost for fiscal year 2004.

The Department does not know the assumptions used by CBO to calculate the PUC, therefore, we are unable to address the discrepancy between HUD & CBO.

Question. In HUD's budget justifications, page A–16, the administration says it is requesting renewal funding for 1,935,649 vouchers. This is only 90.9 percent of the 2,130,000 vouchers that require renewal in fiscal year 2004. Using the administration's cost estimate of $6,468 per voucher and including the central fund, approximately 94.7 percent of vouchers can be supported by the total budget request of $13.047 billion for voucher renewals. Yet HUD's Fiscal Year 2002 Performance and Accountability Report states that voucher utilization reached 94 percent that year, and the Budget Justifications submitted by HUD to Congress in February 2003 indicate that HUD anticipates continued improvement in voucher utilization, to 95 percent and 96 percent respectively, in fiscal years 2003 and 2004. Can you explain these discrepancies?

Answer. The 2.1 million vouchers identified represent the entire inventory of authorized vouchers projected in fiscal year 2004. Not all vouchers in the inventory

require renewal funding in fiscal year 2004 because existing budget authority exists as a result of a long-term contract, or new budget authority is available for vouchers awarded for tenant protection actions and/or incremental vouchers. Further, a 1-month reserve will be available to PHAs to cover increases in cost or lease up to the authorized level.

The renewal estimate provided in the budget is based on a leasing level of approximately 96 percent, and includes funding requirements for increased costs and additional leasing. This leasing level is consistent with leasing projected in the fiscal year 2002 Performance and Accountability Report.

Question. Of the total requested appropriation of $13.607 billion for HANF, some $12.535 billion represents new budget authority. The remaining $1.072 billion is assumed to be carried over from recaptures of voucher appropriations from prior years. Based on the most current information available, what is HUD's current expectation of the amount of carry-over funds that will be available in fiscal year 2003?

Answer. The only amounts expected to carryover are $1.072 billion, which is already assumed in the fiscal year 2004 Budget. All other funds are expected to be committed for specific purposes or used to meet the fiscal year 2003 rescission.

SEVERELY DISTRESSED PUBLIC HOUSING

Question. Please detail how the Department is complying with Senate direction to "submit a report by June 15, 2003, on the number and location of severely distressed public housing units that are in need of substantial revitalization or demolition"?

Answer. At this time, the Department does not have a mechanism to review the entire public housing inventory and determine how many units are severely distressed. Even the National Commission on Severely Distressed Public Housing acknowledged the difficulty in identifying specifically distressed projects and opted to estimate the total number nationwide rather than do an inventory. Furthermore, a standard definition of severe distress needs to be agreed upon prior to an evaluation of the entire inventory. HUD has to work with 5 different definitions as provided in Sections 18, 24, and 202 of the 1937 U.S. Housing Act, the HOPE VI appropriations and the Commission of Severely Distressed Public Housing. The Department is currently working with the Urban Institute to assess, among other things, the various definitions and establish one standard that can be used Department-wide.

HOPE VI

Question. During the fiscal year 2004 budget hearing, Secretary Martinez indicated that the Department would be convening an "internal work group" on HOPE VI, to consider reauthorization. Please provide a status report on this work group.

Answer. The Department is coordinating the Public Housing and Community Development Resources Review Initiative. As part of this initiative, the Department is convening experts who will provide input on the type of revitalization program that is needed given the current public housing stock and 10 years of lessons learned from HOPE VI and other affordable housing programs.

The HOPE VI Review Initiative convened on May 28 and June 12, 2003. A final meeting is scheduled for June 19, 2003. In addition, HUD officials will continue to draw on information from a wide variety of sources.

The Department also contracted with the Urban Institute to write a lessons learned report on HOPE VI and the revitalization of distressed public housing. This report will be used along with the information collected from the HOPE VI Review Initiative and other sources to examine alternative methods of public housing revitalization.

INTERACTIVE WEB-BASED LEAD DATABASE

Question. This Subcommittee provided $3.5 million in fiscal year 2002 for the development of an interactive, web-based lead database that utilizes "real time" information and mapping capabilities to provide local, State, and Federal Government officials, public and private organizations, health care providers and families with easy access to childhood lead poisoning prevention data and educational information, and to facilitate multi-disciplinary collaboration to further childhood lead poisoning prevention efforts. The Committee is aware of, and delighted with HUD's goal of having the Lead-Safe Homes data system fully operational by February 2004. In light of additional funding provided for abatement of lead in homes, how do you plan to expand the current pilot program from three cities to a nationwide interactive web-based database so their abatement funds are used most efficiently?

Answer. HUD believes this database will help local jurisdictions target their resources to those areas in greatest need. The data are most helpful if they are provided at the level of the individual housing unit and not restricted to only the block or census tract level. In Boston and Chicago, unit-specific data have been provided, although in Baltimore, unit-level data have been restricted, reportedly due to local authorities' concerns about confidentiality of medical records. The Fiscal Year 2003 Appropriations Act provides that the lead hazard reduction demonstration program funds can be used for inspections, risk assessments, interim controls, abatement, and temporary relocation of families during the hazard control work. Since explicit language was not provided in the Act, expansion of the database may not be an eligible expense for grantees under this program. For the existing lead hazard control grant program, the cost of database development is an eligible expense and HUD will develop incentives to encourage its grantees to enter their data into this system. Additional resources could also be provided through the use of local matching funds.

Question. Do you see expansion as a slow process, adopting information from a limited number of cities at a time? Do you envision rapid expansion once you feel the system is capable of handling data from numerous cities around the county?

Answer. Because the development costs associated with the pilots have already been covered, we can achieve significant economies of scale by expanding the project to other cities. Once the database for the pilot cities is released and fully operational, HUD expects that jurisdictions will recognize its value in short order. Several other jurisdictions have expressed interest, such as Philadelphia, Milwaukee, Providence, and the States of Maryland and Massachusetts. The expansion of the database is likely to proceed most rapidly in those communities at highest risk. However, the expansion of the database is likely to be slower if it is dependent on the resources of State and local governments, given their current financial status. Rapid expansion could be facilitated by additional appropriations for those communities at greatest risk.

INTERAGENCY INVESTMENT IN CHILDHOOD LEAD POISONING REDUCTION

Question. How does HUD plan to accomplish interagency investment in ending childhood lead poisoning by 2010?

Answer. At the Federal level, the President's Task Force on Environmental Health and Safety Risks to Children coordinates all lead-based paint activity among the different agencies. On April 18, 2003 the President signed an Executive Order extending the Task Force for 2 years. HUD also serves on the CDC Childhood Lead Poisoning Prevention Advisory Committee as an ex-officio member. At the State and local level, HUD has been encouraging the creation of strategic plans to eliminate childhood lead poisoning by 2010. Such plans are under development in: Detroit; Philadelphia; Rochester, NY; Milwaukee; and the State of Rhode Island. "Summit conferences" to develop such local plans either have been or will be held shortly in Cleveland and Chicago. Both HUD and the Centers for Disease Control and Prevention are requiring their respective grantees to develop local plans to achieve the 2010 goal.

Question. What other agencies does HUD envision partnering with to fulfill the goal of eradicating childhood lead poisoning?

Answer. Partnering agencies include, but are not limited to, the following: Centers for Disease Control and Prevention, Environmental Protection Agency, Office of Management and Budget, Departments of Justice, Energy (weatherization), Agriculture (rural housing), Defense, Treasury, National Institute of Environmental Health Sciences, Center for Medicaid and Medicare Services, Office of the Public Health Service, and the Consumer Product Safety Commission.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

HOMELESS FUNDS IN BURLINGTON

Question. Mr. Secretary, I want to raise a concern I have with the Continuum of Care program that I hope you can address. It has come to my attention that several years ago the Department made a significant change in the way it evaluates these grants which has dramatically impacted one of Vermont's neediest communities.

In 1997 the Department began using the Community Development Block Grant (CDBG) formula to establish a level of "Pro-Rata" need—a base level of funding for each community. Before this time Burlington, and the Chittenden County Continuum of Care, often received over $1 million to run a variety of homeless programs. The need was great and the programs were widely praised—receiving Best Practices Awards from the U.S. Conference of Mayors and from HUD.

Based on the new formula Burlington's pro rata need was estimated at a fraction of what the funds they had been receiving—and HUD awarded more points to projects that fell within that arbitrary number. The result was a drastic decline in the number of projects that were funded and in the total amount of money they received—from $1.6 million in 1996 to $350,000 in 2002. The result has been a slow but painful erosion of their system of care in the county. This happened at time when the area was seeing a 400 percent increase in the number of families seeking assistance.

My question to you is this: Can HUD show any data, or have you collected any information, that demonstrates a link between community development needs, as evaluated by the CDBG formula, and the homeless needs in each individual community?

Answer. Prior to 1994, HUD did not have an objective measure to assess the need for competitive homeless program assistance, a statutory selection factor. Individual projects were asked to provide narratives about the particular homeless sub-population they intended to serve in their community. As a result, there was no ability for HUD to assess the need for homeless assistance of one community relative to another. At the same time, a significant number of communities began submitting applications, making this relative determination of need even more difficult. For instance, prior to 1994, fewer than 1,000 projects were submitted to HUD annually for competitive funding. In 1994, 2,655 applications were received.

Beginning in 1994, HUD instituted its pro rata need approach to provide a more objective and fair measure of need. HUD examined Census and other data on homelessness to determine how need would be measured. As there were no readily available and reliable direct measures of homeless need, HUD turned to the Congress for direction. In creating the Stewart B. McKinney Homeless Act of 1987, Congress stipulated that HUD's only homeless assistance formula program, Emergency Shelter Grants, be allocated using the factors contained in the Community Development Block Grant (CDBG) program. The CDBG factors prescribed by Congress are: population, poverty, housing overcrowding, growth lag and age of housing. Given this direction from Congress and no other readily useable measures of homeless need, HUD uses the CDBG factors in determining pro rata need in Continuum of Care competition.

In 2001, Congress directed HUD to review the pro rata need approach used for HUD's competitive homeless assistance programs. In April 2001, HUD sponsored a conference on this subject and invited representatives from numerous national organizations; Federal, State and local officials, including Congressional staff; homeless providers; homeless advocates and academics. At the conclusion of the conference, there was overall agreement that the current approach which utilizes the only current available data for determining need for McKinney-Vento funding was working well. This approach will be improved prospectively as we receive national HMIS data in fiscal year 2005.

Question. Is HUD currently collecting information and data about homeless populations in order to determine how best to approach these complex problems or how best to allocate funds?

Answer. With direction from Congress, HUD is working to improve the collection of data on the extent and nature of homelessness locally and nationally. HUD has set October 2004 a goal for each Continuum of Care to implement a Homeless Management Information Systems (HMIS). HUD is providing financial and technical assistance to Continuums to meet this goal.

It is noteworthy that the State of Vermont and the Chittenden County Continuums are collaborating on a State-wide HMIS. It is our understanding that planning and implementation of this system are on course for meeting the 2004 national implementation goal. In fact, the State of Vermont has been a leader in suggesting innovative proposals for enhancing the HMIS initiative. These efforts will contribute to better understanding homelessness and how to address it.

Question. Secondly, have you heard from other rural States, such as Vermont, that are facing similar problems with their funding formula, and has the Department ever considered the need for a small State minimum in this program?

Answer. There are two key provisions in pro rata need to help ensure communities can more fully address their local homeless needs.

The first protects communities that have existing HUD-funded projects. HUD assures that if the cost of operating such projects for 1 year exceeds the community's pro rata need amount, HUD will provide an upward adjustment to that amount to ensure that all such projects can fully operate.

The second provision allows each community to receive additional funding by requesting as its number one priority, a new permanent housing project. This provision has been in place for a number of years. Unfortunately, Chittenden County has

consistently declined to request this bonus funding. Had they requested a fundable project in 2002, the continuum's pro rata need would have doubled from $226,000 to $452,000. We are hopeful that the continuum will fully exercise its options in 2003.

The State of Vermont, which administers a Continuum of Care system covering the remainder of the State, receives significant assistance through HUD's Continuum of Care process. For instance in December 2002, the State's Continuum was awarded over $1.2 million in homeless assistance. As a result, the combined Continuum of Care funding award amount in 2002 for Vermont was approximately $1.4 million.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

PUBLIC HOUSING OPERATING FUND

Question. The U.S. Department of Housing and Urban Development recently revealed a $250 million funding shortfall in the Public Housing Operating Fund for Fiscal Year 2002. The January 18, 2003, edition of the *National Journal* cites a Housing and Urban Development official saying that an internal problem with HUD's system for estimating costs had led to the shortfall.

Yet, despite the Department's admission that the funding shortfall is a result of their own error, the Department has refused to request additional funding in fiscal year 2004 to rectify the situation. Instead, the Department of Housing and Urban Development has significantly reduced subsidies to public housing authorities, threatening the housing of the nearly 3 million people who currently occupy public housing.

Why, specifically, is the Department of Housing and Urban Development experiencing a funding shortfall?

Answer. In 2001, HUD changed its funding formula, in part to redirect some funding from large to small PHAs. At the time, however, HUD did not change its reporting and accounting systems to support this change. This failure led to inadvisable management practices. For example, HUD used 1999 data for 2001 funding due to an inability to access 2000 data.

Unfortunately, the previous system made it difficult to forecast future funding streams correctly and to set percentage funding levels responsibly, resulting in some years in significant funding shortfalls. For example, in 1998 (a 100 percent funding year), there was a $102 million shortfall, leading to a 92.5 percent funding level the next year. In short, poor accounting systems and practices led, in some years, to the setting of inappropriately high funding percentages, which in turn led to funding shortfalls.

Over the past decade, HUD's practice at the operational level has been to automatically dip into future years' appropriations to compensate for any shortfalls. This is an unacceptable and irresponsible practice, which had apparently been going on for some years without the knowledge HUD's senior management or Congress. Upon senior management's discovery and confirmation of the problem, HUD took action to inform the appropriations and authorizing committees of both House and Senate of the practice and the resulting $250 million shortfall.

Question. Why is the administration not requesting additional funding to cover this shortfall, thus, choosing to make the residents of public housing suffer for the Department's mistake?

Answer. When the Department discovered the $250 million funding shortfall in the Public Housing Operating Fund for fiscal year 2002, it did have many conversations and meetings with all appropriate parties. One of the outcomes of these discussions was the inclusion of language in the 2003 Appropriations Act, which provided the Department with $250 million to cover the funding shortfall in the Public Housing Operating Fund. While the remaining 2003 funding will not cover 100 percent of the eligibility needs for the public housing industry, historically the Department has funded PHAs at less than 100 percent, including a funding level of 89 percent in 1996. PHAs should be able to accommodate this level of funding through efficiencies and economies in their operations and, where needed, by utilizing reserves and other funding sources available to them.

Question. What specific actions is HUD undertaking to ensure such a shortfall does not occur again?

Answer. The Department has taken the following actions to ensure that a shortfall does not occur again in this program. Specifically, the Department has:

—implemented a new interim Operating Subsidy system that will enable HUD to provide more timely and accurate funding to PHAs;

—enhanced its internal controls and managerial reporting system; and
—put in place new managerial staff and have added support staff to ensure that appropriations enacted in 2003 and beyond for this program are managed in a responsible manner.

Question. Since HUD has announced an intended funding cut in the operating subsidies provided to public housing authorities, I have received letters from numerous constituents expressing concern about this proposal and outlining the ways it would adversely effect the residents of public housing in West Virginia. Public housing authorities will have to postpone maintenance and renovation of apartments, eliminate many tenant services, and possibly closing housing units.

What do you believe the repercussion to public housing will be by reducing the operating fund subsidy to public housing as HUD intends?

Answer. HUD did not intend that the funding level of 70 percent announced in Notice 2003–1 would be the final level. After Congressional action was completed on HUD's fiscal year 2003 appropriations, HUD did provide full funding to PHAs for their fiscal year 2002 subsidy eligibility and is now funding fiscal year 2003 eligibility at 90 percent.

Question. What level of funding is required in fiscal year 2004 to ensure that public housing authorities are not financially penalized for HUD's mistake?

Answer. In fiscal year 2002, the Department experienced a $250 million funding shortfall in this program. The shortfall occurred because of system and business process problems that prevented the Department from timely tracking and accounting for PHA eligibility and program funds. To cover the shortfall, Congress provided funds in the fiscal year 2003 Appropriations Act. To ensure that shortfalls do not occur again and to address issues with the accounting systems, the Department has enhanced its internal controls, management oversight, and business procedures for this program. These enhancements will ensure the proper and timely accounting of PHA eligibility and funds administration.

For fiscal year 2004, the administration requested $3.574 billion. This amount should fully satisfy fiscal year 2004 operating subsidy requirements. No portion of the request will be used for prior fiscal year shortfalls.

EMPOWERMENT ZONES

Question. In 1999, Huntington, West Virginia, and Ironton, Ohio, were together designated a Round II urban Empowerment Zone. This program is encouraging significant economic development in the designated region.

In President Bush's budget proposal for fiscal year 2004, the success of the Empowerment Zone program is recognized and abundantly praised. In fact, the budget states:

"The Empowerment Zone initiative helps revitalize city neighborhoods by attracting business development and providing employment opportunities to residents of empowerment zones. Empowerment Zone principles include a strategic vision for change, a community-based partnership, providing economic opportunity and sustainable community development."

The budget continues:

"E[mpowerment] Z[one]s are helping to stimulate billions of dollars in private investment, reviving inner city neighborhoods and supporting jobs, and helping families move from welfare to work."

Yet, the President's budget provides no funding for this program.

Why is there no funding provided in the President's budget for Empowerment Zones, when the administration has nothing but commendation for the program?

Answer. The administration is very supportive of the Empowerment Zone program. Accordingly, HUD is sponsoring three workshops across America in Jacksonville, FL; Memphis, TN; and Tucson, AZ to train local leaders on how to let businesses know about the $22 billion in Federal tax incentives available to them. Empowerment Zones have over $6 billion in incentives targeted towards them. This is far more than the limited grant funds that Congress has appropriated to local leaders in the past. It delivers funds directly into businesses' hands without passing through State and local governments. Round II EZs will continue to have access to their cumulatively appropriated funds of $360 million.

Additional funding was not recommended for two reasons. First, there are HUD and Congressional concerns regarding the slow expenditure of previously appropriated funds. As of January 31, 2003, $212 million in funds remained unspent and an additional $30 million in fiscal year 2003 funds had yet to be allocated. As the

program entered its sixth year, 63 percent of the funds remain unused. Second, there is a higher priority assigned to the multi-billion tax credits that are available.

SUBCOMMITTEE RECESS

Secretary MARTINEZ. Mr. Chairman, I appreciate the opportunity to meet with you to discuss the hiring issue. We know that is important to you.

Senator BOND. And we have lots of things, as we indicated. We appreciate your willingness to work on these legislative proposals. As you noted, we do have some questions about them and some skepticism on a few of them, but we know that there is lots of progress being made.

Well, thanks to you and all who participated, and we will recess the hearing. Thank you, sir.

[Whereupon, at 11:36 a.m., Thursday, March 6, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, MARCH 13, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:22 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF ANTHONY J. PRINCIPI, SECRETARY OF VETERANS AFFAIRS

ACCOMPANIED BY:

ROBERT H. ROSWELL, M.D., UNDER SECRETARY FOR HEALTH

VICE ADMIRAL DANIEL L. COOPER (USN RET.), UNDER SECRETARY FOR BENEFITS

ERIC BENSON, ACTING UNDER SECRETARY FOR MEMORIAL AFFAIRS

WILLIAM H. CAMPBELL, ASSISTANT SECRETARY FOR MANAGEMENT

RICHARD GRIFFIN, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. The subcommittee will come to order. Thank you very much for waiting for us. Senator Mikulski and I had a vote, and she is over here very engaged in preparations, and she suggested I go ahead and begin. We apologize for the delay, but those of you who have dealt with the schedule of the Senate know that Murphy was an optimist in drafting Murphy's Law.

This morning, the VA, HUD, and Independent Agencies Subcommittee will conduct its budget hearing on the fiscal year 2004 budget for the Department of Veterans Affairs. It is a pleasure to welcome back Secretary Tony Principi to our subcommittee, and his colleagues. Mr. Secretary, I am very pleased to have you here today to discuss your Department's fiscal 2004 budget. Before I launch into the budget, I join with my many, many colleagues in expressing our deep gratitude and appreciation for the hard work you and your team are doing and the time you put into responding to the

needs of our Nation's veterans, and for my part most especially, to the needs of some 566,000 veterans in my home State of Missouri.

Mr. Secretary, when you entered office 2 years ago you were faced with some of the most difficult challenges of any Cabinet head. However, I can say unequivocally that you have met those challenges head on with strong leadership, decisiveness, compassion, and persistence.

I congratulate you on the tremendous progress you have made in correcting some of VA's longstanding problems. We are impressed by your accomplishments, and look forward to continuing to work with you in meeting the needs of our Nation's veterans. Nevertheless, VA continues to face some extremely difficult challenges, most notably in the area of providing quality and accessible health care to our Nation's veterans.

Addressing the health care needs of our veterans is even more sensitive to all of us because of the great uncertainties of what perils lie in the seeming inevitability of war against Iraq. It is unfortunate we are in this position, and I know that all of us, including the President, believe that war should only be used as a last resort. History, however, has demonstrated that military force must be used on occasion to preserve the peace and prevent even greater death and destruction.

Nevertheless, our hearts and prayers go out to the 240,000 men and women of our Armed Forces who are currently in the Persian Gulf region and to those forces of the other allied nations. Mr. Secretary, I know you personally know all too well the horrors and tragedies of war, and it is that perspective that I know influences and helps guide your actions in thinking and helping our Nation's veterans.

Last year when you appeared before the committee, we talked a great deal about the growing health care crisis facing VA. Unfortunately, despite significant funding increases and regulatory actions taken by the VA, access to the health care system continues to be a major problem.

Today's problems with the VA health care system can be traced back through the history of the VA. The veterans medical care system was originally created to provide needed care to veterans injured or ill from wartime service, veterans with service-connected disabilities. Over the time, the system has become a safety net for veterans with service-connected disabilities, veterans with specialized service needs, and lower-income veterans. These three groups are the VA's core constituents. VA's first and foremost mission is to assist these veterans.

Up until 1996, VA served its core constituents. However, eligibility reform enacted in 1996 expanded VA medical care services to veterans not previously served. These veterans do not have service-connected disabilities, and have comparably higher incomes than those of VA's core constituents. The Veterans Health Care Eligibility Reform Act of 1996 required VA to create priority categories for enrollment to manage access in relation to available resources. Therefore, a higher priority for enrollment was provided to veterans with service-connected disabilities, lower incomes, or specialized service needs.

These higher priority enrollees are ranked in priority order from 1 through 6. Veterans without service-connected disabilities and with relatively higher incomes are ranked priorities 7 and 8. While the act requires the creation of these priorities, all priorities were provided equal access to health care services. In other words, the act created a first-come, first-served system.

The 1996 act predicted that the new requirements and expansion of services to previously unserved veterans would have no net funding impact to the Federal Government. In other words, it would be budget-neutral, because there would be few new enrollees.

The committee report stated that the view of VA being besieged by a large wave of new enrollees for VA care is unrealistic. In case you missed it, let me restate that statement. The committee report said the view of VA being besieged by a large wave of new enrollees for VA care is unrealistic, close quote.

The report also quotes testimony about Paralyzed Veterans of America. They found VA's best potential market is those who have the most familiarity with the system, that is, those currently using the system, close quote. Even data from the VA's 1995 national survey of veterans indicated a large proportion of veterans would rather go to a non-VA facility for their medical care if given a choice, close quotes. In other words, neither the authors nor the veterans service organization believed that VA would attract new veterans into the system. Amazing. What a bad guess.

In 1999, Congress further expanded health care benefits for veterans by passing the Millennium Health Care Act. This act provides additional benefits such as long-term care and emergency services. Further, Congress encouraged and funded hundreds of new VA community based outpatient clinics to increase access delivery points for veterans living in areas far from in-patient centers. The creation of new CBOC's verified the truth behind the old saying, if you build it, they will come, and they did.

Since 1996, the fastest-growing segment of the VA health care system has been those veterans without service-connected disabilities and with higher incomes. Many of these veterans have other health insurance options compared to VA's core constituents, and they have other health care options, but the view of VA being besieged by a large new wave of enrollees for VA care is not unrealistic, it is a fact. VA now serves 2 million more veterans than it did prior to the implementation of the 1996 act.

Further, VA cannot provide generous health care benefits for all veterans and expect to maintain quality and timely health care service delivery. VA cannot be everything to everybody. The uncontrollable demand of veterans seeking VA health care benefits has resulted in a waiting list of over 200,000 veterans. These veterans have been told that they cannot get an appointment for at least 6 months—6 months. In some cases, veterans have been told to wait 1 to 2 years.

That is unacceptable. We cannot ignore the many medical needs that require immediate attention. Moreover, many of these veterans on the waiting list are VA's core constituents, those with service-connected disabilities, lower income, or with specialized service needs.

Mr. Secretary, I read with great interest about the Gordon Mansfield experiment, when you sent out your Assistant Secretary for Legislative Affairs to eight VA clinics. I was appalled to learn that Mr. Mansfield, who is a service-connected disabled veteran who served with distinction in the Vietnam conflict, was wait-listed at six of those clinics. It is unconscionable that veterans in the position of Mr. Mansfield are in this situation.

In addition, the sad fact is that more veterans like Mr. Mansfield will face this situation if we do not act. The outyear projections of even more non-core patients coming into the VA system are staggering. The convergence of these factors, combined with a lack of a Medicare prescription drug benefit, an aging veteran population, and the greatly improved quality of care provided by VA clinics, created the current dilemma we are facing today. The system is in crisis, a storm that we could call the perfect storm.

Mr. Secretary, you are in the eye of the storm, and to bring our core constituent veterans out of it you made some difficult decisions. Last year, VA began requiring health centers to provide priority access for service-connected veterans rated 50 percent or greater. This past January, the Secretary exercised legislative authority to suspend new enrollments of priority 8 veterans.

The decision to suspend priority 8 enrollments was not popular, but it was consistent with the Eligibility Reform Act of 1996, which provided the authority to suspend enrollments. As the committee report states, the VA may not enroll or otherwise attempt to treat so many patients as to result either in diminishing the quality of care to an unacceptable level or unreasonably delaying the timeliness of VA care delivery.

Mr. Secretary, you did the right thing. It was not popular, but doing something popular is not always right, and doing something right is not always popular. I support your decisions, and you did what the law expected you to do, because we cannot compromise health care quality and access for our core constituents. These men and women rely on VA's health care system. They have nowhere else to go. We cannot and must not leave these men and women behind.

Despite the huge waiting list and the growing demand for VA's health care services, I am optimistic that we can resolve this crisis. You have my personal commitment that I will work with you to solve the crisis fully. The record demonstrates this committee in a bipartisan manner has viewed medical care funding as its top priority and, as chairman, I will continue to keep that as our top priority. It has always been my belief that our goal should be to fund fully the health care needs of the core constituency priorities 1 through 6. The record shows that we have, in fact, accomplished that goal, but we have not achieved the results.

Part of the solution is resolving the crisis in funding. In terms of the fiscal 2004 budget, the President proposed $62.8 billion for VA. It includes $30.1 billion for discretionary programs, and $32.7 billion for mandatory. The discretionary funding request is $2.1 billion, 7.5 percent more than the fiscal year 2003 enacted level.

The most notable item is $25.4 billion for medical care, a $1.5 billion increase over fiscal year 2003. We increased the 2003 medical care budget by more than $2.5 billion over 2002. These funding

increases are not only a cry of need, but a cry for help. I regard the budget request for medical care as a floor, but there is a ceiling due to our other compelling needs such as affordable housing, environmental protection, scientific research, and the Space Shuttle and its safety.

Further, it is clear that the funding level for VA medical care cannot be sustained without reform of the system. Nevertheless, under any budget climate this is a good budget. This is the largest dollar increase ever submitted by any administration, and would provide VA almost $9 billion more funds for medical care than provided in fiscal 1996.

The request also contains a number of policy initiatives to refocus health care on the core constituents. I think they are worthy of further discussion. They appear to be reasonable, and I think the $250 annual enrollment fee, an increase in co-pays deserve a fair and full examination.

It also provides in the budget a down payment of $225 million for the CARES program, which is a positive step, and I fully support CARES, because we cannot pour resources into half-empty hospitals or exist primarily to serve research and financial interests of medical schools. VA's first and foremost mission is to care for our Nation's veterans. CARES is an integral part of assuring that we focus on that and align our expenditures to those needs.

I am committed to funding the health care needs, but it is more than a funding matter. There is much more to be done in the management area, and greater accountability in performance and consistency are required throughout the VHA. Third party collections of the VHA are projected to collect $524 million this year compared to last year at a time when the GA has found that VA has improved collections, but suggests that VA could have collected hundreds of millions more.

The VAIG report estimated that it could have collected $500 million more. Due to the operational limitations of VA, however, VA lacks a reliable estimate of uncollected dollars and therefore does not have the ability to assess the operational effectiveness.

Collections continue to be a problem, but one of the most infuriating problems I have seen recently is the time and attendance controls for VA-paid part-time physicians. The Inspector General audit of the Lexington, Kentucky Veterans Affairs Medical Center found that VA was paying for part-time physicians who are not actually treating veterans. They were from medical schools, performing research or other duties outside VA.

The IG said that some time and attendance cards were falsified. These actions resulted in $1.15 million in annual salary costs for physicians not performing their duties at the VA hospital. That jeopardizes patient safety. Ward nurses did not have the resources to deal with matters like patient restraint and medication changes. This is appalling and unacceptable, and I will follow up with some questions for Dr. Roswell on this.

The last point I should touch on is a variance in the network. Veterans from Missouri and across the Nation have told me about the wide performance variance among the 21 divisions. Some veterans have complained that specialized services have gotten the short end of the stick. I supported Dr. Kaiser's reorganization of

VHA, but I believe it has gone too far, and we cannot afford to have the networks operated as 21 fiefdoms. Veterans in Missouri are very, very pleased to have such good service but why should a veteran in Missouri receive better care than a veteran in Kansas? I think it is time to review the structure of the 21 networks.

Finally, Mr. Secretary, let me restate my appreciation for your hard work and the great leadership you provided. Your work on improving claims processing has been outstanding. I commend you on your efforts for CARES. I am gratified by your visits to Missouri, and responsiveness in addressing some horrible sanitary problems at the Kansas City VA Medical Center after they have been ignored for years. I look forward to our continued working relationship in addressing the needs, and I will turn now to my colleague, Senator Mikulski, for her statement.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, Mr. Secretary, and to all the people of the VA team. Mr. Secretary, we want to thank you for visiting the Baltimore VA medical facility earlier this week, and bringing Secretary Thompson to the VA in Baltimore to show how we have been using technology to provide more efficient care in acute care, and to be able to provide better care when that patient returns to the primary care situation.

I thought it was fascinating that it showed that the best way to provide technology for patient care was not to treat it as a billing system, as we were advised, but to treat it as a patient management system. You can bill off of it, but you cannot manage patients off of a billing system, but you can bill off of a management system.

I thought it was great that Tom Scully was there. He was there, because the issues that we are seeing in VA and that are grappled with not only in Baltimore but throughout the VA system are models for what we need to do in private sector care, so we were honored to have you, and I know the staff appreciated your coming and I know you, like I, were very proud of what they are doing there.

And I think Secretary Thompson got an eyeful and his staff got an earful, because he kept saying, why can we not do that, why can we not do that now?

We are glad that the VA is a model.

We know that the VA medical system is under a tremendous stress, with the passing of the World War II generation and their very unique and often multiple needs, the coming ever-increasing numbers of the Korean War veterans, as well as the Vietnam veterans, so just in terms of the sheer population, we know that VA faces a number of challenges, and we also know that VA will be a significant back-up as we go to war, to be able to deal with the possibility of significant casualties, and we also know that the VA medical system stands in support of our war against terrorism, where our major metropolitan areas could face mass casualties.

But as we look at the VA budget, first of all we appreciate the President's increase in veterans' medical care. We also appreciate the fact that you are focusing on those four areas, and we want to work with you. You are a Vietnam vet. You have served your country in war, and you continue to serve it as the Secretary of VA, but when I looked at the VA budget, I had two things in mind. First,

we have got to keep the promises, keep the promises we made to our veterans, and second, that the budget needs to make highest and best use of taxpayers' dollars so that both the Veterans' Administration and the veterans themselves get a bang for the buck.

What I am concerned about, though, is that in this year's budget we place toll charges on veterans. This means there is now an entrance fee to get VA medical care if you are category 7 or if you have been grandfathered into category 8, and also that there will be higher co-pays.

I am also concerned that there are now waiting lines to get medical care, waiting lines for medical care. I have had a longstanding work—going back when you worked for President Bush's dad as Deputy, we have been concerned about the claims-processing time, and to me, if you are a veteran and you are coming for medical care, there should be no waiting lines, and as we understand it there are almost one-quarter million veterans who now have a waiting time issue, and we want to talk with you about that. I am concerned that the budget OMB gave VA does not really help you, or help you address those needs.

When we look at the priority 8 veterans and even the priority 7 veterans, we see that from both the IG's report and the GAO report, and I believe your own analysis that we discussed with you last year, they are primarily coming to VA because of a prescription drug benefit, not only because of the changes in the law, as Senator Bond has articulated, but they are coming for a prescription drug benefit.

I note that the GAO report says that we spent $418 million on outpatient pharmacy benefits for priority 7 last year, and that priority 7 use of pharmacy benefits have increased rapidly. Also, they say for those in categories 1 through 6, they have increased, but given the nature of their wounds and their age, we would expect that, but it would seem to me that the category 7s, based on GAO reports—and I can go over the figures. You know the figures.

Well, we went from 107,000 veterans to 827,000 veterans. That is the budget-buster, but the question is, why are they coming? Well, first of all, there is good care, but I also believe they are coming because of the failure in public policy. I believe they are coming because there is no reliable prescription drug benefit that many of them have access to in the private sector.

When you look at the Inspector General's report, you also see that veterans in those categories are coming not only for a prescription drug benefit, but in many instances they have been written by their own physician, but they are coming to you to be their drugstore because of the prescription drug benefit. These are real challenges, and I want to discuss them, and I believe that the way that you are trying to meet them is by the $250 entrance fee, and also the increase in copayments.

Now, I want to get why you think that is going to work, is that the way to do it, do we need a prescription drug benefit that really addresses those needs, because I believe it is going to be worse. I believe that many of the veterans who are coming are either people—primarily men, though some women—who work, who have no health insurance. They are either self-employed or they work in small business. They might have names like Hank or Buck, and

they work in home improvement and so on. They need you. You are the safety net for them.

But I also know that with the downturn in manufacturing, the collapse of 300,000 jobs in our economy, where many had worked for companies, whether it is steel industries, like Pennsylvania, and my home State of Maryland, Beth Steel, the airline industry, the collapse of those industries that normally had a defined benefit plan and the collapse of their health insurance means that they are diverting themselves to VA.

I do not fault them. This, I believe, is a matter of fact. This is not a matter of fault, but we are either going to have to have a national policy to address those needs, or it is going to continue to fall on VA, and you are going to continually invent mechanisms that put you in a prickly position with veterans, and we have got to get at how to deal with this, and I wonder if you agree with my analysis when we do this.

I could go on, but I feel that this is one of the number one challenges, the lack of health insurance for many, and then a lack of prescription drug benefit for even more as the population gets older.

Now, I am really proud of what you are doing in medical research, and I am proud of our research community. People are alive longer and live better because of the research that is being done both by VA to help the veterans that then moves into the common medical practices, but as a result, people are living longer with chronic conditions. Those chronic conditions are managed by prescription drugs, access to primary care, and then ancillary services like physical therapy and chiropractic and other care.

So we have got to get a handle not only on the budget, but recognize the needs of the population and see why they are coming. We could keep building it, and they are going to keep coming, and then that will take us to how we are going to deal with the waiting lists, how we are going to deal with the clients' processing times, and how we are going to work on those issues, so these are not only budget issues and appropriations issues, I believe they are some of the most significant challenges.

Now, just as the VA has led the way in technology, and I have seen it in my own home town—Senator Bond, you would be pleased, the technology that we did there for patient management has made the use of physicians' and nurses' time more efficient, reduced medical errors, and actually improved patient outcomes, and we had the data to show it, but we did not go for some big megasystem where we ended up with a boondoggle. We ended up with a patient management system that has improved management. Just as we are the leader in that area, I think we now have to be a leader in how we are going to deal with prescription drugs.

So there are many other issues on research and others that I would like to raise.

The other thing is, I am glad you are taking up the cemetery issue. The World War II generation is passing on. We need to retire them with honors. Yesterday, we laid to rest my uncle, Florian Mikulski. He fought at the Battle of the Bulge. He was a Purple Heart guy, he was a Bronze Star guy, so there was an honor guard at the funeral, which meant a lot to our family.

He went to a private Catholic cemetery, but when you look at him he was an ordinary guy. He helped run our fabulous Mikulski's baker's shop. He went off to war. He was a hero, and came back with a steel plate and all the permanent things, went to work, never said another word about it, and we have got to look out for those guys. We have got to look out for them in their medical care, and when they pass on, to do it in a place that has as much dignity as they deserve, so thank you for taking that up, and I look forward to your testimony.

PREPARED STATEMENT

Senator BOND. Thank you very much, Senator Mikulski. Senator Johnson submitted a statement which he would like to have included in the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Mr. Chairman, I thank you and Ranking Member Mikulski for calling today's hearing to talk about the fiscal year 2004 budget for the Veterans Administration (VA). Your commitment to caring for our nation's veterans and your leadership on this Subcommittee is greatly appreciated by me and the veterans of South Dakota.

I would also like to thank Secretary Principi for appearing before the Subcommittee. You have a very difficult job and I thank you for your continued willingness to serve our nation.

At a time in which we are asking so much of the men and women serving in our Armed Forces, I believe it is essential that we send a clear signal of our commitment to care for our military personnel both on active duty and as veterans. For decades, the men and women who joined the military were promised educational benefits and lifetime health care for themselves and their families. Those promises have too often not been kept.

Mr. Chairman, several weeks ago I had the opportunity to visit VA facilities in South Dakota. This gave me the chance to meet with veterans and to listen to their thoughts. By far, the issue of greatest concern to them is health care. These veterans rely on the VA for their health care, they see a continued erosion in their benefits, and they are deeply troubled about the long-term viability of the VA health system. They want assurances that they will be able to access quality care in the future.

Unfortunately, years of inadequate funding for VA health care have pushed the system to the brink of crisis. I am concerned that the quality of care is starting to suffer. Let me be clear, this has nothing to do with the men and women who work in the VA health care system. They are dedicated professionals who care about the veterans they serve, but they are being asked to do too much with too few resources.

Instead, I believe the problems in the VA health care system stem for the administration's failure to ask for adequate funding. While the number of veterans in the United States has decreased over the years, the number of veterans utilizing the VA health care system has increased exponentially. This is due in large part to the availability of Community-Based Outpatient Clinics and the prescription drug benefits available through the VA. According to the VA, the number of veterans enrolled in the health care system has increased from 3.8 million in 1996 to 6.8 million in 2002.

While the VA has become the health care system of choice for many veterans, the system is simply not equipped to handle this kind of patient influx at the current funding level. The strain on the system is evident in that the VA estimates over 200,000 veterans are waiting for appointments—half of them will end up waiting six months or more. In Sioux Falls, a veteran can wait up to twelve months to get an appointment at the VA.

The VA tells us these problems stem from having to operate with "limited resources." Based on this explanation, one would think Congress has been providing the VA with less funding than requested by the President. Nothing could be further from the truth. In fact, the VA-HUD Appropriations Subcommittee, under the leadership of Senators Mikulski and Bond, has provided funding for veterans health care in excess of the VA's request for the past several years.

In fiscal year 2001, Congress provided a $1.4 billion increase in veterans health care funding over the Administration's initial request. In fiscal year 2002, we succeeded in adding $1.1 billion during consideration of the VA-HUD Appropriations bill. In addition, as a part of the fiscal year 2002 Emergency Supplemental Appropriations bill, Congress included another $417 million for veterans health care. Even though Secretary Principi argued the VA needed all of this additional funding, the President refused to spend $275 million that was earmarked for veterans medical care.

In fiscal year 2003, the President requested just $22.7 billion for the VA health system, far less than what was needed. Congress, once again, was forced to step in and appropriate an additional $1.2 billion.

Mr. Chairman, this pattern of the President underestimating the VA's needs and then relying on Congress to make up the difference is simply unsustainable over the long-term. And as I look at the President's request for fiscal year 2004, I fear we find ourselves once again in the same situation. The good news is the President has requested an additional $1.3 billion in appropriated funds for VA health care over what Congress provided in fiscal year 2003. This is a step in the right direction.

However, the bad news is this is still not enough money to fund the needs of the VA health system. According to the Independent Budget—an independent analysis of the VA budget prepared by AMVETS, the Disabled American Veterans, the Paralyzed Veterans of America, and the Veterans of Foreign Wars—the President's request shortchanges the VA by about $2 billion. The failure to provide sufficient funding will have real consequences for veterans. It will mean veterans will continue to have to wait up to twelve months to get an appointment, it will mean the VA will not be able to hire additional health care professionals, and it will mean there will be a further decline in the quality of care provided for our veterans.

Rather than addressing the problem and providing the needed funding, the President apparently has decided his solution is to turn veterans away from the system. The President's budget includes a proposal to carry-out the VA's recent decision to deny enrollment of future Category 8 veterans, which will leave at least 360,000 veterans without access to care. In addition, he is seeking authority for a $250 enrollment fee for certain veterans. According to the VA's own estimation, this will force 1.3 million veterans to leave the system. Finally, the President has proposed significant increases in co-payments for pharmacy and primary care benefits, thus shifting an even larger financial burden to our veterans.

Rather than contracting and restricting VA medical care, I believe we need to look for ways to improve access and quality of care so that we can fulfill our past promises to our veterans.

Mr. Chairman, for me, fully funding the VA is a national security issue. Veterans are our most effective recruiters. However, inadequate benefits and poor health care options make it difficult for these men and women to encourage the younger generation to serve in today's voluntary military. Although we once again face difficult budgetary decisions, the only question is whether veterans health care should be a priority or an afterthought.

Every time I have the opportunity to meet with veterans, I am reminded of the tremendous sacrifices they have made on behalf of our country. We owe each of them a debt of gratitude that can never be fully repaid. One of the things we can—and must—do for our veterans is to honor the promises we have made to them. This starts with providing those veterans with access to the quality health care they deserve.

As we begin consideration of the fiscal year 2004 VA-HUD Appropriations bill, I look forward to working with my colleagues on the Subcommittee to ensure full funding for the VA.

Once again, I thank Secretary Principi for taking the time to appear before the Subcommittee this morning. I look forward to hearing your thoughts on the many issues of importance to South Dakota's veterans.

Senator BOND. Now, Mr. Secretary, if you would proceed, please.

FISCAL YEAR 2004 BUDGET REQUEST SUMMARY

Secretary PRINCIPI. Thank you very, very much, Mr. Chairman, Senator Mikulski. Of course, I thank you for the opportunity to present and discuss our proposed budget for fiscal year 2004, but perhaps more importantly, I thank you for your tremendous support for my Department and the people we serve. I believe the budget we have this year is eloquent testimony to that support,

and I assure you we will do everything in our power to achieve the goals that we share and use that money wisely.

Our budget sets forth clear priorities. However, priorities necessarily call for choices, and where difficult choices are necessary, our budget identifies and acknowledges them and, as you have both so eloquently stated, we do have enormous challenges that lie ahead, but I am confident that by working together we can get there.

This is a good budget in absolute terms, in percentage terms, and in comparative terms. In absolute terms, the President requests a total of $63.6 billion, $33.4 billion for entitlement programs and $30.2 billion for discretionary spending. In comparative terms, the President is asking for a greater percentage increase for VA than for any other Department of Government, and in percentage terms, this represents an increase of 7.7 percent over this year, and a 21.4 percent increase over the past 2 years. I am proud of the work of our leadership team who are here with me today and their efforts with OMB in fashioning and helping us get this budget to present to you.

The budget the President submitted to Congress will fund the Veterans Benefits Administration's—Admiral Dan Cooper, our Under Secretary is with us—continued progress towards achieving my goal of benefits decisions in 100 days with no more than 250,000 cases in our working inventory.

This budget also funds the activation of four new national cemeteries—Acting Under Secretary Benson is with us—advanced planning on a fifth for activation in 2005, and will allow us to make continued progress toward our commitment to maintain our cemeteries as national shrines.

For health care—Dr. Roswell, our Under Secretary is to my left—the program that dominates our discretionary budget—the President asks the Congress to commit an additional $2.1 billion to treat veterans' illnesses and disabilities. Approximately $500 million will come from increased collections or copayments, and $1.5 billion, as you indicated, will come from increased appropriations of taxpayers' dollars.

In addition, the budget directs VA to identify approximately $950 million through management efficiencies. I am acutely aware that every dollar unnecessarily expended is a dollar unavailable to provide health care to sick veterans. I know that $950 million is a lot of money, and it sounds like a lot of money, but I would point out that in this country in 2002 the annual increase in productivity across the Nation in the business sector, business productivity, manufacturing productivity has increased by 4.7 percent, and this increased efficiency of $950 million represents only 3.4 percent, so I think it is achievable. It is aggressive, but I believe we can do it.

I established a Business Oversight Board, directed construction of information technology enterprise architecture, chartered a procurement reform task force, and placed a high priority on improving our collection of copayments and insurance payments, an issue that has been of great concern to you and to this committee. Our progress leaves me comfortable with an aggressive but achievable goal for management efficiencies.

I will not hide from the fact that this budget assumes that VA will sharpen its focus of our care on those veterans identified by Congress as having the highest priority, our service-disabled, those who have few options for health care in this country, as some of the issues that Senator Mikulski highlighted in her statement, the lower-income people, and those who need our specialized programs, such as spinal cord injury, mental health, blind rehabilitation.

We project that we will treat 167,000 more of these veterans in 2004, but as you well know, our projections have not been very accurate for the very reasons, again highlighted by you, that we have an open enrollment policy with the exception of category 8, and changes in the economy, no prescription drug benefit, has caused more and more veterans to come to us seeking care.

Last year, we enrolled almost 900,000 new veterans in the VA health care system. We have grown from about 2.9 million enrolled in 1998 to 6.8 million enrolled today. Overall, we enrolled almost 200,000 more than we expected, 70,000 more users than we expected last year, again for some of the reasons that you highlighted that they are coming to us, and it has clearly stretched our system to the breaking point.

There is no question that we face enormous challenges in providing care with a fixed budget for this ever-increasing number of veterans who come to us for treatment and pharmaceuticals. When demand for care exceeds our capacity, veterans have to wait longer for that care. On behalf of those veterans and the VA health care professionals who will treat them, I thank you for the $2.5 billion increase that you gave us this year.

Those funds, combined with management actions I have directed, should allow us—and I made it a very high priority—to eliminate this backlog of veterans waiting for care, waiting more than 30 days to see a primary care physician, by the end of this fiscal year. All of our energies and those of my Under Secretary for Health and all of our people around the country are focused on using that $2.5 billion to increase our treatment capability to bring that backlog down.

WAITING LISTS

I would note that most of the veterans who were on last year's waiting lists have now been seen, only to be replaced by additional veterans who have sought care since then. The existence of waiting lists illustrates the tension between fixed resources and potentially unlimited demand for care. The Congress clearly anticipated this tension when it both enacted the statutory requirement for me to make an annual enrollment decision and designated priority groups for constraining enrollment when necessary, priority groups 1 through 8.

Last year's waiting lists were symptoms of an imbalance and, as I am required to do, I took action to bring veterans health care back into balance. I directed the VHA to continue informing veterans about their benefits, to be part of the community but to cease actively recruiting new patients until we can get a handle on this backlog.

I suspended enrollment of additional higher-income priority 8 nonservice-connected veterans and, as part of the budget before you

today, I proposed policy to strengthen VA's focus on veterans in the higher-priority groups established by Congress, eliminated the copayments for the poorest of the poor.

Currently, we collect copayments from any veteran who has an income of $9,000 or more. I proposed to eliminate the copayment for any veteran who has an income of $16,000 or less, but I have also proposed, for those who can most afford to share a little of the cost of their care and who have other options, to have a slightly increased copayment and to make an annual enrollment fee premium of $250, which is very consistent with the military's TRICARE Prime program, where any military retiree who is entitled to health care must make an annual enrollment payment.

SUSPENSION OF PRIORITY 8 ENROLLMENT

I acknowledge that my recent decision to suspend additional enrollment of veterans in the priority 8 group has put us on a course through uncharted waters, and I will monitor our outcomes. I will monitor our growth in workload very carefully to ensure that we do not overshoot the mark, because I want to make sure that we see as many veterans as possible who seek care from the VA as long as we can do it in a timely and quality manner, and I will not hesitate to act to right the course, to reopen enrollment if I believe we can care for veterans in priority group 8. However, failure to address a continuing imbalance would inevitably result in longer waiting lists, poorer quality of care, and perhaps even actual disenrollment of priority 8 veterans, a decision that I would be loath to make.

I have to emphasize that the tension between resources and demand for care is not a 1-year issue. A decision to reject demand management initiatives this year would only compound the problem for us in future years, because veterans who are enrolled today may not seek to use the health care system today, but next year or the year after, so the costs grow exponentially as veterans become older and sicker.

My enrollment decision does not mean that VA believes higher-income veterans are unimportant. They are very, very important. We are working with HHS, and I am so pleased that Secretary Thompson and I visited Baltimore to begin to break down the barriers and the walls that have all too often existed in this city between agencies of Government who have similar missions. In health care, it is VA, it is HHS, and DOD.

PREPARED STATEMENT

Oftentimes we get caught up on turf and jurisdiction, and we do not see the benefits of working together collaboratively to provide the health care that veterans, that military retirees and that Medicare-eligible citizens receive, and I think that by working together across the spectrum of health care, in research, in prescription benefits, and in health care in general, I think we can do a lot more by working together, and I think this visit demonstrated a willingness on Secretary Thompson's part for doing that. I thank you, Senator Mikulski, for joining with us on that important visit.

Mr. Chairman, Senator Mikulski, and really all the members of the committee who cannot be here today, I appreciate your advo-

cacy and support for veterans, and we are prepared to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF THE HONORABLE ANTHONY J. PRINCIPI

Mr. Chairman and members of the Committee, good morning. I am pleased to be here today to present the President's 2004 budget proposal for the Department of Veterans Affairs (VA). The centerpiece of this budget is our strategy to bring balance back to our health care system priorities. I have by my decisions and by my actions focused VA health care on veterans in the highest statutory priority groups—the service-connected, the lower income, and those veterans who need our specialized services. This budget reflects those priorities.

The President's 2004 budget request totals $63.6 billion—$33.4 billion for entitlement programs and $30.2 billion for discretionary programs. This represents an increase of $3.3 billion, which includes a 7.7 percent rise in discretionary funding, over the enacted level for 2003, and supports my three highest priorities:

—sharpen the focus of our health care system to achieve primary care access standards that complement our quality standards;
—meet the timeliness goal in claims processing;
—ensure the burial needs of veterans are met, and maintain national cemeteries as shrines.

Virtually all of the growth in discretionary resources will be devoted to VA's health care system. Including medical care collections, funding for medical programs rises by $2.1 billion. As a key component of our medical care budget, we are requesting $225 million to begin the restructuring of our infrastructure as part of the implementation of the Capital Asset Realignment for Enhanced Services (CARES) program.

We are presenting our 2004 request using a new budget account structure that more readily presents the funding for each of the benefits we provide veterans. This will allow the Department and our stakeholders to more effectively evaluate the program results we achieve with the total resources associated with each program.

MEDICAL CARE

The President's 2004 budget includes $27.5 billion for medical care, including $2.1 billion in collections, and represents an 8.0 percent increase over the enacted level for 2003. These resources will ensure we can provide health care for over 4.8 million unique patients in 2004.

The primary reason VA exists is to care for service-connected disabled veterans. They have made enormous sacrifices to help preserve freedom, and many continue to live with physical and psychological scars directly resulting from their military service to this Nation. Every action we take must focus first and foremost on their needs. In addition, our primary constituency includes veterans with lower incomes and those who have special health care needs. By sharpening the focus of our health care system on these core groups, we will be positioned to achieve our primary care access standards.

The demand for VA health care has risen dramatically in recent years. From 1996 to 2002, the number of patients to whom we provided health care grew by 54 percent. Among veterans in Priority Groups 7 and 8 alone, the number treated in 2002 was about 11 times greater than it was in 1996. The combined effect of several factors has resulted in this large increase in the demand for VA health care services.

First, the Veterans Health Care Eligibility Reform Act of 1996 and the Veterans Millennium Health Care Act of 1999 opened the door to comprehensive health care services to all veterans. Second, the national reputation and public perception of VA as a leader in the delivery of quality health care services has steadily risen, due in part to widespread acknowledgement of our major advances in quality and patient safety. Third, access to health care has greatly improved with the opening of hundreds of community-based outpatient clinics. Fourth, our patient population is growing older and this has led to an increase in veterans' need for health care services. Fifth, VA has favorable pharmacy benefits compared to other health care providers, especially Medicare, and this has attracted many veterans to our system. And finally, some feel that public disenchantment with Health Maintenance Organizations, along with their economic failure, may have caused many patients to seek out established and traditional sources of health care such as VA. All of these factors have put a severe strain on our ability to continue to provide timely, high-quality health care, especially for those veterans who are our core mission.

Through a combination of proposed regulatory and legislative changes, as well as a request for additional resources, our 2004 budget will help restore balance to our health care system priorities and ensure we continue to provide the best care possible to our highest priority veterans. The most significant changes presented in this budget are to:

—assess an annual enrollment fee of $250 for nonservice-connected Priority 7 veterans and all Priority 8 veterans;
—increase co-payments for Priority 7 and 8 veterans—for outpatient primary care from $15 to $20 and for pharmacy benefits from $7 to $15;
—eliminate the pharmacy co-payment for Priority 2–5 veterans whose income is below the pension aid and attendance level of $16,169;
—expand non-institutional long-term care with reductions in institutional care in recognition of patient preferences and the improved quality of life possible in non-institutional settings.

Revolutionary advances in medicine moved acute medical care out of institutional beds and rendered obsolete "bed count" as a measure of health care capacity. The same process is underway in long-term care and this budget proposes to focus VA's long-term care efforts on increased access to long-term care for veterans, rather than counting institutional beds. This budget focuses long-term care on the patient and his or her needs. Our policies expand access to non-institutional care programs that will allow veterans to live and be cared for in the comfort and familiar setting of their home surrounded by their family.

While we will shift our emphasis to non-institutional forms of long-term care, we will continue to provide institutional long-term care to veterans who need it the most—veterans with service-connected disabilities rated 70 percent or greater and those who require transitional, post-acute care. Coupled with this, our budget continues strong support for grants for state nursing homes.

In addition, we are working with the Department of Health and Human Services to implement the plan by which Priority 8 veterans aged 65 and older, who cannot enroll in VA's health care system, can gain access to a new "VA+Choice Medicare" plan. This would allow for these veterans to be able to use their Medicare benefits to obtain care from VA. In return, we would receive payments from a private health plan contracting with Medicare to cover the cost of the health care we provide. The "VA+Choice Medicare" plan will become effective later this year as the two Departments finalize the details of the plan.

Coupled with my recent decision on enrollment, these proposed regulatory and legislative changes would help ensure that sufficient resources will be available to provide timely, high-quality health care services to our highest priority veterans. If these new initiatives are implemented, veterans comprising our core mission population will account for 75 percent of all unique patients in 2004, a share noticeably higher than the 67 percent they held in 2002. During 2004, we will treat 167,000 more veterans in Priority Groups 1–6 (those with service-connected disabilities, lower-income veterans, and those needing specialized care).

In return for the resources we are requesting for the medical care program, we will be able to build upon our noteworthy performance achievements during the past 2 years. During 2002, VA received national recognition for its delivery of high-quality health care from the Institute of Medicine in the report titled "Leadership by Example." In addition, the Department received the Pinnacle Award from the American Pharmaceutical Association Foundation in June 2002 for its creation of a bar code medication administration system. This important patient safety initiative ensures that the correct medication is administered to the correct patient at the proper time. Patient satisfaction rose significantly last year, as 7 of every 10 inpatients and outpatients rated VA health care service as very good or excellent.

We will continue to use clinical practice guidelines to help ensure high-quality health care, as they are directly linked with improved health outcomes. We will employ this approach most extensively in the management of chronic disease and in disease prevention. For 16 of the 18 quality of care indicators for which comparable data from managed care organizations are available, VA is the benchmark exceeding the best competitor's performance.

Mr. Chairman, one of our most important focus areas in our 2004 budget is to significantly reduce waiting times, particularly for patients who are using our health care system for the first time. As we begin to rebalance our health care system with a heightened emphasis on our core service population, we will drive down waiting times. By 2004, VA will achieve our objective of 30 days for the average waiting time for new patients seeking an appointment at a primary care clinic. In addition, we have set a performance goal of 30 days for the average waiting time for an appointment in a specialty clinic. With this budget and the enacted funding level for 2003, we will eliminate the waiting list by the end of 2003.

We remain firmly committed to managing our medical care resources with increasing efficiency each year. The 2004 budget includes management savings of $950 million. These savings will partially offset the need for additional funds to care for an aging patient population that will require an ever-increasing degree of health care service, and rising costs associated with a sharply growing reliance on pharmaceuticals necessary to treat patients with complex, chronic conditions. We will achieve these management savings by implementing a rigorous competitive sourcing plan, reforming the health care procurement process, increasing employee productivity, increasing VA/DOD sharing, continuing to shift from inpatient care to outpatient care, and reducing requirements for supplies and employee travel.

Our projection of medical care collections for 2004 is $2.1 billion. This total is 32 percent above our estimated collections for 2003 and will nearly triple our 2001 collections. By implementing a series of aggressive steps identified in our revenue cycle improvement plan, we are already making great strides towards maximizing the availability of health care resources. For example, we have mandated that all medical facilities establish patient pre-registration to include the use of software that assists in gathering and updating information on patient insurance. We are in the midst of a series of pilot projects at four Veterans Integrated Service Networks to test the implementation of a new business plan that calls for reconfiguration of the revenue collection program by using both in-house and contract models. In addition, the Department will award the Patient Financial Services System this spring to Network 10 (Ohio) which will acquire and deploy a commercial system of this type. This project involves comprehensive implementation of standard business practices and information technology improvements.

As you know Mr. Chairman, one of the President's management initiatives calls for VA and the Department of Defense (DOD) to enhance the coordination of the delivery of benefits and service to veterans. Over the past year, our two Departments have undertaken unprecedented efforts to improve cooperation and sharing in a variety of areas through a Joint Executive Council (JEC). To expand the scope of interdepartmental cooperation, a benefits committee has been added to complement the longstanding Health Executive Council. The VA and DOD Benefits Executive Council is exploring improved transfer and access to military personnel records and a pilot project for a joint physical examination to improve the claims process for military personnel. The JEC provides overarching policy direction, sets strategic vision and priorities for the health and benefits committees, and serves as a forum for senior leaders to oversee coordination of initiatives. To address some of the remaining challenges, the Departments have identified numerous high-priority items for improved coordination such as the joint strategic mission and planning process, computerized patient medical records, eligibility and enrollment systems, joint separation physicals and compensation and pension examinations, and a joint consolidated mail-out pharmacy pilot.

CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES (CARES)

The 2004 budget includes $225 million of capital funding to move forward with the Capital Asset Realignment for Enhanced Services (CARES) initiative. This program addresses the needed infrastructure realignment for the health care delivery system and will allow the Department to provide veterans with the right care, at the right place, and at the right time. CARES will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets so that we can optimize health care delivery in terms of both quality and access.

As demonstrated in Veterans Integrated Service Network 12, restructuring will require significant investment to achieve a system that is appropriately sized for our future. Our preliminary estimate for resources that can be redirected to medical care between now and 2010 as a result of the appropriate alignment of assets and health care services, and the sale or enhanced-use leasing of underutilized or nonperforming assets, is $6.8 billion. It is extremely important to have funding in 2004 to begin the multiyear effort to restructure. Given the timing associated with identifying CARES projects, we will be working with your committee on the authorization process in order not to delay the start of these projects.

MEDICAL AND PROSTHETIC RESEARCH

Mr. Chairman, we are requesting $822 million in funding for VA's clinical research program, an increase of 2.6 percent from the 2003 level. For the first time, our request includes funds in the form of salary support for clinical researchers, resources that previously were a component of the Medical Care request. This approach provides a more complete picture of VA's resources devoted to this program.

In addition to the Department's funding request, nearly $700 million in funding support comes from other federal agencies such as DOD and the National Institutes of Health, as well as universities and other private institutions.

This $1.5 billion will support more than 2,700 high-priority research projects to expand knowledge in areas critical to veterans' health care needs—Gulf War illnesses, diabetes, heart disease, chronic viral diseases, Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, women's health care concerns, and rehabilitation programs.

VETERANS' BENEFITS

The Department's 2004 budget request includes $33.7 billion for the entitlement and discretionary costs supporting the six business lines administered by the Veterans Benefits Administration (VBA). Within this total, $1.17 billion is included for the management of these programs—compensation; pension; education; vocational rehabilitation and employment; housing; and insurance.

Improving the timeliness and accuracy of claims processing is a Presidential priority, and during the last year we have made excellent progress toward achieving this goal. A year ago, I testified that I had set a performance goal of processing compensation and pension claims in an average of 100 days by the summer of 2003. I am pleased to report that we are on target to meet that goal and we will maintain that improved timeliness standard for 2004. When we reach this goal, we will have reduced the time it takes to process claims by more than 50 percent from the 2002 level.

At the same time that we are improving timeliness, we will be increasing the accuracy of our claims processing. The 2004 performance goal for the national accuracy rate is 90 percent, a figure 10 percentage points higher than last year's level of performance, and markedly above the accuracy rate of 59 percent in 2000.

The driving force that will allow us to make this kind of progress with only a slight budget increase continues to be the initiatives we are implementing from the Claims Processing Task Force I established in 2001. Located at the Cleveland Regional Office, our Tiger Team has been working over the last year to eliminate the backlog of claims pending over 1 year, especially for veterans 70 years of age or older. This aggressive effort of reducing the backlog and improving timeliness is underway at all of our regional offices. VBA has established specialized processing teams, such as triage, pre-determination, rating, post-determination, appeals, and public contact. Other Task Force initiatives, such as changing the procedure for remands, revising the time requirements for gathering evidence, and consolidating the maintenance of pension processing at three sites, have allowed us to free up resources to work on direct processing at the regional offices.

This budget includes additional staff and resources for new and ongoing information technology projects to support improved claims processing. We are requesting $6.7 million for the Virtual VA project that will replace the current paper-based claims folder with electronic images and data that can be accessed and transferred electronically through a web-based solution. We are seeking $3.8 million for the Compensation and Pension Evaluation Redesign, a project that will result in a more consistent claims examination process. In addition, we are requesting $2.6 million in 2004 for the Training and Performance Support Systems, a multi-year initiative to implement five comprehensive training and performance support systems for positions critical to the processing of claims.

In support of the education program, the budget proposes $7.4 million for continuing the development of the Education Expert System. These resources will be used to expand upon an existing prototype expert system and will enable us to automate a greater portion of the education claims process and expand enrollment certification. This initiative will contribute toward achievement of our 2004 performance goal of reducing the average time it takes to process claims for original and supplemental education benefits to 27 days and 12 days, respectively.

VA is requesting $13.2 million for the One-VA Telephone Access project, an initiative that will support all of VBA's benefits programs. This initiative will result in the development of a Virtual Information Center that forms a single telecommunications network among several regional offices. This technology will allow us to answer calls at any place and at any time without complex call routing devices.

All of these information technology projects are consistent with the Department's Enterprise Architecture and will be supported by improved project administration from our Chief Information Officer.

BURIAL

The President's 2004 budget includes $428 million for VA's burial program, which includes operating and capital funding for the National Cemetery Administration (NCA), the burial benefits program administered by VBA, and the State Cemetery Grant program. This total is $17 million, or 4.2 percent, over the 2003 level.

This budget request includes $4.3 million for the activation and operation of five new national cemeteries in 2004. NCA plans to open fast-track sections for interments at four new national cemeteries planned for Atlanta, South Florida, Pittsburgh, and Detroit. Fort Sill National Cemetery opened a small, fast-track section for interments in November 2001, and Phase 1 construction of this cemetery should be complete by June 2003. In addition to resources for these five new cemeteries, this budget request also includes resources to prepare for the future opening of a fast-track section of an additional national cemetery near Sacramento. The locations of these national cemeteries were identified in a May 2000 report to Congress as the six areas most in need of a new national cemetery.

With the opening of these new cemeteries, VA will increase the proportion of veterans served by a burial option within 75 miles of their residence to nearly 82 percent.

The $108.9 million in construction funding for the burial program in 2004 includes resources for Phase 1 development of the Detroit cemetery, expansion and improvements at cemeteries in Fort Snelling, Minnesota and Barrancas, Florida, as well as $32 million for the State Cemetery Grant program.

The budget request includes $10 million to support the Department's commitment to ensuring that the appearance of national cemeteries is maintained in a manner befitting a national shrine. One of the key performance goals for the burial program is that 98 percent of survey respondents rate the appearance of national cemeteries as excellent.

A new performance measure established for NCA is marking graves in a timely manner after interment. We have established a 2004 performance goal of marking 75 percent of graves in national cemeteries within 60 days of interment. When we achieve this goal, it will represent a dramatic improvement over the 2002 level of 49 percent.

MANAGEMENT IMPROVEMENTS

Mr. Chairman, we have made excellent progress during the last year in implementing, or developing, several management initiatives that address our goal of applying sound business principles to all of the Department's operations. We are particularly pleased with our accomplishments in addressing the President's Management Agenda that focuses on strategies to improve the management of the Federal government in five areas—human capital; competitive sourcing; financial performance; electronic government; and budget and performance integration.

We have developed a sound workforce and succession plan that includes strategies VA will pursue to implement a more corporate approach to human capital management, and a workforce analysis of several of the Department's critical positions—physicians, nurses, and compensation and pension veterans service representatives. We are moving forward with a competitive sourcing study of our laundry service, and other studies will be conducted of our pathology and laboratory services, and facilities management and operations. With regard to financial performance, we achieved an unqualified audit opinion for the fourth consecutive year. During 2003 and 2004, we will be involved in 10 electronic government studies. And finally, we continue to progress in our efforts to better integrate resources with results. One major accomplishment in this area is the restructuring of our budget accounts. This new account structure is presented in our 2004 budget and will lead to a more complete understanding of the full cost of each of our programs.

VA has a variety of other management improvement efforts underway that will lead to greater efficiency and will be accomplished largely through centralization of several of our major business processes. I am committed to reforming the way we conduct our information technology (IT) business, and to help the Department meet this objective, we have aggressively pursued new approaches to accomplishing our IT goals. We have developed a One-VA enterprise strategy, embarked on a nationwide telecommunications modernization program, and laid a solid foundation for a Departmental cyber security program. In order to facilitate and enhance these efforts, I recently centralized the IT program, including authority, personnel, and funding, in the office of the Chief Information Officer. This realignment will serve to strengthen the IT program overall and ensure that our efforts remain focused on building the infrastructure needed to better serve our Nation's veterans.

This budget includes $10.1 million to continue the development of the One VA Enterprise Architecture and to integrate this effort into key Departmental processes such as capital planning, budgeting, and project management oversight. Our request also includes $26.5 million for cyber security initiatives to protect our IT assets nationwide. These initiatives aim to establish and maintain a secure Department-wide IT framework upon which VA business processes can reliably deliver high-quality services to veterans.

The 2004 budget includes funds to continue the CoreFLS project to replace VA's existing core financial management and logistics systems—and many of the legacy systems interfacing with them—with an integrated, commercial off-the-shelf package. CoreFLS will help VA address and correct management and financial weaknesses in the areas of effective integration of financial transactions from VA systems, necessary financial support for credit reform initiatives, and improved automated analytical and reconciliation tools. Testing of CoreFLS is underway, with full implementation scheduled for 2006.

We are developing a realignment proposal for finance, acquisition, and capital asset functions in the Department. A major aspect of this effort centers on instituting much clearer delegations of authority and improved lines of accountability. This plan would establish a business office concept across the Department and would enhance corporate discipline that will lead to uniformity in operations and greater accountability, and will make the transition to the new financial and logistics system much easier to implement. A component of the plan under review and consideration will result in a consolidated business approach for all finance, acquisition, and capital asset management activities.

CLOSING

Mr. Chairman, I am proud of our achievements during the last year. However, we still have a great deal of work to do in order to accomplish the goals I established nearly 2 years ago. I feel very confident that the President's 2004 budget request for VA will position us to reach our goals and to continue to provide timely, high-quality benefits and services to those who have served this Nation with honor.

That concludes my formal remarks. My staff and I would be pleased to answer any questions.

Senator BOND. Thank you very much, Mr. Secretary. Senator Mikulski has been summoned to a very important meeting, so I am going to let her ask questions as long as she wishes, as long as she needs, and then I will finish up with what is left.

Senator MIKULSKI. I thank the chairman for his courtesy. I am part of a bipartisan special project task force under Senator Frist and have to leave shortly, but let me get right to my questions, Mr. Secretary, and it goes to the issues related to the management of the number of veterans coming in for prescription drugs.

Let me go right to the IG report. In the IG report, they discussed in great detail about priority 7. They said 90 percent of those who come had either access to private non-VA health care, they had health insurance to see a doctor, but they did not have health insurance to get their prescription drugs. The IG recommended a change—and they were coming to VA to get their prescription filled, but it was not written by a VA doctor.

The IG recommended a change in the law so that veterans could have privately written prescriptions filled by the VA, and it was the original estimate by the IG that VA could save $1 billion a year by doing this. Now, this seems like a solution that would deal with, where you are not going being overwhelmed in the primary care department, and yet also meet those needs.

Could you tell me, Mr. Secretary, or your team, Dr. Roswell, have you looked at this, and what do you think about the IG's recommendation, and would it be good patient care, and would it be good stewardship over our financial resources?

Secretary PRINCIPI. Let me begin, because it is a very timely issue and one we are seriously grappling with. I do not say that lightly. I have been spending a lot of time, we spent a lot of time on this issue yesterday, and it is one of concern to us, and I will let Dr. Roswell follow up, but I think the concern, Senator Mikulski, is if we go down this road and basically just fill prescriptions, we do not know where it will lead.

Although the growth in the VA workload has increased dramatically, as we all talked about here earlier, we are still seeing a microcosm of the 25 million veterans, and there are a lot more Medicare-eligible veterans out there, and if we became something akin to a drugstore, although I do not care for that term, we do not know what kind of influx we would have and how we could possibly support financially that increased workload of just filling prescription drugs.

We are already stretched kind of to the limit, moved so much of our resources into primary care. If we had an influx of, let us say, 1 million or 2 million Medicare-eligible veterans who have never sought their care from the VA, how would we fund that?

I think that is the only real disagreement. Perhaps it is a projection issue with the IG. I commend them for their report, but it is something that we are looking at at least right now to deal with the backlog issue, veterans who are currently on the backlog, to see if there is something we could do there, to fill their prescriptions.

Senator MIKULSKI. But if I could just jump in, because the time is ticking here, you say you are worried that you will be overwhelmed by more people. The IG says, though, by doing this you are going to save $1 billion. That is a big bucket of change, and also has an impact on the number of primary care visits.

Dr. Roswell, first would it save money, and second, would it help you with the staffing, and if not, why, because the IG usually has some pretty good recommendations.

Dr. ROSWELL. The IG made a very astute observation. In fact, based on the unprecedented and unpredictable demand for care the IG is currently in the process of amending their recommendations and, in fact, the savings may exceed $2 billion a year.

The savings come from replication of physical examination services and primary care services that have been provided by non-VA providers in the community, that now by law must be provided by the VA again before we can issue prescription drug benefits, and while we do not argue with the savings that the IG talks about in his study, it is important to point out that those are savings associated with replicated or duplicated physical examination and patient care services, but it does not reflect the incremental cost to our medical care appropriation for the additional pharmaceutical product that would be consumed by those people once prescriptions are issued by the VA.

Last year, a typical patient in priority 7 or 8 received over $750 in prescription products. Now, seeing a patient once or twice a year, which would be necessary to evaluate them and rewrite the prescriptions written by their non-VA provider, would conservatively cost between $150 and $200 a year, but if we save $150 or $250 a year and then turn around and spend an additional $750 on pharmaceutical product, the impact on the appropriated dollar

is phenomenal, so the savings are really more than offset by the additional cost of the drugs.

Senator MIKULSKI. Well, first of all, from what I could see, any change would require statutory and regulatory change. Before we embark upon that, though, I think we need some recommendations that are consistent from both the VA itself and the VA IG, because I think we are onto something, but we want to be sure that the something leads to good care and to cost savings that do not reduce care, therefore maximizing the role that private insurance plays in our system.

You already have a consistent problem collecting money from private insurance.

Secretary PRINCIPI. Yes.

Senator MIKULSKI. They always kind of dance us around.

Secretary PRINCIPI. That is correct.

Senator MIKULSKI. However, if you are going to your primary care doctor with whom you have a relationship and that primary care doctor also has a relationship with your spouse, that is a good place for the veteran to be, because it is holistic, it is family-oriented, they probably have known that vet since he or she came back home so we just need to see, then, how we can maximize this, and do that.

I really think this could be a very important tool as we get to our appropriations, while we are then working for a national program, so I would like us to take a look at it. I am not committed to this method, but I am committed to us examining this recommendation and coming up with perhaps, not a compromise, but a balanced approach where you all feel very good about it.

ENROLLMENT FEE

Let me go on, then, to another issue, which goes to the $250 enrollment fee. How did you arrive at $250? It is essentially like a deductible. How did you arrive at it, and why do we need it?

Secretary PRINCIPI. Well, again I think we looked at, in assessing what would be an appropriate enrollment premium for the higher income, I think we looked at the potential savings from those who may have some other options, who may have insurance, but may use the VA on a periodic basis. We looked at the TRICARE program. We looked at what the assessment is for military retirees who spend 20 or 30 years in uniform to be enrolled in the TRICARE Prime program.

Senator MIKULSKI. They have to pay an enrollment fee?

Secretary PRINCIPI. Yes. Yes, they do.

Senator MIKULSKI. How much is that?

Secretary PRINCIPI. It is $456 a year for a married couple and I believe it is probably around $250 for a military retiree who has no spouse, but usually it is a family. It is a $456 a year payment, so here on the one hand we have a military retiree with 20 or 30 years of service is required to make a payment, and we thought that it would be reasonable, just for this, again the nondisabled, higher-income, those who may have spent 2 years or 4 years on active duty, to make a payment of $250, so that is how we reached it.

We looked at the potential revenues, the savings that you allow us to keep at the VA medical center where it is collected so that we can provide more health care, and we looked at what was comparable in other Federal sectors.

Senator MIKULSKI. Well, this is going to be a little touchy, but did the VA decide on an enrollment for cost reasons, or did you also think by an enrollment, it would also be a deterrent for those people to come to you?

Secretary PRINCIPI. No, clearly I think there is some suppression, Senator Mikulski. For people who have no option, $250 is the greatest deal in the world, even in America. When the average cost is about $4,000 a year, for that individual to pay $250 is a very, very small percentage, and for a very rich benefit as well, I might add.

But for those who do have other options, are insured by Blue Cross or Blue Shield, or have TRICARE coverage through the military, they might say, well, it does not pay for me to spend $250 a year. I can just go ahead and stick with my current insurance program. So, indeed, there is a suppression.

Senator MIKULSKI. It would give a pause.

Secretary PRINCIPI. I'm sorry.

Senator MIKULSKI. It would give a pause, an analysis.

Secretary PRINCIPI. Yes.

Senator MIKULSKI. Well, I know that these are other issues the chairman will ask about as well. I have other questions I would like to submit to the record, but let me go to the last question, and it goes, first, what are we doing for gulf war veterans, and second, tell me what the VA is doing as we look at what we are about to face in Iraq and what we continually face here in the war on terrorism.

GULF WAR LESSON

I am absolutely delighted about your collaboration with Secretary Thompson. I cannot encourage you more for both ideas, efficiencies, good policies, et cetera, but we are facing serious issues on bioterrorism and possibly chemical terrorism, possibly even something as repugnant as a dirty bomb. Where does the VA come in? So thinking about our gulf war veterans, what they were subjected to in that hot desert, they are going right back out there again. What are we doing for the ones here, what are we getting ready for, God forbid, if they come back sick, and second, what is the VA doing in the war against terrorism?

Secretary PRINCIPI. Senator, I harken back to my days riding river boats in the Mekong Delta, Vietnam, and the whole issue of Agent Orange, so I get pretty personally sensitive to this issue, and when I came on board I said I just did not want to repeat the mistakes of the past with regard to the Persian Gulf, and so I think we have really taken a very fresh look at it, appointed a new advisory committee of people who sometimes think out of the box and explore unconventional theories. That is not to say I reject conventional theories.

You know, I immediately service-connected when we had some evidence of veterans with Lou Gehrig's disease. One of my predecessors, my good friend, Jesse Brown, died of ALS, and we service-

connected the veterans who served in the gulf between 1990 and 1991 with ALS. I recently directed that we service-connect veterans with chronic lymphocytic leukemia, and I just asked the Institute of Medicine to take a look at the Sarin gas that was exposed when we hit the Kamisiyah ammunition dump in Iraq and some Sarin gas was released into the atmosphere to see if there are long-term chronic effects.

So we are continually, continually looking at this issue to see what caused these illnesses and to try to apply those lessons now to the Persian Gulf, Iraq II, and I will let Dr. Roswell talk about the things he is doing with the Department of Defense to make sure.

Senator MIKULSKI. And I am also mindful of time, so if we could——

Dr. ROSWELL. Very briefly, it is an excellent point. We are working with unprecedented collaboration not only with HHS, but with the Department of Defense. There is a Joint Executive Council and a Health Executive Council with the Deployment Health Group. It is managed between the two Departments. We have communicated clearly and consistently with DOD what we believe the needs are. They are fully supportive of those needs.

Specifically, we are making a maximal effort to do predeployment surveys of all personnel going to the gulf who may be involved in a war with Iraq. That predeployment survey assesses premorbid conditions, health status at the time they are deployed.

We also have an aggressive level of monitoring in theater, looking not only at incidents after they occur, but also doing proactive monitoring before an incident occurs. That information will be shared with VA as soon as it can be declassified and made available.

We will be doing a post-deployment survey as well to assess their health at the time they are separated and redeployed back to the United States. There is also a serum repository in which virtually every military personnel deploying to the gulf theater will have a serum sample that is no more than 1 year old placed in that national serum repository, and that will be available for testing after a conflict in the gulf war should it be needed.

So there is really an awful lot of collaboration.

Senator MIKULSKI. What about the war on terrorism? There are 162 VA hospitals. Many of them are in high-threat areas. Are you participating with the CDC in terms of the national preparation for a possible biological attack on our citizens? Are the VA employees getting the vaccines? What is the role of the VA in being part of a network?

Second, you are under the command and control of the United States of America. You are very different from any of the other health care, you are different from any other acute care facilities, because you are essentially, in terms of administration, management, and even national public directive, you are a one-stop shop.

Dr. ROSWELL. We have a very high level of cooperation with the new Department of Homeland Security. We participate in the National Disaster Medical System. We have created new Federal partners: that was actually an innovation of Secretary Principi to work with other Departments in that response.

VA has issued pharmaceutical caches at our critical locations.

Senator MIKULSKI. Are you getting the smallpox vaccine?

Dr. ROSWELL. We have smallpox vaccine.

Senator MIKULSKI. Have the workers been vaccinated?

Dr. ROSWELL. A very small number have been vaccinated.

Senator MIKULSKI. In the event of a casualty, like in a city like Baltimore, or New York, or San Francisco, would the VA hospitals there be prepared to deal with the casualties, and are you part of the network that is going on in those individual towns?

Dr. ROSWELL. We are a part of the network and we are taking appropriate steps to be prepared, with protective equipment, with decontamination equipment.

Senator MIKULSKI. Well, I appreciate that, but right now at Johns Hopkins, the University of Maryland and other hospitals, they are getting vaccinated, and they are asking for volunteers to do it. It is a very complicated situation. I have my own flashing yellow lights about it, but is the VA as active as the local community hospitals?

Dr. ROSWELL. VA personnel receive the smallpox vaccine in two different ways. We have actually requested our own supply of vaccine which HHS has promised to make available to us. We are also participating by the States—the CDC vaccination plan for smallpox, you may recall, is on a State-by-State——

Senator MIKULSKI. Maybe I am asking this at the third paragraph. Are you going to be one of the hospitals that will be designated to be one of the primary facilities accepting this, or if there is a smallpox outbreak, are they going to go to community hospitals and VA is not going to be involved?

Dr. ROSWELL. If the President activates the Federal Response Plan, the VA will be able to respond through the National Disaster Medical System.

Senator MIKULSKI. What about the local medical system?

Secretary PRINCIPI. Well, just as during 9/11, I made our facilities in New York City available to treat casualties, and I would do precisely the same thing if something should happen in Baltimore or Kansas City, or wherever disaster might hit. If the resources of the VA are needed to assist the community in responding, we will be prepared to do so.

Senator MIKULSKI. Mr. Chairman, you have been more than generous. I think these are things that we need to continue to pursue.

Thank you, and we look forward to working with you.

Senator BOND. Thank you, Senator Mikulski. You raised many good questions.

Going back to the prescription drug questions that Senator Mikulski asked, I have heard stories that large companies have sent out memoranda to huge numbers of their employees who might be veterans telling them that they are entitled to get prescription drugs from the VA. Now, this would not be illegal. As a matter of fact, this would be provided, but can you tell me, have you heard of such an example?

Secretary PRINCIPI. Yes, Mr. Chairman, and I have received a copy of a memo that was prepared by an individual who manages the medical care prescription drug benefit for one of the Nation's

largest and most prestigious Fortune 500 companies recommending to his superiors at this company that——

Senator BOND. IBM, I believe.

Secretary PRINCIPI (continuing). IBM, that there are 50,000 employees of the company who are veterans, and that the corporation could save enormous health care costs, prescription drug costs if the employees used the VA health care system for that benefit, so I do not know if that memo was approved by the higher-ups at that company, but certainly it was of great concern to us, because we do not believe that that is what was intended by eligibility reform, but nonetheless, it is perfectly legal for employees of any corporation to go seek, get their health care from the VA, but it just points out the enormous demand that is being placed upon us.

Senator BOND. Any company that has an opportunity to lessen health care costs, if it is within the law—I may not agree with it from a policy standpoint, but the law provides it, and that is why I think it is absolutely essential that we build into the law some protections for the core constituencies, those that do not have other prescription drug options, and so we do not have people with other, with higher incomes, no service-connected disabilities, crowding out the core constituents.

Just to follow up another question, Dr. Roswell I think answered and raised some good points about the IG report, but if you were to consider the IG report as allowing only already-enrolled priority 1 to 6 veterans to have their private physician phone in or direct their prescriptions to the VA pharmacy, would that save some time? Maybe those people are only getting their prescriptions from VA doctors, but is there a smaller potential savings in that group?

Dr. ROSWELL. There is a potential savings. The concern I think I have is that if we made that benefit available to currently enrolled priority 1 through 6 veterans we would have no way to curtail the demand for new enrollment in those priorities that such a benefit might create, and again, I mean, as the Secretary said, this is an area where we are getting into uncharted waters. We simply do not know, but certainly we are actively exploring a number of options.

Senator BOND. As my colleague from Maryland indicated, we obviously want to work with you. These are uncharted territories. It may be a good idea, it may not.

Speaking of those ideas, I have heard from a number of health care policy gurus, when I have been involved in health care debates, that having an appropriate and affordable co-pay ensures responsible use of the prescriptions. In other words, if you have to put cash on the barrelhead, then you only get the prescriptions that you intend to use, and you take care of them and make sure you do not flush them, or drop them, or lose them, and that it has an impact on the responsibility of use. Do you believe this is a valid principle?

Dr. ROSWELL. Mr. Chairman, I think you make an excellent point. It certainly is a valid principle, and we have tried to incorporate that in some of the policy recommendations in the 2004 budget proposal.

RAISING OF COPAYMENTS

Senator BOND. There have been some questions about raising the co-pay from $7 to $15. If you could not raise the copayment, or did not have the copayment, what impact would that have (a) on usage, the number of people using it, and (b) what would be the additional dollar cost without that co-pay?

Dr. ROSWELL. Our estimates are that by increasing the prescription co-pay from $7 to $15 for priorities 7 and 8 that we would obviate the need for almost $250 million in appropriated medical care dollars in 2004, so it is fairly significant.

Senator BOND. Do you happen to know how much of that is the fees actually collected, and how much of that results from what might euphemistically be characterized as suppression?

Dr. ROSWELL. $181 million would be what you call suppression, decreased usage, $65 million would be increased collections, for a net offset of the appropriation of $246 million, estimated.

WAITING LISTS

Senator BOND. With respect to the waiting lists, some advocates have said that we need more staff for the VA, but looking at the GAO report, the GAO was rather critical, saying many of the delays, the waiting lists were the result of poor scheduling procedures and inefficient use of staff.

Now, some of the clinics I think are apparently making good progress working with the Institute for Health Care Improvement to develop strategies to reduce waiting time. Can you describe what kind of actions you have taken and any response you have to the GAO report?

Dr. ROSWELL. You are absolutely correct. In fact, I was in Boston the day before yesterday working with Don Berwick and the Institute for Health Care Improvement, where we have a major ongoing meeting on advanced clinic access. This is a series of actions to more effectively schedule care and better utilize the existing primary and specialty care capacity we have.

We have got senior leadership from all over the Nation participating on this collaborative effort. It is an ongoing series, and we have really been able to achieve some remarkable results in improving panel size, in improving access to care using a very finite resource.

Let me point out that since enrollment, as you pointed out in your opening remarks, we have doubled the number of veterans we are caring for and yet today our workforce is actually smaller than it was in 1986, so it is fairly remarkable that we only have 200,000 people on a waiting list. We are working with IHI and the advanced clinic access principles to improve that. We have a new electronic waiting list. We have a major physician and nursing recruitment initiative, coupled with the 2004 budget that we plan to pursue as well.

Senator BOND. Do you have an idea, in percentage terms, how much the new procedures, the IHI procedures could reduce the waiting list or improve efficiency, or is that still in the works?

Dr. ROSWELL. I do not have it in actual percentage terms. Let me point out, though, that in July of last year, we had 317,000 people

on a waiting list. We were able to take over 200,000 people off that waiting list during a period we were on a Continuing Resolution and we were operating on a fiscal year 2002 funding level. I think that speaks to the potential of the advanced clinic access for improving our efficiency.

Senator BOND. Mr. Secretary, I expressed my views on what apparently was found to be going on at Lexington, Kentucky VA med center. Can you briefly summarize your response to that audit, and can you discuss whether this practice exists at other VA facilities?

Secretary PRINCIPI. Sure. Well, this is a very, very troubling issue for me, Mr. Chairman, and I am obviously deeply concerned by the preliminary findings in Lexington. I have not seen a final report by the IG, but obviously if the allegations are borne out then in and of itself at that facility it is a serious, serious problem, and it needs to be addressed, but based upon a national audit, that also has not been finalized—I have a copy of the draft report on my desk—it really points out an institutional problem.

I am very, very supportive of the affiliations. I think medical education and the VA have been able to make tremendous advances in health care delivery and research. However, I find it completely unacceptable to have doctors who are being paid by the VA with veteran dollars, taxpayer dollars who are not doing the work that they are being paid to do, and at the same time we have long waiting lists.

This culture of subsidization to the medical schools simply has to stop, and all I ask for is equity, but as I intend to be held accountable, I intend to hold my leadership accountable to correct this problem once and for all, and we will be taking some decisive steps, hopefully in a very constructive way, to address this issue and ensure that all physicians, part-time, full-time, are devoting the time necessary to their responsibilities for which they are being paid by the American people.

Senator BOND. I was stunned by the revelation. I do believe that the medical school collaboration has tremendous benefits. I know that you attract good quality physicians where they can work with a university in addition to serving patients, but I am appalled, as you were. I think that if this system is found to exist, I would think that the VA might ask for repayment of some of those reimbursements.

Secretary PRINCIPI. Oh, I certainly will demand a repayment wherever it is found that the work was not performed.

I would add, you know, I have traveled this country a great deal over the past 2 years, and we have been together in Missouri——

Senator BOND. Sure.

Secretary PRINCIPI (continuing). and the overwhelming number of our physicians are loyal, dedicated public servants. In many, many cases they do more than is expected of them, and it is a travesty that there is a certain percentage that are undermining the VA's great strengths, and it needs to end, and this culture needs to change, and again bring this situation back in balance and to get on with caring for veterans. That is our first and primary mission, patient treatment, treating veterans, and everything else is there to support it, to ensure that we have the right doctors, the

most professional, highly skilled physicians, and so, it is an issue that I will report to you on, Mr. Chairman.

Senator BOND. We appreciate that.

Secretary PRINCIPI. Be assured that we take it very seriously.

Senator BOND. When will the national audits be published? When will that come out?

Secretary PRINCIPI. I expect quite soon, perhaps as early as next month. The IG is here, and he might be able to provide additional information. This is a report I asked for.

Mr. GRIFFIN. The report went to VHA about 3 weeks ago. The normal response time is 30 days. Sometimes that gets stretched out a little bit, but we would hope to issue the final within 30 days.

Senator BOND. Thank you very much. I hope, as you do, that this is an isolated problem, but it has got to end, and certainly I have seen the doctors who work and serve VA patients and also are serving in the medical schools, we cannot lose that, but this system has to stop.

On the staffing question, Dr. Roswell, in 1991 the Institute of Medicine provided suggestions to VA on staffing standards, and in January of last year Congress enacted legislation requiring VA to establish staffing standards. It appears that has been delayed. I would like to know why. Without staffing standards, how do we know what type of physicians are needed where?

Dr. ROSWELL. First of all, let me assure you that efforts to comply with the requirement are well underway. We expect the staffing standards to be reported back to us within the next 60 days or so, so they are in progress.

Staffing standards in health care, let me point out, is a very difficult subject, as even the IOM has pointed at in previous reports. We use a variety of ways to assess current staffing needs, but admittedly they are based on access-to-care issues, so where we have greater waits for clinics, where we have waits for procedures or types of specialty services is where we focus our staffing requirements. The staffing standards we hope will help us improve productivity, and we look forward to those, as do you.

Senator BOND. Thank you, sir.

Let us see, I am told that the DOD has staffing standards. Are you learning from them?

Dr. ROSWELL. We have looked at DOD staffing standards, and maybe we should take a lesson. DOD does not use part-time physicians, which has all the attendant problems we just discussed, but sometimes the staffing standards that DOD uses do not translate to VA's pattern of health care delivery directly, but we certainly are looking at those.

Senator BOND. Moving on to another subject I addressed about the inconsistency among VISNs, as I said, Mr. Secretary, I supported Dr. Kaiser's changes. I am concerned that decentralization has gone too far. There is inconsistent compliance with pharmaceutical policies. Is there too much freelancing going on among divisions? I hate to use the word fiefdoms, but that seems to come to mind.

Secretary PRINCIPI. Well, I think there is always a little tension, if you will, between centralization and decentralization. Perhaps early on there was a move toward more decentralization, and it re-

sulted in 21 or 22 network directors perhaps moving off in different directions, and not recognizing the importance of the whole, so to speak, and I recognize, too, that neither Dr. Roswell nor I can manage the VA health care system from Washington, D.C. You need strong leaders out in the field, closest to the patient, to the veteran, to make those day-to-day decisions.

However, there needs to be one policy and one direction, and everybody needs to be marching in the same direction, and that was not the case. We have had 22 networks competing against one another, competing out there in enrollment drives so that this network would do better than the network next door in terms of the VERA allocation dollars, and lots of other areas as well, and I think we have strengthened the oversight, we have strengthened the direction, and that people understand that policy is made in Washington. We expect them to adhere to that policy, and within that, they are to manage the system.

Senator BOND. I thought the policy of decentralization was great, and I think maybe you have hit the right note on that.

I am going to finish up, because I know you have other commitments, and I know you would be disappointed if I did not submit some questions for the record so I will not give you a chance to answer all of them here. I would like to ask you what is the status of the CARES project? I really appreciate your request to jumpstart CARES. What is your funding priority? How much do you think this could save in costs to be redirected to health care services for veterans?

Secretary PRINCIPI. Well, I think it is one of the most important undertakings that the VA has embarked on in a long time. It is on track, Mr. Chairman. I expect to have a report on my desk in early October with the recommendations of the commission. I will make a decision based on that report shortly thereafter.

I think the savings can be significant, savings that can be used, if you will, to truly expand the reach of health care and the manner in which health care is being delivered in America today, and it would probably take an investment up front to realign the system, if you will, to move us in the right direction. I do not have a dollar figure now, but I do believe that our request is a good down payment for the CARES process.

I would only highlight, Mr. Chairman, I know your strong interest in this issue, and I would never spend money on a facility I know needs to change its mission, but we have an aging infrastructure out there, and it is beginning to deteriorate, and we need to get on with making some needed repairs in some areas.

As you know, Kansas City was a good example of some of the things that we needed to do, so I am anxious to get this process completed and get a report up to you, and hopefully we can then find the dollars to make the necessary changes.

Senator BOND. I certainly hope so.

One last question. You have a decentralization problem. I have a decentralization problem. There are 50 different States represented in the Senate, and every single one of them needs a new cemetery. The VA recently completed the national shrine study. Can you tell me about the study, and the VA's process for prioritizing funding requests for the cemeteries?

Secretary PRINCIPI. Well, certainly we have a very aggressive schedule of opening new cemeteries. We have four new cemeteries that are in the process, and a fifth one in the advanced planning stage. That is the Sacramento cemetery.

The cemetery study did point out some deficiencies in a number of our cemeteries. The Acting Under Secretary is in the process now of prioritizing our needs, and deciding which ones are the most important, but there is a lot of maintenance and repair that needs to be made to many of our national cemeteries. The dollar figure is quite high. We have a small down payment towards that effort.

Do you have anything to add, Eric, on the cemetery, the national shrine?

Mr. BENSON. Mr. Chairman, we have instituted a set of standards for operations and appearances in our national cemeteries which will include the new national cemeteries we are opening. We believe those standards will enable our employees, who are very dedicated, to bring cemetery appearances up to standard, as well as to provide us with the prioritization of cemeteries in the States that you mentioned.

Senator BOND. Well, Mr. Secretary, unless you want to add anything, I think to enable us to get on with our schedules, we will submit the rest of the questions for the record. We appreciate the answers from you and your staff. Obviously, we have a lot of challenges and work ahead of us. We look forward to continuing to work with you to meet those challenges to continue to improve the viability of our service to the veterans.

ADDITIONAL COMMITTEE QUESTIONS

Secretary PRINCIPI. The only thing I would like to add, Mr. Chairman, is just to congratulate you on the receipt of a very prestigious VFW award last evening, an award truly deserved for your enormous support for our agency. We thank you, very, very much.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO THE DEPARTMENT OF VETERANS AFFAIRS

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

COST-SHARE PROPOSALS

Question. Your fiscal year 2004 budget request proposes to charge a $250 annual enrollment fee and raise the prescription copayment from $7 to $15 for Priority 7 and 8 veterans. Both of these initiatives require legislative action.

If these legislative proposals are not enacted, how much more money will we need in fiscal year 2004 for the medical care account to eliminate the waiting list? Have you considered other options to address the waiting list problem?

Answer. VA's fiscal year 2004 budget contains several policy proposals that will allow the VA health care system to refocus on better meeting the needs of our core population, veterans with service-connected disabilities, veterans with lower incomes, and veterans with special health care needs. Since eliminating the wait lists is closely tied to all our efforts to refocus the system, failure to enact any or all these proposals could adversely impact our ability to eliminate the wait lists.

The table below provides the additional appropriations resources that would be required in 2004 if Congress denied the medical care policies proposed in the 2004 President's budget.

IMPACT OF CONGRESSIONAL DENIAL OF PROPOSALS ON APPROPRIATION

(Dollars in millions)

Policy	2004 Appropriation
Stop new enrollment of P8 veterans	−$335.2
Assess $250 annual enrollment fee for NSC P7 and Enrolled P8s	−531
Increase Outpatient Primary Care Copay from $15 to $20 NSC P7 and Enrolled P8s	−14.7
Increase Pharmacy Copay from $7 to $15 for NSC P7 and Enrolled P8s	−245.6
Increase Copay, Threshold to Aid and Attendance Level	+33.0
Limit Long-Term Care benefits to P1a Veterans	−222.4
Bill HMOs and PPOs	−69.0
Total	−1,384.9

WAITING LIST

Question. Some advocates believe that additional funding for more staff is the answer to solving the waiting list problem but GAO reported, "given the inefficiencies we found, it was difficult to determine the extent to which clinics would have benefited from additional staff." GAO also found that many of the delays were the "result of poor scheduling procedures and inefficient use of staff." Some clinics were making noteworthy progress in reducing waiting times through management reforms because of collaborative work with the Institute for Healthcare Improvement (IHI)—a private contractor that was retained to develop strategies to reduce waiting times.

Can you briefly discuss what actions you have taken to address the waiting list problem, including your response to GAO's findings? How will you ensure that the VISNs will implement the IHI reforms?

Answer. We have made substantial progress in working on our waiting times problem since the GAO did their study several years ago. The Veterans Health Administration (VHA), in collaboration with the Institute for Health Care Improvement (IHI), developed a model for large system change that is resulting in significant access improvement. This Advanced Clinic Access (ACA) initiative is oriented to meeting the demand of its patient population for care at the time the request is made.

VA has been faced with increased demand and increased Congressional and public scrutiny related to waiting times. In July 2002, VA found itself in the untenable situation of having over 300,000 veterans who were not able to get an appointment within 6 months of their desired date. Substantial efforts have been made to remove patients from the wait list. However, for every 100 veterans we remove, an additional 95 veterans are added to the wait list. By utilizing the key components of our Advanced Clinic Access initiative, clinics are able to make office practice efficiencies that ultimately result in increased capacity. Only when a clinic has made all of the identified efficiencies can one truly justify increased resources. With ACA, providers can now provide the necessary data for addressing the resource issue. However, implementing ACA requires time, patience, leadership support and culture change.

VHA developed an electronic wait list (EWL) that facilities are using as a management tool to track veterans who are waiting for an appointment to be scheduled. The (EWL) software allows VHA to uniformly record veterans awaiting appointments in VistA to more consistently and accurately reflect demand across VHA. This software integrates with the existing VistA scheduling software at each site to allow placement of veterans on waiting lists as part of the automated scheduling process when appointments are not available in the desired timeframe. This software is in full use across the VA medical centers. Additional software was released to allow this information to be rolled up from the medical centers into a national database located at the Austin Automation Center. National reports will provide information about the number of patients waiting for specific types of care at VA facilities and the length of time that they have been on the wait list.

To ensure that VISNs implement the IHI reforms, VHA developed an infrastructure to sustain improvement gained from ACA implementation and to facilitate the spread of ACA across the VHA system. The infrastructure includes the following:

—An Advanced Clinic Access Steering Committee, chaired by a VISN director, and charged with oversight of ACA implementation, is in its third year of operation.

—The steering committee appointed liaisons to each of the six performance measure clinics. These liaisons have established regular conference calls to accelerate the spread of ACA. Attendance at these calls ranges from 50 to 100 clinicians per call.
—VHA has developed a network of ACA coaches/experts who have implemented ACA in their own clinics and are willing and able to teach others. Four meetings of ACA coaches, designed to further the development of these coaches and to develop additional coaches, have been held over the last three years. Regional conferences across the country are planned for the fall of 2003. The goal is to double the number of ACA coaches over the next 18 months.
—Additionally, VHA has established ACA Points of Contact in each VISN and each facility. Each VISN has developed a plan for implementation of ACA.
—In October 2002, VHA appointed a full-time Clinical Program Manager to continue the work begun by IHI and provide coordination and oversight of the implementation of ACA across all of its clinics.

Oversight of ACA implementation is accomplished through regular review of the data related to waiting times, daily communication between the VHA program manager and the field, and articulation of the importance of ACA implementation by VHA senior leaders. A handbook outlining the ACA principles and implementation strategies will be published this spring.

PRESCRIPTION DRUGS

Question. We have heard that a significant number of veterans on the waiting list are coming to VA simply to have their privately written prescriptions filled because VA provides a generous prescription drug benefit. In its December 20, 2000 report, the IG recommended increasing the pharmacy copay from $7 to $10 and streamlining the current VA process of filling prescriptions written by private physicians. The IG estimated that VA's administrative costs for re-writing prescriptions obtained from private healthcare providers was $1.3 billion in fiscal year 2001.

Are there ways to structure a more streamlined and cost-effective approach so that veterans do not have to wait to have their prescriptions filled?

Answer. VHA has not concurred with the findings of the December 2000 OIG report or the draft update of the report. VHA has met with OIG to review its concerns and, as a result, OIG is currently in the process of recalculating its estimates of cost avoidances.

VA is aware that the lack of Medicare prescription drug coverage is causing some veterans to turn to VA for access to prescription drugs. While VA acknowledges that some veterans have stated that they only want VA to provide drugs and not medical care, data suggest that approximately 25 percent of veterans who have stated that they are seeking VA care primarily for prescription drugs actually end up using other VA services as well, including eye care, cardiology, urology, and, in some cases, inpatient care. Any analysis must also consider the potential for significantly increased demand—an unintended consequence of most proposals.

VA has agreed to work with Congress to find a solution to the vexing problem of waiting lists. VA is currently examining options for prescription drug benefits and, in doing so, is carefully assessing the likely impacts (financial and clinical) of such policies. VA must take care to ensure that the actions taken have no unintended consequences that could adversely affect VA's ability to provide timely, quality health care to enrolled veterans.

Lastly, VA believes that a VA/Medicare + Choice cooperative initiative between VA and the Department of Health and Human Services will be a major step forward in addressing this problem and is looking forward to continuing that project's development.

CARES

Question. First, congratulations on implementing the CARES program in Chicago. I know your decision was difficult but it was the right thing to do. For the rest of the Nation, you are undertaking a very ambitious plan to have all the CARES plans completed by the end of this year. I also appreciate the $225 million in the request to jumpstart CARES in fiscal year 2004.

Do you have any preliminary estimates of the cost-savings you expect to achieve from CARES and how will these savings be re-directed to health care services for veterans?

Answer. The Department estimates approximately $3 billion in net savings over a five-year period, beginning in fiscal year 2006. This estimate was developed via a five-year investment plan, based upon the experience and the data compiled from the completed VISN 12 (Chicago Area) CARES study, and extrapolated to the VA

healthcare system nationwide. While the majority of savings will be from operational efficiencies, some receipts and in-kind consideration may also be generated by VA enhanced-use lease program. The potential sale of excess or underutilized real property may also yield some savings. The redirecting of resources from underutilized facilities to direct patient care will allow VA to better serve veterans.

When the National Cares Plan is completed, potential investment needs and cost savings related to implementing CARES will be revised. The plan will be monitored and updated with each budget submission.

COLLECTIONS

Question. VA projects to collect $524 million more in 2004 compared to 2003 yet its collections efforts continue to have problems. The GAO recently reviewed VA's operations and found that VA has improved its collections but it continues to confront operational problems, such as billing opportunities that limit the amount VA collects. A VA IG report estimated that VA could have collected over $500 million more than it actually did in fiscal years 2000 and 2001. However, due to VA's operational limitations, the GAO reported that VA lacks a reliable estimate of uncollected dollars, and therefore does not have the basis to assess its system-wide operational effectiveness.

How is VA responding to these issues? Will you reach your collections goal for fiscal year 2003? How confident are you in reaching your projected goal of collecting $2.1 billion in fiscal year 2004?

Answer. VA has collected $715 million through March of 2003, which is 95.5 percent of our target collection goal at this point in the fiscal year. We anticipate being very close to our annual collection goal of $1.6 billion by the end of September 2003 given the multitude of program enhancements being put in place. In particular, we are continuing to evaluate and enhance the current VistA system in order to support a pilot commercial billing and collection system in the future. These changes will continue to achieve our collection goals in fiscal year 2004 and future years.

HOMELESSNESS

Question. Last year, with this Committee's support, the Administration reactivated the Interagency Council on Homelessness to improve the coordination of federal homeless programs—most notably between HUD, HHS, and VA. One of the most notable products of the ICH is the recent launching of a new $35 million collaborative program between HUD, HHS, and VA to provide permanent housing, health care, and other services to chronic homeless people.

Can you tell me more about this program and your plans for fiscal year 2004, including the proposed Samaritan program? What are your views about the ICH? Due to the current waiting time problems, are homeless veterans waiting for medical care services?

Answer. As you know, in March I was appointed the Vice Chair of the Interagency Council on Homelessness (ICH). The ICH provides an excellent forum for discussing the problems facing homeless people, including homeless veterans. It also serves as a vehicle for developing the federal strategy to end chronic homelessness in America.

One of the keys to ending chronic homelessness is assuring that homeless people have access to mainstream services such as Medicaid, Food Stamps, Temporary Aid to Needy Families (TANF), and other programs. HHS, HUD and VA are sponsoring State Policy Academies to bring together state leadership teams to identify policies and develop strategic plans to assure that homeless people have better access to health care, mental health care, and support services that can help chronically homeless people exit from homelessness. Eighteen states have sent teams to two Policy Academies on chronic homelessness. We hope to hold three more Policy Academies on chronic homelessness over the next 6 months so that all states will have an opportunity to participate in developing strategies to end chronic homelessness.

The $35 million joint HUD/HHS/VA Initiative is also designed to address the needs of chronically homeless people. Under this initiative, HUD will provide $20 million to support permanent housing, HHS will provide $10 million to support primary care, mental health care, and substance abuse treatment, and VA is providing $5 million to support case management for homeless veterans involved in the funded projects. VA will also support program monitoring and evaluation of all funded projects. Coordinated applications from interested service providers are due by April 14, 2003. The Samaritan Program is expected to be an expansion of the joint HUD/HHS/VA initiative.

Homeless veterans, like all veterans seeking health care from VA are experiencing some problems with waiting times at some VA medical facilities. VA is taking ag-

gressive steps to reduce waiting lists and waiting times for veterans enrolled in VA's health care system. These steps include providing urgent care within 24 hours, providing priority care for veterans who are 50 percent service connected or greater, and initiating procedures to improve scheduling of appointments.

HOMELESS SPENDING

Question. For fiscal year 2004, VA estimates that it will spend almost $1.4 billion for veterans who are homeless and that nearly 90 percent of that spending will come from mainstream services, such as medical care. These funds are not targeted to homeless veterans. This demonstrates that homeless veterans have access to these mainstream services. Research from other kinds of health care systems, however, shows that investment in housing for homeless people, and certainly for chronically homeless people, can more than pay for itself in reductions in the number and length of hospitalizations, not to mention how it improves the lives of the individuals in question.

How is VA responding to the permanent housing needs for chronically homeless veterans, especially those who are frequently in and out of your hospital system?

Answer. Since 1992, VA and HUD have participated in the joint HUD-VA Supported Housing (HUD-VASH) Program in 35 locations. Under the program, homeless veterans have received dedicated Section 8 rental vouchers and VA provides ongoing case management services for homeless veterans who receive the vouchers. HUD has committed 1,753 Section 8 vouchers to this program. Over the course of the past 10 years, 4,400 homeless veterans have had access to these vouchers and have secured permanent housing. The median length of stay for veterans in the HUD-VASH program is 4.1 years. A rigorous long-term follow up of the HUD-VASH Program showed that rental assistance, coupled with case management services, provides a successful treatment strategy to help homeless veterans gain access to permanent housing and receive treatment for medical, mental health, and substance abuse disorders which helps them remain in permanent housing.

VA also has implemented its Supported Housing (SH) Program in 23 locations. Clinicians in the SH Program provide long-term case management services to homeless veterans and help them find and remain in long-term transitional or permanent housing. The difference between the HUD-VASH Program and the SH Program is that veterans in SH do not have access to dedicated Section 8 vouchers, although many veterans in this program secure Section 8 vouchers through traditional procedures. In fiscal year 2002, 1,639 veterans were assisted with housing and were provided clinical case management services. The median length of stay for veterans in the SH Program is about 8 months.

Although not yet operational, it is expected that homeless veterans will have access to permanent housing through the HUD/HHS/VA Initiative and the Samaritan Program.

It is also expected that VA's Loan Guarantee for Multifamily Transitional Housing for Homeless Veterans Program will assist in making funding available to organizations interested in developing long-term transitional housing for homeless veterans. While this is not a permanent housing program, we believe that homeless veterans who can live in long term transitional housing that offers a substance free environment and access to supportive services will have greater opportunities to move on to permanent housing.

CLAIMS PROCESSING

Question. Will you meet your goal of processing in an average of 100 days?

Answer. We are committed to meeting the Secretary's goals for improving the timeliness of disability claims processing. Acting upon recommendations from the VA Claims Processing Task Force, the Under Secretary for Benefits has established specific performance targets for regional offices that are in line with the national goal of processing disability compensation claims in 100 days, on average, by September 2003. In addition, we have implemented changes to our business processes. We are consistently tracking our progress and have seen a steady decline in the average processing days over the past year. Although much progress has been made, achievement of this goal remains our biggest challenge.

Question. By improving the timeliness of claims processing, are you compromising the accuracy?

Answer. VBA has experienced a steady increase in our accuracy rate for rating related actions over the past two years. In March 2001, our accuracy rate for rating related actions was 67 percent. As of March 2002, this rate had increased to 79 percent. Based on our most recent data, from January 2003, our accuracy rate for rating related actions is 83 percent. We have also implemented several measures to

ensure continued improvement in accuracy rates, including implementation of national performance standards for key positions in the Veterans Service Centers.

Question. Are more claims being re-examined because of errors?

Answer. We have not experienced a significant increase in the number of claims re-adjudicated as a result of the correction of errors identified by national or local reviews. We will continue to monitor the cases where errors are found and provide necessary oversight to ensure that the requisite corrections are made expeditiously. In addition to correcting these errors, stations will provide employees with feedback and training, where necessary.

MANDATORY SPENDING FOR HEALTH CARE

Question. What are your views on moving VA health care from discretionary to mandatory funding?

Answer. VA does not support the concept of using a fixed formula to determine VHA funding. Although VA recognizes the appeal of such an approach, particularly in these times when the Department finds it is unable to provide care to all veterans who seek enrollment in the system, we believe the would prove to be unworkable and is inappropriate for funding a dynamic health care system, like VA's.

The provision of care evolves continually to reflect advances in state of the art technologies (including pharmaceuticals) and medical practices. It is very difficult to estimate both the costs and savings that may result from such changes. Moreover, patients' health status, demographics, and usage rates are each subject to distinct trends that are difficult to predict. Using a proposed formula could not take into account any changes in these and other important trends. As such, there is no certainty that the amount of funding dictated by the proposed formula would be adequate to meet the demands that will be placed on VA's health care system in the upcoming years.

Perhaps more importantly, use of an automatic funding mechanism would also diminish the valuable opportunity that members of the Congress and the Executive Branch now have to carry out their responsibility to identify and directly address the health care needs of veterans through the funding process. It might also tend to depress the Department's incentive to improve its operations and be more efficient.

Finally, VA does not believe this proposal would ensure open enrollment. The Department would still be required to make an annual enrollment decision, and that decision would directly affect the number of enrolled veterans and thus the amount of funding calculated under the formula. Indeed, references to "guaranteed funding" may give the public the false impression that this bill would give VA full funding to enroll all veterans and to furnish care for all their needs, which would not be the case.

Question. What impact does this have on Congress' ability to oversee the expenditure and performance of the VA's health care programs?

Answer. VA would be able to provide the same detailed programmatic and cost information to Congress as it does today. However, by shifting VA health-care to a formulaic funding methodology Congress may be inclined to shift its focus away to other discretionary programs.

HEALTH CARE QUALITY MANAGEMENT AND PATIENT SAFETY

Question. What specific actions have been taken in response to the OIG report, Review of Security and Inventory Controls Over Selected Biological, Chemical, and Radioactive Agents Owned by or Controlled at Department of Veterans Affairs Facilities (Report No. 02–00266–76, dated March 2002)?

Answer. A number of offices within VHA and the Office of Preparedness formed a joint work group to address the issues raised in the OIG Report No. 02–00266–76. A number of meetings resulted in specific actions to address this report. VHA has subsequently taken actions to address the recommendations as summarized below.

Security is a standing agenda item for National Radiation Safety Committee (NRSC) meetings. The primary basis to review the status of security issues is the security status report. The report includes information about the strategy for oversight, Office of Inspector General (OIG) report response, site visit results, source disposals, and information dissemination.

The NRSC actions or strategy for security include having a standing agenda item for NRSC committee meetings, monitoring the National Health Physics Program (NHPP) focus on security, responding to OIG, NRC, and other initiatives, and evaluating changes for the handbook/directive.

The NHPP actions or strategy for security include having a focus on security during inspections/site visits, providing updates to the security status report, providing information to the medical centers, preparing changes for the handbook/directive, evaluating disposal options for sources, and monitoring regulatory changes.

The medical centers actions or strategy for security include increasing VA Police Service coordination, reviewing their radiation safety footprint at least annually, maintaining security of radioactive materials and/or radiation sources, and implementing the VHA Directive 2002–075, "Control of Hazardous Materials in VA Research Laboratories."

VHA Directive 2002–075, which directly addressed seven of the OIG recommendations, codified and clarified existing procedures and also complied with requirements mandated in the USA Patriot Act of 2001. The directive, which includes over 18 pages of detailed instructions to VA medical centers (VAMC) to specifically address the OIG report, has been discussed with all the VAMCs through conference calls as well as informal discussions with those in leadership positions at the VAMCs charged with implementing the recommendations. In addition, all sites with research programs have been notified about the impact of the USA Patriot Act of 2001. VHA and VA's Office of Policy, Planning and Preparedness have jointly signed a letter to all VHA facilities outlining additional controls necessary to control the access to these agents.

VHA conducts annual work place evaluations for safety of all VHA facilities and increased security and compliance with VA and Joint Commission on Accreditation of Health Care Organizations (JCAHO) emergency management activities are getting increasing scrutiny. JCAHO in their accreditation surveys are also emphasizing emergency management plans and programs necessary to meet their standards.

VHA has also begun a comprehensive assessment of the potential vulnerabilities of VA BSL 3 laboratories. Medical facilities have received a security self-assessment checklist for BSL 3 sites, and completed a self-assessment that all items on the checklist have or will be completed. In calendar year 2003 VHA will begin announced and unannounced inspections of sites with BSL 3 laboratories to ensure compliance with the checklist and the directive. VHA will suspend operations in BSL 3 laboratories that cannot demonstrate an appropriate level of security will be maintained.

An Emergency Management Program Guidebook has also been developed and provided to each VAMC to improve their emergency management programs to meet VHA and JCAHO standards for emergency management. This guidebook provides sample policies procedures and best practices for emergency management including the VAMC from potential terrorist threats and events as well as research and clinical laboratories.

VHA has initiated a program to spend more than $2 million to upgrade laboratory security at more than 50 sites in February 2002, and that office will systematically review all research sites over the next 3 years as part of its infrastructure program to identify and fund equipment needs that include security devices. Thirty-eight sites have received or been approved for funding. VHA will review the revised applications from another 26 sites in fiscal year 2003.

Question. Is there funding in the fiscal year 2004 budget request to cover the full cost to implement controls and make necessary changes?

Answer. We believe that the fiscal year 2004 budget request contains sufficient funding. A survey conducted within VHA documented that approximately $13 million was spent in the last year for security enhancements, including security of laboratories. Individual projects to implement all of the requirements mentioned above that are beyond the resources of individual VA medical centers will have to be requested as part of VHA's capital resources process and compete with other patient care infrastructure initiatives.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

Question. Many in Montana Veterans have significant trouble getting in to see doctors due to scheduling backlogs. Does the VA budget compensate to enable faster processing, in order to meet this demand? If so how?

Answer. Yes, the 2004 budget proposes to reduce the average waiting time for new patients seeking primary care clinic appointments to 30 days in 2004 and reduce the average waiting time for next available appointment in specialty clinics to 30 days in 2004. VA is working to improve access to clinic appointments and timeliness of service. VA continues efforts to develop ways to reduce waiting times for appointments in primary and specialty care clinics. By refocusing VA's health care sys-

tem on these groups, VA will be positioned to achieve our primary and specialty care access standards.

Question. The VA claims process currently takes 9 to 12 months to file claims, and 9 to 11 months for remands. Does the VA budget provide for the resources necessary in order to expedite the claims processing process?

Answer. Budget authority of $621.4 million and 6,816 FTE (without OBRA) are requested to fund the discretionary portion of the Compensation program in 2004. Compared to the 2003 current estimate, budget authority is expected to show a net increase of $15.0 million.

Budget authority of $151.7 million and 1,635 FTE (without OBRA) are requested to fund the discretionary portion of the Pension program in 2004. Compared to the 2003 current estimate, budget authority is expected to decrease by $2.4 million.

We believe the reorganization of service centers into specialized work teams, as prescribed by the Claims Processing Task Force report, will increase work efficiencies in the Compensation program. Based on workflow analysis, VBA believes the discretionary portion of the compensation program budget will be sufficient.

While the discretionary portion of the pension program budget shows a decrease, we believe that the consolidation of pension workload in the Pension Maintenance Centers will lead to a gain in workflow efficiencies. Therefore, the reduction in this area should not negatively affect the pension claims process.

Question. Many veterans that need hospitalization sometimes have a problem traveling long distances, and not all patients are reimbursed for their travel expenses. Does the VA budget compensate for providing veterans that need hospitalization transportation to the hospital?

Answer. Yes, VA's budget includes compensating certain veterans for hospital transportation to and from a department facility, but only if they meet the eligibility requirements set forth under current law. In accordance with 38 U.S.C. § 111(b)(1), VA is authorized to reimburse the following category of veterans for their travel:

—veterans or other persons whose travel is in connection with treatment or care for a service-connected disability;
—veterans with a service-connected disability rated at 30 percent or more;
—veterans receiving pension under section 1521 of title 38 USC;
—veterans whose annual income does not exceed the maximum annual rate of VA's pension;
—a veteran or other person who is required to travel by special mode and who is unable to defray the expenses of travel; and
—a veteran whose travel to a Department facility is incident to a scheduled compensation and pension examination.

Question. Does the budget compensate for reimbursing all patients for their travel? If so, how?

Answer. VA is not authorized to reimburse all patients for their travel. VA may only authorize travel reimbursement for those veterans who meet the eligibility requirements under 38 U.S.C. § 111(b)(1). For those veterans who are determined to be eligible, reimbursement may be authorized based on mileage allowance or common carrier, whichever is less. If mileage reimbursement is authorized, a veteran is reimbursed at the rate of 11 cents per mile and is subject to a $3.00 deductible for each one-way visit and a $6.00 deductible for each round-trip visit. The deductible is capped at an $18 monthly deductible.

Additionally, when a clinical determination is made that special mode transportation is required, VA may also authorize a veteran to be transported by ambulance services or by other modes of special mode transportation. However, in these cases, a determination must be made by VA that the veteran is unable to defray the expenses of travel.

Question. Does the VA budget allow for additional clinics in rural areas? If so, what are the plans for these new facilities?

Answer. Decisions on new Community-Based Outpatient Clinics will be made on a case-by-case review until the CARES study is completed.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

COMMUNITY-BASED OUTPATIENT CLINICS

Question. Mr. Secretary, I am pleased with the 7.5 percent increase that President Bush has proposed for the Department of Veterans Affairs budget for fiscal year 2004. This kind of investment allows us to keep our commitments to America's veterans and I look forward to working with you to implement this budget.

Of course, challenges remain and I am committed to addressing them, as well. One of those challenges concerns the stability of Community-Based Outpatient Clinics.

Last year, veterans in southeastern New Mexico notified me that Artesia Clinic was not accepting new patients because there were not enough doctors to accommodate the caseload.

Although, the delay in service was only temporary, it was a cause of anxiety for many veterans. I am concerned about this because so many of New Mexico's veterans rely on clinics for their outpatient needs.

I wrote to you about my concerns and in your response you noted that actual increases in the use of VA health care systems had outpaced projections.

As we work together to find a solution to this problem, to what should we attribute the backlog of patient caseload in the VA health system? Is it a matter of more veterans needing care? Is it a shortage of medical staff? Is it a lack of funds? If it is a combination of these factors, what approach do you recommend to alleviate the problem?

Answer. Public Law 104–262, the Veterans Health Care Eligibility Reform Act of 1996, mandated the VA to establish and implement a national enrollment system to manage the delivery of healthcare services to veterans. This legislation led the way for the creation of a Medical Benefits Package to provide a standard health plan for all veterans. Enactment of this legislation opened up the VA health care system to all veterans and generated a significant increase in VA enrollees and patient users. This has precipitated serious problems with access to VA outpatient care. In addition to the increased demand, VA has also been faced with pockets of nursing shortages and problems in recruiting physicians to the VA system. We have many initiatives to address some of these problems such as the physician pay bill, hiring of retired annuitants, recruitment and retention bonuses, incentive pay, and specialty pay schedules. So the answer to your question is that it is a combination of many factors.

To ensure that VISNs implement clinic management efficiencies as part of our Advanced Clinic Access (ACA) initiative, VHA developed an infrastructure to sustain improvement gained from ACA implementation and to facilitate the spread of ACA across the VHA system. The infrastructure includes the following:

—An Advanced Clinic Access Steering Committee, chaired by a VISN director, and charged with oversight of ACA implementation, is in its third year of operation.

—The steering committee appointed liaisons to each of the six performance measure clinics. These liaisons have established regular conference calls to accelerate the spread of ACA. Attendance at these calls ranges from 50 to 100 clinicians per call.

—VHA has developed a network of ACA coaches/experts who have implemented ACA in their own clinics and are willing and able to teach others. Four meetings of ACA coaches, designed to further the development of these coaches and to develop additional coaches, have been held over the last three years. Regional conferences across the country are planned for the fall of 2003. The goal is to double the number of ACA coaches over the next 18 months.

—Additionally, VHA has established ACA Points of Contact in each VISN and each facility. Each VISN has developed a plan for implementation of ACA.

—In October 2002, VHA appointed a full-time Clinical Program Manager to continue the work begun by IHI and provide coordination and oversight of the implementation of ACA across all of its clinics.

In addition to our Advanced Clinic Access initiative that assists clinics in making office practice efficiencies, we monitor through the network performance plan the following key indicators for access to care:

Measure: Waiting Times—Clinic

By September 30, 2003, networks will improve waiting time for key clinics as measured by a combination of indicators to include:

—a. *Primary Care—New Patients.*—Percent of new patents at 3rd Qtr of the SHEP Survey who answer "yes" to the question, "Did you get an appointment when you wanted one?" Target—79 percent.

—b. *Primary Care—Established Patients.*—Percent of established patents at 3rd Qtr of the SHEP Survey who answer "yes" to the question, "Did you get an appointment when you wanted one?" Target 79 percent.

—c. *Specialty Care.*—Wait time from date entered into scheduling package until date of appointment for "Next Available Appointment", in September 2003 for patients in (all individual targets must be met):

—i. *Eye care.*—Target 63 days or less.

—ii. *Urology.*—Target 44 days or less.
—iii. *Orthopedics.*—Target 43 days or less.
—iv. *Audiology.*—Target 40 days or less.
—v. *Cardiology.*—Target 42 days or less.

In July of last year, all networks submitted plans for reducing their backlog in anticipation of supplemental dollars. Because of the continuing resolution, many of these plans were placed on hold. Now that we have a budget, networks are working on implementing those plans such as recruiting and hiring providers or contracting for scarce services and buying equipment.

We developed an electronic wait list that serves as a management tool for monitoring those veterans who have yet to be scheduled for an appointment. We routinely provide reports and monitor the progress being made in removing patients from the wait list.

Non-acceptance of new patients into the New Mexico Healthcare System's Artesia CBOC was a temporary situation caused by a lack of physician staffing. However, the issue has now been resolved. Beginning January 2003, new patients are being accepted into the Artesia CBOC for care. Patients with a 50 percent or greater service-connected disability have priority for appointments.

The current staffing level at the Artesia CBOC is able to provide care to 2,400 veterans and currently has 2,100 veterans enrolled. When an eligible veteran applies for care at the Artesia CBOC, the veteran is provided a New Patient Health Questionnaire. Following the completion and return of the questionnaire, the veteran is scheduled for a new patient appointment. On-going care for the veterans in southeastern New Mexico will remain a priority.

CLAIMS PROCESSING

Question. Is there something the VA can do to process claims more efficiently?

Answer. The Claims Processing Task Force examined a wide range of issues affecting the processing of claims, from medical examinations and information technology to efforts to shrink the backlog and increase the accuracy of decisions. Numerous countermeasures were implemented to address the issue of the growing backlog. At the beginning of 2002, over 432,000 cases were pending rating action, 47 percent of which were over six months old. As of March 14, 2003, the number of cases pending rating action had been reduced to just over 310,000, with approximately 29 percent pending over six months. We continue to strive toward the Secretary's goal of 100 days average processing time and reduction of our claims inventory to 250,000 by the end of fiscal year 2003.

Question. Is there merit in the idea of calling on veterans' organization to help process claims on a voluntary basis?

Answer. While the ultimate responsibility for claims processing rests with the Veterans Benefits Administration (VBA), the assistance provided by veterans service organizations (VSOs) is extremely valuable in timely processing of claims. To improve the relationship that already existed, a partnership between VBA and VSOs was formed through the Training Responsibility Involvement and Preparation (TRIP) initiative to enhance service to claimants by combining resources and focusing on shared concerns. The vision of the TRIP initiative is to improve the claims adjudication process by:

—reducing duplication of effort and combining resources,
—providing a more direct focus on claims preparation,
—placing a stronger emphasis on front-end of claims processing,
—improving the quality of claims submission, and
—improving timeliness of claims processing.

We have recently expanded TRIP training to include a Train-The-Trainer program. This program is a course of instruction on how to teach the TRIP program given to a service officer who has already completed the training. This is particularly beneficial to VSOs with out-based employees and helps to reduce travel expenses incurred in TRIP training. We have conducted successful Train-The-Trainer programs in Delaware, Florida, Alabama, and the District of Columbia. Other sessions are planned soon in Washington and in California.

There are legal issues involved in having VSOs help process claims on a voluntary basis. The VA General Counsel would have to consider these before the concept could be taken into consideration.

HOMELESS VETERANS

Question. I am concerned about the growing number of homeless veterans in my state. Many suffer with mental health conditions and substance addictions. Unfortunately, many are reluctant to seek assistance from the VA.

How does the VA budget request for fiscal year 2004 address the problem of homelessness among veterans? Does the VA approach to homelessness pro-actively seek out those veterans who need assistance?

Answer. Approximately $174 million of VA's proposed fiscal year 2004 medical care budget is specifically targeted for specialized services for homeless veterans. Over the last 16 years, VA has developed the largest integrated national network of services for homeless people in the country. Components of VA's continuum of care include:

—aggressive outreach to homeless veterans living on the streets or in emergency shelters;
—clinical assessment to determine treatment needs;
—linkage to VA medical center programs for medical, mental health, and substance abuse treatment;
—case management services;
—residential rehabilitation in VA's Domiciliary Care for Homeless Veterans (DCHV) programs and Transitional Residence Programs for veterans in Compensated Work Therapy (CWT) Program and supported, community-based housing through VA's Grant and Per Diem Program;
—assistance with employment through VA's CWT Program; and
—assistance with permanent housing.

Outreach to homeless veterans is an integral component of VA's continuum of care for homeless veterans. In fiscal year 2002, approximately 370 VA staff were dedicated to outreach and case management services for homeless veterans. These VA clinicians contacted almost 43,000 homeless veterans through outreach.

Question. Does the VA plan to incorporate a continuum of care for veterans with mental illness that includes availability and accessibility to physician services, state of the art medications, supported housing and integrated substance abuse treatment?

Answer. VA has been in the forefront in providing a full continuum of care for veterans requiring mental health services. The VHA Policy Manual (M–2, Part X, Chapter 3, June 29, 1993) describes a fully integrated psychiatric continuum of mental health including physician services, state of the art medications, supported housing, and integrated substance abuse treatment. This was followed by a VHA Program Guide 1103.3, Mental Health Program Guidelines for the New Veterans Health Administration, published June 23, 1999. This guidance expands on the manual, incorporates elements from the Eligibility Reform Act of 1996, includes the evidence base for our programs, and describes in more detail the continuum of care for special populations. These special populations include veterans with a serious mental illness, those with substance use disorders including dually diagnosed patients, those with post-traumatic stress disorders, homeless mentally ill veterans, elderly veterans with psychogeriatric problems, veterans in rural areas, and special considerations for women and other minority veterans. It includes principles involving integration of mental health and primary care management, and psychosocial rehabilitation including an integrated work rehabilitation program.

The issue of availability and accessibility to mental health services involves how the VHA budget is distributed among our many facilities and clinics through the Veterans Equitable Resource Allocation (VERA) system and how decisions are made at the Veterans Integrated Services Network (VISN) level and at each medical center or health care system. VHA policy is to provide equitable access to funding and clinical care for veterans with a mental disorder as compared to those with all other disorders. The final decision generally rests at the facility level where local needs and priorities can be balanced for all veterans seeking care.

ANTIPSYCHOTIC DRUG ZYREXA

Question. Mr. Secretary, on March 4, 2003, USA Today reported that Eli Lilly is facing multiple lawsuits over the antipsychotic drug Zyprexa (olanzapine) for deadly diabetic conditions caused by the drug. Many veterans are prescribed Zyprexa to treat their mental illness. Consequently, many veterans have been or will be exposed to the same diabetes risks that are the subject of these new lawsuits.

What is the VA doing to address the side effect risks posed to veterans who are prescribed Zyprexa? Has the VA studied the effects of Zyprexa on veterans at risk of developing diabetes? Has the VA considered what, if any, potential liability it may incur to veterans who develop diabetes as a result of Zyprexa treatment received at the VA?

Answer. I'm pleased to report that VA was one of the first large managed care organizations in the United States to address the issue of weight gain and diabetes associated with the atypical antipsychotic drug class at the enterprise level. In Au-

gust 2001, in cooperation with the VA Mental Health Strategic Health Care Group, the VA Medical Advisory Panel and Pharmacy Benefits Management Strategic Health Care group developed and published guidance to VA practitioners regarding the relative safety and cost of the atypical antipsychotics available on the VA National Formulary. The published medical literature is continuously monitored for emerging data and when appropriate, the guidance is updated. Most recently guidance was updated in June 2002.

In addition, VA is in the process of updating its Schizophrenia Clinical Practice Guideline and will include all available and relevant information regarding the known risks associated with this class of drugs.

Finally, the VA Pharmacy Benefits Management Strategic Health Care Group and Medical Advisory Panel are currently working with the United States Food and Drug Administration (FDA) on a quality improvement and appropriateness of use analysis of the atypical antipsychotic drug class in veteran patients. It is expected that a joint report will be issued before the end of calendar year 2003.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

PRIORITY 7 AND 8 VETERANS

Question. VA recently announced that Priority 8 veterans can no longer enroll in the VA medical care system. I understand this decision to mean that Priority 8 veterans coming to VA for the first time will not be able to enroll, but that Priority 8 veterans who are already in the system will be "grandfathered-in." Is this correct?

Answer. That is correct; veterans enrolled in Priority Group 8 on January 16, 2003, remain enrolled and eligible for VA health care benefits. Veterans applying for enrollment on or after January 17, 2003, whose financial status places them in Priority Group 8, are ineligible for care. An exception is that veterans with service-connected conditions rated zero percent disabling may seek care for their service-connected condition(s).

Question. Is this decision temporary, or permanent? Does VA's 2004 budget continue this policy?

Answer. The Secretary is required to assess veteran demand and availability of resources and make an enrollment decision on an annual basis. The decision to restrict enrollment of Priority Group 8 veterans will be reconsidered during this annual process. The VA 2004 budget request continues the policy of restricting enrollment of Priority Group 8 veterans.

Question. Can you please explain VA's authority to make this decision?

Answer. The bases for VA's patient enrollment system are found in 38 U.S.C. § 1705 and 38 C.F.R. 17.36 through 17.38. Section 17.36(c) of title 38 C.F.R. specifically delineates the Secretary's need to review estimates of veteran demand and all available resources and to make an annual enrollment decision.

Question. VA tells us that the number of Priority 7 and 8 veterans in the VA system is skyrocketing. Do you think this is because of VA's prescription drug benefit?

Answer. The number of Priority Group 7 and 8 veterans treated in 2002 was about 11 times greater than in 1996. The combined effect of several factors that resulted in this large increase in demand has severely strained VA's ability to continue to provide timely, high-quality health care. First, the Veterans Health Care Eligibility Reform Act and the Millennium Health Care Act opened the door to comprehensive health care services to all veterans. Second, access to health care has greatly improved with the opening of hundreds of community-based outpatient clinics. Third, our patient population is growing older and this had led to an increase in veterans' need for health care. Fourth, VA has favorable pharmacy benefits compared to other health care providers, especially Medicare, and this has attracted many veterans to our health care system.

However, VHA's actual experience in fiscal year 2002 shows that of the 2,129,317 Priority 7 enrollees, approximately 50 percent were users. Of those 1,075,040 users, 63 percent had three or more encounters, which indicates a reliance on VHA for health care in addition to pharmacy. In addition, VA analyzed the actual utilization of newly enrolled veterans who indicated in the VHA New Enrollee Survey that their primary reason for VA enrollment was pharmacy access. These enrollees experienced 3.4 visits per patient and 4.5 clinic stops per patient and the services used were not limited to primary care and pharmacy. Twenty-five percent of the non-ancillary encounters were to specialty clinics, such as eye care, cardiology and urology and in fact, some of the patients had inpatient admissions. This indicates that although a pharmacy benefit was stated as the primary reason for enrollment, these enrollees use other VA services as well.

Question. Do you think that VA is faced with absorbing this new demand because of a lack of national policies to address the aging of America and the collapse of many HMOs?

Answer. Public disenchantment with health maintenance organizations, along with their economic failure, may have played a role in causing many patients to seek out established and traditional sources of health care such as VA. However, we believe that VA is faced with this new demand primarily because of our strength as a comprehensive health care system and because we so ably provide our veteran patients with a complete and comprehensive continuum of care in a coordinated and unified healthcare system, which includes a prescription drug benefit. More than half of those veterans who receive health care through VA are over age 65. VA patients are not only older in comparison to the general population, but they generally have lower incomes, lack health insurance, and are much more likely to be disabled and unable to work.

The projected peak in the number of elderly veterans during the first decade of this century will occur approximately 20 years in advance of that in the general U.S. population. Thus the current demographics of the veteran population are one of the major driving forces in the design of the VA health care system into a comprehensive system centered on providing complete continuum of care in a coordinated and unified system.

Question. In December 2000, the VA's Inspector General reported on the use of VA's prescription benefit by Priority 7 veterans. The IG studied a sample group of Priority 7 veterans and found that almost 90 percent either had access to private non-VA health care and/or said that their only reason for using VA was to have their private prescriptions filled. The IG recommended a change in the law so that veterans could have privately written prescriptions filled at the VA. The IG said this could save VA over $1 billion per year. Has the VA looked at this recommendation? How would this idea affect VA? Could VA do something like this on a pilot basis to see if it would work?

Answer. VHA has not concurred with the findings of the December 2000 OIG report or the draft update of the report. VHA has met with OIG to review its concerns and, as a result, OIG is currently in the process of recalculating its estimates of cost avoidances.

VA is aware that the lack of Medicare prescription drug coverage is causing some veterans to turn to VA for access to prescription drugs. While VA acknowledges that some veterans have stated that they only want VA to provide drugs and not medical care, data suggest that approximately 25 percent of veterans who have stated that they are seeking VA care primarily for prescription drugs actually end up using other VA services as well, including eye care, cardiology, urology, and, in some cases, inpatient care. Any analysis must also consider the potential for significantly increased demand—an unintended consequence of most proposals.

VA has agreed to work with Congress to find a solution to the vexing problem of waiting lists. VA is currently examining options for prescription drug benefits and, in doing so, is carefully assessing the likely impacts (financial and clinical) of such policies. VA must take care to ensure that the actions taken have no unintended consequences that could adversely affect VA's ability to provide timely, quality health care to enrolled veterans.

Lastly, VA believes that a VA/Medicare+Choice cooperative initiative between VA and the Department of Health and Human Services will be a major step forward in addressing this problem and is looking forward to continuing that project's development.

Question. Does VA know how many Priority 7 and 8 veterans have other health insurance?

Answer. The following chart shows the insurance coverage for non-compensable, zero percent service-connected (SC) and non-service-connected (NSC) enrollees in Priorities 7 and 8 according to the 2002 VHA Survey of Veteran Enrollees:

PERCENT OF ENROLLEES WITH VARIOUS TYPES OF INSURANCE COVERAGE [1]

Priority	Medicare A	Medicare B	Medigap [2]	Private [3]		Medicaid	TRICARE for Life	No Coverage
				HMO	Non HMO			
P7 SC	65	58	39	12	15	6	11	16
P7 NSC	71	67	47	13	16	8	4	13
P8 SC	54	51	35	18	24	4	22	10
P8 NSC	59	55	42	18	23	4	7	10

Source: 2002 VHA Survey of Veteran Enrollees' Health and Reliance Upon VA.

[1] Percentages do not total to 100 because enrollees may have multiple coverage.
[2] Or Medicare supplemental plan.
[3] Individual or group, excluding Medigap or Medicare supplemental plan.

Question. Are veterans required to tell the VA if they have other health insurance?

Answer. Veterans are not presently required to tell VA if they have other health insurance. However, VA does presently request that veterans voluntarily provide health insurance information on the Application for Health Benefits. Section 112 of Title I of Division K of Public Law 108–7, signed February 20, 2003, prohibits the use of appropriated funds for hospitalization or treatment of certain non-service connected veterans who do not disclose to VA their current health insurance information. Implementing regulations have not yet been issued.

Question. The VA-HUD Subcommittee gave VA $1.1 billion more than the request in 2003, but VA still closed its doors to new Priority 8 veterans. What is VA doing to ensure accuracy in its budgets?

Answer. VA's ability to estimate veteran demand and expenditures has improved significantly with the use of an actuarial health care demand model. This model is based on private sector benchmarks adjusted for our veterans' age, gender, morbidity, utilization, reliance, and insurance. The model projects veteran enrollment, utilization, and expenditures, and provides detailed projections for approximately 50 health care service categories.

While this change to using actuarial projections in budget development now allows us to provide very accurate estimates of expected enrollment and expenditures, it also quantifies the escalating demand for veteran health care. It was clear that continued workload growth of the magnitude experienced in recent years is unsustainable in the current federal budget climate. Therefore, using the model, we developed health care policies designed to ensure that VA is able to fulfill its core mission—providing timely access to high quality health care to veterans with service connected disabilities, low incomes, and those with special needs.

VA expects to provide health care to 3.6 million patients in core Priorities 1–6 in fiscal year 2004, an increase of 5 percent over fiscal year 2003. Priorities 1–6 alone are expected to cost $9 billion more by fiscal year 2008 (over fiscal year 2003).

Question. The budget says that VA will come forward with a new "VA + Choice" program for Priority 8 veterans who can't enroll in VA. How will this happen? Will VA do this by regulation, or does it require authorizing legislation? What are the details of this plan? Will veterans in this program get a prescription drug benefit?

Answer. With the assistance of the Department of Health and Human Services, VA is moving toward implementation of a plan to offer to Medicare-eligible veterans unable to enroll for VA health care the option of using their Medicare benefit to obtain health care through VA. VA plans to accomplish this by contracting with existing Medicare + Choice organizations to offer a special Medicare + Choice plan, which would be called VA + Choice; with the stipulation that VA would define the benefits under VA + Choice, and enrollees in VA + Choice would be able to receive Medicare benefits through VA facilities. The intention is to offer a benefit package that is competitive with those currently offered by M + C organizations and to include some type of additional benefit for prescription drugs.

VA plans for the new VA + Choice plan to begin accepting enrollees by October 2003, and projects an initial demand of 25,000 enrollees within the first year. Medicare eligible Priority 8 veterans who are unable to enroll for VA health care would be offered the option of receiving their Medicare benefits through VA + Choice. The veteran's spouse or other Medicare eligible beneficiaries of the veteran would not be enrolled in the VA + Choice plan but would be able to enroll in a traditional Medicare + Choice plan, including one offered by the M + C organization offering a VA + Choice plan in their area.

$250 ENROLLMENT FEE

Question. How did VA choose $250 as the amount for this annual premium?

Answer. The proposed policies in VA's fiscal year 2004 President's budget were designed to ensure that VA is able to fulfill its core mission—providing timely access to high-quality health care to veterans with serviced connected disabilities, low incomes, and those with special needs.

This fee is similar to the fee charged a military retiree who has devoted 20 years or more of his life to uniform—enlisted or officer. The military retiree who enrolls in the DOD Tricare Prime program has to pay $256 or $456 to receive health care after having served 20 years in uniform. VA tried to structure a proposal with a very small premium for veterans with relatively higher incomes who may have only served 1–4 years in uniform.

The $250 enrollment fee and other cost-sharing proposals would only affect higher income, better-insured veterans in the lowest priorities and have been strategically priced to refocus the VA system on those veterans who need us most. Veterans in Priority 8 and non-service-connected veterans in Priority 7 are being asked to pay more towards the cost of their care, while at the same time, we propose eliminating prescription copayments for the lowest income veterans in Priority 5 by raising the income threshold to the non-service-connected pension and aid and attendance level.

According to data from the 2002 VHA Survey of Veteran Enrollees, 90 percent of Priority 8 enrollees and 87 percent of Priority 7 enrollees have some type of public or private health care coverage (compared to just 70 percent for Priority 5 and 73 percent for Priority 1 enrollees). These policies discourage use of VA by veterans who, for the most part, do not use VA as their primary provider of care but supplement their other care options with services from VA when it is financially opportune for them. Under the proposed policies, these veterans who choose to use VA selectively, such as those who come to us only for prescriptions, can make the economic decision to continue to do so. Most importantly, those veterans who do not have other health care options can still access the high quality, comprehensive care VA provides at a very minimal cost.

Question. What authority does VA have to require this $250 premium? Can VA do this through regulation, or does it require a specific change to the authorizing statutes?

Answer. VA is requesting legislation that would authorize the Secretary to collect an enrollment fee of $250 per year from all veterans enrolling in Priority Group 8 and from all non-service-connected veterans enrolling in Priority Group 7.

Question. How many veterans will have to pay this premium?

Answer. In fiscal year 2004, 1,082,335 Priority 8 enrollees and non-service-connected Priority 7 enrollees are expected to choose to pay the $250 enrollment fee.

Question. How many veterans will leave VA if they have to pay this premium?

Answer. In fiscal year 2004, 1,136,225 Priority 8 enrollees and non-service-connected Priority 7 enrollees are not expected to pay the $250 enrollment fee.

Question. How will VA collect this fee? Will VA send a bill to every middle-income veteran on its list?

Answer. VA proposes to initiate bills at the beginning of each fiscal year for all enrolled veterans required to pay the fee. Bills for existing enrollees would be generated by each veteran's preferred facility. As new veterans subject to payment of the enrollment fee are enrolled, they would be billed at the time of enrollment. After appropriate due process, veterans failing to pay the enrollment fee would be disenrolled.

Question. Some veterans are "enrolled" but they don't use the VA system. They're reserving their space in case their private insurance fails. Will these veterans have to pay $250 even if they don't come to VA yet? How many veterans are like them?

Answer. Enrollees must pay the $250 enrollment fee at the beginning of fiscal year 2004 to remain enrolled and eligible for care in VA. In fiscal year 2002 the number of enrollees in Priority 8 and the non-service-connected enrollees in Priority 7 who did not use the VA system totaled 1,054,277. We expect that 65 percent of those under age 65 and 90 percent of those over age 65 will not pay the $250 enrollment fee.

COPAYMENT INCREASES

Question. How did VA choose $15 as the amount for prescription drugs?

Answer. This and the other proposed policies in VA's fiscal year 2004 President's budget were designed to ensure that VA is able to fulfill its core mission—providing timely access to high-quality health care to veterans with serviced connected disabilities, low incomes, and those with special needs.

The $15 outpatient pharmacy copayment proposal and other cost-sharing proposals would only affect higher income, better-insured veterans in the lowest priorities and have been strategically priced to refocus the VA system on those veterans who need us most. Veterans in Priority 8 and non-service-connected veterans in Priority 7 are being asked to pay more towards the cost of their care, while at the same time, we propose eliminating prescription copayments for the lowest income veterans in Priority 5 by raising the income threshold to the Pension and Aid and Attendance level.

These policies discourage use of VA by veterans who, for the most part, do not use VA as their primary provider of care but supplement their other care options with services from VA when it is financially opportune for them. Under the proposed policies, these veterans who choose to use VA selectively, such as those who come to us only for prescriptions, can make the economic decision to continue to do so. Most importantly, those veterans who do not have other health care options can still access the high quality, comprehensive care VA provides at a very minimal cost.

Question. Can VA increase the prescription drug copayment by regulation, or does VA need authorizing legislation?

Answer. The Secretary has the authority to increase the medication copayment at any time, and this has been specified in the current regulations. Any increase to the medication copayment would need to be put forth in new regulations. The medication copayment amount is based upon VA costs and does not include the cost of the medication. The current VA costs do not support an increase to $15 for the medication copayment. A legislative change will be required to remove the phrase from the current law that states the medication copayment is based on VA costs.

Question. How did VA choose $20 per outpatient primary care visit?

Answer. This and the other proposed policies in VA's fiscal year 2004 President's Budget were designed to ensure that VA is able to fulfill its core mission—providing timely access to high quality health care to veterans with serviced connected disabilities, low incomes, and those with special needs.

The $20 outpatient copayment proposal and other cost-sharing proposals would only affect higher income, better-insured veterans in the lowest priorities and have been strategically priced to refocus the VA system on those veterans who need us most. Veterans in Priority 8 and non-service-connected veterans in Priority 7 are being asked to pay more towards the cost of their care, while at the same time, we propose eliminating prescription copayments for the lowest income veterans in Priority 5 by raising the income threshold to the Pension and Aid and Attendance level.

These policies discourage use of VA by veterans who, for the most part, do not use VA as their primary provider of care but supplement their other care options with services from VA when it is financially opportune for them. Under the proposed policies, these veterans who choose to use VA selectively, such as those who come to us only for prescriptions, can make the economic decision to continue to do so. Most importantly, those veterans who do not have other health care options can still access the high quality, comprehensive care VA provides at a very minimal cost.

Question. Can VA increase the outpatient copayment by regulation, or does VA need authorizing legislation?

Answer. The Secretary has the authority to increase the copayment through a change to VA regulations. Legislation is not required.

COLLECTIONS

Question. How much will VA collect from insurance companies?

Answer. VA estimates that it will collect approximately $760 million in fiscal year 2003 from third-party insurance companies.

Question. Does VA know how much it is owed by insurance companies?

Answer. VA's gross account receivables are $488 million from third-party insurers. Payment is dependent upon the terms of the various policies issued to veterans.

Question. How is VA's collections system set-up?

Answer. VA presently handles collections through a combined effort of employed staff and private vendors who follow-up on accounts once they are delinquent. All staff employ a combination of follow-up letters, phone calls, and other tracking within VISTA computer software to prioritize accounts for follow-up action.

Question. What is VA doing to get better? Is VA seeking help from the private sector to get better?

Answer. VA is putting in place a number of program and operational enhancements with the expectation that they will improve revenue collections by streamlining production of accurate and timely claims. Initiatives include the following:

—*Technology.*—In fiscal year 2002, the Deputy Under Secretary for Health for Operations and Management issued guidance for VHA sites to purchase encod-

ing software. This software enables coders to more accurately and efficiently code encounters and to measure coding productivity. All sites have purchased encoder software.

—*Education.*—VHA is pursuing a variety of educational programs to enhance the knowledge base of coding staff and improve medical record coding. Current educational initiatives include an online web-based coding curriculum, monthly satellite programs on specific coding and documentation topics, and publication of a VHA coding handbook and a quarterly coding newsletter.

—*Documentation and Coding.*—As part of VHA coding improvement efforts, tools have been developed to improve the source documentation created by providers. Many VISN's and VA medical centers have contracted with external vendors to provide coding services as a means to improve lag time in billing and collections. Currently, VHA is pursuing a national coding contract, which will standardize requirements and enhance the quality of the coding provided by vendors.

—*Electronic Claims Submission.*—To streamline VA medical center operations and to ensure compliance with the Health Insurance Portability and Accountability Act (HIPAA), software for submitting standardized electronic claims and currently, EDI claims software is live at all VA medical centers, and all sites are submitting electronic claims to commercial payers.

VA is also seeking help from the private sector relative to collections including the implementation of a Patient Financial Services System (PFSS) demonstration project that will result in the integration of a commercial billing and accounts receivable system. The primary goal of the project is to demonstrate the feasibility of emulating industry proven business solutions to streamline workflow processes and further improve collections. VA is moving forward with the project and expects to select the recommended product in April 2003 and complete installation by September 2003. Based on the outcome of the pilot, a recommendation for national deployment will follow.

MEDICAL CARE WAITING LINES

Question. How many veterans are waiting to get a VA doctors appointment?

Answer. As of April 2003, there are 167,852 veterans on the waiting list.

Question. How is VA going to end the waiting list?

Answer. It is estimated that if the current rate at which new enrollment for priority 1–7 veterans remains constant and the rate at which veterans are added and removed from the wait list remains constant, then the wait list will be ended by February of fiscal year 2004.

VA is aggressively working on its Advanced Clinic Access initiative to make office practice efficiencies. By implementing these principles, clinics can then free up slots to meet the increased demand.

Question. How long does it take a veteran to get a specialty care appointment like dermatology and audiology?

Answer. For patients that have scheduled appointments, the average next available wait time as of February 2003 is 61 and 28 days for Dermatology and Audiology, respectfully. For patients placed on the wait list the wait time is 117 days and 158 days, respectfully.

Question. What standards does VA have for waiting times?

Answer. VA has the standard to schedule appointments within 30 days of the desired appointment date. This is quantified by measuring the average waiting time for patients requesting the next available appointment and requires that there are no patients on the wait list waiting more than 30 days for their appointment.

Question. How do these compare to the private sector?

Answer. VA was unable to find benchmarks for similar health care systems.

CLAIMS PROCESSING WAITING TIMES

Question. What is the current processing time for claims?

Answer. VBA's current processing time for rating related claims is 189.5 days for the month of March. The cumulative performance for the period from October 2002 through March 2003 is 198.5 days.

Question. What is the goal?

Answer. The cumulative target for average processing time for March 2003 is 190.6 days. VBA will continue to improve the average processing time for rating related claims. Specific station performance targets have been established in line with the Secretary's goal of 100 days average processing time for rating related actions.

Question. Why did average processing times increase from six to seven months last year?

Answer. For the month of March 2002, VBA's average processing time for rating related claims was 233.5 days. During the first six months of fiscal year 2002, the cumulative average processing time for rating related claims was 224.3 days. Over the last year, VBA has improved the average processing time for rating related claims by 44 days, from 233.5 days in March 2002 to 189.5 days in March 2003.

Question. If times are increasing, how is VA going to make its goal?

Answer. The leading timeliness indicator of performance is average days pending, rather than average processing time. In October 2002, VBA's average days pending was 168.2 days. In March 2003, the average days pending had improved to 144.5 days. This downward trend for average days pending indicates that our oldest claims are being processed. As these older claims are removed from the inventory, the processing time for rating related claims will continue to improve.

Question. How much funding does VA anticipate devoting to improving claims processing time in 2004?

Answer. The Veterans Benefits Administration has budgeted $22.3 million in 2004 to improving claims processing time. The following initiatives have been devoted to accomplishing these improvements:

Training & Performance Support System (TPSS)	$2,601,000
Compensation & Pension Evaluation Redesign (CAPR)	3,821,000
Benefits Replacement System (VETSNET)	9,200,000
Data Centric Benefits Integration (DCBI)	6,662,000
Total	22,284,000

A detailed description of these initiatives is contained in the 2004 Budget Submission, Volume 1, Benefits Programs, on pages 2–25 through 2–31.

Question. How many new employees has VA hired?

Answer. VBA hired approximately 150 additional Veterans Service Representatives (VSRs) and 150 additional Rating Veterans Service Representatives (RVSRs) in December 2002.

Question. How will VA retain these new employees so they will be able to make a real difference?

Answer. The RVSRs were recruited through the Federal Career Intern Program. To attract the best-qualified candidates, VBA utilized the same "focused recruitment activities" that were developed to attract nurses and other health care professionals. Experience has demonstrated that people with some medical training or experience in the health care field develop the necessary skills of an RVSR more rapidly and become proficient within a relatively short time period (two years).

Under the Federal Career Intern Program, new employees are enrolled in a comprehensive two-year training program. The employees will receive five weeks of centralized classroom training. They will use all available Training and Performance Support System (TPSS) modules at their home station. In addition, mentors have been assigned to the new employees to assist them with processing claims. Mechanisms have been established to track progress of these new hires during the two-year training program. VBA believes that the targeted recruitment, the structure of the Federal Career Intern program, the comprehensive training schedule and the assignment of mentors will assist in retaining these new employees. (VBA)

Question. How will VA ensure accuracy while trying to reduce times?

Answer. Budget authority of $621.4 million and 6,816 FTE (without OBRA) are requested to fund the discretionary portion of the Compensation program in 2004. Compared to the 2003 current estimate, budget authority is expected to show a net increase of $15.0 million.

Budget authority of $151.7 million and 1,635 FTE (without OBRA) are requested to fund the discretionary portion of the Pension program in 2004. Compared to the 2003 current estimate, budget authority is expected to decrease by $2.4 million.

In developing the 2004 budget, VBA did not assume there would be armed conflict with Iraq. Therefore, our workload and performance projections did not address the potential effects. However, we believe the reorganization of service centers into specialized work teams, as prescribed by the Claims Processing Task Force report, will increase work efficiencies in the Compensation program. Based on workflow analysis, VBA believes the discretionary portion of the compensation program budget will be sufficient.

While the discretionary portion of the pension program budget shows a decrease, we believe that the consolidation of pension workload in the Pension Maintenance Centers will lead to a gain in workflow efficiencies. Therefore, the reduction in this area should not negatively affect the pension claims process.

PHYSICIAN TIME AND ATTENDANCE

Question. What is VA doing to ensure that when VA is paying a doctor, the doctor is working for veterans?

Answer. By December 31, 2002, facility Directors were required to make all part-time VA physicians aware of VA time and attendance procedures, and all part-time VA physicians were required to certify that they were aware of and understood these requirements. The Under Secretary for Health also issued a VHA Directive (copy attached) that:

—Outlined everyone's responsibilities related to this issue; and

—Required facility Directors to:

—Review the appointments of part-time physicians to determine whether they were consistent with patient care needs,

—Establish procedures for monitoring the attendance of part-time physicians; and

—Certify to the Director of their Veterans Integrated Service Network that the above actions had been completed.

Question. What staffing standards are in place for part-time doctors?

Answer. In the past, VA managers made staffing decisions based on a variety of factors such as anticipated physician productivity, characteristics of assigned patient populations, prior and anticipated workload, waiting times, referral patterns, availability of funds, as well as the availability of staff or equipment needed to support and/or complement the services to be acquired. VA is now managing primary care workloads through panel size (see below); however, we are aware of the need for more specificity in this area and are developing a physician productivity model in four key outpatient areas: primary care, cardiology, urology, and ophthalmology. These models will help local managers more accurately assess the need for physician staff.

Question. How does VA estimate the number of doctors it needs? Is this comparable to the private sector?

Answer. Local VA officials are currently estimating their requirements for primary care physicians based on panel size or based on the numbers of patients assigned to each primary care physician. This methodology is comparable to the private sector; however, VA panel sizes are smaller because of differences in patient acuity, age, incidence of disease, and other population characteristics.

Question. Part-time doctors are critical to the VA—they often also work for affiliated research institutions and have many demands on their time. How does VA communicate clearly to doctors about keeping track of their time?

Answer. Medical Center Directors and Chiefs of Staff are responsible for ensuring all part-time physicians are made aware of their responsibilities with respect to VA time and attendance procedures. All part-time physicians recently certified their understanding of VA policies and procedures. VA officials are also responsible for enlisting the cooperation of affiliate institutions in the implementation of VA time and attendance policies and procedures.

Question. How does VA keep track of physician time, especially for part-time doctors?

Answer. Supervisors establish tours of duty for all full-time and part-time employees and place these tours in an automated "Enhanced Time and Attendance" system, which generates electronic timecards every two weeks. Employees also request and obtain supervisory approval for absences through this system (e.g., annual leave, excused absence, leave without pay). Supervisors are responsible for ensuring that employees under their supervision were working or that the employee's absence was approved. After the supervisor verifies the employee's presence (by visually noting the employee's presence, calling the employee's work number, reviewing work records, etc.), the supervisor asks the timekeeper to electronically record the employee's attendance. At the end of the 2-week period, electronic timecards are certified by the supervisor and released to the payroll activity for payment.

VA established "Adjustable Work Hours," a program to accommodate varying VA patient care needs and part-time VA physicians with VA or non-VA patient care, research, or educational responsibilities that makes adherence to the same scheduled tour of duty every 2 weeks difficult. A work schedule is established for these employees, but they may, with prior supervisory approval and consistent with VA patient care requirements, adjust a portion of the tour (up to 75 percent) to meet these demands. The remainder of their tour is considered "core time" or time during which the employee must be present unless granted an appropriate form of leave or absence. All part-time physicians who have been authorized to be on adjustable work hours must record their time and attendance on subsidiary timesheets, which are certified by their supervisor and entered into the Enhanced Time and Attend-

ance system by the timekeeper. After certifying the electronic time card, the records are released to the payroll activity for payment. As with other employees, supervisors are responsible for ensuring that employees on adjustable work schedules were either present or that their absence had been approved.

Question. How does VA estimate the number of doctors it needs?

Answer. Local facility managers are responsible for estimating the numbers and types of physicians needed to meet their patient care requirements. As indicated above, these decisions are based on a variety of factors; however, national productivity standards are being developed to assist them in making these determinations.

LONG TERM CARE

Question. The budget request proposes to limit nursing home care. Please explain this proposal.

Answer. VA plans to provide nursing home care to all veterans mandated under the Millennium Act when those veterans in need of nursing home care choose to receive it from VA. In addition, VA plans to provide nursing home care to veterans who are in the discretionary group, with priority given to those in need of post-hospital rehabilitation or special care, hospice, respite, intensive geriatric evaluation and management, and veterans with a spinal cord injury/disease and in need of nursing home care. In accordance with the recommendations of the Federal Advisory Committee on the Future of VA Long-Term Care, VA will also continue to support a rising number of veterans in State home nursing homes. Increasingly, however, VA anticipates providing needed care for elderly veterans in less restrictive, less costly home-and community-based non-institutional settings.

Question. What are the consequences of this proposal? How many veterans will not receive nursing home care under this proposal?

Answer. VA's fiscal year 2004 budget policy would limit nursing home care in VA nursing homes and contract community nursing homes to Priority 1 veterans rated 70 percent service-connected disabled or greater or who require nursing home care because of a service-connected disability and to other veterans in need of post-acute rehabilitation, special or extensive care, comprehensive geriatric evaluation and management services, respite care, or hospice care. VA will provide nursing home care for all veterans who are mandated to receive nursing home care under the provisions of the Millennium Act, who seek to receive such care from VA, and whose medical and personal circumstances require such care. The budget continues to support increases in State veterans nursing home care—generally a less acute level of care. The fiscal year 2004 budget also recognizes that a substantial portion of long-term care needs are more appropriately met in non-institutional settings by providing for increased census in home and community-based services, including home respite that was authorized by the Millennium Act and a new home hospice service. This strategy will help assure that VA Nursing Home Care Units are available for care of service-connected veterans and for post-acute rehabilitation and special care needs while allowing veterans who do not need this level of care to receive care in their homes or closer to their homes in community settings.

In 2004, VA will treat an additional 2,261 average daily census (ADC) over the 2003 level in a combination of institutional and non-institutional care settings.

Question. Will VA do this by regulation, or does it require authorizing legislation?

Answer. VA understands that a change to the Millennium Act is required in order to reduce the level of effort in VA nursing homes below the 1998 baseline level. VA is proposing that VA's three nursing home care programs (VA operated, contract community, and State home), VA and State domiciliary, and VA and contract home and community-based care in total be utilized as the 1998 baseline.

Question. What is the status of VA's implementation of long term care overall?

Answer. VA recently submitted to Congress an extensive report entitled, "VA Extended Care: January 2003 Report to Congress of VA's Experience Under the Millennium Act". A few highlights from that report include:

—From fiscal year 1998–2001, the proportion of VA LTC patients treated in outpatient settings has grown from 57 percent to almost 64 percent;

—The number of VA LTC patients treated in inpatient settings grew by 6.7 percent;

—The average daily census (ADC) in VA nursing homes declined by 12 percent even though the number of patients grew (because of shorter lengths of stay);

—ADC for respite care and geriatric evaluation and management units located in VA Nursing Home Care Units grew over 50 percent;

—The budget for VA LTC programs grew by $200 million;

—Full-time equivalent employees increased for both nursing home care units and outpatient LTC programs;

—80 percent of patients surveyed about VA home-based primary care rated their care as very good or excellent.

Since passage of the Millennium Act in November 1999, VA has issued directives on the new eligibility requirements, the new and expanded program types, and co-payments in an effort to guide implementation of the Act.

Question. How much will VA spend on long-term care in 2004?

Answer. Estimated obligations for fiscal year 2004 are approximately $2.8 billion for institutional care and approximately $549 million for home- and community-based care.

Question. What is the status of the long-term care assisted living pilots?

Answer. VA is carrying out a three-year Assisted Living (AL) Pilot in Network 20 (Oregon, Washington, Idaho, Alaska). The pilot began enrolling veterans in January 2002 and to date has placed 286 veterans in AL facilities with which VA has established a contract. VA is authorized to pay the cost of AL for up to 6 months and then the veteran transitions into another payment arrangement (Medicaid or private pay) with the assistance of VA staff. The AL pilot is being evaluated by two of VA's Health Services Centers of Excellence. The evaluation report will be submitted to Congress in October 2004, 90 days before the end of the pilot.

PATIENT SAFETY IN MEDICAL RESEARCH

Question. How does VA safeguard patients who participate in VA research studies?

Answer. In safeguarding research participants, VA follows the Common Rule (Federalwide Policy for the Protection of Human Research Subjects), found at 38 CFR Part 16, as well as pertinent regulations of the Food and Drug Administration. These regulations and implementing policy require Institutional Review Board Review of research involving human subjects of research, informed consent, and assurances from each VA Medical Center conducting human research of compliance with the Common Rule.

Within VA, the Secretary recently approved establishment of the Office of Human Research Oversight (OHRO). This new office will be responsible for performing the oversight functions formerly performed by the Office of Research Compliance and Assurance (ORCA). It will investigate allegations of research misconduct and improprieties, develop event specific protocols as needed, and establish and implement procedures to report non-compliance with VA regulations and policies. In addition to staff in VA Central Office, OHRO will operate five field-based offices located at the former sites of the ORCA Regional Offices in Bedford, Massachusetts; Washington, D.C.; Decatur, Georgia; Chicago, Illinois; and Moreno Valley, California. At the same time, the new Program for Research Integrity, Development and Education (PRIDE) has been established within the Office of Research and Development (ORD). PRIDE will have responsibility for the training, education, and policy development functions formerly accomplished by ORCA.

We expect that this new structure will enhance our ability to provide effective research oversight, while improving our ability to identify, communicate, and provide necessary training on complex issues in a timely and responsive manner. It will strengthen protection for our human research subjects, and the support and guidance we provide our research community.

Question. How does VA make sure that patients are fully informed of the risks of the research?

Answer. VA follows the Common Rule and the FDA regulations that require that, unless appropriately exempted or waived under regulation, all volunteers in research be fully informed through the informed consent process of the purpose of the research risks and possible benefits of research in which they are asked to participate; whom to contact for additional information; any compensation in case of injury; that they may choose not to participate or may withdraw without losing any benefits to which they are otherwise entitled; as well as other information stipulated by regulation and policy. The information to be provided and the informed consent process is approved and monitored by the Institutional Review Board. ORCA has also produced a brochure entitled "I'm a Veteran. Should I Participate in Research?" to help veterans understand some basics about research in the VA and their rights in research. The brochure, which has been widely distributed within VA, will also be produced in Spanish. A video is also in production to convey the same information to the veterans. ORCA has also produced information letters regarding informed consent for the VA research community and other educational initiatives dealing with this topic. The adequacy of the informed consent process is a key factor in oversight of VA facilities in activities undertaken by ORCA.

VA's ORD has initiated research in how to improve the quality of the informed consent and the consenting process. The project entitled "Enhancing Quality of Informed Consent" (EQUIC) will attempt to determine the success and validity of the informed consent process by interviewing subjects immediately after they have given informed consent for a study. The information gained through these studies will be used to improve the informed consent and the informed consent process.

During the past 3 years ORD has placed more emphasis on both the written informed consent and the consenting process through quality improvement efforts that include the ongoing EQUIC study that surveys research participants after they have consented to participate in a clinical trial; the development of focus groups composed of veterans that assist in the review; development of informed consents; presentations by ORD staff to national and regional conferences; and the State of the Art conference on informed consent held March 7–9, 2001.

In a recent quality improvement survey conducted by ORD, 97 percent of responding research subjects agreed with the statement "The Informed Consent process including discussion with study staff gave me the information needed to make an informed decision about whether or not to participate in the study."

Question. What are VA's safety standards for research involving patients?

Answer. VA adheres to the Common Rule at 38 CFR Part 16, FDA regulations at 21 CFR, and the implementing instructions developed by VA (M–3, Part 1, Chapter 9). A primary method of ensuring that risks to research participants is minimized is through Institutional Review Board review as required by the regulations, oversight at the VA facility through the research service and compliance personnel, and through ORCA.

Question. Does VA ensure that all of the medical professionals who treat veterans have current licenses and credentials?

Answer. The VA uses a peer review credentialing process with standards that are set forth by the Joint Commission on Accreditation of Healthcare Organizations. In this process the qualifications of providers, as well as periodic reviews of currently employed providers, are verified prior to appointment, reappointment, and privileging. Credentialing must be completed prior to initial appointment or reappointment and before transfer from another medical facility. In 2001, the Veterans Health Administration (VHA) implemented VetPro, the VA Credentials Data Bank. As an Internet enabled program, the VA is able to obtain complete, validated, and verified credentials. The credentialing process includes verification of the individual's professional education, training, licensure, certification, and review of health status, previous experience (including any gaps greater than 30 days in training and employment), clinical privileges, professional references, malpractice history, and adverse actions or criminal violations, as appropriate. Provider credentials are screened through the State Licensing Board (SLB) for all current and previously held licenses, the Federation of State Medical Boards (FSMB) Disciplinary File, and the National Practitioner Data Bank (NPDB). All information obtained through the credentialing process is carefully reviewed by the Facility Executive Committee of the medical staff before employment/privileging decision are made.

Question. How does VA headquarters make sure that the networks are following these standards and procedures?

Answer. *Research Safeguards.*—Information and instruction on the standards and procedures are coordinated through VA Central Office to the network offices. Several network offices have compliance officers who help educate the facilities about their responsibilities and conduct oversight if issues are detected. ORCA informs individual network offices of actions regarding oversight compliance issues. ORCA has also provided extensive and formal training for all network leadership and facility leadership on human subject protections issues. In addition, ORCA has issued information letters, alerts, and other updates to remind the networks of their responsibilities and provides copies to the network leadership on all official actions that it takes. ORCA negotiates the assurances of compliance required by the Common Rule with all VA facilities conducting research. Network directors have taken web-based training modules to describe the commitments made in the assurance and the basic protections afforded to subjects in VA research as required by the Common Rule and VA policy.

The Chief Research and Development Officer requires all research offices to verify the credentials of not only VA employees but of all individuals who perform independent clinical activities as part of their research duties. In addition, all other individuals involved in human studies research must have their credentials confirmed, a scope of work established, and a record of such maintained and available for review. Sites must check the licenses of all licensed staff annually, and facilities will create an electronic means of tracking all without compensation (WOC) employees

involved in human subjects research to facilitate the regular checking of these individuals against exclusionary lists.

Credentialing in General.—By monitoring the VetPro credentialing process, VA can determine the extent to which VISNs and facilities are using this system. The system requirements ensure that the standards and procedures are followed to the extent that providers are credentialed via VetPro.

FORT HOWARD

Question. What is the status of the Mission Change and Enhanced use project underway at Fort Howard? What is the current timetable for the project?

Answer. The Mission Change portion is completed. The current timeline for the Enhanced-Use project is as follows:

	Target	Completed
Submit Business Plan	12/2002	12/06/2002.
Business Plan Approval	01/2003	01/20/2003.
Public Hearing	02/2003	02/26/2003.
Designation to Congress	02/2003	Pending (VACO).
Solicitation/Request for Proposal (RFP)	03/2003	3/26/2003.
Evaluation	07/2003.	
VA Capital Investment Board Review	09/2003.	
OMB Notification and Review	10/2003.	
Congressional Notification	10/2003.	
Award	11/2003.	

Question. What is the method the VA will use to broadcast [send out] its Request for Proposals (RFP) for Fort Howard? Will the VA rely solely on newspaper notices or will there be targeted mailings to companies which provide the type of development the VA is seeking at Fort Howard?

Answer. Targeted mailings were made to over 240 parties that have previously expressed interest in Ft. Howard, or that have expressed interest or participated in other similar enhanced use projects. The RFP was also advertised in local newspapers.

Question. What is the final date due for the RFP's? If there are no qualified bidders after the due date, will the VA make adjustments to the RFP and re-broadcast? What affect would such re-broadcast have on the current timeline for Ft. Howard?

Answer. Proposals in response to the RFP are due on June 13, 2003. If there are no qualified proposals, VA will interview some of the firms that had expressed interest in an attempt to assess the reasons for the lack of response, and will revise and adjust the RFP if appropriate. Any such assessment, revision, and re-issue of the RFP was not envisioned in the aggressive timeline, and would add in excess of 90 days to future milestones.

Question. Will VA require the inclusion of assisted living and nursing care units at Fort Howard?

Answer. No. The RFP specifies VA's preference for all elements of a continuous care retirement community but does not require them. Instead it allows potential proposers to present a plan for the redevelopment that they deem most appropriate and feasible.

Question. Veterans with inpatient needs are being referred to the Baltimore VAMC. What has the VA done to prepare the Baltimore facility for its expected increase in workload? What facility improvements are being made? What is the VA doing to ensure that healthcare workers at the facility are able to provide quality customer service to an increased workload?

Answer. The Fort Howard Mission Change did not impact the Baltimore VAMC. The Baltimore division of the VA Maryland Health Care System inpatient beds is dedicated to acute medical care and served the acute medical needs of the patients at Fort Howard prior to the Mission Change. Consequently, there is no projected impact on inpatient care at Baltimore as a result of the Mission Change.

The inpatient programs that where located at Fort Howard were dedicated to intermediate medicine. The Mission Change relocated 68 of the 85 existing beds to the Loch Raven and Perry Point facilities, where excess capacity existed within the healthcare system. At the time the inpatient beds were relocated, the average daily census in intermediate medicine was 68 depicting that excess capacity existed. The VA Maryland Health Care System was given permission to close 17 beds as a result of the low occupancy rate.

Question. Will outpatient services continue at the Fort Howard campus throughout the entire transition?

Answer. Yes. The Fort Howard campus will retain a Community Based Outpatient Clinic that will be staffed by VA physicians and support staff.

Question. If the State does not authorize a new State Veterans Home at Fort Howard, what impact will it have on the Enhanced Use plan?

Answer. The RFP requires all proposers to identify a 7-acre parcel of the campus that they will set aside in their redevelopment plan for future use as a site for a State Nursing Home. If at some future time the Department, after consultation with the State of Maryland, determines that this State Home is no longer a possibility, the Department may choose to offer this parcel to the enhanced-use lessee for additional consideration or could choose to pursue a separate enhanced-use lease for a purpose as yet to be determined.

HOMELAND SECURITY

Question. VA's Fourth Mission is to serve as a backup to the DOD healthcare system in times of national emergency. What does VA propose to spend in 2004 to prepare for this mission?

Answer. VA does not budget separately for preparedness to execute its plans to provide back up to the DOD health care system in times of war or national emergency. Medical preparedness actions to support DOD in wartime are part of an overall integrated comprehensive Emergency Management Program (EMP) used within VA and, in particular, the Veterans Health Administration (VHA). This concept employs an "all hazards" approach to emergency preparedness that addresses the broad range of threats and missions that VA can be called upon for response. This includes not only providing care to active duty service members in wartime, but also requests under the Stafford Act and other authorities for VA assistance in domestic disasters or terrorist incidents. Each of VHA's medical facilities must, as mandated by the Joint Commission on Accreditation of Healthcare Organizations, employ this comprehensive approach in development of their local Emergency Operations Plans. This includes planning for receipt of military casualties under activation of the VA-DOD Contingency Plan, as well as for other contingencies associated with natural or manmade events within their communities.

Question. If there is a biological attack in Baltimore, what would be the role of the VA hospital?

Answer. A biological attack would most likely prompt an activation of the Federal Response Plan (FRP). Under Emergency Support Function #8, "Health and Medical," of the FRP, VA is cited as a support agency. The lead agency is the Department of Health and Human Services (HHS).

VA could be tasked to provide support in several ways. The mostly likely forms of support would be:

—Pharmaceuticals for immediate treatment and as prophylaxis (e.g., antibiotics, as were administered after the anthrax incidents post 9–11). VA may oversee or assist with coordinating the logistics of various caches (Centers for Disease Control (CDC), HHS) or in providing pharmaceuticals from its internal sources.

—VA may be requested to provide staff (especially clinical) to assist in administering pharmaceuticals and rendering treatment.

—VA may be asked to support supplies (e.g., swabs, syringes/needles, culture materials) or equipment (ventilators, dialysis, or other biomedical equipment depending on the biological agent and its effects). In the short term, many of these requested resources would be provided by the Baltimore VA Medical Center.

VA's role in such an attack would also depend on the local emergency plan and specific expectations cited in the plan. For instance, if the event is assessed to warrant decontaminating victims, VA may, through the Local Emergency Preparedness Committee (LEPC) be cited as a source to provide decontamination.

Finally, in such an attack, the local VA medical center will activate their internal disaster plan, including implementing heightened security, facility level decontamination (and other preparedness measures), staff call-back roster implementation and vigilant surveillance, and reporting of actual or suspected bio-terror victims to the public health authorities.

Question. Are employees there being vaccinated for smallpox? If yes, how? If not, why not?

Answer. Yes, as of March 13, five members of VAMHCS have been vaccinated through the State plan as implemented through the University of Maryland Hospital. The remainder of the Smallpox Vaccination Team and of the Smallpox Healthcare Response Team has not been vaccinated. The Maryland Health Care System plans to vaccinate other team members when the VA supply of vaccine becomes available.

PHYSICIAN ASSISTANT ADVISOR

Question. In previous Committee reports, the Committee has encouraged VA to make the Physician Assistant Advisor a full-time field position in close proximity to headquarters. What is the status of this position? Is it full-time? Where is it located?

Answer. The Physician Assistant (PA) Advisor position was created pursuant to The Veterans Benefits and Health Care Improvement Act of 2000 (Public Law 106–419) that directed VHA to create a position of PA Advisor to the Office of the Under Secretary for Health. This was an unfunded mandate. To prevent delay, VHA elected to create the position as a half-time national basis and half-time field-based position. The part-time PA Advisor reports within the Office of the Chief Consultant for Primary and Ambulatory Care in Patient Care Services, VHA. The current PA Advisor is based at the Milwaukee, WI, VAMC where he was employed before his appointment to this position.

While Congress's interest in having a full-time PA Advisor is clear in principle, the current arrangement of the PA Advisor as part-time at the national level, while continuing to practice in a clinical capacity at the field level, is working well. The PA Advisor has established a highly functional communications network for PAs, has a national Field Advisory Group to assist him, serves on national committees and workgroups, and provides advice regarding clinical practice and employment and utilization of PAs within VHA. He is able to communicate effectively when critical time responses are required from the field or from VHA about PA issues.

There are distinct benefits of having a field-based practicing clinical PA in the role of PA Advisor, and this is true for the other decentralized program directors as well. In addition, field-based positions allow for the recruitment of the best-qualified individuals rather than just those who are willing to move to Washington, DC. Consequently, VHA is not recommending that the PA Advisor be established as a VACO-based full-time employee equivalent position at this time.

Question. What other Advisor positions are full time? Which ones are located at or close to headquarters?

Answer. The PA Advisor position, which represents approximately 1,400 PAs within VHA, is compatible with the other occupational representatives within Patient Care Services, all of who perform these duties on a part-time basis. Within VA's Office of Patient Care Services, the National Directors of Pathology, Radiology, Optometry, Ophthalmology, Podiatry, Neurology, and Anesthesia have part-time VACO appointments. The Chief Consultants for Spinal Cord Injury, Physical Medicine and Rehabilitation, and Diagnostic Services are also part-time VACO appointments. Of these, only the current Chief Consultant for Physical Medicine and Rehabilitation is based at the Washington, DC, VAMC where she is also Chief of the Audiology and Speech Pathology Service. The current Director of Optometry is based in Baltimore, MD. All other incumbents are at more distant locations, ranging from West Haven, CT, to the West Coast.

Question. What is the budget request for travel and administrative support of this position?

Answer. The PA Advisor has a travel budget to allow trips to VACO and to PA national meetings. This support allows him to perform his duties and meet with other federal PAs. VA provided $10,565 in fiscal year 2002 for the PA Advisor to travel to VACO for face-to-face meetings. VA also provided funding for a face-to-face meeting of the PA Field Advisory Group, which is composed of six members including the PA Advisor.

VA has allocated $6,600 to the PA Advisor for fiscal year 2003 travel. This funding level was established while VA was on continuing resolution and is commensurate with that of the Directors of Optometry and Podiatry, who are also within the Office of the Chief Consultant for Primary and Ambulatory Care. Funding for a face-to-face meeting of the PA Field Advisory Group is not provided in the fiscal year 2003 budget due to limits on all VHA travel funding. When the PA Advisor serves on VHA committees or workgroups, travel may be funded through those groups. If additional funds become available during fiscal year 2003, they will be distributed equitably in response to need. Funding of $6,600 has been requested for fiscal year 2004.

Administrative support for the PA Advisor is not specifically funded, but the administrative support personnel in VA's Office of the Chief Consultant for Primary and Ambulatory Care are available to assist with administrative duties such as correspondence and responses to information requests. Satellite education conferences are supported by the Employee Education Service (EES) and face-to-face conferences for PAs have also been supported by EES in the past. Conference call capability is readily available to the PA Advisor.

TRANSITIONAL HOUSING

Question. The budget proposes to convert Guaranteed Transitional Housing from a mandatory to discretionary account. Why?

Answer. VA has found that many potential developers of transitional housing are in need of a cash grant or other sources of funds that do not require regular repayment. Based on numerous discussions with potential developers, VA has concluded that a grant would be of more benefit to such developers than a loan.

The key advantage for the Federal government of changing from a guaranteed loan to a grant program is the reduction of financial loss resulting from loans defaulting. The current pilot program, as a loan guaranty, is full of risks (pre-development, construction, operating risks) and currently has a subsidy rate of 48.25 percent. The potential sponsors could apply for grant funding, in lieu of a loan guaranty, where repayment is not required.

The proposal to convert this loan guaranty to a grant program resulted after VA's experience in trying to design the loan guaranty program and meeting with potential partners under this pilot program. In addition, numerous representatives of government, private and public lending institutions, and real estate developers of multifamily housing projects have advised VA of the high risk involved and high rates of defaults by borrowers.

Veterans could be better served with the proposal to change from a loan guaranty to a grant program because VA believes more developers would be interested in and able to complete projects with the assistance of a grant rather than a loan that must be repaid. Therefore, there exists the likelihood that more projects will be completed and more beds will become available to homeless veterans if this program were converted to a grant.

Question. How much will this proposal cost in 2004? How much is it expected to cost each of the next five years?

Answer. VA anticipates spending approximately $9.6 million per year in grants to help develop long-term multifamily transitional housing for homeless veterans. Across a 5-year period, VA would offer approximately $48 million in grants. In addition, VA estimates eight FTE to administer and oversee this program at an average cost of $52,000 per FTE. Staffing costs would be approximately $416,000 per year. Cumulative staffing costs would be $2.08 million across a 5-year period. VA also anticipates spending $869,000 per year on contracts to help implement and administer the program. Contracting costs would be $4.345 million across a 5-year period.

QUESTIONS SUBMITTED BY SENATOR TOM HARKIN

Question. Mr. Secretary, as you know, physician assistants provide vital care to our nation's veterans. Physicians Assistants had 5.2 million contacts with VA patients last year alone. Congress took an important step in recognizing this contribution when passing the Veterans Benefits and Health Care Improvement Act of 2000 (Public Law 106–419), which included the creation of Physician Assistant Advisor position for the Veterans Health Administration (Title II, Subtitle A, Sec. 206). Since that time, the Committee has included language in fiscal year 2002 and fiscal year 2003 requesting VHA to make the position a full-time, field-based position with adequate travel and administrative support. The fiscal year 2003 language asked for a report on the status of this request. This report was due March 3, 2003. I would like a report from VHA on the amount of travel and administrative support for the position in fiscal year 2002 and fiscal year 2003, as well as proposed fiscal year 2004 support? What is the timetable for making the PA Advisor position a full-time position, as requested by the Committee?

Answer. *Travel and Administrative Support.*—The PA Advisor has a travel budget to allow trips to VACO and to PA national meetings. This support allows him to perform his duties and meet with other federal PAs. VA provided $10,565 in fiscal year 2002 for the PA Advisor to travel to VACO for face-to-face meetings. VA also provided funding for a face-to-face meeting of the PA Field Advisory Group, which is composed of six members including the PA Advisor.

VA has allocated $6,600 to the PA Advisor for fiscal year 2003 travel. This funding level was established while VA was on continuing resolution and is commensurate with that of the Directors of Optometry and Podiatry, who are also within the Office of the Chief Consultant for Primary and Ambulatory Care. Funding for a face-to-face meeting of the PA Field Advisory Group is not provided in the fiscal year 2003 budget due to limits on all VHA travel funding. When the PA Advisor serves on VHA committees or workgroups, travel may be funded through those groups. If additional funds become available during fiscal year 2003, they will be

distributed equitably in response to need. Funding of $6,600 has been requested for fiscal year 2004.

Administrative support for the PA Advisor is not specifically funded, but the administrative support personnel in VA's Office of the Chief Consultant for Primary and Ambulatory Care are available to assist with administrative duties such as correspondence and responses to information requests. Satellite education conferences are supported by the Employee Education Service (EES) and face-to-face conferences for PAs have also been supported by EES in the past. Conference call capability is readily available to the PA Advisor.

Full-time Status.—The Physician Assistant (PA) Advisor position was created pursuant to the "Veterans Benefits and Health Care Improvement Act of 2000" (Public Law 106–419), which directed VHA to create a position of PA Advisor to the Office of the Under Secretary for Health. VA elected to create the position as a half-time national basis and half-time field-based position. The part-time PA Advisor reports within the Office of the Chief Consultant for Primary and Ambulatory Care in Patient Care Services in VHA. The current PA Advisor is based at the Milwaukee, WI, VAMC where he was employed before his appointment to this position.

The current arrangement of the PA Advisor as part-time at the national level, while continuing to practice in a clinical capacity at the field level, is working well. The PA Advisor has established a highly functional communications network for PAs, has a national Field Advisory Group to assist him, serves on national committees and workgroups, and provides advice regarding clinical practice and employment and utilization of PAs within VHA. He is able to communicate effectively when critical time responses are required from the field or from VHA about PA issues.

The PA Advisor position, which represents approximately 1,400 PAs within VHA, is compatible with the other occupational representatives with in Patient Care Services, all of who perform these duties on a part-time basis. Within the Office of Patient Care Services, the National Directors of Pathology, Radiology, Optometry, Ophthalmology, Podiatry, Neurology, and Anesthesia have part-time VACO appointments. The Chief Consultants for Spinal Cord Injury, Physical Medicine and Rehabilitation, and Diagnostic Services are also part-time VACO appointments. Of these, only the current Chief Consultant for Physical Medicine and Rehabilitation is based at the Washington, DC, VAMC, where she is also Chief of the Audiology and Speech Pathology Service. The current Director of Optometry is based in Baltimore, MD. All other incumbents are at more distant locations, ranging from West Haven, CT, to the West Coast.

There are distinct benefits of having a field-based practicing clinical PA in the role of PA Advisor. Field-based positions allow for the recruitment of the best-qualified individuals, not simply those willing to make the transition to the Washington, DC, area. Consequently, VA is not recommending that the PA Advisor be established as a VACO-based full-time position at this time.

Question. Mr. Secretary, can you tell me the current wait for appointments for new (non-emergent) patients at each of Iowa's facilities, the current plans for improving the situation, and how long you anticipate waits will be when those plans are implemented? Can you also compare the waits for appointments for new non-emergent patients in each of the VISN's?

Answer. There are two VA health care facilities located in the State of Iowa, VA Central Iowa Health Care System (Des Moines/Knoxville) and Iowa City VAMC.

The following chart provides waiting times to primary care for new non-emergent patients.

IOWA FEB 2003 WAITING TIMES

State	VISN	Station Number	Station Name	Clinic Type	Type of CBOC/ Division	Average New Patient Wait Time (Recoded as next available)
IA	23	636A6	Des Moines Division—Central Plains Health Network.	PRIMARY	VA PROVIDED	61.2
IA	23	636A7	Knoxville Division—Central Plains Health Network.	PRIMARY	VA PROVIDED	35.2
IA	23	636A8	Iowa City Division—Central Plains Health Network.	PRIMARY	VA PROVIDED	38.8
IA	23	636GC	Mason City	PRIMARY	VA PROVIDED	63.9
IA	23	636GF	Bettendorf	PRIMARY	VA PROVIDED	73.7

IOWA FEB 2003 WAITING TIMES—Continued

State	VISN	Station Number	Station Name	Clinic Type	Type of CBOC/ Division	Average New Patient Wait Time (Recoded as next available)
IA	23	636GH	Waterloo	PRIMARY	VA PROVIDED	59.6
IA	23	636GJ	Dubuque	PRIMARY	VA PROVIDED	125.2
IA	23	636GK	Fort Dodge	PRIMARY	CONTRACT	27.5

The Iowa City VAMC does not have a waiting list and can schedule an appointment for a new patient in less than 40 days, therefore, no other plans are being considered except for close observation of panel sizes to ensure that supply and demand are in balance.

At all of the Central Iowa sites, they are actively working on implementing the Advanced Clinic Access principles, and they have brought in a fee basis physician to see new patients to accelerate the process at Des Moines. Des Moines also added a Nurse Practitioner at Mason City CBOC in November. The projection is that by July 2003, Mason City will be at 30 days or less. Based on the current rate of new patients requesting appointments and those who had previously been scheduled at Des Moines while they were waiting for Mason City, it is projected to be late June before the waiting time will be within 30 days. In February and March, there were fewer applicants for care and that may also expedite the process.

The following data compares waits for new non-emergent patients by VISN:

VISN	New Patient Next Available Appointment
1	44.1
2	30.0
3	43.8
4	46.1
5	41.6
6	47.5
7	51.4
8	65.2
9	60.7
10	41.9
11	51.5
12	59.5
15	54.8
16	43.1
17	50.9
18	46.6
19	56.3
20	41.7
21	46.6
22	31.3
23	59.9

Question. Last year, I joined the Senators representing the veterans in VISN 23 in writing you about reform of the VERA model. As you know, a recent GAO report I requested found that the VERA model is unfairly hurting several VISN's and examined the effects of including Priority 7 patients, using more patient categories, and using more recent data to determine the distribution. Can you tell me what changes, if any, you plan to make to the VERA model in distributing fiscal year 2003 and fiscal year 2004 funds? Please also give me any analysis the VA has done on how changes to the VERA model would affect the distribution of health care funds.

Answer. *Fiscal Year 2003 VERA Model Changes.*—Based on the deliberations of VHA's internal VERA workgroups, and in response to a February 2002 General Accounting Office VERA report and the Rand Corporation recommendations, the Secretary approved the following improvements to the VERA methodology for fiscal year 2003:

—Move from a VERA three case-mix model to a VERA ten case-mix model. This change expands the VERA patient price groups from three (Basic Vested Care,

Basic Non-Vested Care, and Complex Care) to 10 (6 Basic Care price groups and 4 Complex Care price groups) and better recognizes a differentiation in VA's "core mission" patients (veterans with service connected disabilities or those with incomes below the current threshold or special needs patients, e.g., the homeless).

—*Additional Allocation for High-Cost Patients.*—This change provides an additional allocation to networks with the top 1 percent highest cost patients. This recognizes the impact on those networks with patients whose annual costs exceed $70,000, the threshold for the 1 percent highest cost patients. These networks will receive an additional allocation equal to the amount that a patient's actual costs exceed the $70,000 threshold.

—Implement a low cap (5 percent) and high cap (12.6 percent) for fiscal year 2003 funding increases above the final allocation received in fiscal year 2002. As a result, it is expected there will be no VERA adjustment or supplemental allocation provided in fiscal year 2003.

These fiscal year 2003 VERA refinements will improve the equitable allocation of funds to the 21 networks by recognizing the financial differences in "core mission" patients, by continuing the basic patient classification structure of the VERA model, by minimizing the incentives for unconstrained workload growth, and by eliminating the need for supplemental funding for networks during the year.

Priority 7 Veterans.—There was one VERA change recommended for fiscal year 2003 implementation that was not approved by the Secretary. In its February 2002 report on VERA (GAO–02–338), GAO recommended that VA "Better align VERA workload measures with actual workload served regardless of veteran priority group."

Based on a careful assessment of all policy options, the Secretary determined not to include non-service-connected Priority 7 Basic Care patients in the VERA model for fiscal year 2003. Although the inclusion of non-service-connected/non-complex care Priority 7 veterans in the VERA Basic Care category would be a step toward better aligning the VERA allocation model with VA's actual enrollment experience, including these veterans in the VERA model would create financial incentives to seek out more of these veterans instead of veterans with service connected disabilities or those with incomes below the current income threshold or special needs patients (e.g., the homeless), veterans who comprise VA's core health care mission.

VA experienced uncontrolled growth in the Priority 7 veterans (designated as Priority Group 8 for fiscal year 2003) when they were not included in the VERA model, and VA does not want to encourage unmanageable workload growth by including them in the VERA model in other than the Complex Care price groups. The allocation of fixed resources to networks is done on a zero sum basis. Increased resources for non-service-connected/non-complex care Priority 7 veterans would come at the expense of veterans who are service-connected, poor, or who require specialized services. The allocation of resources to areas with a disproportionate percentage of non-service-connected/non-complex care Priority 7 veterans would come at the expense of veterans who live in areas with disproportionately higher numbers of service-connected and lower income veterans.

Fiscal Year 2003 Network Funding Allocations.—The table below depicts VERA allocations for the 21 Networks in fiscal year 2003 compared to the VERA fiscal year 2002 year-end allocation.

FISCAL YEAR 2003 NETWORK ALLOCATIONS COMPARED TO FISCAL YEAR 2002 ALLOCATIONS

(Dollars in thousands)

Network	Fiscal Year 2002 VERA Year End Allocations	Fiscal Year 2003 VERA 10 (1% High Cost Adjust, 5% Low Cap, 12.6% High Cap)		
		Fiscal Year 2003 VERA Allocations	Dollars Shifted from Fiscal Year 2002 Base	Percent Change from Fiscal Year 2002
01 Boston	$943,383	$1,012,354	$68,971	7.3
02 Albany	507,386	556,418	49,032	9.7
03 Bronx	1,058,664	1,111,597	52,933	5.0
04 Pittsburgh	955,780	1,076,519	120,739	12.6
05 Baltimore	575,640	617,523	41,882	7.3
06 Durham	881,606	990,671	109,066	12.4
07 Atlanta	1,071,956	1,158,656	86,699	8.1
08 Bay Pines	1,470,056	1,655,761	185,705	12.6
09 Nashville	848,607	926,758	78,151	9.2
10 Cincinnati	697,551	771,274	73,723	10.6

FISCAL YEAR 2003 NETWORK ALLOCATIONS COMPARED TO FISCAL YEAR 2002 ALLOCATIONS—Continued

(Dollars in thousands)

Network	Fiscal Year 2002 VERA Year End Allocations	Fiscal Year 2003 VERA 10 (1% High Cost Adjust, 5% Low Cap, 12.6% High Cap)		
		Fiscal Year 2003 VERA Allocations	Dollars Shifted from Fiscal Year 2002 Base	Percent Change from Fiscal Year 2002
11 Ann Arbor	766,210	849,127	82,917	10.8
12 Chicago	898,572	978,050	79,478	8.8
15 Kansas City	717,747	761,453	43,707	6.1
16 Jackson	1,499,125	1,688,502	189,377	12.6
17 Dallas	850,104	936,733	86,629	10.2
18 Phoenix	731,784	803,265	71,481	9.8
19 Denver	483,243	528,463	45,220	9.4
20 Portland	840,081	902,764	62,683	7.5
21 San Francisco	947,781	1,062,177	114,396	12.1
22 Long Beach	1,082,849	1,219,641	136,791	12.6
23 Minneapolis	874,116	917,822	43,706	5.0
VHA Totals	18,702,243	20,525,528	1,823,285	9.7

Future Year VERA Changes.—The National Leadership Board (NLB) Finance Committee will continue to review and evaluate future potential enhancements to the VERA methodology. In addition to these refinements, a regression-based model being developed by the RAND Corporation, and a Diagnostic Cost Groups (DCGs) model will be evaluated for fiscal year 2005 and beyond.

Question. According to press reports last year, the VA health care system was short $400 million for fiscal year 2002. As you know, Congress approved an additional $417 million in supplemental funding to make up for this shortfall. Of this amount, $142 million had been requested by President Bush and was sent to the VA. Unfortunately, the President chose not to release a budget package that included the other $275 million. Can you tell me how large the shortfall for fiscal year 2002 was and how you made up for the shortfall? Do expect a shortfall in fiscal year 2003?

Answer. We do not anticipate a shortfall in fiscal year 2003. The demand for medical services in 2002 outpaced our capacity to provide timely, quality care to all who sought these services. As a result, we implemented policies to focus resources and care on our highest priority veterans—those with service connected conditions, low income and special needs veterans. To ensure that combat-disabled veterans can gain timely access to VA health care, VA published a regulation to provide for priority scheduling of appointments for veterans who are 50 percent or more disabled from service-connected causes and other veterans who are seeking care for their service-connected conditions. In the first quarter of fiscal year 2003, VA made an enrollment decision to stop enrollment of most new Priority 8 higher income veterans for care starting on January 17, 2003. This decision allows VA to continue to focus on the care of our highest priority veterans.

Question. Many of our veterans seek care at VA hospitals because of the excellent pharmacy benefits, sometimes even if they have another primary care physician. As you know, our elderly on Medicare do not have coverage for prescription drugs. Would it relieve some of the burden on the VA if Congress passed a real prescription drug benefit in Medicare?

Answer. We believe that in the context of the President's Medicare modernization framework, which would provide for a pharmaceutical benefit to Medicare beneficiaries, some burden on the VA could be relieved since more than half of the veterans who receive health care through VA are over age 65. According to data from the 2002 VHA Survey of Veteran Enrollees, 90 percent of Priority 8 enrollees and 87 percent of Priority 7 enrollees have some type of public (Medicare/Medicaid) or private health care coverage (compared to just 70 percent for Priority 5 and 73 percent for Priority 1 enrollees).

However, it is the combined effect of several factors that has resulted in the large increase in demand that has severely strained VA's ability to continue to provide timely, high-quality health care. First, the Veterans Health Care Eligibility Reform Act and the Millennium Health Care Act opened the door to comprehensive health care services to all veterans. Second, access to health care has greatly improved with the opening of hundreds of community-based outpatient clinics. Third, our pa-

tient population is growing older and this had led to an increase in veterans' need for health care. Fourth, VA has favorable pharmacy benefits compared to other health care providers, especially Medicare, and this has attracted many veterans to our health care system. (In this regard, however, VA has found that even though many patients initially come to VA for drugs, some ultimately used other services, including cardiology, urology, eye care, and inpatient care.)

VA will continue to face significant challenges, as the demand for health care services reaches unprecedented levels. At the same time, VA must continue to fulfill its core mission—providing timely access to high quality health care to veterans with service connected disabilities, low incomes, and those with special needs. The actuarial projections show that the increasing demand placed on VA health care system will continue to strain VA's ability to provide timely, high-quality health care for veterans in Priorities 1–6. VA expects to provide health care to 3.6 million patients in core Priorities 1–6 (service connected and low-income veterans) in fiscal year 2004, an increase of 5 percent over fiscal year 2003. Priorities 1–6 alone are expected to cost $9 billion more by fiscal year 2008 (over fiscal year 2003).

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

Question. For the past several years, Congress has provided additional funds over the President's request for VA health care. While your fiscal year 2004 budget request has an increase over what was funded in fiscal year 2003, the Independent Budget estimates you are still about $2 billion below what is needed for veterans medical care.

Do you agree with the analysis of the VA's needs that is provided in the Independent Budget? Is your fiscal year 2004 VA medical care request sufficient to fund all the needs of the VA health system?

Answer. As with the President's budget, the total Independent Budget is well articulated and certainly has veterans' health care foremost in mind. However, there are two fundamental differences between the two budgets. The President's budget uses collections and management efficiencies to help offset the overall cost of the increased workload and utilization. The cost-sharing proposals in the 2004 budget only affect the lowest priority veterans in Priority 8 and non-service-connected veterans in Priority 7 and have been strategically priced to refocus the VA system on those veterans who need us most and those who need the specialized care VA provides. The management savings will be achieved by implementing a rigorous competitive sourcing plan; reforming the health care procurement process; increasing employee productivity; continuing to shift from inpatient care to outpatient care, a less costly alternative; and reducing requirements for employee travel, interagency motor pools, maintenance and repair services, operating supplies, and materials to redirect them to providing direct health care for veterans. When collections and efficiencies are taken into consideration, the President's budget request exceeds the Independent Budget by $108 million. However, the sufficiency of the VA medical care request is dependent on passage of the policies proposed in the 2004 President's budget.

Question. I recently had the pleasure of visiting several VA facilities in South Dakota. While there, I had the opportunity to talk to veterans who are having to wait up to a year to get an appointment. Nationally, according to the VA, there are over 200,000 veterans on waiting lists for appointments.

Does your budget request for fiscal year 2004 provide sufficient funds to eliminate the waiting lists for VA appointments? If not, what is your plan to end the long waits for appointments at the VA?

Answer. Yes, the 2004 budget proposes to reduce the average waiting time for new patients seeking primary care clinic appointments to 30 days in 2004, and reduce the average waiting time for next available appointment in specialty clinics to 30 days in 2004. VA is working to improve access to clinic appointments and timeliness of service. VA continues efforts to develop ways to reduce waiting times for appointments in primary and specialty care clinics. By refocusing VA's health care system on these groups, VA will be positioned to achieve our primary and specialty care access standards.

There are two VA facilities located in South Dakota. VA Black Hills Health Care System is an integrated facility with two campuses located in Fort Meade and Hot Springs. Sioux Falls houses the VA medical and regional office center and offers inpatient and outpatient primary and specialty care.

The Black Hills Health Care System has a waiting list of 24 patients and Sioux Falls VAM&ROC has a waiting list of 3,264 patients. When a name is removed from

a waiting list the average wait time for a new patient appointment in primary care is less than 60 days.

All of the medical facilities in South Dakota are using Advance Clinic Access practices to eliminate wait lists and reduce wait times. With the additional resources for new workload in fiscal year 2003, the network's plan is to release $2.1 million to Sioux Falls VAM&ROC. Wait lists at all facilities are expected to be eliminated by the end of this fiscal year.

The following chart provides waiting times to primary care for new non-emergent patients.

SOUTH DAKOTA FEB 2003 WAITING TIME

State	VISN	Station Number	Station Name	Clinic Type	Average New Patient Wait Time (Recoded as next available)
SD	23	438	Sioux Falls	PRIMARY	37.5
SD	23	438GD	Aberdeen (Brown County)	PRIMARY	49.6
SD	23	568	Fort Meade	PRIMARY	41.3
SD	23	568A4	Hot Springs	PRIMARY	54.6
SD	23	568GA	Rapid City SD	PRIMARY	47.1
SD	23	568HJ	Rosebud	PRIMARY	18.5
SD	23	568HM	Eagle Butte SD	PRIMARY	0.0

Question. As a part of the fiscal year 2002 Emergency Supplemental Appropriations bill, Congress provided an additional $417 million for VA medical care. Unfortunately, the President chose to veto $275 million of this funding.

What were the consequences in terms of care for our veterans of the President's decision not to spend this additional health care funding? Does your budget reflect these unmet fiscal year 2003 needs? Do you anticipate making a supplemental request for fiscal year 2003?

Answer. We do not anticipate a shortfall in fiscal year 2003. The demand for medical services in 2002 outpaced our capacity to provide timely, quality care to all who sought these services. As a result, we implemented policies to focus resources and care on our highest priority veterans—those with service connected conditions, low income and special needs veterans. To ensure that combat-disabled veterans can gain timely access to VA health care, the VA has published a regulation to provide for priority scheduling of appointments for veterans who are 50 percent or more disabled from service-connected causes and other veterans who are seeking care for their service-connected conditions. In the first quarter of fiscal year 2003, I made an enrollment decision to stop enrollment of most new Priority 8 higher income veterans for care starting on January 17, 2003 to continue the focus of care on our highest priority veterans.

Question. Ron Porzio, the Director of the Sioux Falls VA Medical Center, has been on administrative leave for several months. The acting director has done a fine job, but has no interest in a long-term administrative job. I am starting to hear from veterans who are concerned that the lack of a full-time, permanent director is starting to affect the operations at the Sioux Falls Medical Center.

When will this issue be resolved?

Answer. In September 2002, an administrative review was convened to investigate allegations made by one of Mr. Porzio's employees. The review team visited the Sioux Falls VAM&ROC and the findings of that investigation are not complete. We cannot speculate or comment on the outcome of the review while the case remains open and under review. Mr. Porzio remains on temporary detail at the VISN office in Minneapolis, MN.

On March 24, 2003, the Network Director appointed Rose Hayslett, an experienced Associate Director from Iowa City VAMC, as the Acting Director/Chief Operating Officer (COO) at the Sioux Falls VA Medical and Regional Officer Center (VAM&ROC). This appointment allows the Chief of Staff, serving as the Acting Director/COO, to fully concentrate on his clinical responsibilities. Ms. Hayslett was appointed Associate Director for Patient Care Services and Nurse Executive at the Iowa City VAMC in 1998. She served as Acting Medical Center Director for the Iowa City VAMC from September 2000 through January 2002.

QUESTIONS SUBMITTED BY SENATOR HARRY REID

Question. As you may know, I have recently re-introduced the Retired Pay Restoration Act (S. 392) seeking full concurrent receipt for our nation's veterans. Can you tell me the position of the Department of Veterans Affairs on this legislation?

Answer. S. 392 would amend 10 U.S.C. § 1414, to permit a former service member who is eligible for military retired pay under title 10 as well as disability compensation under Chapter 11 of title 38, U.S. Code, to receive both benefits without regard to 38 U.S.C. §§ 5304 and 5305. S. 392 would also repeal special compensation programs, codified in section 1413 and 1413a of Title 10, which provide monthly monetary benefits for certain severely disabled veterans and provide combat-related special compensation to military retirees.

Section 5304(a)(1) of Title 38 U.S. Code, prohibits, among other things, the award of VA disability compensation concurrently with military retirement pay, "[e]xcept to the extent that retirement pay is waived under other provisions of law." Such waiver is authorized by 38 U.S.C. § 5305, which permits a retired service member to waive part or all of his or her retirement pay to receive instead an equal amount of VA benefits. Waiver is often advantageous to the veteran because VA compensation, unlike military retirement pay, is not subject to income taxes. The amendments made by S. 392 would override section 5304 by expressly authorizing the concurrent payment of military retired pay and disability compensation for veterans.

New section 1414 would also establish a special rule regarding the payment of retired pay and disability compensation in the case of a former service member with 20 years or more of creditable service, who retires due to physical disability under Chapter 61 of title 10. Such a person's retired pay would remain subject to reduction under 38 U.S.C. §§ 5304 and 5305, but only to the extent that the individual's retired pay exceeds the amount of retired pay the individual would have been entitled to had they not retired under Chapter 61.

The Congress has considered numerous bills over the past few years to partially or completely repealed the prohibition against concurrent receipt. The 108th Congress so far has been presented with two bills that would allow full concurrent receipt for retirees with at least 20 years of service: H.R. 303 sponsored by Congressman Bilirakis, and S. 392 sponsored by Senator Reid. Both of these bills would remove the prohibition against concurrent receipt for all retirees with 20 plus years of service. However, any amount of disability retired pay that exceeds what the member would receive for longevity retirement remains subject to offset. In effect then, payments under H.R. 303 and S. 392 would work in much the same way as the recently enacted Combat-Related Special Compensation program, but without the requirement that the disabilities be combat-related. No added benefits would apply to those retired for disability with less than 20 years of service. But, full repeal of the existing prohibition is very expensive—our previous estimate is $58 billion over ten years ($42 billion associated with the additional cost of retired pay and the $16 billion associated with the payment of additional VA disability compensation for claims that would otherwise not be submitted). VA estimates that enactment would result in 700,000 original claims and 118,000 reopened claims over the next five years, increasing the existing backlog and adversely affecting timeliness. The Administration is on record as strongly opposing the changes included in these bills. Last year, the President's senior advisors recommended that he veto such legislation if it were presented to him.

Question. Although we were not able to pass full concurrent receipt last year, we were able to broaden the special compensation programs. Under the law passed last year, veterans with a 60–100 percent combat related disability and Purple Heart recipients will be able to draw retirement pay and receive disability benefits concurrently. There has been a great deal of confusion about how this program will be implemented. Will the Department of Veterans Affairs play any role in distributing these benefits or is the Department of Defense (DOD) taking the lead?

Answer. Department of Defense (DOD) will take the lead in administration of this program. VBA will continue to work closely with DOD to provide all necessary information required for effective implementation.

Question. Please provide us with the office and contact person within DOD or the VA that is handling this matter.

Answer. We defer to the Department of Defense regarding a DOD contact for this issue. The VA contact for this program is Thomas Pamperin, Assistant Director for Policy, Compensation and Pension Service.

Question. Please provide an update on your plan for the VA Clinic in Las Vegas. What obstacles, if any, have you encountered in your efforts to plan for and build a new facility? Have you settled on a location for the clinic? What is the time frame

for completion? In the interim period, what is your plan on how to treat the veterans living in the Las Vegas area?

Answer. Based on VA's need to find a permanent location for our major Ambulatory Care Center (ACC) in Las Vegas, a planning committee was tasked with evaluating VA long-term workload requirements in Southern Nevada and options for the future delivery of services. That committee produced a report that is pending final review and approval but that was shared with Nevada congressional offices in January 2003. The committee evaluated four options and recommended the following as the preferred long-term strategy: 1) to locate the replacement ACC and a Veterans Benefits Regional Office in a downtown Las Vegas location, and 2) to meet projected VA hospital bed needs (84 beds total) by expanding inpatient care at the Mike O'Callaghan Federal Hospital.

Based on an offer made by the City of Las Vegas, VA evaluated land in the former Union Pacific rail yard as a potential location for the replacement ACC. However, it has recently been determined that there is not sufficient available acreage that the City can make available at that location for the type of facility VA needs. VA is in need of a two- or three-story clinic on twenty to thirty acres of land, so that surface parking can be available. An advertisement soliciting land for the ACC was put in the local papers over the weekends of April 5/6 and April 12/13. VA's goal is for fast-track construction and to activate this clinic as soon as possible. It is not possible at this time to give a precise timetable for activation.

In the interim, VA is in the process of relocating its operations from the current Addeliar Guy ACC to 10 separate and new locations in the Las Vegas metropolitan area. The plan is to be completely out of the current ACC location by the end of May or early June 2003. To date, surgical clinics from the ACC have been relocated to the Mike O'Callaghan Federal Hospital. Information Technology and telecommunications operations have been moved and the warehouse operation has been partially relocated to a new site.

Prior to relocating any clinic operations to a new site, VA provides veterans with instructions and information regarding the new location and how their care will be provided. Contact points for appointment information and transportation information, including maps and directions, are included in this written instruction packet.

To date, the relocations that have occurred have been done with a minimum of disruption for either staff or patients.

Question. On numerous occasions when I have met with veterans from Northern Nevada they expressed concerns about the quality of care available in the Elko area. Do you foresee additional funding being directed to facilities in this region?

Answer. The CARES planning process in VISN 19 has identified several population centers that could benefit from greater accessibility to VA health care services. Elko, Nevada is one of those areas. The Elko area is in the catchment area of the VA Salt Lake City Health Care System. Salt Lake is proposing a new CBOC to be located in Elko, and they are currently working on a business plan and proposal.

Question. The Veterans Health Administration's facilities in Reno fall under the umbrella of the Sierra Pacific Network while facilities in northeastern Nevada are part of the Rocky Mountain Network. I believe it would benefit the Veterans Health Administration to incorporate Northeastern Nevada into the Sierra Pacific Network which is already dealing with the majority of cases from the northern region of my state, and is well versed in the needs of veterans from this area. Can you please comment on the feasibility of moving the boundary to incorporate Elko and surrounding areas into the Sierra Pacific Network?

Answer. The original network boundaries were determined by historical referral and patient origin patterns. More veterans in northeastern Nevada use the Salt Lake City VA Medical Center than the Reno VA Medical Center. Elko and surrounding areas are slightly closer to Salt Lake City than Reno. Salt Lake City also provides a greater range of health care services than Reno. Reno refers many veterans in need of highly specialized services to the San Francisco Bay Area VA Medical Centers. There is no compelling advantage to change the network boundaries. As noted in the response to the previous question, Salt Lake City is proposing a new CBOC to be located in Elko, and they are currently working on a business plan and proposal.

QUESTIONS SUBMITTED TO THE INSPECTOR GENERAL

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

PHYSICIAN TIME AND ATTENDANCE

Question. What did the IG find about physician time and attendance?

Answer. VA medical center managers did not ensure that part-time physicians met employment obligations required by their VA appointments. Although VHA had established time and attendance policy and procedures to account for part-time physicians, neither VHA headquarters officials nor VA medical center managers enforced the policy. VHA management at many levels told us they were generally satisfied with physician productivity and believed VA received more value than it paid for from the services provided by part-time physicians, despite apparent timekeeping violations. Results of audit clearly showed that part-time physicians were not working the hours established in their VA appointments and as a result part-time physicians were not meeting their employment obligations to VA.

VHA does not have effective procedures to align physician-staffing levels with workload requirements. VA medical centers did not perform any workload analysis to determine how many full time employee equivalents (FTE) were needed to accomplish the medical centers' workload or evaluate their hiring alternatives (such as part-time, full-time, intermittent, or fee basis). VA medical center managers responsible for staffing decisions did not fully consider the physicians' other responsibilities—such as medical research, teaching, and administration—when they determined how many physicians the VA medical centers needed. VHA officials told us the determination of the number of part-time physician FTEs needed has more to do with the financial needs of the affiliated university in meeting physician pay packages, than the number of hours needed by VA to meet patient workload requirements. In addition, only one of the managers at the five VA medical centers we visited, had informed their part-time physicians of what was expected of them to meet their VA employment responsibilities. We believe communication of expectations and responsibilities would significantly improve operations at the VA medical centers.

Question. How much VA funding is "lost" due to this problem?

Answer. The issue of lost VA funding is not just a consideration of paying physicians for time that was not directed towards VA duties. In considering the lost opportunity costs VA would need to evaluate the value of such issues as the costs of not providing care to veterans on waiting lists, the inability to bill for medical care that was provided by residents and not properly supervised by attending physicians, the value of any research conducted for which VA does not get credit as well as the salary paid for service that was not provided. While we did not quantify the value of the time that VA physicians did not spend at VA, at a minimum we noted, that about 11 percent of VA physicians were not meeting their employment obligations. In addition, from fiscal year 1997 through the second quarter of fiscal year 2002, the Federal Government paid, on behalf of VA, at least $21 million for 63 malpractice cases where VA's peer review panel found that the attending VA physicians provided substandard resident supervision. Based on our review of available documentation, the attending physicians were not present to supervise the residents during the performance of a procedure or the provision of a treatment to a veteran in at least eight cases resulting in malpractice settlements totaling $4.7 million. An additional pending case involves an attending surgeon who could not provide needed assistance to a VA medical center patient because he was operating on a non-veteran patient at the affiliated medical school.

Question. Do you think this is a matter of fraud by VA doctors, or is it because of VA's lack of standards?

Answer. There are cases where fraud is a possibility. In addition, some VHA managers were not willing to enforce existing time and attendance controls, and VHA does not have effective procedures to align physician-staffing levels with workload requirements.

Further, inherent conflicts of interest that exist for the part-time physician with a dual appointment with the affiliated medical school contributed to the weak internal controls. Most VA supervisors of part-time physicians were also faculty members at the same university medical school as their subordinates. At one VA medical center, the service chiefs told us they did not consider themselves to be supervisors with any direct authority over their subordinate physicians—rather they were colleagues and served in a liaison role between VA medical center management and the physicians. From our discussions with managers and physicians at five VA medical centers and VA's Central Office, universities generally pay their physicians a

base salary plus additional compensation based on the number of procedures or the level of productivity they achieved in their clinical practices. This compensation package provides a strong incentive for physicians to maximize the time they spend at the university medical schools. When the physician's supervisor has the same incentive based compensation package—as is apparently the case at affiliated VA medical centers—the integrity of the supervisory role is compromised. (IG)

Question. The VA's budget proposes to hire 3,800 new doctors and nurses to address the waiting lists. How can VA ensure that new and existing doctors know what is expected of them?

Answer. Require that Veterans Integrated Services Network (VISN) and medical center directors ensure part-time physicians meet their employment obligations and hold field managers accountable for compliance. (IG)

—Determine what reforms are needed to ensure VA physician timekeeping practices are effective in an academic medicine environment and VA physicians are paid only for time and service actually provided. Recommend statutory or regulatory changes needed to implement the reforms and publish appropriate policy and guidance.

—Establish performance monitors to measure VISN and medical center enforcement of physician time and attendance; ensure desk audits are conducted of timekeeping functions; provide continuing timekeeping education to supervisors, physicians, and timekeepers; require medical center managers to certify compliance with applicable policies and procedures to VHA's Deputy Under Secretary for Operations and Management annually; and hold VHA managers accountable for successful implementation of time and attendance requirements.

—Apprise all part-time physicians of their responsibilities regarding VA timekeeping requirements.

—Evaluate appropriate technological solutions that will facilitate physician timekeeping.

—Develop comprehensive guidance for medical centers to use when conducting desk audits.

—Establish appropriate training modules, making the best use of technological solutions for training VHA managers, VA physicians, and timekeepers in timekeeping requirements, responsibilities, and procedures.

—Publish policy and guidance that incorporates the use of workload analysis to determine the number of physicians needed to provide timely, cost effective, and quality service to veterans seeking care from VA.

—Require medical centers to review their staffing structures (such as part-time, full-time, intermittent, or fee basis) and determine if these appointments are appropriate to the needs of the medical center.

—Require that VISN and medical center directors reassess staffing requirements annually and certify their staffing decisions to VHA's Deputy Under Secretary for Operations and Management.

—Evaluate alternative methods to acquire physician services and publish national guidance to assist VISN and medical center directors in determining the best strategies for their regional, academic, and patient care circumstances.

—Publish guidance describing how VISN and medical center managers should determine, monitor, and communicate the allocation of physician time among patient care, administrative duties, academic training, and medical research.

MEDICAL RESEARCH

Question. Does VA have adequate controls to enforce patient safety in medical research?

Answer. Currently, the Office of the Inspector General has an ongoing criminal investigation involving one facility's medical research program. The OIG cannot comment on a criminal investigation in progress. The OIG does not have any other work underway, or recent reviews, that could be a body of knowledge on the effectiveness of VA controls for patient safety in medical research.

The Program on Research Integrity Development and Education (PRIDE), within the Office of Research and Development (ORD), is responsible for providing education and policy on protection of human participants in VA research.

Please refer to VA's responses to questions on "Patient Safety in Medical Research" that provide information on VA safeguards for patients who participate in VA research studies, VA procedures to inform patients fully of the risks of research, and VA's safety standards for research involving patients.

SUBCOMMITTEE RECESS

Senator BOND. A great honor, appreciated you being there. Thank you very much.

The hearing is recessed.

[Whereupon, at 11:40 a.m., Thursday, March 13, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, MARCH 20, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:02 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Craig, Mikulski, and Leahy.

ENVIRONMENTAL PROTECTION AGENCY

STATEMENT OF HON. CHRISTINE TODD WHITMAN, ADMINISTRATOR

ACCOMPANIED BY G. TRACY MEHAN III, ASSISTANT ADMINISTRATOR, OFFICE OF WATER

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The Senate VA–HUD Appropriations Subcommittee will come to order. My distinguished Ranking Member is out temporarily and asked that I begin, so on her behalf let us welcome EPA Administrator Christine Todd Whitman and our other guests from EPA who have joined us here today to testify on the President's fiscal year 2004 budget request for the Environmental Protection Agency.

Let me say that because of many other activities going on today we are going to have to go through this hearing as quickly as we can. Senator Mikulski and I both have several other commitments but we will not ignore you. However, we will submit questions for the record if we do not have time to ask them.

Madam Administrator, let me begin by saying that the EPA has one of the most important and difficult missions of any Federal agencies, with responsibilities from the cleanup of Superfund and brownfields sites to the funding of clean water and drinking water infrastructure to the enforcement of environmental laws to representing our Nation with regard to issues of global climate change.

More recently, as part of the Federal Government's homeland security efforts, EPA has been named as the lead Federal agency for reducing the vulnerability of the chemical industry and the haz-

ardous material sector of the Nation's critical infrastructure. I applaud you and EPA for your commitment to this responsibility.

This year the administration has requested some $7.63 billion in budget authority. This is a reduction of some $450 million for the fiscal year 2003 funding level that I do not agree with. However, assuming a number of adjustments, if you put back in the administration's reduction of $460 million in congressionally designated EPA water and sewer grants and programs, the EPA funding level is approximately equivalent to the fiscal year 2003 level.

Unfortunately, many of these designated grants go to communities with significant water infrastructure challenges as well as to programs administered by nonprofits that provide key support for many of EPA's programs and activities. I am convinced that the EPA would be very troubled if we failed to fund many of these nonprofit programs which are not included in the budget request, and I know that our environment would suffer significantly if these were not made available.

I want to call your attention particularly to something that is a major crisis, identified in yesterday's copy of an article from yesterday's Springfield, Missouri, *News Leader*. In rural Christian County, Missouri, there are 12 trailers at the Starlight Mobile Home Park which flush their human waste into a pit that fails to meet even the minimum wastewater treatment standards. The untreated green sludge eventually oozes into a creek that is a tributary of the James River which feeds Table Rock Lake, which is one of our Nation's prime resource areas, and because it sits on limestone with cheese-like openings the water is traveling underground and what does not pollute the lake is polluting the underground water system.

This is the State Department of Natural Resources' primary responsibility, but it is a situation that is intolerable, and it is as serious in Springfield, Missouri, as pollution of Chesapeake Bay is to all of my friends who live on and around the Chesapeake Bay.

But, having said that, back to the broader issues. The VA–HUD Subcommittee is facing even more difficult funding decisions in 2004 than we faced in 2003. We have to balance the funding needs and priorities among other programs and agencies, VA medical care, HUD low-income housing, and in NASA reacting to the tragic loss of the Columbia orbiter.

Particularly, without relief from the full committee in our subcommittee's allocation, we will have to make up a shortfall of some $1.1 to $1.4 billion in VA medical care and shortfalls of upwards of a billion dollars in a variety of other HUD programs. Also, as we face the onset of war, our first obligation will be to pay for the costs associated with the preservation and protection of our freedoms from the threat of terrorism and terrorist nations.

I am gratified that the EPA budget request for 2004 continues our Nation's commitment to a better environment and meets the primary funding needs of EPA's missions, programs and goals. I think it is generally a good budget that stays the course set in the administration's 2003 budget request and our appropriations for that year. I am glad EPA is focusing on meeting its primary programs and legal obligations rather than creating a new set of pro-

grams and responsibilities when we have not done enough to fund our existing top priority programs.

I am very much concerned, however, one more time, about the failure to maintain the 2003 funding level of $1.35 billion for the Clean Water SRF. The administration proposes funding of $850 million, a reduction of half a billion dollars from 2003. Now, I understand that the Clean Water SRF has been capitalized since 1987 for a total of some $42 billion, including $19 billion in Federal funds. But the Nation faces some $540 billion in Federal funding needs alone for new and existing water infrastructure needs over the next 20 years.

In addition, there are a number of other significant EPA infrastructure priorities. The EPA budget does not address that. It does not address the combined and separate sewer overflows funding needs which are a priority for some 772 municipalities or the funding needs of many small communities in the West that must reconstruct their water systems because of the new arsenic water standards. We cannot mandate that people do things and not give them some help in getting them done.

The bottom line is that, in addition to the EPA's environmental enforcement requirements, water infrastructure needs must be a much higher priority for EPA.

The EPA also faces significant challenges with regard to new requirements for total maximum daily load, TMDL, of pollutants that impact public health and the environment by large animal feeding operations, statutory requirements for the protection of wetlands, and continued demands to expedite the cleanup of Superfund sites.

With respect to TMDL, I plan to reintroduce this year a bipartisan Fishable Waters Act, which is widely supported by conservation and outdoor groups, fishing and hunting groups, that I think can begin to make a difference in some of the runoff streams using voluntary activities, and I would welcome EPA's support on the announcement of the Act.

I am also concerned about issues relating to air quality standards under the Clean Air Act, including the status of implementation of new source review of the Clean Air Act, which authorizes the EPA to set standards for certain facilities for the installation of air pollution equipment. Substantial progress has been made since last year, this remains an important issue as we seek to maintain the economic viability of U.S. producers of energy while meeting the air quality standards of the Clean Air Act.

Congress, I think, also needs to move forward on the administration's proposed Clear Skies legislation that will reduce emissions and encourage investments in new plants by providing certainty regarding future regulatory requirements.

I would add one other thing. As an avid supporter of plant biotechnology, I am gratified that EPA has approved the use of a new genetically-engineered corn developed by Monsanto. This corn includes a gene from a soil bacteria that allows the roots of the corn plant to secrete a protein that kills the corn rootworm, the crop's number one pest. To reduce the chance that the rootworm will develop resistance to the corn, EPA has required growers to set aside 20 percent of the planted acreage for non-transgenic corn. I think this is a major breakthrough in the development of genetically-en-

gineered crops and represents another significant step towards eliminating our Nation's dependence on harsh chemical pesticides.

More importantly, as we develop heartier and more nutritious crops through genetic engineering, we are going to be able to feed starving people in developing countries in Africa and Asia and throughout the world that face unforgiving environmental conditions, including droughts and soils that are not productive for crops unless they are modified.

Madam Administrator, I thank you for your inspired leadership and commitment to EPA's mission. I look forward to working with you on the challenges you face.

Senator BOND. I now turn to my Ranking Member Senator Mikulski for her opening statement.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. I want to welcome Administrator Whitman to her fifth hearing before the subcommittee. I look forward to during her tenure calling her "Secretary" because I do believe it should be a cabinet agency. I want to thank her for her continual availability to not only testify in the usual and customary hearings, but to be available for meetings and hearings related to the anthrax contamination of not only the Hart Building, but also of the Brentwood Post Office. So many of those workers there are my constituents, but even if they were not, they are our people. You have also been available for hearings pertaining to toxic cleanup in Anniston, Alabama.

So we have worked together from arsenic to anthrax and so on. I feel we have had a very productive relationship. When I look, though, at the submittal of the budget, I am troubled at the 2004 budget request for EPA. The total of $7.6 billion is actually a $450 million decrease from the 2003 level. This is a cut of almost 6 percent, when we have such compelling needs to protect the environment and to protect public health.

I am very, very, very troubled that the major cuts seem to be in water infrastructure funding and everything else is kept at the status quo. I believe that OMB in its work with EPA was not prepared to be bold about the administration's commitment to the environment.

The budget is a planned budget. Instead of using it as a tool to help protect health and the environment, it seems that we are going to maintain the status quo, except in water and sewer programs. I want to just confirm the comments that the chairman has made about water and sewer. Governor Ehrlich, our new Governor of Maryland, says that his new number one priority is water and sewer projects and Maryland getting its fair share. Well, there is not a lot of fair share to get.

We in Maryland, because we have a Republican Governor for the first time in 37 years, Senator Sarbanes and I want to do partnership politics because on issues like water and sewer, there is no politics. In the Chesapeake Bay alone, Administrator Whitman, there is a $4 billion list of water and sewer projects that could be funded this afternoon that meet the State priorities. That just shows the magnitude of what Governor Ehrlich is facing in just one State on a waterway that I know impacted you in New Jersey

while you were Governor and in which you have had a very keen interest.

Much is made about these earmarks that the Senate comes up with. Speaking for myself, I know that the number one request I get for earmarks from Members goes to water and sewer projects and as part of the mandate from the committee they have to be on the State priority list. So this is not about pork. It is about failed water systems.

We could probably have a $50 billion bill of just water and sewer projects. So we are really going to be working on this, and you need to know that the subcommittee is very troubled about this and I am going to come back to it in my questions. Senator Bond has spoken very eloquently about it.

This is partnership politics because water and sewer improvements could contribute to economic stimulus and add value for the dollar. It is federal funds working at the local level with a 45 percent match that could have an impact on creating jobs from the civil engineers to the people who will be digging the ditches. It will have value for protecting public health and the environment, and it will also impact on the ratepayers.

Mayor O'Malley is under a decree from your agency, which I am not disputing, to fix the Baltimore water and sewer system for $900 million. Baltimore City does not have $900 million. We are going to have a 10 percent rate increase, so from our standpoint the EPA mandate is helping increase taxes. I am not trying to jackpot you, but I think you should know what we are facing.

I think Senator Bond and Senator Craig have been outspoken on concern about the regulations on arsenic, but they need help. Those little communities that the Senator stood up for on the Senate floor need help.

The second issue that I want to emphasize is brownfields. I know you are a brownfields baby as a past Governor of New Jersey. We feel that brownfields can be turned into green fields and, though the budget has been increased, we would really hope that we could move to the authorized level of $250 million, because it is one of the major tools, I believe, for cleaning up the environment and again making grounds ready for economic development.

PREPARED STATEMENT

There are other issues that I could raise, but I think we do need to get on with the hearing. But you see where the subcommittee is headed, towards those things that protect the environment, create the jobs, help local taxpayers, and also create an environment for even additional government. If you want to help a new Republican Governor, help me get water and sewer grants.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

EPA serves the very important mission of protecting human health and the environment. So I am troubled that the 2004 budget request for EPA totals just $7.6 billion, a $450 million decrease from the 2003 level. This is a cut of almost 6 percent. I believe that instead of using the budget as a tool to protect public health and the environment, this administration prefers to make changes through the regulatory and legislative process.

In the past few months, EPA has made a series of changes to environmental regulations and has proposed new legislation. This subcommittee provides the funding for EPA to develop these proposals. So it is our duty, on behalf of our taxpayers, to ensure that these proposals will protect public health and the environment. Maryland's taxpayers want clean and safe air and water and they want the Chesapeake Bay cleaned up. Specifically, I want to know how EPA's new Water Quality Trading Policy and Clear Skies legislation will accomplish these goals. We need to protect children and the elderly, who are most vulnerable to the health effects of air pollution. Many water quality problems in the Chesapeake Bay are due to air pollution. We must be sure that we are not backtracking on public health and environmental gain under the Clean Air and Clean Water Acts.

I am puzzled about many areas of this budget proposal. I know that EPA didn't get everything it wanted from OMB but I really question some of the priorities. The most glaring example is water infrastructure. The budget request cuts over $800 million in critical water and sewer project funding. The budget cuts $500 million from the Clean Water State Revolving Loan Fund and $300 million targeted water projects. Congress funds these projects because there is no national framework that even comes close to addressing the national needs. This just doesn't make sense—for two reasons. First, our communities have enormous needs. Over the next 20 years, there will be a funding "gap" for our communities of $540 billion. These needs have been studied and restudied. In April 2000, the Water Infrastructure Network reported that our Nation's water and wastewater systems will face a funding gap of $23 billion a year over the next 20 years. In November 2001, the General Accounting Office (GAO) reported that costs could range from $300 billion to $1 trillion over the next 20 years. In September 2002, the Environmental Protection Agency reported that over the next 20 years, demands for improved sewer and drinking water systems will outstrip current levels by $535 billion. And in November 2002, the Congressional Budget Office (CBO) reported that water and sewer costs could average as much as $40 billion each year. The results are conclusive and the need is real.

We can't expect communities to comply with growing regulations like arsenic, radon, and new requirements related to security to name just a few without increased financial assistance. If we don't help, the entire burden falls on local rate payers in many urban and rural low-income areas and rate increases are just not affordable.

Second, the economy lost 300,000 jobs in February. Water infrastructure funding creates jobs: for every $1 billion we spend on water infrastructure up to 40,000 jobs are created. So I am puzzled why the budget skimps on this priority. I know this was probably a funding decision by OMB. But this cut really signals a failure in that we don't have a comprehensive national policy to address our communities' needs. We need new thinking on a new national policy to help communities pay for water and sewer projects.

In January, EPA convened a conference on how to "close the gap" including State and local officials, business, and other experts to exchange ideas about how to meet water and sewer challenges. I would like to hear what happened at that conference and what the next steps will be. I want to know what is EPA doing to develop new ideas to help communities meet these challenges and I want to know what EPA, as an advocate for the environment, is doing to make this a national priority and develop solutions for our communities.

The authorizing committee is working to reauthorize the water loan funds at much higher levels in the future. And there are discussions underway about creating a Trust Fund for water infrastructure. Even though I have serious concerns about the new formula that has been proposed, I have applauded Senator Jeffords' leadership in seeking additional resources for critical water infrastructure improvements. But I hope that some new thinking can be incorporated into those efforts.

I am also very concerned that EPA may be getting back into the business of allowing retired Navy and Maritime administration ships to be exported to developing countries for dismantling. In 1997, Pulitzer prize-winning series of articles in the *Baltimore Sun* exposed the dangerous conditions created at home and abroad because these ships contain PCBs, asbestos, and lead. In 1998, I began worked with the Defense Department to make sure that we dispose of these ships in a way that is: efficient, orderly, environmentally sensitive, and keeps the work in American shipyards where environmental and safety standards can be met and monitored. But a recent *Washington Post* article reported that EPA may be assisting the Maritime Administration to once again begin exporting ships to be dismantled overseas. I want to know what EPA's role will be. Does EPA think that these ships should be exported and if so, what has improved since 1997 when the *Baltimore Sun* first exposed this story?

I also want to follow up on EPA's budget to enforce environmental laws. Over the last two years, the subcommittee has rejected EPA's proposals to shift enforcement funding to the States. The subcommittee had serious concerns that reductions in Federal enforcers would result in more polluters ignoring the law. We need both a strong Federal and strong State enforcement to achieve compliance with our environmental laws, not one or the other. I am pleased that this year's budget does not make the same mistake.

Now, I would like EPA to tell us how priorities are being set within the enforcement funding we provided. We need to know how EPA is managing enforcement to ensure that the Agency is recruiting and retaining the experts needed to enforce environmental laws.

Finally, Senator Bond and I have always taken the position that the VA–HUD bill should not be a vehicle for environmental riders. I hope that as we move a bill through the Committee this year, we can continue this policy. I thank Administrator Whitman for her testimony today and I look forward to hearing from her.

Senator BOND. Wow, what a compelling reason. Thank you, Senator Mikulski.

Senator CRAIG.

STATEMENT OF SENATOR LARRY CRAIG

Senator CRAIG. Thank you very much, Mr. Chairman, and let me thank Barbara for her kind statements also and our concerns that we jointly share on this committee.

Madam Director, welcome again before the committee. We appreciate your presence here. I have to go chair another committee in a few moments, but I did want to make a couple of comments reflective of some of the work we have done jointly this past year that I think is tremendously positive.

I have been able to secure funding for about $800,000 in the omnibus bill that passed a few months ago for the National Academy of Science to undertake a review of the science behind EPA's decision in the Coeur d'Alene basin area, in Superfund sites in northern Idaho. That is to bring the science together, to have a third party review of it, and we think to modernize some of the overall adjustments.

Of course, we did come with a record. Your regional administrator up there, John Iani, agreed that once the study had gelled that there could be possibly some adjustment in the record based on that science. So I think what is important for the whole of our record-setting agreement—and I mean this, Mr. Chairman, in the sense that EPA and the State of Idaho jointly are approaching something that I think is a model for other States for broader cleanup of the Superfund area and setting guidelines and some cooperative financing and joint decisionmaking that is very helpful. The director led in that, the Administrator. We are very pleased that you would do so.

But it is also important we gel the balance of it. So your help in getting the National Academy's work under way is important, and I certainly appreciate the work of your administrator in Region 10. That is going to be awfully important.

But, as is typical, Madam Administrator, we have what I call embedded bureaucrats, and I will be very blunt, in our Region 10 Seattle office, who are not asking, are not following your approach to applying common sense solutions to environmental challenges within current regulatory constructs. I would urge you to continue to pressure that recalcitrant and sometimes resistant bureaucracy

to get with it. I think it is awfully important that they do for the sake of our children and a clean environment.

You have had the privilege of being in the beautiful part of north Idaho where we think Mother Nature and EPA and the State in cooperation have made significant headway in cleaning up that site. The solution in this cooperative effort, Mr. Chairman, is the avoidance of literally hundreds of millions of dollars spent potentially in the downstream and also the reality that when you do all the right things in a timely fashion in concert with Mother Nature's great effort you can clean up a major site without it being so terribly disruptive as some might choose it to be, or for it to be a lifelong pursuit of somebody who is administering it who just happens to like to live in a beautiful area in which they are pursuing the end game.

Thank you, Mr. Chairman.

Madam Administrator, I must say in all sincerity we do greatly appreciate your cooperation and we think we have established a record out there and a model that other States and regions ought to take a look at, how you get it done in a cooperative fashion.

Senator BOND. Thank you very much, Senator Craig, for your very informative statement.

Senator Leahy.

STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman.

Administrator Whitman, welcome. It is good, as always, to have you here. It is said that you have one of the most difficult jobs in Washington and I am sure there are days you believe that. But you also have one of the most enviable jobs, a job where you can make decisions that have profound effects on our Nation's environment, not just for today but the Nation's environment that our children and our grandchildren will inherit.

It is the mission of your agency, to safeguard our Nation's precious lands, air, water, protect the health of our citizens, especially our children. As we all know, our children are affected more than anybody else.

I always enjoyed working with the EPA. I've done this for years. Under your leadership, EPA has been very responsive to my office and I appreciate that, and I might say responsive, respectful, and nonpartisan, and I think that reflects the direction they get from you, Governor.

In my home State of Vermont, EPA has been instrumental in helping Vermont citizens restore the health of Lake Champlain and the Connecticut River watershed, the two bodies of water that border us on either side. Your New England regional office is working with local Vermont communities and my Vermont office to ensure the Elizabeth Mine Superfund site is properly maintained and cleaned.

Just last week, EPA highlighted the immediate need for additional resources. There is a dam that holds back copper tailings. If there were a breach it would be catastrophic, there would be great loss of life, as well as environmental degradation, all the way down into the Connecticut River, and would also affect other States below us.

So I see this and I see wonderful help and all, and then I worry about other things. The administration put forth proposals that I believe would reduce the objective oversight for the U.S. Fish and Wildlife Service and the National Marine Fisheries Service of the Endangered Species Act. We have all relied, both Republicans and Democrats, on their impartial oversight, and I am afraid that objectivity may be diminished and that would create a real problem for us and our own debates up here.

The administration is delaying the issuance of a document which shows the impact of mercury on children in this Nation, something that I am very worried about and I know you are. I wish we could get the document issued.

Most recently the administration suggested the Clean Water Act only applies to a fraction of our Nation's wetlands. And all this takes place in such rapid succession that I am afraid that the balance, the balance that has come up over the years, with the balance that we have seen in EPA programs, may come unglued. I express that to you as one who has great respect for you as a person and great respect for the EPA, as one who has seen the very good things you can do, but also one who worries very much if the EPA steps back from either objectivity or involvement.

PREPARED STATEMENT

That is all my statement, Mr. Chairman. If I am not here at the time, I will have questions, especially on the Elizabeth Mine matter, because I want to know whether you will fully fund the plan to clean up that mine. Maybe you can answer that yes or no.

Ms. WHITMAN. We are awaiting a record of decision on that. As you know, they did request the additional money for the dam, but we are waiting to have the full record of decision to know what the plan is and what the ultimate costs will be of doing that. But it is on the national priority list. It is clearly a priority for us as well as for the State.

Senator LEAHY. I appreciate that.

I appreciate it, Mr. Chairman.

Senator BOND. Thank you very much, Senator Leahy. We always appreciate your participation.

[The statement follows:]

PREPARED STATEMENT OF SENATOR PATRICK J. LEAHY

Welcome Administrator Whitman. Thank you for taking the time to come to the Senate and testify.

It has been said that you have one of the most difficult jobs in Washington, but it is also one of the most enviable. It is a position where the decisions you make today can have profound effects on the Nation's environment tomorrow. A successful Administrator will meet the EPA's mission of safeguarding our Nation's precious lands, air, and water and protecting the health of our citizens, particularly our children, from environmental pollutants.

I have always enjoyed working with the EPA, and under your leadership, EPA has been respectful and responsive to my office. In my home State of Vermont, EPA has been instrumental in helping Vermont citizens restore the health of Lake Champlain and the Connecticut River watersheds.

Even as we speak, your New England Regional Office is actively working with local Vermont communities and my Vermont offices to ensure that the Elizabeth Mine Superfund site is properly maintained and cleaned. Just last week, the EPA highlighted the immediate need for additional resources to ensure that a cata-

strophic breach of a dam, which holds back copper tailings, does not occur at the site.

With that as a backdrop, Madam Administrator, I must tell you that I continue to be disappointed at how vigorously this administration has worked to emasculate over 30 years of environmental law that has significantly improved the nation's environmental health. Recently, the administration has put forward proposals that could reduce the objective oversight by the U.S. Fish and Wildlife Service and National Marine Fisheries Service of the Endangered Species Act; the administration has delayed the issuance of a document that shows the impacts of mercury on the children of this nation; and most recently, the administration suggested that the Clean Water Act only applies to a fraction of our Nation's waters.

The careful balancing required to protect the public's health has been unbalanced at the EPA as the fingers of special interests are invited to shape this administration's environmental policy. I fear that the health of our environment has not markedly improved since the last time you testified here, Madam Administrator, and as the environment has suffered, so has the health of American citizens.

Senator BOND. Now, Madam Administrator, if you would give your opening statement and then we will move on. Thank you very much.

STATEMENT OF CHRISTINE TODD WHITMAN

Ms. WHITMAN. Thank you, Mr. Chairman, and I appreciate the opportunity to be here once again to discuss the President's proposed budget for fiscal year 2004. I do, with your permission, Mr. Chairman, have a longer statement to submit for the record.

Senator BOND. Thank you, if you would.

Ms. WHITMAN. I would like to begin by first congratulating you on assuming the chair. I also want to thank you for your leadership and attention earlier this year to the funding issues we discussed as you were wrapping up the fiscal year 2003 appropriations. And all the members of the committee for that, your assistance was very much appreciated. I am looking forward, obviously, to working with you and members of the committee on the appropriations process to advance our shared goals of cleaner air, purer water, and better protected land.

The President's budget request of $7.6 billion for EPA provides the funding that we need to advance these goals and to meet the Agency's mission of protecting human health and safeguarding America's precious environment. It is a fiscally responsible request that recognizes the many competing priorities that, as you mentioned, Mr. Chairman, on taxpayers' resources, particularly with respect to homeland security, a time of war, without shortchanging our commitment to environmental protection.

This budget request also advances our commitment to building strong partnerships with State, local, and tribal governments. More than 40 percent of our budget request, some $3.1 billion, will go directly to provide assistance to our non-Federal partners.

I would like to take just a few minutes to point out some of the highlights of the President's budget request and then I would obviously be happy to take any questions that you might have. To promote cleaner air, the President's budget requests $617 million in the next fiscal year. These funds will allow us to improve air monitoring and analysis and provide $16.5 million in grants to States, tribal and local governments for air toxics monitoring. They will also allow us to raise to $23.9 million, a $3 million increase, our funding efforts to combat children's asthma.

In addition, the President's budget supports the administration's Clear Skies proposal. Clear Skies would require a mandatory reduction in power plant emissions of sulfur dioxide, nitrogen dioxide, and mercury by 70 percent. It is the President's most important environmental legislative initiative of this year and I look forward to working with you and the committee on getting it to his desk for his signature.

To promote purer water, the President's budget places a strong emphasis on our core water programs which have proven so successful over the years. We propose to increase spending on these programs by $55 million, for a total of $470 million. This includes $20 million in the Clean Water Section 106 grants and $12 million for public water system supervision grants for our non-Federal partners.

Our proposed budget also includes a $5 million increase in grants to help State, local, and tribal governments protect wetlands and $20 million to again fund the program we began last year to advance protection efforts in 20 additional threatened wetlands around the Nation.

This budget also seeks $850 million for the Clean Water State Revolving Fund, which is less than was requested last year, as has been pointed out by several Members. However, the administration is committed to financing the Clean Water SRF at this level through fiscal year 2011, 6 years beyond any previous commitment. This means that the long-term revolving level of the fund will be at $2.8 billion, a 40 percent increase over the $2 billion commitment made under the previous administration. We also propose to fund the drinking water SRF at $850 million a year through 2018, so it can revolve at $1.2 billion a year or a 140 percent increase over the previous goal of $500 million.

Given our proposed increase in our core water programs, the current fiscal restraints, and the variety of innovations we are pioneering, I believe that this budget does fully support the commitment to pure water across our country. To better protect the land, this budget includes two significant increases. The first, an additional $150 million for Superfund cleanup; these additional funds will allow us to start an additional 10 to 15 construction projects at Superfund sites nationwide. The second, a $10.7 million increase over last year's record request for brownfields programs, brings our request to $210.7 million.

Over the years, both the Superfund and the brownfields program have demonstrated their value, not just in restoring the environment and protecting the health of America's families, but in revitalizing neighborhoods and communities in every part of our country.

In addition to our traditional environmental mission, EPA plays an important role in homeland security. The President's budget requests $123 million for our homeland security efforts. These funds will allow us to carry on the work we are doing to help protect our Nation's water infrastructure and will give us the resources that we need to enhance our emergency response capabilities.

Given our time constraints, Mr. Chairman, I would like to just briefly mention several other areas that are fundamental to our ability to meet our mission, our ability to use the best available

science, and our ability to enforce the law. The President's budget requests a total of $607 million to develop and apply strong science to address both current and future environmental challenges.

It also asks for $503 million, the largest ever requested, for enforcement and a $21 million jump from our request last year. This will allow us to add an additional 100 FTEs to our enforcement efforts.

PREPARED STATEMENT

Mr. Chairman, I am confident that our budget request supports our obligation to be both good stewards of the Nation's environment and good stewards of the taxpayers' dollars. It gives us the resources we need to help ensure that we leave America's environment cleaner and healthier than we found it.

Thank you very much for your time.

[The statement follows:]

PREPARED STATEMENT OF CHRISTINE TODD WHITMAN

Mr. Chairman and Members of the Committee, I am pleased to be here to discuss President Bush's fiscal year 2004 budget request for the Environmental Protection Agency (EPA). The President's fiscal year 2004 budget request of $7.6 billion provides funding necessary for the Agency to carry out our mission efficiently and effectively—to protect human health and safeguard the natural environment. Given the competing priorities for Federal funding this year, namely the War on Terrorism and Homeland Security, I am pleased by the President's commitment to human health and environmental protection.

I would like to begin, Mr. Chairman, by emphasizing that the President's budget request for EPA reflects the Agency's commitment to cleaning, purifying, and protecting America's air, water, and land. The request promotes EPA's goals in a manner consistent with fiscal responsibility by strengthening our base environmental programs, fostering stronger partnerships, and enhancing strong science.

This Agency remains committed to working with States, tribes, and other entities to protect human health and the environment. Of the $7.6 billion budget, $3.1 billion would provide direct assistance to States, tribes, universities, local governments, and other partners. The President and I both believe that these partnerships are a vital part of effective environmental management and stewardship. Our budget request reflects that.

As EPA continues to carry out its mission, I look forward to building upon a strong base of environmental progress. This budget, Mr. Chairman, will enable us to carry out our principal objectives while allowing us to react and adapt to challenges as they arise.

CLEANER AIR

The budget requests $617 million to fund our clean air programs, thereby helping to ensure that air in every American community will be clean and safe to breathe. This includes $7.7 million more for modeling and analysis to strengthen the Agency's clean air programs. Furthermore, this budget supports the President's Clear Skies initiative, an aggressive plan to cut power plant emissions by 70 percent. Clear Skies legislation would slash emissions of three power plant pollutants—nitrogen oxide, sulfur dioxide, and mercury—by 35 million tons over and above what would be obtained under current law. Such emissions cuts are an essential component of improving air quality and thus environmental and human health. The Clear Skies initiative would build upon the 1990 Clean Air Act's acid rain program by expanding this proven, innovative market-based approach to clean air. Many counties could be brought into attainment with new ozone and particulate matter air quality standards based solely on Clear Skies. Clear Skies would significantly improve air quality conditions even in counties that would require additional emission reductions. Such a program, coupled with appropriate measures to address local concerns, would provide significant health benefits even as energy supplies are increased to meet growing demand and electricity rates remain stable. I look forward to working with you, your fellow members of Congress, and the President on this landmark legislation.

The budget also includes $16.5 million for air toxics monitoring grants to State, Tribal, and local entities, a $7 million increase from last year, aimed at improving our understanding of air toxics exposures to help implement EPA's comprehensive air toxics strategy. The budget dedicates $23.9 million, an increase of $3 million, to the Agency's efforts combating children's asthma. The successful Tools for Schools Program, which helps schools assess and improve the quality of air students breathe, and other such efforts will benefit from the added funding.

PURER WATER

EPA's budget request places a strong emphasis on core water programs to improve our water management framework, program implementation, and information sharing. The President's request boosts resources to States, tribes, and various entities to provide technical assistance, guidance, training, and additional funding. Our core water programs will increase by $55 million for a total of $470 million. This includes $20 million for Clean Water Section 106 Grants to help States improve implementation of the Clean Water Act (CWA) and $12 million aimed at enhancing State and Tribal drinking water program capacity through Public Water System Supervision (PWSS) grants. Other efforts reflected in the budget to provide clean and safe water to the American public include:

—*Additional Great Lakes Funding.*—This budget nearly doubles the Agency's Great Lakes commitment. EPA is requesting $15 million in support of the Great Lakes Legacy Act to bolster contaminated sediment cleanup activities. In 2004 the Agency plans to begin cleanup on two to three new sites. Some of this funding will also be used for assessment and analysis, resulting in additional cleanups.

—*Extending the Federal Commitment to the Clean Water State Revolving Fund (SRF).*—The President's budget is committed to funding the Clean Water SRF well above the previous administration's $2 billion average annual revolving goal. It finances the Clean Water SRF at $850 million through 2011 and increases the long-term revolving level by $800 million to $2.8 billion, a 40 percent increase over our previous goal. At present, there is $42 billion on loan or available for loans to States and tribes. The expanded commitment is projected to make $63 billion available over 20 years thus allowing States and tribes to finance an additional 15,000 projects over that period.

—*Extending the Federal Commitment to the Drinking Water SRF.*—EPA also proposes to fund the Drinking Water SRF at $850 million through 2018 so it can revolve at $1.2 billion per year, an increase of 140 percent above and beyond our prior goal of $500 million.

—*Protecting Wetlands.*—Due to a 2001 Supreme Court decision, tens of thousands of acres of isolated waters and wetlands may be subject to development that no longer requires a permit under the CWA. EPA's budget provides a $5 million increase for State and Tribal wetland protection grants to help them protect these waters and move the U.S. closer to no net loss of wetlands.

—*Helping States Address Nonpoint Source Pollution.*—The President's budget allows EPA to work closely with State water quality agencies, USDA, conservation districts, and others to accelerate national efforts to reduce nonpoint source pollution. In light of significant increases in Farm Bill resources, EPA will shift the program's emphasis in agricultural watersheds from implementation of pollution reduction projects to planning, monitoring, and assisting in the coordination and implementation of watershed-based plans in impaired and threatened waters.

—*Safer Drinking Water in Puerto Rico.*—To ensure public health protection, the Agency requests $8 million to design necessary infrastructure improvements to Metropolitano, Puerto Rico. When these infrastructure improvements are completed, EPA estimates that about 1.4 million more people will have access to safer and cleaner drinking water.

BETTER PROTECTED LAND

To immediately reduce potential human health and environmental threats, this budget continues our long-standing commitment to clean up contaminated sites. Superfund, funded at $1.39 billion, includes a $150 million increase over the President's fiscal year 2003 budget request to start an additional 10–15 construction projects at Superfund sites nationwide. By strengthening Superfund, one of our base programs, this budget will continue the progress we have made in completing cleanups at more than 800 National Priority List (NPL) sites. Cleanup has either begun or been completed at over 93 percent of Superfund NPL sites.

EPA is committed to building and enhancing effective partnerships that allow us to safeguard and restore land across America. To do so, this budget provides $210.7 million, $10 million above last year's funding request, for the Brownfields program, one of the administration's top environmental priorities. The Brownfields program will draw on these additional resources to enhance State and Tribal response programs that restore and reclaim contaminated sites. By protecting land and revitalizing contaminated sites throughout the United States, EPA continues to expand efforts to foster healthy and economically sustainable communities and attract new investments to rejuvenated areas.

HOMELAND SECURITY

EPA plays a vital role in preparing for and responding to terrorist or other intentional incidents because of our unique expertise and experience in emergency preparedness and response to hazardous material releases. To meet our obligation to protect America's homeland we are asking for $123 million and 142 FTEs. This request would allow the Agency to continue providing leadership and guidance for the protection of the nation's critical water infrastructure while upgrading and enhancing our emergency response capabilities.

The President's budget reflects EPA's role in protecting public health and critical water infrastructure in the event of terrorist or other intentional acts. To ensure the safety and integrity of America's water infrastructure, resources would be dedicated to working with States, tribes, drinking water and wastewater utilities, and other entities to assess the security of these water facilities and develop emergency response plans where appropriate.

Incorporated in this request are targeted investments to strengthen the Agency's readiness and response capabilities, including the establishment of a "decontamination team," state-of-the-art equipment, and highly specialized training for On Scene Coordinators (OCSs). Meanwhile, EPA will conduct research and provide guidance and technical support for Federal, State, and local governments, and other institutions in the areas of building contamination (chemical and biological) prevention, treatment and cleanup activities, water security, and rapid risk assessment.

This budget would also expand our radiological contamination detection ability across the country and enhance our capacity to provide near real-time biosurveillance information should a biological incident occur. In addition, this request provides resources for Antimicrobials Scientific Assessments, Acute Exposure Guideline Levels, IT management for vulnerability assessments, environmental crimes expertise, as well as resources to enhance the Agency's physical infrastructure security.

ENHANCING STRONG SCIENCE

Sound science is a fundamental component of EPA's work. The Agency has long relied upon science and technology to help discern and evaluate potential threats to human health and the natural environment. Much of our decision-making, policy, and regulatory successes stem from reliance on quality scientific research aimed at achieving our environmental goals. The budget request supports EPA's efforts to further strengthen the role of science in decision-making by using the best available sound scientific information and analyses to help direct policy and establish priorities. We have requested $607 million to develop and apply strong science to address both current and future environmental challenges. Our budget supports a balanced research and development program designed to address administration and Agency priorities and meet the challenges of the Clean Air Act (CAA), Safe Drinking Water Act (SDWA), Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), Food Quality Protection Act (FQPA), and other environmental statues.

This budget supports increases to funding for research of sensitive populations such as children and the elderly, our new Aging Initiative, programs such as Computational Toxicology research, which integrates modern computing with advances in genomics to help develop alternatives to traditional animal testing approaches, and the Agency's Integrated Risk Information System (IRIS). We propose to nearly quadruple our funding for the modernization and expansion of IRIS—an EPA database of Agency consensus human health information on environmental contaminants.

Additionally, the Agency is taking steps to ensure a high quality scientific workforce. To do so, we are requesting resources for the Science Advisory Board (SAB), the newly established Science Advisor, and the STAR Fellowship program. EPA will expand its support for the SAB, an independent council to Congress and the Administrator on scientific, engineering, and economic issues that underpin EPA policies. Like the SAB, the Science Advisor will be responsible for ensuring the availability and use of the best science to support Agency policies and decisions and advise the

Administrator. To help us educate new environmental scientists we have requested $5 million for the STAR Fellowship program. This grant program has funded some of the country's best scientists and engineers. In addition, we have asked to expand our post-doc initiative which has encouraged environmental scientists and engineers to join EPA.

ENFORCEMENT

Since EPA's inception nearly thirty years ago, many environmental improvements in our country can be attributed to a strong set of environmental laws and our efforts to ensure enforcement of those laws. State, Tribal, and local governments bear much of that responsibility. EPA partners with those governments and other Federal agencies to promote environmental protection and restoration. This budget requests $503 million, the largest amount ever and a $21 million increase over last year's request, for EPA's environmental enforcement program. These additional funds, coupled with our proposed 100 Full Time Equivalent (FTE) enlargement of the Federal enforcement workforce, would help the Agency maximize compliance and achieve environmental results through an integrated program of assistance and compliance assurance.

QUALITY ENVIRONMENTAL INFORMATION

Information gathering, processing, and delivering are fundamental to EPA's work because of our reliance on scientific and analytical data and our close collaboration with external partners. Our goal is to provide the right information, at the right time, in the right format, to the right people. To achieve this goal, improve the Agency's information infrastructure, ensure that the American public has easy access to environmental information, and expand E-Government in support of the President's Management Agenda (PMA), we have proposed an additional $30.5 million investment for a total investment of $202 million in EPA's Environmental Information office.

We will continue development of the National Environmental Information Exchange Network. The Exchange Network is an electronic method of sharing environmental data using secure points of exchange. The primary components of the Exchange Network are the National Environmental Information Exchange Network Grant Program and the Central Data Exchange (CDX). The grant program assists States and tribes in evaluating their readiness to participate in the Exchange Network, enhances their efforts to complete necessary changes to their information management systems to facilitate Network participation, and supports State information integration efforts. The CDX is the focal point for securely receiving, translating, and forwarding data to EPA's systems—the electronic reporting gateway to the Agency's information network. This year the CDX will service 46 States and at least 2,000 private and local government entities.

ENSURING SAFE FOOD

The President's request includes $119.0 million to help ensure that all Americans will continue to enjoy one of the safest and most affordable food supplies in the world. To do so, EPA will continue implementation of the Food Quality Protection Act (FQPA) which focuses on new science-driven policies for pesticides review, seeks to encourage the development of reduced risk pesticides that provide alternatives to older versions, and develop and deliver information on alternative pesticides/techniques and the best pest control practices to pesticide users. The Agency is also working to help farmers transition, without disrupting production, to safer pesticide substitutes and alternative farming practices. We will reassess existing tolerances to ensure food safety, especially for infants and children, and ensure that all registered pesticides meet current health standards.

A COMMITMENT TO REFORM AND RESULTS

The President's proposed EPA budget for fiscal year 2004 fully supports the Agency's work. The request demonstrates EPA's commitment to our principal objectives—safeguarding and restoring America's air, water, and land resources—by strengthening and refining our base environmental programs, fostering stronger partnerships, and enhancing strong science. As we look to the future, I am confident that this funding will ensure the Agency's fulfillment of our responsibilities to the American public.

With that, Mr. Chairman and members of the Committee, my prepared statement is concluded. I would be pleased to answer any questions you may have.

Senator BOND. Thank you very much, Madam Administrator.

CLEAN WATER SRF—PRESIDENT'S REQUEST

As both my colleague from Maryland and I indicated, water infrastructure funding is an extremely high priority. We oppose the reduction in the Clean Water State Revolving Fund. The EPA gap analysis concluded the United States will need $540 billion over the next 40 years. Other estimates indicate that these costs could top $1 trillion.

How does the administration justify reducing funding for clean water and when, where, and how are we going to be able to find the resources to meet our water infrastructure needs?

Ms. WHITMAN. Well, Mr. Chairman, the Clean Water State Revolving Loan Fund has reached the previous revolving goal of around $2 billion as a long-term annual revolving level. Rather than saying that is where we are going to stay and nothing further will be committed, the administration has, through this budget, decided to increase this commitment effectively to an annual long-term revolving level of $2.8 billion through 2011, which will provide $4.4 billion more over those 6 years.

When the legislation was initially enacted, there were no promises made and no assumptions made beyond the fact that this was eventually going to be something that was going to be taken over by the States. It is clear that there is always going to be the need of a Federal participation and there is a need for a substantial commitment to that, which is why the administration proposes taking it to 2011.

There are also a number of other areas where we are providing funds to State, local, and Tribal governments for water, clean water, and drinking water infrastructure needs, and we are working with the States and trying to be as flexible as possible to allow them to move dollars from some of their other programs to address what may be their most pressing need on water infrastructure.

But it is clear that we have dollar needs that are beyond any one part of government to meet. We had a conference—last month was it, Tracy?

Mr. MEHAN. Yes.

Ms. WHITMAN [continuing]. In January, bringing together the stakeholders of various water systems representatives, as well as ratepayers and other State experts, to talk about some of these needs and identify things that we could do beyond just the straight dollars.

But we believe that by providing a comprehensive program with dollars from a number of different sources, and the flexibility for States to apply these where their needs are the greatest, and by making the commitment to 2011, that we will in fact be able to continue to move this program forward.

COMBINED AND SANITARY SEWER OVERFLOWS

Senator BOND. We need to do something more than just continue. I appreciate your mentioning Tracy. I know he has probably fished in Christian County and knows the problem and knows the area that I spoke about earlier.

But while we are speaking about needs, the combined and separate sewer overflows, there are 772 municipalities that combine do-

mestic sanitary sewage, industrial waste, infiltration from groundwater, and storm water collected, and they are overloaded and they result in tremendous pollution when they are overloaded. What is the cost to address these needs and how should these needs be paid?

Ms. WHITMAN. What cost estimates do we have on sanitary sewer overflows, Tracy? I am looking to the expert on this one, Senator.

Senator BOND. Why don't you get that answer for the record.

Ms. WHITMAN. We would be happy to get you that answer for the record.

[The information follows:]

COST ESTIMATES OF SANITARY SEWER OVERFLOWS

The Clean Watersheds Needs Survey (CWNS) does not include a category specifically for correction of sanitary sewer overflows (SSOs). Therefore, EPA is using a model to develop a SSO estimate for the CWNS 2000 Report to Congress. The model is based on reducing wet weather overflows within a collection system to every 5 years. This is a level of control that could be reasonably estimated by a model at this time using available information.

The modeled estimate of SSO costs is $88.5 billion in January 2000 dollars. This is an estimate of the capital investment required. The actual of capital investment needed can only be determined by a case-by-case analysis of each system. The modeled estimate does not include the cost of improved collection system management and operation and maintenance, which can be a significant factor in estimating SSOs.

ARSENIC STANDARD

Senator BOND. Let me ask you another impossible question.

Ms. WHITMAN. It's that Princeton education.

Senator BOND. What steps is EPA taking to make sure that communities with water that exceeds the current standards for arsenic will be able to convert or rebuild the water systems to meet the——

Ms. WHITMAN. Actually, Senator, we are doing a great deal on that. We have put out a request for willing communities to serve as hosts for pilot projects. We have had about 117 responses. By the end of this year, we hope we will be beginning pilot programs, eight to ten pilot programs. Those will be in different States around the country.

Really what we are looking for is we are testing new technology. A great deal of new technology has come forward to us that purports to be effective in reducing arsenic and will give us the opportunity to find less expensive methods, a host of methods.

But we also recognize that there are geologic factors, there are different water concentrations, that impact how the arsenic is getting in the water. So we are looking for sites that represent both the different kinds of problems that we face on the ground and the different types of technology. We are providing additional money, with working with the Department of Agriculture. And we have also given a 3-year extension that is almost automatic for all the water companies to meet the goal. Then smaller water facilities can continue to get 2-year extensions, three more 2-year extensions. So we will give them time to meet these needs.

Senator BOND. Well, I was going to try to sneak in another question. But let me turn now to my Ranking Member, Senator Mikulski.

CLEAN WATER SRF—PROPOSED REDUCTION

Senator MIKULSKI. Well, as you can see, Madam Administrator, we are really focused on water quality. I am going to ask some of my questions and then leave others for the record because the Senate is working to draft a resolution in support of our troops. Today is a very tense day in the world. I know our thoughts are with our troops and the people with responsibility for leading them. I know, too, that you have been working very hard on homeland security.

Let me go, though, to the water infrastructure issues. I just want to pick up again on what Senator Bond said. There is a group called the Water Infrastructure Network and they estimate there is a funding gap of $23 billion for a year. GAO says over the next 20 years there could be $300 billion. EPA itself said that over the next 20 years demands for improved sewer and drinking water could outstrip current levels by $535 billion.

Now let me go to this year's request for appropriations. The budget cuts $500 million from the Clean Water SRF and $315 million in targeted water projects. How many water projects will not be funded as a result of these cuts and what will be, do you estimate, the impact on the environment?

Ms. WHITMAN. Well, Senator, we have no way of knowing how many projects will not be funded because we have not set out a budget. We do not have all the requests in and we do not know how the States will be using those dollars. These are dollars that the States get to put toward their needs. So it would be difficult for us to say that.

I think the important thing to remember here is this is a revolving fund. Over the long term, it will be revolving at better than $2 billion a year, which is where it was anticipated to be. And we are trying to make the commitment to ensure that that anticipation is going to be met in the out years as well.

Senator MIKULSKI. Could you tell me, what was the rationale of going from, with water projects, from $1.3 billion to $850 million? What was the rationale behind it?

Ms. WHITMAN. Again, the assumption was that when you added together the fact that we were extending the Clean Water SRF to 2011 and increasing the annual long-term revolving commitment to $2.8 billion, from the previous annual revolving level of $2 billion, that would address those needs, understanding that there was no way we were going to have all the money to be able to do all of the projects that were out there. By putting that together with the other pots of money that we have for States and the other increases there is a very, as we say at the Agency, robust water program. There are a significant amount of dollars available to States and local districts to meet their needs.

But the understanding is that we do not have all the money to do it.

Senator MIKULSKI. State and local governments are really hurting and they are hurting because of, one, their own budget issues, which I know you have heard about from the Governors. Number two, they are hurting because, particularly in the coastal states, they are tremendously impacted by these cuts on water and because of the increased costs of homeland security. But they are also

calling me and my colleagues about money to protect water infrastructure issues for homeland security. Then they see that their water and sewer projects are hurting.

So I do not know what to tell them and how we are going to help them.

Ms. WHITMAN. Well, I think it's important to note——

Senator MIKULSKI. If you were with the Mayors Council or the National Association of Counties what would you tell them on how the Federal Government is on their side and how we are going to help them?

Ms. WHITMAN. Well, I think it is important to note that we are proposing a $32 million increase in core water programs over the total budget of the Agency as it deals with water programs for States, local governments, and tribes. In addition, we are also increasing EPA's resources to provide guidance and technical assistance to local governments and to tribes.

Over the nearly 30 years of the Clean Water Act and the Drinking Water Act we have worked together at all levels and made incredible progress. There is no question that there continue to be extraordinary needs, but with an increase of $32 million overall in our core water programs and the guarantee of the revolving nature——

Senator MIKULSKI. Excuse me, but that $32 million could be used by about five States and use it right up.

There are other questions that I have, one of which is, I know in January EPA convened a conference on closing the gap with local officials on how to meet water and sewer challenges. Could I have for the record what came out of that meeting so we can have the best guidance of your own consultations?

Ms. WHITMAN. Certainly.

[The information follows:]

SUMMARY OF DISCUSSIONS FROM THE CLOSING THE GAP: INNOVATIVE SOLUTIONS FOR AMERICA'S WATER INFRASTRUCTURE FORUM [1]

JANUARY 31, 2003

INTRODUCTION

In an effort to facilitate and stimulate a national dialogue on the importance of finding innovative ways of enhancing and sustaining the Nation's water infrastructure which is vital for protecting public health and the environment, U.S. EPA Administrator, Governor Christine Todd Whitman, and the Assistant Administrator for Water, G. Tracy Mehan, convened a forum on Closing the Gap: Innovative Solutions for America's Water Infrastructure on January 31, 2003, in Washington, DC.

The emerging theme from the forum was that Federal, State and local governments and the private sector, working with the public should extend their efforts in supporting the necessary water infrastructure. This infrastructure is critical for protecting public health and the environment, and maintaining local and national economies.

Over the past several years, a number of studies have highlighted the need for substantial investment in the Nation's drinking water and wastewater infrastructure. (U.S. Environmental Protection Agency 1998, 2001, and 2002; General Accounting Office 2002; Congressional Budget Office 2002; Water Infrastructure Network 2000 and 2001; American Water Works Association 2001.) While the estimates of the cost of this investment vary greatly, each study concludes that a significant increase in spending above current levels will be necessary to meet this investment need. In response, the U.S. Environmental Protection Agency (U.S. EPA) convened

[1] This document is a summary of discussions during a public meeting and does not necessarily represent EPA's position.

a forum of water system experts from industry, government, and academia to discuss options for meeting this investment need. While Federal subsidies for investment in drinking water and wastewater infrastructure would help finance needed investment, Federal support will not address the entire need; therefore, the U.S. EPA wants to consider other innovative responses to ensure the investment need is met in an efficient, timely, and equitable manner. These approaches could include improvements in management systems and water use, a watershed approach to resource management, and efficient pricing of drinking water and wastewater services.

The forum was convened by the U.S. EPA Administrator, Governor Christine Todd Whitman, on January 31, 2003, in Washington, DC. The Assistant Administrator for Water, G. Tracy Mehan III, opened the forum and introduced Governor Whitman, who welcomed the participants and explained the purpose of the forum: to exchange information and views on innovative management and sustainable financing of the Nation's water and wastewater infrastructure. Following the Governor's remarks, the Assistant Administrator summarized the issues to be addressed during the day by two panels comprised of water system operators, regulators, environmentalists, and academics, focusing on four areas: better management, smarter water use, full-cost pricing, and a watershed approach. (The forum's agenda, the introductory remarks, and the list of panel members are appended at the end of this report.) The first panel focused on management of water and infrastructure assets. The second panel focused on infrastructure financing. In addition to 14 panelists, more than 250 people attended the forum. The forum concluded with an open discussion with the Assistant Administrator for Water and panel members.

The difference between the projected level of spending on drinking water and wastewater infrastructure and the projected level of spending required to meet future investment needs is referred to as the "gap." While the gap is a useful construct, it has limitations. The gap is a static estimate of a dynamic phenomenon; the level of investment required will change over time, depending on a wide range of variables and the actions of water and wastewater systems. The estimates are sensitive to the assumptions made regarding economic growth, population growth, and future spending on operations, maintenance, and investment. Finally, the high end estimates do not take into account how systems will use less water; adopt new, more efficient technologies; or better manage their assets.

On the other hand, the gap analyses focus attention on the additional resources—financial, technical, and managerial—necessary to ensure water remains clean and safe. The issues raised by the forum can be organized into the following themes:

—System management;
—Technology;
—Finance;
—Efficient pricing;
—Public education.

This report summarizes the discussion and presents the basic conclusions of the forum. It presents the issues raised by the two panels and the public discussion that followed. It does not represent EPA policy; rather, it presents the issues and ideas raised during the forum about approaches for addressing the water and wastewater infrastructure needs.

AN INTEGRATED APPROACH TO SYSTEM MANAGEMENT

Effective management integrates approaches across assets in watersheds and is coordinated with financing, including pricing, and public education to address clean water needs. Drinking water and wastewater systems need good management systems such as asset management and environmental systems management programs. Good watershed management can minimize the cost of future investment. Watershed management also requires regulatory flexibility to deal with a range of conditions that exist in different systems and watersheds.

Asset Management

Water systems need to conduct a full accounting of the costs to manage their assets, both for current operations and future investment needs. This accounting is also necessary to substantiate pricing water to cover the full cost to treat and deliver to consumers (addressed below). Asset management is an approach for an integrated assessment of future capital and operating needs and ensuring investments are made efficiently. By appropriately managing its assets, a system may be able to reduce its overall investment needs. The key focus of asset management is on improving the quality of information on which decisions are made. Asset management requires an information system that characterizes the risks associated with failure to repair or replace elements of infrastructure and a decision-making approach that

uses risk assessment to measure the benefits of alternative approaches to infrastructure rehabilitation and replacement. Asset Management processes and techniques can be adapted to the complexity and scale of the organization's systems. For more complex systems, asset management is neither inexpensive nor easy to implement, but it can be a cost-effective means of closing the gap.

Asset management is an inventory-based approach to planning. Systems must define the service levels required for end uses, from fire flow to residential water use. They then account for the physical assets in their inventory by assessing the age, condition, and importance of each asset. Age will give a sense of the condition of the asset, but its physical condition also must be evaluated. Condition assessments are focused on parts of the system that are most critical to continuing successful provision of the services. Physical inspections (such as walking through pipe or sending in cameras) may be needed. Other means also may be available. For example, systems can measure iron pick-up in the water in the distribution system over time as is done in England, which would indicate potential corrosion of the iron pipes. Use of operational data and statistical approaches also can be used to identify trends in performance.

Systems also must determine how critical the asset in question is. For example, not all pipe of similar age and condition needs to be replaced at the same time. In some cases, a pipe break would have severe consequences: it could disrupt service for thousands of customers for several days, and it could be very expensive to fix. In other cases, a break can be repaired in several hours, with little impact on customers. By classifying how critical each asset is to service provision, a system can focus its investment where it is needed most.

Based on this assessment, systems can then plan for the replacement of its assets. As with pricing, this may require changes in culture and attitude. In many cases, the approach towards public infrastructure is to build it and operate it, with minimal maintenance, until it wears out. Asset management entails a more proactive approach, looking at the asset over its entire life cycle. In addition to technological needs like fiber optics, cameras, and flow meters, system operators need training to implement asset management. Asset management requires a significant amount of information, and a major commitment on the part of the system to collect the data and manage the system. Seattle with more than 1,000 employees was able to commit four staff to asset management. Smaller systems may require outside assistance.

Watershed Management

A watershed approach that involves both institutional and physical integration of wastewater management, storm water management, water use, and land use could lower costs all around. A watershed approach would entail broad stakeholder involvement, hydrologically defined boundaries, and coordinated management across all aspects of policy that affect water. Through increased efficiency in water use and water reuse, water withdrawals can be lowered, reducing the need for new source development and reducing the amount of wastewater to be processed. By protecting source water, it may be possible to reduce the need for expensive treatment plants. Some regionalization of systems, through actual consolidation; sharing of management resources, computer systems, and information; or interconnection, can help lower costs for small systems and enhance the management of the watershed.

One example of this type of integration happened in 1974 in the United Kingdom. Responsibility for all water and sewer policies was vested in ten new authorities that were defined by hydrological boundaries. The oversight of these regional authorities by national agencies concerned about water quality and the cost of service created the conditions for strong asset management policies. The United States is not the United Kingdom; therefore, there will not be a real opportunity for national watershed planning. But there are opportunities within States, as some States are moving forward in consolidating entities into larger units for decision-making on water beyond political boundaries.

Regulatory Flexibility

The regulatory regime also can have an impact on system planning and watershed management. Inflexible regulations can lead to inefficient management of the watershed. For example, controlling and managing non-point sources of pollution are very important to improve water quality and will require significant attention. But these sources are not the focus of current regulations, which force systems to put most of their resources towards curbing point sources of pollution. Increased regulatory flexibility may let systems meet clean water and drinking water standards at a lower cost. For example, Seattle was able to save a significant amount

of money when it was allowed to invest in source water protection rather than install a filtration plant to comply with drinking water standards.

Regulators tend to favor the traditional approaches, even though new approaches can be more cost effective. Seattle has experimented with using swales on both sides of a street and has succeeded in reducing runoff by 97 percent. This kind of "thinking outside the box" may be expensive at the beginning, but can produce significant savings in the long run from reduced maintenance costs.

The Role of Technology

Water infrastructure ranges from relatively simple pipe to complex treatment facilities. The need to replace infrastructure is the source of the funding need; technological innovations may provide a means for reducing the cost of the future investment. The use of fiber optics can help assess the condition of buried infrastructure, as has been done in the United Kingdom. Cleaning out and lining old pipes provide low-cost alternatives to replacement of distribution mains and sewer lines. New pipe material that reduces leaks will reduce water demand. Computers can free operators from monitoring dials to managing assets and other tasks. New membrane technologies will be useful, at least on a small scale. A host of decentralized wastewater technologies are very cost-effective for small communities compared to conventional sewers. Some of these technologies can be blended with conventional systems for urban and suburban areas.

Not all promising innovations are complex technologies. Coca-Cola reduced water consumption by 25 percent in a matter of days by capturing wastewater onsite and using it to wash the company's trucks and crates. Other small technology changes, like replacing an old chlorinator with a state-of-the-art model, can yield significant cost savings as the Narragansett Bay Commission discovered.

However, regulators, engineers, and drinking water and wastewater system operators tend to be conservative when it comes to adopting new technologies. The technology must be in use for it to even be considered. Laboratory testing likely will not be adequate to encourage operators to adopt new technologies; rather, full-scale demonstrations may be necessary. The Federal Government plays an essential role in promoting research, development, testing, and evaluation of new technologies and then in disseminating information about proven technologies. This role will remain important in the future.

FINANCING INFRASTRUCTURE INVESTMENT

EPA's gap analysis (U.S. EPA, September 2002), like other studies, focuses on projected estimates of the cost of future investment in water infrastructure without identifying the source of funds to pay for this investment. While not the focus of the forum, funding was an underlying theme. Clean and safe water is a public good; therefore, the central question is to what extent taxpayers or rate payers will pay for the needed investment. The forum raised several issues with regard to the means of financing infrastructure investment.

First, the drinking water and wastewater systems themselves—and by extension, their customers—will pay for the vast majority of the investment. Some argue that systems should move towards full-cost pricing that accounts for needed future investment to generate the necessary funds and to impart a clear signal of the cost of water to their customers. As mentioned earlier, many systems do not adequately account for their investment needs and charge rates below cost; therefore, they generate insufficient revenue to finance investment, and will need to increase their rates. Because water consumes a relatively small share of household income, most households may be able to afford a rate increase. To minimize rate payer backlash, systems must back-up rate increases with solid information on costs of service. Programs also will need to address affordability issues through mechanisms such as lifeline rates for low-income customers. It was also mentioned that accounting/financial reporting is needed to regulate the industry economically to press the case for proper rates.

Second, the Federal Government will continue to play an important role. Appropriate incentives can promote improved management practices. The Federal Government can provide incentives to encourage systems to implement asset management, full-cost pricing, technological innovation, and water saving programs. The Federal Government also remains an important source of funds for water and wastewater infrastructure improvements. Some panelists called for additional resources by the Federal Government, including an increase in the Federal contribution to the Drinking Water State Revolving Fund and the Clean Water State Revolving Fund. Several panelists recommended that States should leverage these funds to generate additional resources. Some States leverage these funds, others do not. One controversial suggestion was the establishment of a Federal water trust fund, with dedicated

funds tied to a water-related fee. Other panelists believed that increased Federal funding should not be the answer.

To encourage sustainable financing, some argued that steps should be taken to level the playing field so that anyone interested in investing in public infrastructure for the public good has access to tax-exempt financing, which often is limited even for public utilities. This access can be provided by lifting the restrictions on tax-exempt financing for many communities and allowing private activity bonds. Municipal bond reform could generate additional funds by providing preferential tax treatment for water-related bonds issued by both publicly or privately owned systems. "Green" bonds—below market interest rate bonds to support water infrastructure and other environmental programs—also could be created to finance water projects. Also, many systems cannot float bonds for political or rating reasons, limiting access to capital markets.

Creative measures are available for systems' rate structures as well. Connecticut and Pennsylvania allow water utilities to recover infrastructure investment through monthly bills for a particular period of time. The Elizabethtown Water Company can segment their market by charging for specialized services (e.g., insurance for line breaks between the curb and the house); these funds can then be used to finance infrastructure investment.

The issue of financing sustainable infrastructure can be viewed in the framework of capacity development. While some systems may be able to meet their needs through a combination of increased rates, improved water use, and asset management, other systems—especially low-income small systems—may not be able to implement improved management techniques or raise sufficient funds. Many low-income small systems may not have the managerial, technical, or financial capacity to meet the investment challenge or national environmental and drinking water standards. Often these systems may not know what their needs are; in some cases, the State or other regional authority assesses the needs of the system and makes recommendations. Regionalization provides a means of upgrading assets at lower costs. For regionalization to succeed, a third party may be needed to provide an unbiased analysis of the situation. Regionalization will not always be the answer, however. Small, isolated systems should be screened to determine whether a structural solution is warranted, or if technical or financial support would address the system's needs.

THE ROLE OF PRICING

Pricing water appropriately is important for water providers and consumers to get the right market signals. Like other utilities, drinking water and wastewater systems are typically either regulated monopolies or publicly owned. One of the key challenges facing systems under these circumstances is to provide their services in an economically efficient manner. Prices play an important role, but the price signal often is muted in publicly owned systems or regulated monopolies. The price of drinking water and wastewater services is rarely equal to marginal cost (i.e., the cost to the system of producing an additional unit of water), and is often below the average cost per unit of water service (implying some form of subsidy).

It was discussed that switching to a pricing approach that recovers the full cost of water and wastewater services could address the infrastructure funding gap in two ways. First, full-cost pricing would tend to increase system revenue. Moving to full-cost pricing may require changes in accounting and management to ensure the rate covers the cost of future investment needs as well as current operations (see the discussion of asset management, above). With these changes in place, the revenue generated through full-cost pricing can provide systems with much of the funding necessary to finance infrastructure investment. Second, full-cost pricing can reduce future investment needs. The elimination of rate subsidies (explicit or otherwise) will send a clear signal of the value of water to consumers. The clear price signal can play an important role in demand-side management, encouraging conservation. Reduced demand, in turn, can reduce or delay planned investments.

This dual effect of raising funds for investment and reducing the level of investment required is a theme that was present throughout the forum. The gap is analogous to the open jaw of an alligator. The top of the jaw represents the projected investment need over the next 20 years, which, if not addressed, threatens to imperil the service level of existing water infrastructure. The bottom jaw represents the projected level of funding available to finance this investment which, if not sufficient, will not mobilize the necessary resources. The challenge for systems (and for public policy) is to close this jaw. It was argued by some that full-cost pricing works on both the top and bottom of the jaw, generating funds for investment, and reducing the amount of investment required.

Appropriate economic incentives can encourage efficient allocation of resources for both publicly and privately owned water systems. Because of the requirements of the market, privately owned systems are more likely to use full-cost pricing. Privately owned systems tend to charge higher rates than publicly owned systems, because they must provide a return for investors and pay taxes. (Privately owned systems also are regulated by State public utility commissions, which approve their rates and hence provide political support not necessarily available to publicly owned systems.) Full-cost pricing helps make privately owned systems self-sustaining by providing them with the means for necessary infrastructure investment.

It often is assumed that private companies are very good at project delivery and management. But privatization is not a panacea; it is not appropriate in all circumstances and must be evaluated on a case-by-case basis, considering service received for the price paid. Private firms can produce good results, but a bad contract can leave a community worse off. Whether publicly or privately owned, drinking water and wastewater utilities must recognize both the public service and business aspects of their systems. Some argue that publicly owned systems can benefit by using private sector management approaches, including full cost-pricing and asset management. The public has demanded input into decisions of privately owned systems regarding traditional public-sector issues like land use. A privately owned or operated system must provide service that is at least as good as a publicly owned and operated system. If service is not as good, it will be penalized; if it performs better than the public system, it may benefit.

The issue raised by pricing is not simply one of ownership, but the incentives facing the system. Many publicly owned systems recover their costs through full-cost pricing. On the other hand, some privately owned systems do not face the incentive needed to adequately plan for investment. For example, a smaller privately owned system did not adequately plan for investment until it was acquired by a larger company and changes were made that affected how management made investment decisions. Both publicly and privately owned systems will need to address issues raised by more efficient operations, including operators' fear of job loss, changes in relationships with unions and other institutions, and the cost impact for households.

Some systems have moved to full-cost pricing, and many systems have dramatically increased rates. For most households, water remains relatively inexpensive, comprising less than 1 percent of household income. However, many households will not be able to afford higher water rates. Furthermore, some households may be able to reduce water expenses through conservation, but others will not. For example, some systems have found that successful conservation programs can create revenue shortfalls, necessitating rate increases. As consumers had already implemented conservation measures, they could not further reduce their water use in response to the rate increase, and they saw their monthly water bill increase. The increased expenses can have a substantial impact, especially on low-income households which may have an inelastic demand for water and may not be able to reduce consumption further. Rate reduction programs are needed to cushion the impact of rate increases on low income households. These programs may include direct assistance for low-income households, similar to the U.S. Department of Health and Human Services' Low-Income Home Energy Assistance Program (LIHEAP). They also may include the use of lifeline rates or other rate structures that can reduce the cost of water to low-income households.

PUBLIC EDUCATION

While full-cost pricing may be a necessary component of addressing the funding gap, public education is needed to explain to rate payers the need for rate increases. In fact, the move to full-cost pricing is itself part of public education, as it provides information to rate payers about the cost of the provision of drinking water and wastewater services. But other educational efforts also are needed. The need for rate increases may be promoted for water systems and accepted by consensus because they systems provide a high quality, reliable product at a relatively low price. Household spending on water is a fraction of what is spent on cable television, telecommunication services, or even bottled water. With public education and outreach, customers may be willing to pay higher rates for maintaining and improving their water infrastructure. Unfortunately, many of these improvements, such as replacement or repair of pipes, are installed below ground and cannot be seen or appreciated by the public. There are ways that utilities can create positive value as part of their infrastructure projects by making people aware of the importance of the projects.

On the other hand, marketing water can be difficult. Regulated systems may not be allowed to expend funds to market because they are monopolies. Publicly-owned

systems may find it politically difficult to launch an advertising campaign as well. And while households spend a larger share of their income on other goods and services, the comparison of water costs to other services is not simple. Furthermore, systems will ask customers to pay higher rates to maintain what may be perceived to be the same level of service (reliable, safe water), rather than to receive a new improved service in the form of higher quality water or more reliable but less (conserved) water supply. Finally, the public usually pays attention only when things go wrong. Utilities need to find opportunities to promote themselves when things go right.

CONCLUSION

Drinking water and wastewater systems, local regulators, the States, and the Federal Government will face many challenges over the next 20 years as they try to meet the Nation's water infrastructure investment need. Innovative responses are needed by both water systems, government authorities and consumers to close the gap. These may include the use of changes in system management, the adoption of new technologies, increases in external funding and full-cost pricing by systems. Public education also can play an important role as systems, the States, and the Federal Government all address the Nation's water infrastructure need. These responses can be divided into managerial, financial and technical approaches for closing the gap.

SUGGESTIONS DISCUSSED BY FORUM PARTICIPANTS FOR MANAGERIAL RESPONSES

Promote Asset Management Through Incentives and Assistance.—Integrated approach to management of water systems can help reduce the need for future investment in infrastructure. Asset management can help systems plan for needed investment and ensure the investment is timely and cost-effective. While asset management involves a substantial commitment by systems to develop and maintain information about the age, condition, and criticality of their systems, it presents an important source of potential savings. The government may play an important role by facilitating the adoption of asset management and by providing technical assistance to help systems implement an asset management program.

Integrate Watershed Management with Asset Management.—An integrated approach to the management of an entire watershed also can help reduce the cost of future investments. A watershed approach that coordinates management across all aspects of policy that affect water can help ensure systems provide water that is clean and safe at the lowest possible cost. This may require additional regulatory flexibility by both the Federal Government and State regulators.

Support Public Education on Water Value and Costs.—An important component of effective system management will be public education. To close the infrastructure gap, customers may be asked to pay higher rates and to take steps to use water more efficiently. Water systems need to inform their customers about the overall value of water as well as the systems' investment needs to garner their support for the steps needed to meet the Nation's water infrastructure needs.

SUGGESTIONS DISCUSSED BY FORUM PARTICIPANTS FOR FINANCIAL RESPONSES

Provide Incentives from Government.—Some argued that the government can play an important role in helping systems adopt full-cost pricing by providing incentives to encourage its adoption, technical assistance with rate design, and financial assistance to help cushion its impact on low-income households.

Continue Low-interest Government Loans.—The public sector will continue to play an important role in funding water infrastructure investment. The Drinking Water and Clean Water State Revolving Funds will continue to be an important source of funds for systems, providing loans at below-market rates.

Increase Leveraging Funds by States.—States may leverage the funds more aggressively to increase the funding available for investment in infrastructure; it was argued by some that the Federal Government should consider an increase in the level of capitalization of these funds.

Establish a Water Infrastructure Trust Fund.—The idea was brought up that the Federal Government also may want to consider the establishment of a water trust fund, funded through water-related fees.

Change Tax Laws to Increase Access to Capital.—Some participants brought up that other changes, including changes in tax laws, should be considered to level the playing field and increase systems' access to capital markets.

Price Water at Full Cost.—Discussion included the idea that full-cost pricing could be one of the main tools available to systems to help address future investment needs. Full-cost pricing can help raise the revenue needed to finance infrastructure

investment; it also may reduce the amount of investment required by encouraging efficient use of water.

Incorporate Equity Considerations for Low-income Households—Some form of assistance may be needed to cushion the impact of rate increases on low-income households, through either innovative rate design or direct financial assistance.

SUGGESTIONS DISCUSSED BY FORUM PARTICIPANTS FOR TECHNOLOGICAL RESPONSES

Research and Develop Innovative Technologies.—New technologies may help reduce the cost of replacing existing infrastructure. Systems may need to explore innovative technologies when upgrading their infrastructure and managing their assets. Additional research and development, including full-scale demonstration of new technologies, can help reduce future investment needs. The public sector can play an important role in promoting this research and in disseminating its results to systems.

SUMMARY

The integrity of the Nation's water infrastructure is critical to public health, environmental quality, and economic vitality across the country. The forum focused on the challenges faced by water suppliers, wastewater managers, State and local officials, the Federal government, and consumers in addressing the growing needs to maintain, replace, and improve water infrastructure. In addition to identifying some of the myriad of challenges facing water systems, it fostered a discussion of innovative approaches for meeting these challenges. New management practices, consolidation, asset management, water conservation, public-private partnerships, environmental watershed management, full-cost pricing, and consumer education are some of the promising tools available to help meet future investment needs.

REMARKS OF GOVERNOR CHRISTINE TODD WHITMAN TO THE NATIONAL WATER INFRASTRUCTURE FORUM

Thank you, Tracy (Mehan), for that introduction and for convening this forum. I hope this meeting will provide the opportunity to explore—and perhaps even begin to solve—some of the challenges posed by America's aging water infrastructure.

About 2,300 years ago, the Roman Empire began construction of its amazing aqueduct system. By the time the system was completed—some 500 years later—Rome's 260 miles of water infrastructure were capable of delivering 85 million gallons of water a day to the 1 million citizens of the ancient city.

Yet, within about 100 years of the creation of this engineering marvel of the ancient world, Rome's ability to maintain its water infrastructure began to erode. The aqueduct system fell into disrepair, and eventually people who once had their water piped right into their homes had to dig wells and haul water from nearby rivers and lakes.

The decline of Rome's water infrastructure and the fall of its Empire followed parallel tracks. For a whole host of reasons, that's history we do not want to repeat—and we won't.

A safe, affordable, and abundant supply of drinking water is something we take for granted in America. We turn on the tap, and we don't have to worry whether what comes out will make us or our families sick. But there's no doubt that America's water infrastructure faces some critical needs in the years ahead.

The full dimension of those needs is outlined in the Clean Water and Drinking Water Infrastructure Gap Analysis EPA released last fall. Our report takes a good, hard look at what America's water infrastructure needs will be through the year 2019.

This report looks at infrastructure in the broad sense—everything it takes to deliver clean, safe water to America's homes and businesses and then remove and treat the waste water that results. From the water intake valve to the tap, from the kitchen sink drain to the outflow at the treatment plant, we looked at the entire picture.

As you know, the funding gap we identified from now through 2019 is significant. Assuming no growth in revenues, the total needed for clean water—in both capital and operations and maintenance—exceeds $270 billion. For drinking water, the gap approaches $265 billion.

The size of the projected gap can be reduced substantially if we project real growth in revenues over the same period. Assuming a 3 percent annual real growth in revenues, for example, the gap shrinks by nearly 90 percent on the clean water side and by about 80 percent on the drinking water side.

The actual gap may end up somewhere in between these numbers—and there are an enormous number of considerations that will go into determining exactly how big the gap will be over time. But what's important now is that we begin the discussion of how to close the gap with a better understanding of what the dimensions of the challenge really are.

As I said when I announced this forum last September in Chicago, the purpose of the forum is not simply to ask for more money from Washington. Instead, we've convened this meeting to give all the interested parties the opportunity to discuss how best to close the gap.

One thing is clear—the challenge we face is clearly beyond the ability of any one entity to address. It will require the participation and contribution of government at all levels, utilities, and users.

There's no doubt that this administration is committed to doing its part. We will continue to ensure the State Revolving Funds are robust and up to the job.

After all, history has shown the SRFs to be the most effective tool we have to support your work. To date, the Federal Government has provided more than $19.7 billion in capitalization funding to States for the Clean Water SRFs and $3.6 billion for the Drinking Water SRFs.

Because of the revolving nature of these funds, each Federal dollar invested leverages considerably more loans and assistance than would a traditional grant program. In fact, for every Federal dollar invested in the SRFs, we see a return on investment of $1.90. In addition, the SRF program gives the States flexibility to direct money to where it is most needed.

The Bush Administration is committed to ensuring that the Federal Government does its fair share, and I know Congress is also considering various methods to address the situation. Of course, States, municipalities, and utilities will also need to do their part. Given the gap, we estimate that utilities will have to increase their own investment at an annual real rate of growth of 3 percent.

Of course, money alone is not the answer. We need to tap into the creative, innovative thinking of the water community to find less costly and more efficient ways to narrow the gap. Only by embracing innovations that have been resisted by some in the past can we make the progress we need.

Adopting new, innovative management practices is one way to help ensure the resources are available to meet our future infrastructure needs. Such practices include taking an asset management approach, forging a new public-private partnership, consolidating ownership or management, or starting an Environmental Management System.

Another area of innovation that holds promise is reaching across existing local political boundaries to promote intergovernmental cooperation across entire watersheds. There are 168,000 public drinking water systems in the United States and 16,000 waste water utilities. EPA will continue to encourage utilities to consider ways to work together to achieve economies of scale or to ensure that they are working together to promote the health of the watershed they share.

The innovations we need should also include efforts to promote conservation and smart water use, not just by the user, but by the utility as well. A faucet in someone's home that leaks just a drop every 3 seconds wastes more than 1,000 gallons of water a year. But a leaky water delivery system can waste billions of gallons of water annually.

In the Detroit area, for example, it is estimated that every year more than 35 billion gallons of clean, fresh water leaks from water delivery pipes before it ever reaches the consumer. That's enough water to fill Yankee Stadium to overflowing more than 130 times. And while that probably wouldn't bother Tiger fans—or this Mets fan—if it would keep the Yankees out of the playoffs, there's got to be a better way.

When we come down to it, that's why we're here today, to begin to find the better way to close the water infrastructure gap, not just through a flood of money, but through a tidal wave of good, creative ideas.

The great Roman poet, Horace, who enjoyed the water brought to his city by the aqueducts I spoke of earlier, said, "To have begun is half the job: be bold and be sensible." That would be my charge to you. We have begun the job of addressing the infrastructure gap by defining it. Now is the time to be both bold and sensible in tackling the next half of the job that confronts us.

I look forward to learning from Tracy the results of this forum. And while neither Rome—nor its water infrastructure was built in a day—I believe today's efforts will help ensure that here in the United States, we will continue to provide all our people with a clean, safe water system that is the envy of the world—both ancient and modern—for many decades to come. Thank you.

SUSTAINING OUR WATER INFRASTRUCTURE

REMARKS DELIVERED BY G. TRACY MEHAN III, AT THE EPA FORUM ON CLOSING THE GAP: INNOVATIVE RESPONSES FOR SUSTAINABLE WATER INFRASTRUCTURE

JANUARY 31, 2003

On behalf of the Office of Water, I want to thank you for your willingness to participate in this crucial dialogue on the future of America's water infrastructure.

First, I want to thank the Administrator for convening this forum. Her leadership on this issue is very much appreciated by all of us in the national water program, especially her focus on innovation as one element of the solution to our investment needs in the years ahead.

Let me build on the Administrator's introduction and sketch for you some of the promising developments in the public and private sector that will enhance our management of the infrastructure that ensures the protection of our water and the delivery of safe drinking water. These innovations will either reduce the need for infrastructure or bring down the costs of infrastructure—and hence "close the gap", the title of today's forum.

Before we talk about ways of closing the "gap," let's talk about what the "gap" is. This term "gap", I'm afraid, may be more a term of bureaucracy than a commonly understood phenomena. Two years ago, *U.S. News and World Report* (6/12/00) called it the "sickening sewer crisis" in an article that began with a description of an ordinary suburban family waking up to a basement flooded by a broken sewer line. *U.S. News* suggested that, without preventive action, this scenario represents our future all across America. Other magazines and newspapers across the country have published a number of stories on the emerging problems in the Nation's plumbing.

EPA's report issued a few months ago was a bit more clinical.[1] We talked about "a gap between projected clean water and drinking water investment needs over the 20-year period from 2000–2019 and current levels of spending." Wall Street might call it an "investment gap." An economist might even call it a "pricing gap." There are also different estimates of the size of this gap—the magnitude of our investment needs. But whatever our numbers and whatever our language, the problem we're here to discuss today is that our water and sewer systems are aging—even as our population is growing; and our clean water and drinking water rules are tightening.

Our hope is that today's forum will cover a range of solutions that will speak to everyone—whether you're from a small system facing new drinking water standards requiring treatment for the first time, a large system with a billion dollar combined sewer overflow (CSO) repair bill or a system in the arid West facing the worst drought in a decade. Today's challenges demand a multi-faceted approach to managing and sustaining our infrastructure assets. Not only are we going to have to manage better in both the public and private sectors, we're going to have to use less water and, yes, pay an adequate price for our infrastructure in our role as ratepayers. There is, as the saying goes, no free lunch in our future.

The subjects I'd like to offer up for today's discussion include (but are not limited to) the following four areas.

Better Management.—Better management practices like asset management, environmental management systems, consolidation, and public-private partnerships offer significant savings.

Smart Water Use.—We need to create incentives to conserve and to protect our sources of drinking water.

Full Cost Pricing.—Full cost pricing and rate restructuring can capture the actual costs of our water systems, raise revenues and provide incentives to conserve.

The Watershed Approach.—We need to use a watershed approach, looking more broadly at water resources in a coordinated way.

Better Management

The 1996 Safe Drinking Water Act Amendments stressed capacity development—the proposition being that when drinking water utilities possess adequate technical, financial, and managerial capacity, they are better able to provide safe drinking water. States are using the capacity development provisions in the law to improve utility management. More recently, in the Office of Water, we've been looking at the potential for asset management techniques to reduce a utility's long-term costs and improve performance. This is a structured management approach that is based on information about the condition of a system's assets. Knowing the condition of your assets and linking that information to inventory, service levels, useful life, and re-

[1] EPA–816–R–02–020, *The Clean Water and Drinking Water Infrastructure Gap Analysis*, Office of Water, September 2002. Website: http://www.epa.gov/owm/gapreport.pdf.

pair costs will provide the information needed to make optimal management decisions—including decisions about funding future renewal and replacement.

Recently, working with Australian and U.S. consultants, the Orange County Sanitation District approved an investment of $22–38 million, over a 6-year period, to implement its Asset Management Plan, as part of a $2 billion investment strategy over the next 20 years. This front-end investment in manpower, planning and assistance, information systems, software, training and other process changes will yield a 20-year return on investment (ROI) in the range of 9:1 to 16:1. This translates into a reduction of $150 million in their capital improvements program and a total life cycle cost savings of at least $200 million.

This 10 percent savings from just one utility, admittedly a very large one, is equivalent to the current full amount of the Federal contribution to California's Clean Water State Revolving Fund (SRF) over 2 years!

Environmental management systems (EMS) are another important tool to help utilities manage better and reduce costs. The EMS approach involves a comprehensive assessment of an organization's impact on the environment followed by specific targets and objectives and continual checking to make sure the desired results are achieved. EMS and asset management can complement each other and give utilities a powerful way to continually manage for better results and greater efficiency.

EPA has also looked at cost savings that can be achieved by small systems through consolidating ownership or management with other small systems. Although consolidation is not always a viable option, by combining resources, systems can achieve a more sustainable level of technical, financial and managerial capacity. For instance, the system serving the city of Panora, Iowa consistently violated the public health standards for nitrate in drinking water. Rather than incur the cost of installing treatment, the city decided to purchase raw water of a higher quality from a neighboring system. In addition, the city pursued a partnership agreement with another neighboring system to assist with operating and monitoring its water treatment plant. This agreement enabled the city to take advantage of the other system's technical expertise and reduced the need for on-site operators.

Public-private partnerships have helped a number of communities provide water and wastewater treatment at reduced cost. Whether providing basic wastewater treatment supplies (e.g., chemicals), maintaining a portion of the collection or treatment system under a contract, or providing contract operation and maintenance for all of a municipality's facilities, the private sector can serve an important role in the effort to control water pollution across the country. Over the past decade, we've seen an increased interest in using the private sector to meet water and wastewater funding needs. In fact, a Presidential Executive Order (12803) was issued in 1992 directing Federal agencies to remove obstacles to privatization, which offers one approach to improving the efficiency and sustainability of our drinking water and wastewater systems.

The ultimate key to success lies in better management—irrespective of ownership.

Smart Water Use

In addition to managing better, we're going to have to learn to use water more efficiently. At the end of 2002, nearly half of the continental United States was in drought. In addition to reduced rainfall, most of our water systems also face a growing population and a growing economy. Moreover, we're reaching the end of the era in which we could always expand water supply—the era in which we built large dams and conveyance systems. Just this month, Secretary of Interior Gale Norton had to step in to reduce California's withdrawals of water from the Colorado River. As our waters are more stretched across competing demands, our supply side approach will have to be coupled with demand side management. During the next 100 years, we're going to have to become experts on the demand side of the equation: conservation, recycling, reuse and improved water-use efficiency. If we can reuse our treated wastewater for beneficial purposes such as irrigation, manufacturing or groundwater recharge, the environmental and economic benefits are manifold. If all communities would implement metering to measure their consumption, then there would be a basis for price incentives to begin to work. For example, Westfield, Massachusetts went from no meters to a fully metered system. The installation of meters enabled the city to set a metered water rate that allowed for complete cost recovery of its existing and projected expenses. Also the city found that it could abandon plans to develop a new surface water source, as its customers began to conserve water. Imagine the water savings if cities the size of Chicago and Sacramento fully metered their systems.

Metering and reuse aren't the only ways to save water. Many of you probably know the other options available for enhancing water efficiency: plumbing retrofits, leak detection and repair, irrigation improvements, water-saving appliances, land-

scaping measures and public education. Using these measures, a number of American cities have reduced their water use by as much as 20 percent and still haven't exhausted all their conservation options. Many of these cities are featured in our publication, Cases in Water Conservation.[2]

EPA has a number of resources available to assist water efficiency efforts. We published the *Water Conservation Plan Guidelines* in 1998 for public water systems and we sponsor a voluntary partnership program for businesses and institutions called WAVE (Water Alliances for Voluntary Efficiency). On our website[3] you can also find a number of other publications and links to our water conservation clearinghouse and software.

Full Cost Pricing

In addition to managing better and using less, I believe we're going to have to pay more of the actual costs of maintaining our water systems over time. The Congressional Budget Office recently issued a report entitled *Future Investment in Drinking Water and Wastewater Infrastructure*[4] which points out that increased future infrastructure costs will either have to be paid by taxpayers or ratepayers. To quote CBO: "Ultimately, society as a whole pays 100 percent of the costs of water services, whether through ratepayers' bills or through Federal, State, or local taxes." CBO raises strong efficiency arguments for ratepayers picking up the increased costs rather than taxpayers. Certainly the most direct route for funds to flow is straight from the ratepayer to the utility. In addition, we know that when prices rise, quantity demanded falls. Moreover, in this same report, CBO estimates that combined water and sewer bills currently average 0.5 percent of income in this country (i.e. one-half of 1 percent of average household income). There appears to be room for higher water bills among most households. In a recent draft report from the Organization for Economic Cooperation and Development,[5] the United States had the lowest percentage of income going to water charges among the 18 OECD countries. CBO, in its report, calculated that even if future infrastructure needs fall into the very high range, average water bills will still only account for 0.9 percent of income on average. In a recent article, Harvard economist Robert Stavins describes our water prices as "muffled".[6] He suggests that ratepayers need to hear stronger price signals so that they see a connection between their consumption and their water bill.

This is not to overlook the affordability problems that low-income households may face. To alleviate these hardships, communities can offer rate structures that mitigate impacts on low-income customers. The most prominent example is "lifeline rates" where the charge for an amount of service considered non-discretionary (the minimum sanitary requirement) is kept low, but then higher unit charges are levied on water consumption beyond that amount. While affordability programs are offered by 14 percent of water utilities,[7] there is still much to learn from the gas and electric utilities in their many years' experience in offering low-income assistance. We want rates that are affordable for most households, but not so "muffled" that we can't hear a price signal, a signal which conveys important information on the condition of the infrastructure which it supports.

The Watershed Approach

Finally, in addition to managing better, using less and adequately pricing services, we're going to have to use the watershed approach. EPA views watersheds as the basic unit to define and gauge the Nation's water quality. The watershed approach is a term generally invoked to mean broad stakeholder involvement, hydrologically defined boundaries, and coordinated management across all aspects of policy that affect water. Leading the way are over 4,000 local watershed organizations in the United States working to advocate watershed restoration, source water protection, improved site design, erosion control, land conservation, stormwater management and many other aspects of water resource management. I have asked our senior managers to identify ways to advance the watershed approach, including how to increase our training and technical assistance for these local, State, and tribal watershed partnerships.

---

[2] EPA832–B–02–003, *Cases in Water Conservation*, Office of Water, July 2002. Website: http://www.epa.gov/OW-OWM.html/water-efficiency/utilityconservation.pdf.

[3] The Office of Water's website is http://www.epa.gov/ow.

[4] Congressional Budget Office, *Future Investment in Drinking Water and Wastewater Infrastructure*, November 2002, ISBN 0–16–01243–3.

[5] OECD, 11–20–02 Draft, "Social Issues in the Provision of Water Services" Table 2–2.

[6] Sheila M. Cavanagh, W. Michael Hanemann, and Robert N. Stavins, "Muffled Price Signals: Household Water Demand Under Increasing-Block Prices," December 31, 2001 ASSA Paper.

[7] Survey by Raftelis Environmental Consulting (2002).

Several facets of the watershed approach can be advanced by jurisdictions at all levels to reduce the cost of future infrastructure. I'll mention three areas:

Targeting.—In the 1987 Amendments to the Clean Water Act, Congress created the Clean Water State Revolving Fund (SRF), and later, in the 1996 Amendments, Congress created its sister program, the Drinking Water State Revolving Fund, to provide a water infrastructure funding resource in perpetuity. To the extent that flexibility is available under these Amendments, Federal, State, local and tribal governments need to target those watersheds and projects that have the greatest impact on human health issues, sources of drinking water and ecosystem protection. Some 19 States use integrated planning and priority setting so that highest priority water quality problems are addressed first with Clean Water SRF funds. This integrated approach helps direct SRF funds toward projects with the greatest water quality benefit.

The Safe Drinking Water Act Amendments of 1996 encourage a watershed approach to drinking water protection. As directed by the Amendments, each of the States has developed a Source Water Assessment Program which analyzes existing and potential threats to the quality of drinking water. States may use funds from the Drinking Water SRF to conduct source water assessment and protection activities including land acquisition and wellhead protection. Protecting drinking water sources from contamination in the first place has been shown to reduce costs significantly. An EPA study has shown that prevention can be up to 40 times more cost effective than remediating or finding new drinking water sources.[8] Clearly, targeting our assistance to control nonpoint sources and protect source waters are promising ways of bringing down the costs of future infrastructure.

Watershed-based Permitting.—A number of States are adopting a State-wide watershed approach and I want to expand our efforts to assist those States. I have directed our Office of Wastewater Management to accelerate its efforts to support authorized States and regions to issue NPDES permits on a watershed basis. Integrating our NPDES permitting system into a community's watershed management plan, we will have more efficient and environmentally focused management.

Watershed Trading.—Watersheds are ideal for experimenting with market-based incentives; and our Water Quality Trading Policy[9] released on January 13th of this year renews our efforts to pursue water-quality trading for nutrients, sediments and other pollutants to reduce the cost of compliance with water-quality based requirements. With this policy, we're supporting States and tribes in developing trading programs that meet the requirements of the Clean Water Act. A water quality "credit" could be created by reducing pollution loads beyond the level required by the most stringent technology requirement. For example, an unregulated landowner or a farmer could create credits by changing cropping practices and planting shrubs and trees next to a stream. A municipal wastewater treatment plant then could purchase and use these credits to meet water quality limits in its permit. Trading for TMDL (Total Maximum Daily Load) implementation offers particular promise for its water quality and economic benefits. Our policy supports trading among and between regulated and unregulated sources.

In its analysis of the Clinton Administration's Clean Water Initiative, EPA concluded that the total potential savings from all types of trading range from $658 million to $7.5 billion annually.[10] A current example of a successful trading effort, between point sources only, can be found on Long Island Sound where nitrogen trading among publicly owned treatment works in Connecticut is expected to save over $200 million in control costs.

A study of three watersheds in Minnesota, Michigan and Wisconsin by the World Resources Institute (2000)[11] found that the cost of reducing phosphorous from point sources, traditional pipe-in-the-water dischargers, was considerably higher than those based on trading between point and non-point, or diffuse, sources of runoff which are not regulated by the Clean Water Act. The estimates for point source controls ranged from $10.38 per pound of phosphorus in the Wisconsin watershed to $23.89 in the Michigan watershed. Using trading between point and non-point sources, these costs could be lowered to $5.95 per pound in Wisconsin, a reduction of over 40 percent, and to $4.04 in Michigan, a reduction of over 80 percent.

---

[8] EPA–813–B–95–005, Office of Water, *Benefits and Costs of Prevention: Case Studies of Community Wellhead Protection—Volume I.* 1996.

[9] EPA, Office of Water, *Final Water Quality Trading Policy*, January 13, 2003. Website: http://www.epa.gov/owow/watershed/trading/finalpolicy2003.html.

[10] EPA–800–R–94–002, Office of Water, *President Clinton's Clean Water Initiative: Analysis of Benefits and Costs*, March 1994.

[11] Paul Faeth, *Fertile Ground: Nutrient Trading's Potential to Cost-effectively Improve Water Quality*, Washington, DC: World Resources Institute, 2000.

Clearly, if we use some or all of these facets of the watershed approach—prioritizing, permitting or trading—we can more efficiently address clean water and drinking water needs.

Conclusion

In conclusion, I've suggested four broad directions that will help us meet future infrastructure needs: better management, smart water use, full cost pricing, and the watershed approach. I invite your thoughts on each of four parallel questions:

—How can we manage better?
—How can we foster smarter water use?
—How can we use the price mechanism?
—How can we use the watershed approach?

My list is, by no means, all-inclusive; I offer it merely as a rough outline for our discussion here today, focusing on the innovative aspects of these concepts. I look forward to hearing your thoughts on these and other matters. Moreover, I look forward to working with all of you to ensure clean and safe water for the 21st century. Again, thank you for your contribution of time and expertise to this concerted effort to close the gap in America's investment in our water infrastructure.

HOMELAND SECURITY

Senator MIKULSKI. Second, we have looked at homeland security and we know that this is a work in progress. Could you share with us how we can support EPA, not only for dealing with those terrible things like anthrax, but to help EPA help local communities with homeland security issues, whether it is water and sewer, water protection, or others? We know that they are going to turn to you for science, they are going to turn to you for expertise on contamination and they are going to turn to you for infrastructure protection.

How can we help you in this appropriation cycle help our communities with homeland security? And I thank you for what you have already done.

Ms. WHITMAN. Well, thank you. I will be happy to give you more detail on that for the record, but I do want to thank you and thank the committee for the support that you have given the Agency in our needs in meeting homeland security.

We believe that the President's request in the fiscal year 2004 budget will help EPA and will provide the Agency with what we need to be able to continue the outreach that we are doing to local communities and to strengthen our response. We have established a response, an emergency response team, out west so that we have a better distribution of our technology and we have provided additional training for ourselves.

But we are working very closely with the Department of Homeland Security as appropriate and coordinating all that through them. So we do have additional dollars in this budget requested for homeland security. Your support of that obviously would be very much appreciated.

Much of it, as you say, though, comes on an ad hoc basis. As people get into a problem, they suddenly look to the Agency. Thus far we have been able to meet their needs. We are very active in picking up the shuttle disaster debris and we are being reimbursed for that through FEMA. That normal process is working to date. So our needs are in our budget.

[The information follows:]

HOMELAND SECURITY

The Environmental Protection Agency's fiscal year 2004 Annual Plan and Budget requests $123 million and 142 FTE to support the Agency's Homeland Security responsibilities in accordance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, the National Strategy for Homeland Security, and Presidential Directives (PDD) 39, 62, 63. This request allows the Agency to continue providing leadership for the protection of the Nation's critical water infrastructure while upgrading and improving our emergency response capabilities. In addition, EPA will conduct research and provide guidance and technical support for Federal, State, local governments, and other institutions in the areas of building decontamination, water security, and rapid risk assessment.

PROTECT AMBIENT AND INDOOR AIR ENVIRONMENTS

Monitoring ambient air plays an important role in detecting and responding to threats from potential terrorist actions. In fiscal year 2004 the Agency is requesting $4.4 million for ambient and indoor air monitoring activities. With these resources EPA will enhance its capability to collect ambient air monitoring data for all Federal and State agencies with threat detection responsibilities. EPA will ensure that the Agency's monitoring expertise, standards, capabilities, and data will help our partners to detect terrorist threats. EPA will also develop mobile air laboratories to provide rapid response support to EPA's air monitoring for general population exposures and for coordination with local and State monitoring agencies on public health protection.

In addition, the fiscal year 2004 requested resources will provide system improvements to prepare and respond to terrorist threats and other incidents. The Environmental Radiation Ambient Monitoring System (ERAMS) will be expanded and upgraded to increase its reliability and population coverage. A telemetry database will be improved to provide radiation data to Agency decision-makers and the public if a terrorist or other type of radiological incident occurs.

PROTECT DRINKING WATER AND WASTEWATER FACILITIES

Protecting critical water infrastructure (drinking water and wastewater utilities) from terrorist and other intentional acts will continue to be a high priority in fiscal year 2004. As a result, the Agency is requesting $32.3 million for critical water infrastructure protection in fiscal year 2004. In accordance with the requirements of the Public Health Security and Bioterrorism Emergency and Response Act of 2002 (hereafter referred to as the Bioterrorism Act of 2002), drinking water systems that provide water to more than 3,300 people, 90 percent of the community water systems, will assess their vulnerability to terrorist or other intentional attacks, certify the completion of such vulnerability assessments, and submit copies of final vulnerability assessments to EPA for secure and confidential storage. Based upon the findings of the assessments the systems must prepare or revise their emergency response plans and certify to EPA that they met the requirement.

EPA will focus on the approximately 8,000 medium community water systems that serve more than 3,300 but less than 100,000 people. These systems will conduct vulnerability assessments over the course of the year and prepare/revise emergency response plans in fiscal year 2004. The vulnerability assessment models and self assessment tools already previously used by large and very large drinking will be adapted to accommodate the medium systems. Wastewater systems, especially the some 6,000 systems that serve more than 10,000 but fewer than 150,000 people, will also conduct vulnerability assessments and develop or revise emergency response plans. Medium and small systems may not have sufficient technical capacity on hand to carry out the many activities related to vulnerability assessments and emergency response plans. Consequently, EPA, in collaboration with the States and stakeholders, will support the full menu of technical assistance and training approaches to ensure that a comprehensive vulnerability assessment and a robust emergency response plan have been achieved by all of these systems.

PROMOTE SAFER CHEMICALS AND STRENGTHEN LABORATORIES

As part of our preparedness efforts, EPA is requesting $2.3 million in fiscal year 2004 to promote safer chemicals and strengthen the State laboratory network. EPA is working with USDA to identify critical pesticides that could be needed to control exotic pests or threat agents in livestock, crops, and other food supplies. In addition, EPA has increased its lab capability to perform the necessary efficacy testing of decontamination products to address bioterrorism agents (e.g., anthrax) and to assist in the analyses of samples after remediation.

A critical element of ensuring security for communities is the State laboratory network. Along with Federal and local partners, adequate State lab capacity is essential to ensuring timely response and clean-up of threat agents in America's communities. EPA has been working with HHS and other agencies to identify support for this vital link.

ENHANCE PREPAREDNESS AND RESPONSE

In preparation for potential multiple terrorist events, the Agency has requested $27.9 million in funding for our emergency response capabilities. In addition to increasing our overall capacity, the Agency plans to form a specialized decontamination team to prepare for potential events involving chemical, biological, or radiological agents.

Through the Chemical Emergency Preparedness and Prevention Office, the Agency works to provide local communities with information and tools to advance local chemical release preparedness and prevention. The Agency accomplishes this work primarily through State Emergency Response Commissions and Local Emergency Committees. Much of the work that communities can do to prepare for and prevent accidental chemical releases is relevant to community efforts to prepare and prevent deliberate chemical releases. Support for the Agency's ongoing chemical accident preparedness and prevention community outreach work will have a positive impact on community security needs.

COMMIT TO STRONG ENVIRONMENTAL ENFORCEMENT

The Agency's Criminal Enforcement program has lead responsibility within EPA for coordinating law enforcement activities and delivering environmental crimes expertise necessary to support Federal, State, local, and tribal law enforcement homeland security planning and operational activities. In fiscal year 2004 the Agency has requested $3.8 million for these activities.

HOMELAND SECURITY RESEARCH

The Agency has also requested $29 million for continued Homeland Security research. EPA will provide guidance, technical expertise and support to Federal, State and local governments and other institutions on building contamination (chemical and biological) prevention, treatment and clean up activities, water security, and rapid risk assessment. The goal of this research is to rapidly develop tools, technologies and guidance for use by water system authorities, building owners, public officials and emergency responders to prepare for and respond to potential attacks.

EPA will also inventory Agency, Federal Government, and private sector expertise to provide quick access to nationally recognized, highly specialized experts in areas relevant to Homeland Security for more efficient emergency response efforts.

SAFEGUARD EPA PERSONNEL AND INFRASTRUCTURE

The fiscal year 2004 request includes $19.3 million to enhance security background checks and improve the background investigation process for employees, contractors, and grantees as well as activities to support increased efforts on strengthening the Agency's physical infrastructure security. Since September 11, 2001, many programs and offices are re-evaluating position sensitivity designations and security levels for staff to determine if a higher security clearance is needed to adequately support Homeland Security efforts and preparedness for emergency responses. The additional recruitment of emergency response personnel and the creation of additional emergency response command posts will also increase the number of employees that must be processed by the personnel security staff.

In addition, EPA is currently conducting physical security vulnerability risk assessments to develop a baseline on the physical security conditions of EPA's facilities. This includes gathering, assimilating and evaluating physical security data; identifying and documenting the security vulnerabilities, assessing human threat; and determining and prioritizing the qualitative risks.

ADVANCE INFORMATION SECURITY AND COMMUNICATION

In fiscal year 2004 the Agency has requested $3.8 million to strengthen and increase the security of its information infrastructure. Accurate information about EPA-regulated facilities and areas of environmental interest is critical to EPA's ability to support homeland security efforts. The ability to identify and report on regulated facilities, their location and spatial coordinates, their materials, and their corporate ownership is an important piece of the homeland security picture. Part of the Agency's homeland security role is to deliver secure, reliable, and timely data access

and communications to on-scene coordinators, emergency response teams, and investigators in the field.

Senator MIKULSKI. God bless.

Senator BOND. Thank you very much, Senator Mikulski.

Senator Leahy.

ELIZABETH MINE

Senator LEAHY. Thank you, Mr. Chairman.

I am always interested in what you find out on anthrax and such issues. When I mentioned Elizabeth Mine earlier, Governor, in Thetford, Vermont, the reason why I was concerned, if it did breach, I am told there would be a flood wave 8 to 9 feet high traveling at a velocity of 10 to 15 feet per second and would wipe out homes, property, and of course psychological damage as far as the Connecticut River.

So once a decision has been made on that—and again, I want to compliment your EPA people—please let us know, because there are a lot of apprehensive Vermonters.

Ms. WHITMAN. This has been on the national priority list since 2001, and we are very focused on it, Senator. We will continue to work closely with you. We appreciate your focus on this.

MERCURY EMISSIONS

Senator LEAHY. Thank you.

Governor, we talked about in the past the issues of mercury. I look at the report the EPA released—it was delayed for I think 8 months, but "America's Children and the Environment"—and I see a serious risk to pregnant women and children from mercury exposure.

Senator Snowe, Olympia Snowe of Maine, and I introduced a bill, the Omnibus Mercury Emissions Reduction Act, to control mercury emissions from coal-fired power plants and other sources. This would provide a tougher standard than the administration's Clear Skies proposal.

An EPA report has estimated 29 tons of mercury emissions released per year from coal and oil-fired commercial and industrial boiler units. A lot of them are grandfathered in under the Clean Air Act and were supposed to have cleaned up their boilers by now and have not. EPA is not regulating these emissions.

Within the mercury omnibus bill that we have suggested, it would require the EPA to set a maximum achievable control technology standard to reduce these emissions by at least 90 percent. Why didn't EPA just go ahead and regulate these emissions? The reason I ask, so many of them are out in the Midwest, but they come down along the Atlantic seaboard—your own State, my State, Senator Snowe's State, and others.

Ms. WHITMAN. Well, certainly, Senator, I am happy to answer that. First, just so that you are comfortable, there was not a delay. We were not holding back on the children's report. In fact, the children's health report that was recently released. There were a number of departments and agencies that were involved and it went through the normal process.

But this was the first children's health report that mentioned mercury. In the previous one, there had been no mention of mer-

cury. So this was a whole new field that we were getting into, and it clearly showed an area of concern. We have 8 percent of women of childbearing age showing elevated levels of mercury.

Senator LEAHY. I had the impression that the report came out after the New York Times basically reported on the report.

Ms. WHITMAN. The report was not held up. I do not remember exactly the sequence, whether the Times had written first, but they would not have written unless the report was just about to go because they would not have had it.

But anyway——

Senator LEAHY. It happens.

Ms. WHITMAN. Oh, it does happen.

Senator LEAHY. We had one of your colleagues before our committee, the Attorney General, who was explaining how there was no Patriot Act No. 2 because he had not specifically signed off on it. Unfortunately, the press had already reported and actually reprinted about 80 pages of it. But go ahead. It is not your Department.

Ms. WHITMAN. It was a different agency. But anyway, it does mention it. It is important to note that we have, over the years, done a great deal on mercury. In fact, the Agency, through regulatory actions, has reduced by 90 percent the mercury emissions from municipal waste incineration and medical waste incineration, which has reduced that a significant amount, leaving now the utilities as the biggest emitters.

We are in the process of establishing a mercury MACT. That process has started and as part of the regulatory process there are requirements to get the data.

There was never any 90 percent required reductions established at any time. There has never been any other scientific backup yet to establish that. I know it has been said in the papers and in fact it has been implied that there was a statutory requirement to say that there should be a 90 percent reduction. We have not set that MACT level yet. We do not know where it will come out. But we are moving forward to do that.

However, the best way to get the fastest reduction we believe is through Clear Skies, which would require a mandatory reduction. If the Congress sets those levels, there is not the same recourse to lawsuit that slows up the actual implementation.

We are to put out a preliminary number in December on the mercury MACT. We are on track to do that. It then would go final in 2004 and it would not be enforceable until 2007, and that is without any lawsuits. You know that we will probably be sued by both sides on something as controversial as this.

We believe reducing power plant mercury emissions is a very important issue. We believe it is an issue that we need to get at. That is why it is included as a major part of the Clear Skies legislation, as the best way to ensure that we get an immediate reduction. We are, however, continuing as we go forward on the mercury MACT to do additional studies on fish tissue. It will be the most comprehensive that the Agency has done, done in order to better understand pathways, both on how fish bioaccumulate mercury and how that may get into the bloodstream of people who eat the fish.

So we are being very active on mercury and we will continue to be active on mercury. It is an issue that we think is of immense importance.

Senator LEAHY. Thank you, Mr. Chairman. I will submit—I am sure the Governor will expect this—follow-up questions on this, especially the subject that I want to share some of the answers on with Senator Snowe. Thank you, and thank you, Mr. Chairman.

SUPERFUND—PRESIDENT'S REQUEST

Senator BOND. Thank you very much, Senator Leahy. We have got some questions on mercury as well, on a different problem.

Let me just clean up a few questions here. Superfund: EPA requests a $125 million increase for Superfund while we are cutting the Clean Water SRF. What is happening in the Superfund account that makes it more important? What is happening with the expiration of the taxes? Are you collecting money from responsible parties? Please give us a quick update on the Superfund status.

Ms. WHITMAN. Certainly. Well, Senator, as you know, the Superfund sites represent the most problematic and they represent those sites that pose the greatest and most imminent threat to public health and/or the environment. They really do require immediate attention. The additional dollars that we have asked for will enable us to begin another 10 to 15 sites in the coming year, to begin work on sites that we believe are in need of serious immediate attention.

We continue to go for polluter pays. In fact, last year 71 percent of the sites were paid for by the responsible parties. But as you know—and this has been traditional over the history of the Superfund—there are usually about 30 percent of the sites for which there is either no responsible party because they have gone out of business or we cannot identify them, and those have been paid for traditionally through the Superfund trust fund.

That trust fund, because the tax has not been reauthorized in a number of years, is diminishing. We are assuring that we keep the program moving forward at a healthy rate by including additional dollars from general revenues.

TMDL—STATUS OF RULE

Senator BOND. Thank you. I would say that some of our water needs also are critically important. Let me turn to TMDLs. We are hearing from the States a lack of ability to implement the TMDLs because of controversies on costs and burdens. EPA has delayed issuing the new TMDL rule until after May 2003.

What are the primary issues that you are having trouble addressing and what is the status of the rule?

Ms. WHITMAN. Right now we have repealed the 2000 rule that was promulgated under the previous administration because of extraordinary difficulties. Almost everyone agreed that the ability to——

Senator BOND. I would agree with that. I would agree with that myself.

Ms. WHITMAN. It was extremely difficult. We are continuing to move forward in establishing TMDLs. That is, they are continuing to happen. There has been no let-up on that. We are now looking

at all the existing regulations that have been approved. We approved 6,000 TMDLs in the last 2 years.

But we are trying now to make a decision. We are looking at whether or not we need to put out an additional regulation or not. We have told the regions to continue to work with the States under the current TMDL program, which, as I said, is continuing to work in an ongoing way to approve TMDLs.

We issued guidance on approving the list and coordination of TMDLs. But we are working very closely with the States and with the local governments to improve those qualities and ensure that we can continue to achieve the water quality goals while at the same time determining whether or not we need to issue new regulations.

CAFO RULE IMPLEMENTATION

Senator BOND. Thank you.

Let me turn now to confined animal feeding operations, what we affectionately know as "CAFO." The rules become effective April 14th. They require CAFOs have to develop nutrient management plans. It is going to affect some 15,500 livestock operations. I am concerned. The GAO report says neither EPA nor the States are equipped to implement the program. How are you responding to that?

Ms. WHITMAN. Well, the CAFO rule is one that I think shows a model of cooperation. We worked very, very closely with the Department of Agriculture in establishing these CAFOs in a way that recognized the burden that they put on the farmer and the operator of these facilities, but at the same time recognized the enormous importance of protecting the water supplies and the water in those areas.

We are continuing to work with the Department of Agriculture to identify dollars to help with the implementation, to work with the States to ensure that they can meet the needs, that they will be able to do this. Since we are being sued by both the Farm Bureau and the environmentalists, we feel we are probably right where we need to be, because we are getting it from both sides.

Senator BOND. Well, as I understand they are both sullen but not rebellious, which is I guess the greatest achievement one can hope in dealing with something like this.

I do want to ask that you look at the problems in Christian County, Missouri, basically that somebody would get back to us on that and see what we can do.

Speaking of water——

Ms. WHITMAN. Senator, I have one piece of information. I think the State attorney general is bringing suit against the responsible parties there now, but we will continue to look at it from an environmental point of view.

SRFS—STATE PRIORITIES

Senator BOND. Suits are fine, but I have never seen a court clean up a stinkhole yet. It requires somebody doing the work. Lawsuits are great. I used to be a lawyer. But it does not get your hands dirty. I want to figure out who is going to get their hands dirty to clean it up.

Does EPA review the State decisions on SRFs to ensure that communities with greatest needs are getting needed funds?

Ms. WHITMAN. We do not review the States' priority lists. We do reviews to make sure that the dollars are reaching communities and that they are being spent as they were meant to be spent. But as far as prioritizing which community is the neediest within a State, that is the priority and prerogative of the State.

ST. LOUIS—ATTAINMENT STATUS

Senator BOND. The 11-hour ozone containment date is of some concern for St. Louis. On July 26th of 2001, EPA granted St. Louis additional time to meet the 1-hour standard and EPA made the determination that regional transport was the only way you could solve it.

On November 25 of last year, the U.S. Court of Appeals for the Seventh Circuit ruled, and of course all St. Louis is all in the Eighth Circuit, so we are a little concerned about why the Seventh Circuit was in there, even though it is downwind. They remanded the case to EPA to bump up the designation from moderate to serious.

However, St. Louis I think can avoid the additional measures because St. Louis is now meeting the 1-hour standard. It has been improving since 1991. We will know for certain soon if they have met the standard for the 2000 to 2002 data. There are other options regarding area redesignations.

What is the current status of St. Louis' CAA classification?

Ms. WHITMAN. The current status is that we did have to issue that notification of the bump-up. But also, at the same time, we have moved forward with the new data that we had received that shows that in fact St. Louis is in attainment. We expect to take final action to redesignate 3 to 4 months from now unless we get some unusual comment back on it. It is out there for comment, which is what usually gets us the lawsuits that end up on this situation.

But we are very comfortable with the actions that St. Louis has taken and that the data will support and show that it is in fact in attainment for this standard, and we are continuing to work with the State and we are working with all States on the new standards that will come into effect.

Senator BOND. Thank you very much, Madam Administrator. We appreciate the fact that you are staying on to make sure that the air is clean and also once they do that they do not suffer inappropriate penalties. We want the air cleaned up and we do not want the economy killed, and if we can move forward on both of them. We appreciate your good work.

ADDITIONAL COMMITTEE QUESTIONS

I will have a number of questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

CLEAN WATER SRF: REDUCTION

Question. How does the Environmental Protection Agency (EPA) justify this reduction in funding for the Clean Water SRF?

Answer. In 1997, the Federal Government promised to help States establish a $2 billion projected long-term target annual revolving level for building new wastewater treatment plants and other infrastructure to keep our waters clean. With the funding appropriated by Congress to date, the $2 billion goal has been reached and, in fact, exceeded. The fiscal year 2004 budget request expands this commitment from $2 billion to $2.8 billion, an increase of 40 percent. This level of funding is achieved by an appropriation of $850 million a year from fiscal year 2004 through fiscal year 2011. Administration analyses using historical information indicate that, by extending Federal capitalization of the CWSRF program through 2011 at $850 million per year, the President's proposal is projected to increase SRF loan assistance by $21 billion in 20 years, equivalent to the 20-year additional need identified by the Clean Water and Drinking Water Gap Analysis Report. By also utilizing other Federal, State and local sources of funding and improved management practices, we believe the infrastructure gap can be eliminated.

With the $800 million increase in the revolving level, States will be able to fund nearly 600 more projects each year on a long-term basis. In addition to funding more publicly financed projects, EPA will continue to focus on ways to utilize private funds to clean waterways by encouraging privatization and promoting technology innovation while maintaining affordability for consumers.

WATER INFRASTRUCTURE NEEDS

Question. Is there some point in time where we can expect to meet our water infrastructure needs? What should be the State role? What should be the Federal role?

Answer. The needs continue to change due to demographic pressures, aging infrastructure and new treatment requirements. Generally, it is the responsibility of local governments to pay for drinking water supply and wastewater disposal. However, Federal programs, including the Drinking Water SRF, established by the Safe Drinking Water Act (SDWA) and the Clean Water SRF established by the Clean Water Act (CWA) help local governments meet the costs of abiding by water quality standards and cleaning up waterways.

The Federal Government and States work together through these programs to encourage investment in water and wastewater infrastructure that mitigates public health threats and creates sustainable water and wastewater treatment systems. Through Federal, State and local partnerships, EPA supports affordable, cost-based rate structures and encourages technology innovation, smart water use, and watershed-based decisionmaking. EPA is pursuing innovative ideas such as watershed-based trading and sustainable management systems. Together, these efforts will meet water and wastewater infrastructure needs and, more importantly, will help assure safe and clean water for the Nation.

CSO AND SSO INFRASTRUCTURE

Question. A total of 772 municipalities have combined sewers where domestic sanitary sewage, industrial wastes, infiltration from groundwater and storm water are collected. These systems serve some 40 million persons, mostly in older and coastal cities. However, many of these systems are becoming overloaded and need to be rebuilt or reconstructed.

What is the cost to address these infrastructure needs and how should these needs be paid for?

Answer. In its 1996 Clean Water Needs Survey Report, EPA reported that the estimated national costs to control combined sewer overflows was $44.7 billion ($49.6 billion in 2000 dollars). These costs are based on controlling CSOs to a level of 4 to 6 untreated overflows annually.

Communities that need to control CSOs can apply for low-interest loans under the Clean Water State Revolving Fund. Other sources of funding are bonds, loans, grants and privatization. More information on the available sources of funding is presented in *Combined Sewer Overflows: Guidance For Funding Options* (EPA 832–B–95–007, August 1995).

CSO AND SSO INFRASTRUCTURE: U.S. CITIES

Question. What are the estimated needs for the U.S. Cities with the 50 highest populations? Are there individual plans in place for each of these cities and what is the status of these plans?

Answer. The attached table lists, in descending order, the 47 CSO municipalities with the largest populations. The table presents the status of the municipalities' efforts to develop and implement long-term control plans (LTCP) for controlling their CSOs. The last column of the table, "Controls Outside LTCP?", identifies those municipalities that developed control plans that predate EPA's 1994 CSO Control Policy or have included CSO control measures in other wastewater facility plans.

To develop this table we cross-checked our list of the largest CSO municipalities developing LTCPs against the data and information collected for the 2000 Clean Watersheds Needs Survey. Forty-seven communities appeared in both databases. The estimated cost for these communities to control their CSOs is approximately $29 billion (2000 dollars). These costs are based on controlling CSOs to a level of 4 to 6 untreated overflows annually.

MAJOR COMBINED SEWER OVERFLOW CITIES:
NPDES PERMITS WITH STATUS OF LONG TERM CONTROL PLAN

City Name	NPDES Permit	Facility Name	LTCP Submitted?	LTCP Approval?	LTCP Implementation Started?	Controls Outside LTCP?
New York	NY0026247	North River WPCF	YES	YES	YES	YES
	NY0026204	Newtown Creek WPCP	YES	YES	YES	YES
	NY0026182	NYCDEP Coney Island WPCP	YES	YES	YES	YES
	NY0026239	Tallman Island WPCP	YES	YES	YES	YES
	NY0026166	NYCDEP Owls Head WPCP	YES	YES	YES	YES
	NY0026131	Ward Island WPCP	YES	YES	YES	YES
	NY0026107	Port Richmond WPCF	YES	YES	YES	YES
Chicago	IL0045012	Chicago CSOs				YES
	IL0047741	MWRDGC James C. Kire WRP				YES
	IL0028053	MWRDGC Stickney, West-Southwest STP				YES
	IL0028061	MWRDGC Calumet Water Reclamation Plant				YES
	IL0028088	MWRDGC-Northside Water Reclamation Plant				YES
Philadelphia	PA0026662	Philadelphia Water Department-Southeast	YES	YES		
	PA0026671	Philadelphia Water Department-Southwest	YES	YES		
	PA0026689	Philadelphia Water Department-Northeast	YES	YES		
Detroit	MI0051462	Wayne County/ Inkster/Dearborn Heights CSO	NO			
	MI0051489	Wayne County/Dearborn Heights CSO	YES	YES	YES	
	MI0051497	Wayne County/Westland CSO	YES	YES	YES	
	MI0051501	Wayne County/Westland/Wayne CSO	YES	YES	YES	
	MI0051519	Wayne County/Wayne CSO	YES	YES	YES	
	MI0051535	Wayne County/Redford/ Livonia CSO	YES	YES	YES	
	MI0051543	Wayne County/Garden City/Westland CSO	YES	YES	YES	
	MI0051551	Wayne County/ Livonia CSO	YES	YES	NO	
	MI0051560	Wayne County/Livonia/Westland CSO	YES	YES	YES	
	MI0022802	Detroit WWTP	YES		YES	
	MI0025500	Milk River CSO	YES	YES	YES	
Indianapolis	IN0023183	Indianapolis-Belmont	YES			YES
	IN0031950	Indianapolis-South Port				
San Francisco	CA0037681	Oceanside WPCP and Westside Wet Weather CSO System				YES
	CA0038610	Bayside Wet Weather Facilities WPCP				YES
Columbus	OH0024741	Columbus-Southerly	YES	NO	YES	
	OH0024732	Columbus-Jackson Pike	YES	NO	YES	
Baltimore	MD0021601	Patapsco WWTP	YES			
Milwaukee	WIL024767	Milwaukee MSD-Jones Island				YES
Boston	MA0102351	MWRA, Deer Island WWTP	YES	YES	YES	

list sorted by descending city population per 2000 US Census

April 15 - 2003

MAJOR COMBINED SEWER OVERFLOW CITIES:
NPDES PERMITS WITH STATUS OF LONG TERM CONTROL PLAN

City Name	NPDES Permit	Facility Name	LTCP Submitted?	LTCP Approval?	LTCP Implementation Started?	Controls Outside LTCP?
	MA0101192	Boston Water and Sewer Commission	YES	YES	YES	
Washington	DC0021199	District of Columbia WWTP	YES	NO		
Nashville	TN0020575	Nashville	YES		YES	
Seattle	WA0029181	Metropolitan King County	YES	YES	YES	
	WA0031682	City of Seattle	NO			
Portland	OR0026905	City of Portland Columbia Blvd WWTP	YES	YES	YES	YES
Cleveland	OH0043991	Northeast Ohio Regional Sewer District	NO	NO		
Kansas City	MO0024929	Kansas City, Westside STP	YES	NO		
	MO0024911	Kansas City, Blue River STP	YES	NO		
Atlanta	GA0037109	Atlanta-Tanyard Creek	YES	NO	YES	
	GA0037168	Atlanta-Intrenchment and Custer Avenue	YES	NO	YES	
	GA0037133	Atlanta-McDaniel Street	YES	NO	YES	
	GA0037117	Atlanta-Proctor Creek/North	YES	NO	YES	
	GA0036871	Atlanta-Clear Creek	YES	NO	YES	
	GA0037125	Atlanta-Proctor Creek/Greenferry	YES	NO	YES	
Omaha	NE0036358	Omaha Missouri River WWTF				YES
Minneapolis	MN0046744	MCWS-Minneapolis				YES
St. Louis	MO0025178	MSD, Bissell Point WWTP	YES	NO		
	MO0025151	MSD, Lemay WWTP	YES	NO		
Pittsburgh	PAG066128	Borough of Swissvale	NO	NO		
	PAG066125	Sharpsburg Borough	NO	NO		
	PAG066106	Girty's Run JSA, Millvale	NO	NO		
	PAG066116	West View Borough	NO	NO		
	PAG066110	Borough of Crafton	YES	NO		
	PAG066111	Emsworth Borough	NO	NO		
	PA0217611	City of Pittsburgh	NO	NO		
	PA0025984	Allegheny County Sanitary Authority	YES	NO		
Cincinnati	OH0105457	Hamilton County Commissioners	YES		YES	YES
Toledo	OH0027740	Toledo	NO		YES	YES
Buffalo	NY0028410	Bird Island WWTF	NO			YES
	NY0022136	Erie County S.D. #6				
St. Paul	MN0025470	MCWS-St. Paul				YES
	MN0046744	MCWS-Minneapolis				YES
Newark	NJ0108707	Passaic Valley				
	NJ0021016	Passaic Valley Sewerage Commission				YES

list sorted by descending city population per 2000 US Census

April 15 - 2003

MAJOR COMBINED SEWER OVERFLOW CITIES:
NPDES PERMITS WITH STATUS OF LONG TERM CONTROL PLAN

City Name	NPDES Permit	Facility Name	LTCP Submitted?	LTCP Approval?	LTCP Implementation Started?	Controls Outside LTCP?
	NJ0108758	Newark	NO			YES
Louisville	KY0022411	Morris Forman WWTF	YES	NO	YES	
Jersey City	NJ0108723	Jersey City MUA	NO			YES
Rochester	NY0028339	Frank E. VanLare STP	YES	YES	YES	
Akron	OH0023833	City of Akron	YES	NO		
Fort Wayne	IN0032191	City of Fort Wayne WWTP	YES			YES
Des Moines	IA0076601	Des Moines CSOs				
Grand Rapids	MI0026069	Grand Rapids WWTP	YES	YES	YES	
Richmond	VA0063177	Richmond WWTW	YES	YES		
Yonkers	NY0026689	Yonkers Joint WWTP	YES	YES	YES	
Spokane	WA0024473	City of Spokane	YES	YES	YES	YES
Providence	RI0100315	Narragansett Bay	NO			
	RI0100072	Narragansett Bay-Pawtucket	NO			
Worcester	MA0102997	Worcester Combined Overflow Facility	NO			YES
Springfield	MA0101613	Springfield Regional WWTF				
	MA0103331	Springfield CSOs	YES	NO	NO	
Paterson	NJ0108880	City of Paterson	NO			YES
Syracuse	NY0027081	Syracuse Metro WWTP	YES	YES	YES	YES
Kansas City	KS0038563	Kansas City WWTP	YES	NO		YES
Bridgeport	CT0100056	Bridgeport-West WPCF	YES	NO	YES	
	CT0101010	Bridgeport-East WPCF	YES	NO		
Alexandria	VA0087068	Alexandria CSOs	YES	YES		
Hartford	CT0100251	Hartford MDC WPCF	YES	NO		
Elizabeth	NJ0024741	Essex and Union Joint Meeting Sewage Treatment				YES
	NJ0108782	City of Elizabeth	NO			YES
	NJ0108740	Joint Mt. Of Essex and Union				
Lansing	MI0023400	Lansing WWTP	YES	YES	YES	

list sorted by descending city population per 2000 US Census

April 15 - 2003

ARSENIC STANDARD: EPA FACILITATION

Question. What steps is EPA taking to ensure that communities with water that exceeds the current standards for arsenic will be able to convert and rebuild their water systems to meet these requirements?

Answer. Following the promulgation of the revised arsenic standard in January 2001, EPA has implemented a comprehensive strategy to ensure that communities can meet the new standard. This strategy is designed to: (1) enhance small systems' access to financial assistance; (2) fund the research, development, testing and implementation of effective, practical, and affordable treatment technologies to reduce compliance costs for drinking water systems affected by the revised standard; (3) provide Federal technical assistance and training on the new arsenic regulation to small community water systems; and, (4) use a variety of approaches to inform communities of their treatment options, and how and where to get help building their technical, managerial and financial capacity.

A key component of the Agency's support for small systems is to work with our State partners to maximize the availability of financial assistance under the Drinking Water State Revolving Fund (DWSRF) program. Through the DWSRF program, States may offer principal forgiveness, reduced interest rates, or extended loan terms to systems identified by the State as serving disadvantaged communities. States also have the ability to set aside a portion of their Federal DWSRF allocation for technical assistance to small community water systems affected by the new arsenic rule. As of June 30, 2002, 74 percent of all DWSRF loan agreements, totaling just over $2 billion, have been allocated to small systems serving 10,000 or fewer consumers.

In addition to maximizing the availability of DWSRF funds for infrastructure improvement loans and technical assistance, EPA and the U.S. Department of Agriculture (USDA) signed a 4-year Memorandum of Agreement (MOA) in 2002, under which USDA's Rural Utilities Service (RUS) will identify as high funding priorities projects that assist small communities in complying with the revised arsenic standard for drinking water. Likewise, EPA will strongly encourage State agencies administering the DWSRF to coordinate loan funding decisions with RUS through Rural Development State staff. Further, under this agreement both agencies will make providing technical assistance resources to small systems a top priority.

Fiscal year 2003 is the second year of EPA's 2-year, $20 million research and development program to identify more cost effective technologies to help small systems comply with the new arsenic standard. Also in fiscal year 2003, Congress directed EPA to utilize $5 million in additional funds to carry out demonstrations of low-cost arsenic removal technologies. With this overall funding, the Agency anticipates that some 26–32 demonstrations will be conducted at small water utilities with arsenic problems under the research program. EPA also is verifying the performance of arsenic treatment technologies under the Environmental Technology Verification Program to provide small utilities information to select technologies appropriate for their water quality problem.

Further, the Agency will continue its ongoing work with States to take full advantage of the suite of tools that the Safe Drinking Water Act (SDWA) provides to help small systems achieve compliance with the new arsenic standard. For example, EPA is phasing in the arsenic rule over a longer time-period by encouraging States to use the exemption authority provided by the SDWA. Under this authority, States can give eligible small systems (those serving fewer than 3,300 people) up to an additional 9 years to come into compliance, and allow Point-of-Use devices as a treatment option for very small systems.

Finally, EPA has provided arsenic implementation guidance to State regulators, and made fact sheets, plain language guidance documents, and technology assistance manuals available to the public. This guidance is available both in printed form and electronically at EPA's web site, at the National Drinking Water Clearinghouse, and through the Local Government Environmental Assistance Network.

ARSENIC COST

Question. What is the estimated cost per State to meet the infrastructure requirements of these new standards (i.e. Arsenic)?

Answer. EPA did not develop a State-by-State cost analysis for the arsenic rule. Instead, the Agency developed national cost estimates based on arsenic occurrence data from 25 States. EPA used these occurrence data to make projections for the number of systems that exceed 10 μg/L. To make those projections, EPA had to make estimates for the 25 States that did not provide occurrence data by using data from neighboring States. Because EPA did not have complete data for each State,

it is not possible to provide an estimated cost per State to meet the infrastructure requirements of the new standard.

Also, a key component of EPA's approach to developing a national cost estimate is the compliance forecast, which assigns treatment technologies to systems projected to exceed the revised MCL based on water quality considerations, system size, and other factors that vary significantly by State. There are significant differences in costs between ion exchange, activated alumina, and membrane (filtering) arsenic treatment technologies. For example, for all but the smallest of systems, the cost of disposable activated alumina technology is relatively inexpensive compared to other treatment technologies. Further, the 2001 arsenic rule allows small systems to comply with the standard using a centrally managed Point-of-Use (POU) technology, either reverse osmosis or activated alumina units.

And since January 2001, a number of additional technologies have been identified that may be even more cost effective, such as iron-based adsorptive media, that have demonstrated superior performance in removing arsenic in water supplies over a range of water quality conditions. The State of Arizona has evaluated these technologies and has determined that iron-based media are the lowest cost alternatives for many of their systems that must comply with the new arsenic standard. These results suggest that the 2001 estimate of the infrastructure costs may be overstated, and that any estimate of costs per State must take into account improvements in arsenic removal technologies.

ARSENIC COST: RURAL COMMUNITIES

Question. Please identify the cost for rural communities (those with populations of 20,000 or less)? What is the basis for the information requested in these questions?

Answer. While EPA's capital cost estimates do not break out the costs for a category of community water systems serving 10,001–20,000, the Agency has estimated costs for those systems serving 10,000 or fewer, defined as "small" under the Safe Drinking Water Act (SDWA). The three small system size categories include those serving: (1) a population of 10,000 or fewer but more than 3,300; (2) a population of 3,300 or fewer but more than 500; and (3) a population of 500 or fewer but more than 25. The following table lists the capital costs (cost to install treatment technology to comply with the revised arsenic standard) for each small system category:

Size category	Capital cost ($)
25–500	53,000,000
501–3,300	165,000,000
3,301–10,000	133,000,000
TOTAL	351,000,000

The source for these capital cost estimates is the December 2000 "Arsenic in Drinking Water Rule Economic Analysis." The validity of the Agency's approach to estimating these costs was supported by the independent National Drinking Water Advisory Council in the Fall of 2001 as part of the Agency's comprehensive review of the science and cost data underlying the January 2001 rule.

As noted above, there are a number of new technologies that have come into the marketplace since the arsenic rule was promulgated in January 2001. These technologies appear to be more cost-effective than some of the technologies identified in the rule, and thus would likely result in lower capital costs than those presented in the table.

AGING WATER INFRASTRUCTURE

Question. How should we prioritize the funding needs in the Nation? For example, what do we do about the aging and obsolete water infrastructure, which is a concern of many cities and communities in the East and Midwest?

Answer. The Agency believes that the touchstone of a long-term strategy to close the infrastructure gap should be fiscal sustainability. Several basic principles should guide our pursuit of fiscal sustainability, including:

—*Utilizing the private sector and existing programs*.—Fostering greater private sector involvement and encouraging integrated use of all local, State, and Federal sources for infrastructure financing.

—*Promoting sustainable systems*.—Ensuring the technical, financial, and managerial capacity of water and wastewater systems, and creating incentives for service providers to avoid future gaps by adopting best management practices to im-

prove efficiency and economies of scale, and reducing the average cost of service for providers.

—*Encouraging cost-based and affordable rates*.—Encouraging rate structures that cover costs and more fully reflect the cost of service, while fostering affordable water and wastewater service for low-income families.

—*Promoting technology innovation*.—Creating incentives to support research, development, and the use of innovative technologies for improved services at lower life-cycle costs.

—*Promoting smart water use*.—Encouraging States and service providers to adopt holistic strategies to manage water on a sustainable basis, including a greater emphasis on options for reuse and conservation, efficient nonstructural approaches, and coordination with State, regional, and local planning.

—*Promoting watershed-based decision-making*.—Encouraging States and local communities to look at water quality problems and drinking water source water protection on a watershed scale and to direct funding to the highest priority projects needed to protect public health and the environment.

PRIORITIZING WATER NEEDS WITH ARSENIC STANDARD

Question. How do we prioritize these funding needs with new infrastructure requirements, which have been created by the new arsenic standards?

Answer. State DWSRF programs prioritize infrastructure funding needs according to SDWA Section 1452 criteria and the amounts and types of contaminants occurring in their drinking water supplies. With respect to the January 2001 arsenic in drinking water standard, EPA has taken several steps to help the 4,100 community and non-transient, non-community systems that must install arsenic removal technologies comply with the revised standard. These steps include: (1) enhancing small systems' access to financial assistance; (2) funding the research, development, testing and implementation of effective, practical, and affordable treatment technologies to reduce compliance costs for drinking water systems affected by the revised standard; (3) providing Federal technical assistance and training on the new arsenic regulation to small community water systems; and, (4) using a variety of approaches to inform communities of their treatment options, and how and where to get help building their technical, managerial and financial capacity.

SUPERFUND FUNDING: VERSUS CWSRF FUNDING

Question. What is the justification for this increase as opposed to including this additional funding in the Clean Water SRF?

Answer. EPA has been cleaning up "orphan" sites for more than 20 years. Now that well over half of the sites on the NPL are construction complete, many of the most difficult sites remain and these will be more challenging and expensive to cleanup. Recognizing this, the administration has proposed a $150 million increase for remedial action. The immediate benefit in fiscal year 2004 will be the ability to initiate an additional 10 to 15 new remedial action projects that would have to wait longer for cleanup otherwise. With the support of these additional resources, EPA will increase the number of sites where potential human exposures and the migration of contaminated groundwater are under control, which can help reduce the exposure of people living and working in the immediate vicinity of the sites to site contaminants.

SUPERFUND FUNDING: RESPONSIBLE PARTIES

Question. While it is not clear that these taxes result in the cost of clean-up being paid for by the responsible parties, what is EPA doing to collect the cost of these clean-ups from the responsible parties and how much funding is collected each year?

Answer. The administration remains strongly committed to the "Polluter Pays" principle. EPA has been very successful in getting responsible parties to clean up a majority of the Nation's worst hazardous waste sites (approximately 70 percent over the past several years), preserving fund monies for sites where there are no viable responsible parties. In instances where settlements cannot be reached, EPA prefers to issue unilateral administrative orders (UAOs) instead undertaking a fund-lead clean-up. Over the past 3 years, an average of 24 percent of clean-up agreements reached with responsible parties have been the result of EPA issuing UAOs. The cumulative value of private party commitments for clean-up and cost recoveries is approximately $20.6 billion, $627 million during fiscal year 2002 alone. Since the inception of the Superfund program, EPA has achieved $8 in private party commitments for every $1 spent on Superfund enforcement.

SUPERFUND FUNDING: RECOVERIES

Question. What has been the amount of recoveries over the last few years and what are the projected recoveries for the next few years?

Answer. Over the past 3 years collections have averaged approximately $227,000,000. Recent rates indicate the fiscal year 2004 budget estimates of $175,000,000 is a conservative estimate.

Actual collections between fiscal year 1997 and fiscal year 2002 and estimates for fiscal year 2003 and fiscal year 2004 are as follows:

Fiscal year 1997	$313,300,000
Fiscal year 1998	319,600,000
Fiscal year 1999	319,700,000
Fiscal year 2000	230,500,000
Fiscal year 2001	202,100,000
Fiscal year 2002	248,300,000
Fiscal year 2003 est.	175,000,000
Fiscal year 2004 est.	175,000,000

SUPERFUND: STATE CONTROL

Question. I understand that some States are pushing for greater control over the Superfund program. To what extent [do you] to support this approach and what are the pluses and minuses to greater State control?

Answer. EPA Superfund is not aware of any current activity by States pushing for greater control over the Superfund program. The inception of Governor's letters to support listing on the NPL by States and a multitude of work-sharing agreements between EPA Regions and States has led to cooperative and less adversarial relationships, which are generally beneficial to site-cleanup. EPA's impression is that, in general, the States consider their degree of involvement and control is appropriate, especially considering their resource constraints in dealing with contaminated waste sites.

NEW SOURCE REVIEW

Question. While the New Source Review rules were only recently issued on December 31, 2002, what benchmarks will EPA use to measure the success of the program?

Answer. The New Source Review Program is one part of a State's overall plan to achieve or maintain attainment. Accordingly, the overall measure of success for the program is whether it is working collectively with other Clean Air Act programs to assure that nonattainment areas reach attainment, and that attainment and unclassifiable areas see no significant degradation in ambient air quality. Other measures for the program include whether the program is creating barriers to environmental improvement or the right incentives for such improvements, the level of resource burden it imposes for implementation on all parties, and how the public is involved in the process of issuing permits. Congress recently directed the National Academy of Science to conduct a study regarding the effectiveness of the recent improvement made to the NSR program. We plan to use this study and other measures as a starting point for evaluating future approaches for measuring the long-term success of the program.

NEW SOURCE REVIEW IMPROVEMENT RULES: PETITIONS FOR REVIEW FILED

Question. I understand that on the day the new regulations were issued some 9 northeastern States filed a lawsuit to block implementation of the new changes. What is the status of the lawsuit and what is the basis of the lawsuit?

Answer. On December 31, 2002, the day the final New Source Review Improvement rules were published in the Federal Register, 9 northeastern States filed a petition for review of those rules in the United States Court of Appeals for the District of Columbia Circuit. Since then, a number of additional petitions for review have been filed by additional State and local governments, environmental groups, and industry groups, for a total of 19 petitions for review. In addition, 9 States and a number of industry groups have intervened on EPA's behalf against the State and environmental petitioners, and most of the State and environmental petitioners have intervened on EPA's behalf against the industrial petitioners. The State petitioners filed a motion for a stay of the effectiveness of the final rules pending the outcome of the litigation. EPA opposed this motion, and the court denied it on March 6, 2003,

while at the same time ruling that the case met the criteria for expedited consideration.

Until the briefs of the parties are filed, we will not know precisely which issues they intend to raise. However, the parties have filed non-binding statements of issues, and we are enclosing copies of all such statements that we have received to date.

MTBE CONTAMINATION ISSUE

Question. As you know, under the Clean Air Act Amendments of 1990, numerous areas with poor air quality standards were required to add "oxygenates" to gasoline as a way to improve combustion and reduce emissions. The most commonly used oxygenate was MTBE. However, there has been significant controversy over the use of MTBE over the last few years, fueled by concerns that MTBE is contaminating groundwater, especially in California. What is the current status of this issue?

Answer. Although MTBE is a high quality blending component of gasoline, significant concern persists about its contamination of drinking water in many areas of the country. Most MTBE contamination is the result of leaks from underground storage tanks (USTs), but some contamination has resulted from fuel spills. We now know that MTBE, if leaked or spilled, can contaminate water supplies more readily than other components of gasoline. Public concern has focused on the issues of taste and odor associated with MTBE contamination. Current data on MTBE in ground and surface waters indicate numerous detections of MTBE at low levels that may affect taste and odor of drinking water. Some contamination has resulted in closure of both public and private wells. EPA is conducting research to determine potential effects of MTBE exposure to susceptible populations as well as evaluation of treatment technologies.

EPA and the States are working together to prevent future releases from USTs by identifying causes of releases and educating owners and operators about properly maintaining their UST systems to prevent future leaks.

MTBE can be a major impediment to completing LUST cleanups because it is complex, costly, and time-consuming to remediate. A national survey of leaking underground storage tank (LUST) State programs found that 23 States report MTBE contamination at more than 60 percent of all LUST sites. This survey is undergoing an update to include data on other fuel oxygenates. EPA has provided over $5 million in assistance to States with significant MTBE contamination. Information from these State pilots will be shared with other regulators, responsible parties and communities faced with similar problems to promote efficient use of resources and to reduce duplication of effort.

Additionally, EPA provides approximately 81 percent of its LUST Trust Fund annual appropriation to the States to address contamination from leaking USTs. Collectively, States use approximately $1 billion each year from their own revenues to address MTBE and other petroleum contamination. EPA will continue to assess the impact of MTBE contamination on the cost and duration of cleanup efforts. This assessment will enable the Agency to more effectively address the complex nature of groundwater and MTBE contamination cleanup efforts.

As a result of existing MTBE contamination and the potential for future occurrences, 17 States have taken action to ban the use of MTBE as a gasoline additive in the future. Over the next year, MTBE bans go into effect in the States of California, Connecticut and New York. At least 6 additional States are considering similar bans. At the Federal level, EPA published an Advance Notice of Proposed Rulemaking in 2000 requesting comments on a phase down or phase out of MTBE from gasoline under Section 6 of the Toxic Substances Control Act (TSCA). While the Clean Air Act allows for MTBE to be used as a fuel additive, TSCA is the only administrative mechanism available to EPA for limiting or eliminating the use of MTBE. TSCA gives EPA authority to ban, phase out, limit or control the manufacture of any chemical substance deemed to pose an unreasonable risk to public health or the environment. But the TSCA process is cumbersome and lengthy at best.

TMDL

Question. The Clean Water Act requires States to identify pollution-impaired water and develop "total maximum daily loads" that set the maximum amount of pollution that a water body can receive without violating water quality standards. Unfortunately, States lack the ability to effectively implement TMDLs and because of a number of controversies concerns costs and burdens, EPA has delayed issuing a new TMDL rule until after May 2003.

What is the status of this rule and what are the primary issues that EPA is attempting to address?

Answer. The Agency has prepared a draft proposal which is undergoing an informal review at OMB in order to determine what significant issues this proposal may pose for other Federal agencies. At the end of this process, the Agency will make a determination whether to go forward with the rulemaking or rely on additional guidance to continue shaping the TMDL program.

The primary issues the Agency is attempting to address are:

—How to improve monitoring and increase scientific rigor of water quality standards attainment determination;

—How to facilitate trading and enhance locally driven watershed efforts; and

—How to improve and streamline State water quality management planning processes to ensure that TMDLs are integrated with other all water program activities and result in water quality improvement.

CONCENTRATED ANIMAL FEEDING OPERATIONS

Question. EPA issued final, revised CAFO rules on December 16, 2002. The final rules, effective April 14, 2003, will require CAFOs to develop nutrient management plans that are intended to keep livestock waste from entering nearby waters. The new rule will apply to some 15,500 livestock operations across the country. A recent GAO report concluded that neither the EPA nor the States are equipped to implement this program. What is the EPA doing to respond to the GAO concerns?

Answer. The Agency is developing a comprehensive national implementation plan that ensures the new regulations are effectively implemented and enforced by EPA and the States. The plan is a comprehensive strategy that addresses key goals including communication and outreach, development of supplemental implementation guidance, revision of State programs, permit issuance, compliance assistance and enforcement. We are working in close partnership with our Regions and States as we develop this plan. We also expect that many elements of our implementation plan will be coordinated and integrated with efforts by United States Department of Agriculture (USDA), particularly with respect to tool development, technical support, and funding. A key part of this implementation plan will be the expectation that EPA Regions work closely with each of the States to develop a corresponding plan that includes activities and milestones to ensure that States revise their Concentrated Animal Feeding Operations programs and carry out the needed permitting, inspection and enforcement activities.

NEW CORN PEST CONTROL

Question. On February 25, 2003, EPA approved the use of a new genetically engineered corn developed by Monsanto. This new corn includes a gene from a soil bacteria that allows the roots to secrete a protein that kills the corn rootworm, the crop's number one pest. This is an important initiative. What other genetically engineered crops are being considered for approval by EPA?

Answer. The Environmental Protection Agency (EPA) regulates the pesticide produced by genetically engineered crops such as the insecticidal protein that controls the corn rootworm. Besides the product developed by Monsanto, other insecticidal proteins to control corn rootworm are being developed and tested by Dow AgroSciences (Mycogen Seeds) and Dupont (Pioneer Seeds). Monsanto also is testing a new variety of its corn rootworm product. Dow AgroSciences has a new variety of its corn borer control product being tested under an Experimental Use Permit which was just issued. Dow is also testing a new product to control tobacco budworm, bollworms, and other pests in cotton and Syngenta has applied for an Experimental Use Permit for a new type of insecticidal protein for use in cotton to control several important pests. There is also an Experimental Use Permit for an insecticidal protein in tomatoes. This protein is already registered and has a tolerance exemption for use in all crops.

APPROVAL PROCESS FOR GENETICALLY ENGINEERED CROPS

Question. What is the process for EPA to consider and approve a new genetically engineered crop?

Answer. The Environmental Protection Agency (EPA), the U.S. Department of Agriculture (USDA), and the Food and Drug Administration (FDA) have shared responsibility for regulating agricultural biotechnology in the United States. EPA regulates the pesticidal component of genetically engineered crops, called plant-incorporated protectants or PIPs. These pesticides created through biotechnology are addressed through the agency's regulatory jurisdiction over all pesticides marketed and used in the United States. Statutory authority for this regulation comes under

the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), the Federal Food, Drug, and Cosmetic Act, and the Food Quality Protection Act. All pesticides that pass EPA's evaluation under FIFRA are granted a license or "registration" that permits their sale and use according to the requirements set by EPA to protect human health and the environment. In making regulatory decisions, EPA evaluates the risks of pesticide use and balances these risks with the benefits derived from pesticide use. PIPs are handled this same way.

EPA has tailored its basic regulatory framework to fit the distinctive characteristics of these genetically engineered biological pesticides. Data required for the review of PIPs include product characterization, mammalian toxicity and allergenicity, and potential impacts on non-target organisms including birds, fish, earthworms, and many invertebrates that are either beneficial or representative of species that might be exposed to the PIP. EPA has developed these data requirements through a public process and after considering recommendations from the FIFRA Scientific Advisory Panel (SAP). The SAP is often consulted before EPA completes its risk assessment and makes a regulatory decision.

HUDSON RIVER DREDGING DELAY

Question. A recent article indicated that EPA was delaying the dredging of PCBs from the Hudson River until Spring 2006. What are the reasons for the delay?

Answer. The main causes of delay are due to project complexity, particularly the time required for negotiations with General Electric, and the need for meaningful community involvement with residents whose communities will be affected by the dredging operation. This means an additional year will be needed for planning and designing beyond the 3 years already allotted in the February 2002 Record of Decision.

A detailed discussion of the dredging start date adjustment can be found on EPA's web-site: www.epa.gov/hudson. The current issues section contains a hot link to a recently released document titled, "Hudson River Project Design Fact Sheet 2002–2006," which highlights the project schedule milestones, upcoming activities on the Hudson River, and opportunities for public involvement. The fact sheet includes a schematic for the sequence of key events from 2002–2006.

NEW CANCER RISK GUIDELINES FOR CHILDREN

Question. As I understand it, EPA issued proposed new guidelines on March 3rd for evaluating cancer risks to children on the grounds that the very young may be some 10 times more vulnerable than adults to certain chemicals. I understand that the final guidelines are to be reviewed by the EPA science advisory board in May. How would these guidelines be expected to be implemented?

Answer. EPA's draft final cancer guidelines set forth recommended principles and procedures to guide EPA scientists in assessing the cancer risks from chemicals or other agents in the environment. They are intended to promote high technical quality and Agency-wide consistency in the human health risk assessment process. EPA published final cancer guidelines in 1986 and is in the process of revising them to reflect advances in scientific understanding as well as experience in using the 1986 guidelines as well as the 1999 Interim Guidelines. As you noted, EPA's Draft Final "Guidelines for Carcinogen Risk Assessment" were released for public review and comment on March 3, 2003. Because previous draft versions of the guidelines have been reviewed by EPA's Science Advisory Board (SAB), this draft final version has not been re-submitted to the SAB. After addressing public comments, EPA plans to release final revised Guidelines.

On March 3, 2003, EPA also released an associated draft document for public review and comment entitled, "Supplemental Guidance for Assessing Cancer Susceptibility from Early-Life Exposure to Carcinogens." The draft supplemental guidance describes possible approaches that EPA could use to address certain aspects of cancer risk assessment, specifically focusing on assessing cancer susceptibility that may arise from exposure to carcinogens early in life. The EPA SAB began reviewing the draft supplemental guidance in May 2003. EPA will carefully consider SAB recommendations and public comments in revising the draft supplemental guidance.

The draft supplemental guidance proposes to adjust risk estimates that pertain to early-life exposure to certain kinds of carcinogens when specific data on risks from early life exposure are unavailable. The adjustment factors are meant to be applied only when data indicate that the carcinogens operate by a mutagenic mode of action (i.e., cause cancer by directly interacting with DNA). For carcinogens that act through other modes of action, or where the mode of action is unknown, no adjustment factors are recommended at this time due to insufficient information for such carcinogens.

The proposed adjustment factors do not address childhood cancers, but rather address risks of cancers during adulthood due to early-life exposures. The analysis of animal data presented in the draft supplemental guidance indicates that higher risks typically result from a given exposure to mutagenic carcinogens occurring early in life when compared with the same amount of exposure during adulthood. Information derived from human radiation exposures supports this finding. The biological differences between children and adults are believed to be greatest during the first years of life. To account for these differences, the document proposes a 10-fold adjustment for exposures before 2 years of age and a three-fold adjustment for exposures between 2 and 15 years of age. For exposures after 15 years of age, no adjustment factor is proposed. As noted previously, the proposed adjustment factors, as well as the entire guidance document, are being reviewed by the SAB.

Question. Are there any other EPA special guidelines being examined for implementation just for children?

Answer. No. There are no other Agency-wide risk assessment guidelines being examined for implementation just for children. The draft supplemental guidance document is designed to supplement the Guidelines for Carcinogen Risk Assessment. Issues involving pregnancy and the developing young are covered in EPA's 1991 Guidelines for Developmental Toxicity Risk Assessment and 1996 Guidelines for Reproductive Toxicity Risk Assessment; developmental neurotoxicity is addressed in the 1998 Guidelines for Neurotoxicity Risk Assessment. In terms of other documents that may assist in using the risk assessment guidelines, EPA is also in the process of preparing draft guidance on identifying the appropriate age groups for assessing childhood exposure to environmental contaminants.

HOMELAND SECURITY

Question. Please explain the role of EPA in the President's National Strategy for Homeland Security?

Answer. Under the President's National Homeland Security Plan, EPA has three primary areas of responsibility: Critical Infrastructure Protection; Preparedness, Response, and Recovery; and Communication and Information. EPA has developed specific tactics to accomplish each goal, which will be coordinated with the Department of Homeland Security, other Federal agencies, and EPA's partners at the State, local, and tribal levels. Additionally, as the responsibilities of the various agencies evolve, including the Department of Homeland Security, EPA will coordinate with those agencies to effectuate homeland security.

Critical Infrastructure Protection

EPA has unique programmatic responsibilities and expertise related to the water and wastewater industries; the use, handling, storage, release, and disposal of chemicals and chemical wastes at industrial facilities; and indoor air quality. In these areas, EPA is committed to assessing and reducing vulnerabilities and strengthening detection and response capabilities for critical infrastructures. In addition, EPA will contribute to similar efforts led by other Federal agencies addressing food, transportation, and energy industries, and will provide environmental expertise to support Federal law enforcement activities.

Preparedness, Response, and Recovery

EPA's role under the National Strategy for Homeland Security is to develop, disseminate, and exercise the use of new and improved tools and techniques to respond to chemical, biological and radiological releases that would protect public health and the environment through prevention and clean up of contamination. EPA is remaining vigilant in its readiness State and is training a larger cadre of personnel that will respond quickly in the event of multiple threats. EPA is also focusing its efforts on enhanced coordination within the Agency, regionally and with other Federal agencies.

Communication and Information

Comprehensive, accurate, well-organized, and timely information is critical to sound decision making. EPA possesses unique capabilities to collect, synthesize, interpret, manage, disseminate, and provide understanding to complex information about environmental and human-made contaminants and the condition of the environment. Effectively managing and sharing this information within the Agency and with our partners at all levels of government and industry will contribute to the Nation's capability to detect, prepare for, prevent, protect against, respond to, and recover from terrorist incidents.

HOMELAND SECURITY: CHEMICAL COMPANIES

Question. What is EPA doing to address the risks posed by chemical companies?

Answer. First, EPA monitors safety-related issues that are designed to prevent an accidental release of chemicals at facilities. EPA has worked in coordination with the Federal Bureau of Investigation's National Infrastructure Protection Center to provide the chemical industry with a number of site security advisories. In the months following September 11, 2001, EPA distributed advisories to the chemical industry primarily through the cooperation of chemical trade associations. More recently, the Agency has compiled an e-mail database for the purpose of rapidly sharing security advisory information with over 10,000 chemical facilities regulated under the Agency's Risk Management Program.

Over the last year, EPA has also visited 31 high-risk chemical facilities to discuss their efforts and to share information on assessment and vulnerability reduction. EPA selected facilities based on their Risk Management Plan data, geographic location, and other factors. These visits were conducted with the voluntary consent and cooperation of the chemical facilities.

Administrator Whitman has joined the Secretary of the Department of Homeland Security (DHS) in recognizing the need for new legislative authorities to address chemical site security concerns. Such concerns include employee training and background checks, protection of perimeters, intrusion detection of both physical plant and data systems, and securing and controlling chemical stores and potential release points. EPA is working with the Office of Homeland Security and DHS to produce draft legislation, which we anticipate will soon be transmitted in the Senate for its consideration.

GROUND ZERO AIR STATEMENTS

Question. Recent articles have indicated that ground zero tests in the days immediately after the WTC terrorist attacks did not support the EPA's statements that the site was safe to breathe. What tests did the EPA conduct and what statements were made?

Answer. EPA activities at or near the World Trade Center (WTC) site include air quality monitoring, air model development, meteorological measurements, laboratory analysis of WTC samples, analyses of the toxicological effects of fine particulate matter derived from the destruction of the WTC, and an assessment of the potential health risks associated with exposures to air pollutants released during the WTC disaster. Pages B–13 through B–22 of the attached report, *A Preliminary Survey of Air Quality and Related Health Studies Conducted in the Vicinity of Ground Zero*, describe these activities in detail. Information and results from these activities are available at the web sites included in the report.

EPA conducted an inhalation risk assessment based on the data from the activities described above and on numerous other air measurement efforts conducted by other Federal agencies and New York State and local government agencies. This assessment was released as an external review draft in December of 2002 and will be finalized during 2003 pending the completion of an external peer panel review.

EPA has maintained that people living and working in lower Manhattan were not exposed to levels of contaminants in the outdoor air that would pose a significant long-term health threat. The Agency further advised people experiencing acute health problems to see their physician. In addition, EPA stressed that workers at the site faced a higher risk and must wear protective respiratory gear, which was supplied by EPA and other agencies. We also emphasized that people returning to dusty homes and workplaces should have these spaces professionally cleaned by asbestos contractors.

WATER INFRASTRUCTURE

Question. I would like a breakdown on the amount of EPA funds, especially for infrastructure needs, are invested in rural areas as opposed to urban areas?

Answer. For the Clean Water SRF, the information EPA receives from the States on number of projects is broken out only by population size. Communities under 10,000 population might serve as a proxy for rural, or at least suburban, but this is a rudimentary way to report rural versus urban funding for wastewater infrastructure. For our most recent national data set (fiscal year 2002), about $9 billion has been made available to finance over 7,000 wastewater treatment projects serving communities with populations under 10,000.

Considering that rural communities often lack centralized wastewater treatment and rely on alternative technologies, such as septic systems and other on-lot decentralized treatment systems, it is reasonable to assume that a percentage of the

projects funded to correct polluted sources of runoff also support rural wastewater treatment needs. While EPA lacks specific numbers of the various categories of nonpoint source projects, from surveys taken previously we know that about 54 percent of the projects comprising about 4 percent of the funds are for correction of septage problems. Of the $1.6 billion of CWSRF funds, representing about 3,400 loans, that have been spent on correction of polluted runoff, EPA estimates that $64 million in approximately 1,800 loans might be attributable to serving the needs of rural communities. Because the alternative technologies that many employ in service to rural areas are less expensive than traditional centralized wastewater treatment systems for urban areas, numbers of loans are a more sensitive indicator than dollars spent.

Through June 30, 2002, $2 billion or 40 percent of DWSRF loan dollars were provided to drinking water projects serving communities with populations under 10,000, accounting for 74 percent of all DWSRF loans. The Safe Drinking Water Act also allows DWSRF funds to be used to help disadvantaged communities. Of the $5.1 billion in DWSRF assistance, $838 million has been provided to disadvantaged systems, however, the distribution between rural and urban communities is not known.

In addition to the SRF programs, rural communities receive financial support through the Clean Water Indian Set-aside Program; the Alaskan Native Villages program; the Mexican Border program; and Rural Water Technical Assistance activities for both water and wastewater.

CWSRF AND DWSRF OVERSIGHT

Question. What oversight is provided by EPA to ensure that the Clean Water SRF and the Drinking Water SRF are allocated within States based on need?

Answer. The Clean Water SRF (CWSRF) has no statutory oversight responsibility for allotment of funds to the States based on need. That allotment formula was developed by the Congress and is contained in statute. However, EPA believes it is very important that funds used within the States for high priority water quality projects. We provide oversight and encouragement to States to develop and use integrated planning and priority setting systems to make CWSRF funding decisions. EPA regions review, as part of each State's annual capitalization grant application, the long and short-term goals for the program and how their intended use plans relate to those priorities. They also assess during their annual oversight process for each State program how well the State adhered to its intended uses of funds.

The Safe Drinking Water Act requires EPA to assess the capital investment needs of water systems eligible to receive DWSRF assistance, which covers approximately 54,000 community water systems and 21,400 not-for-profit non-community water systems. The survey includes all infrastructure needs for systems to provide an adequate quality and quantity of drinking water. By law, EPA conducts the survey every 4 years and uses the latest results to allocate DWSRF funds to the States. Each State is allotted its proportional share of the total needs with the proviso that each State receives a minimum of 1 percent.

To determine how best to allocate its allotment, every year each State DWSRF program establishes short- and long-term infrastructure funding goals and priorities through Intended Use Plans (IUPs), as required by statute. These IUPs specify how each State's funding priorities are consistent with section 1452(b)(3) of the SDWA, which requires that States give funding priority to infrastructure projects that: (1) address the most serious human health risks; (2) are necessary to ensure compliance with the SDWA; and (3) assist systems most in need, on a per household basis, according to State affordability criteria. EPA reviews the IUPs to ensure that they are consistent with SDWA requirements.

GLOBAL POLLUTION

Question. Global and Cross-Border Environmental Risks. What is EPA doing to minimize pollution in the United States from pollution hazards originating outside the United States, such as from Mexico or Canada?

Answer. EPA is actively engaged in a range of activities intended to prevent, reduce, or otherwise minimize the impacts on the U.S. environment and public health from sources of pollution originating outside of our borders. The broad responses address a wide range of the contaminants of concern, a diversity of pollution source types and media transport mechanisms. EPA's activities include working along our borders with Canada and Mexico and cooperation with a substantial number of other countries across a wide area of the globe, for example by participating in multi-lateral agreements to address identified regional and global transboundary pollution threats. Many of EPA's major program offices, regional offices and labora-

tories are involved in these efforts and, in many of its endeavors, the Agency cooperates with other Federal and State agencies, non-governmental organizations and multilateral bodies.

EPA's international efforts include environmental protection capacity building, technical assistance, technical information exchange, international monitoring and assessment, cooperative research and development, and negotiation of international agreements. The specific efforts are a function of addressing a particular pollutant's chemical behavior, media transport mode, nature of the source types, or circumstances of the foreign involvement. The Agency also conducts research and assessments of new or unaddressed risks and improving the scientific basis of our general understanding of the known transboundary environmental threats, such as the global flows of mercury. EPA has both domestic and international cooperative efforts aimed at improving our understanding of the problems, including research into the chemical and physical processes involved in long-range transport and transformation of pollutants. The Agency also engages in technology development addressing international problems.

EPA's major efforts in addressing transboundary pollution impacting the U.S. mainly fall into the following four broad categories: (1) the U.S. border areas with Mexico and Canada and cooperation with these immediate U.S. neighbors on transboundary contamination problems; (2) addressing regional Arctic contamination and potential threats to Alaska and indigenous populations, mostly from pollution sources in Russia; (3) international cooperation and agreements addressing global sources of persistent organic pollutants (POPs) and other toxic substances; and (4) very long-range air transport of a variety of pollutants and the problem of global cycling of mercury.

Please refer to the Attachment for program specifics.

ATTACHMENT—GLOBAL POLLUTION

U.S. Border Areas with Mexico and Canada and General Transboundary Contamination Cooperation with These Immediate U.S. Neighbors

United States–Mexico

The United States and Mexico cooperate on a number of programs to protect the United States from transboundary pollution. Formal cooperation dates back to 1983, when the United States and Mexico signed the La Paz Agreement to promote cooperation for the protection and improvement of the environment in the border region. This agreement serves as the basis for joint activities to protect public health and the environment in both the United States and Mexico. Two formal "environmental plans" have been completed by EPA and its Mexican counterpart, SEMARNAT, and a new plan that will cover the next 10 years, called Border 2012, was announced on April 4, 2003. Detailed information on Border 2012 is available on the EPA website (www.epa.gov/usmexicoborder) and previous activities are described in the U.S.-Mexico Border XXI Program-Progress Report 1996–2000. Although not all activities under the new border program have yet been identified, examples of some are provided below:

—*Air*.—Bi-national air quality planning and management activities have been conducted in the sister cities of San Diego-Tijuana; Imperial Valley-Mexicali; Nogales-Nogales; and Douglas-Agua Prieta. Recent efforts have concentrated on establishing and operating air quality monitoring networks in Tijuana and Mexicali, similar to those operating in San Diego and Imperial Valley. The Joint Advisory Council for the Improvement of Air Quality in the Ciudad Juárez/El Paso/Doña Ana County Air Basin (JAC) was created to provide locally-based recommendations to the Air Workgroup on how to manage air quality in the region.

—*Hazardous Wastes*.—The EPA and Mexico's National Ecology Institute (Instituto Nacional de Ecologia, or INE) have operated the Hazardous Waste Tracking System (Haztraks) for several years. In 1998, Haztraks was replaced in Mexico with INE's version of a hazardous waste tracking system, known as SIRREP (Sistema de Rastreo de Residuos Peligrosos). The use of both systems has considerably improved the ability to monitor transboundary hazardous waste shipments in the U.S.-Mexico border region. It is worth noting that a 1999 study conducted by the Texas Natural Resources Conservation Commission (TNRCC) determined that the operation of SIRREP and the Haztraks systems is the most effective way of tracking the movement of hazardous wastes between the two countries.

A Consultative Mechanism for the Exchange of Information on New and Existing Facilities for the Management of Hazardous and Radioactive Waste within 100 Kilometers of the U.S.-Mexico Border has been developed. This mecha-

nism serves to address public concern on both sides of the border as it relates to the siting and operation of hazardous and radioactive waste facilities in the border region. The agreement will allow for both countries to exchange data and other information on new and existing treatment, storage, and disposal facilities for these types of waste in the border region.

In addition to the activities under the border plan, two bi-national institutions were set up between the United States and Mexico under a supplemental agreement to the North American Free Trade Agreement (NAFTA). These institutions are the North American Development Bank (NADBank) and the Border Environment Cooperation Commission (BECC), which were established to develop and finance solid waste, waste water and drinking water infrastructure in the border area to reduce the possibility of cross border pollution. To date, 55 projects have been certified and more than 30 are either operational or under construction. When all 55 projects are completed they will serve more than 9 million people. In Juarez, Mexico, a city of over 1 million, the first wastewater treatment systems are now operational. Since 1994, EPA has spent over $770 million on water and wastewater infrastructure in the Mexico Border area.

EPA also has a number of programs and activities concerned with the transport of agricultural products across the border. These actions have contributed to the reduction of pesticide residues on the imported agricultural products.

United States-Canada

The United States and Canada cooperate extensively on monitoring, assessment, reporting, and control of chemical, physical, and biological pollution, including increasing their focus and cooperation on biological pollution (e.g., invasive species of concern). A great deal of this cooperation includes overarching goals to better protect many diverse, shared ecosystems and the public health of populations (including indigenous peoples) particularly along the shared extensive border areas, but also in the inland areas of both countries. In addition, bi-national cooperation has been underway since the early 1990s to better protect U.S.-Canada marine regions such as the Gulf of Maine.

The United States and Canada have a long history of working together to control, reduce, and prevent cross border pollution. The Boundary Water Treaty of 1909, which applies along the entire 5,500-mile inland border area, was in part designed to protect transboundary waters and U.S.-Canada watersheds, including protecting the public health of populations in both countries from the adverse effects of water pollution. Many major projects and activities addressing actual or potential pollution of transboundary waters continue to be conducted under the water pollution control and prevention requirements of the 1909 treaty.

Specifically, cooperation is underway to fulfill the treaty requirements for bi-national surface waters: e.g., St. Croix River, Lake Champlain, Great Lakes Basin including the Upper St. Lawrence River, Rainy River, Red and Souris Rivers system, Poplar River, Flathead River, Columbia River, Puget Sound-Georgia Basin, Taku River, and the Yukon River. The U.S.-Canada International Joint Commission (IJC) assists both countries with boundary waters management and protection for a number of the listed watersheds. 1909 Treaty cooperative efforts protect the U.S. portions of many shared U.S.-Canada watersheds.

From the 1970's to the present, the United States and Canada have steadily increased their bi-national cooperative frameworks and attendant activities along the common border area. These activities, concerned with improved management and prevention of transboundary pollution, have been conducted between Federal, provincial, State, tribal, and some local governments, and frequently include involvement of the NGO community, the private sector and the general public as well.

Cooperation with Canada under the Great Lakes Water Quality Agreement, beginning in 1972, has resulted in substantial progress in restoring the quality of these important natural resources. Lake Erie, once considered an ecological wasteland, is now substantially restored, with fish eating birds, like eagles and ospreys, having made strong recoveries. DDT and PCB contamination has been reduced by 80 or 90 percent. U.S.-Canada cooperation to protect and restore the Great Lakes Basin ecosystem includes many goals that serve to better protect U.S. public health and the U.S. parts of the shared aquatic ecosystems.

Unfortunately, although a lot of progress has occurred, many large Great Lakes fish are still unsafe to eat due to their accumulating burden of toxic pollutants. The fiscal year 2004 President's Budget requests $15 million for the new Great Lakes Legacy program, which will help reduce toxic pollutant levels further through contaminated sediment remediation. Also, the Great Lakes basin ecosystem is subjected to harmful changes due to the effects of a substantial number of foreign alien invasive species, so that the two countries continue to address new challenges. Dur-

ing 2002 and 2003, the United States and Canada, in consultations at the IJC, started active consideration of measures to improve efforts addressing aquatic invasive species in the Great Lakes Basin.

Under the 1991 U.S.-Canada Air Quality Agreement, emissions of sulphur dioxide and nitrogen oxides (key contributors to acid rain) have been substantially reduced, benefiting the Northeastern United States. An annex to the Agreement, signed in December 2000, will lead to reductions in ground level ozone pollution. Priority cooperation under the Agreement also covers particulate matter, ensuring certain existing or proposed point sources of air pollution along the common area do not cause significant transboundary air pollution which can harm one side or the other. Efforts are also underway to protect visibility in natural areas along the border.

EPA also is furthering the existing bilateral agreements concerning mercury and other toxic substances, such as the 1997 Great Lakes Bi-national Strategy, with the goal of 50 percent reduction in use and emissions of mercury by 2006. The Northeast Mercury Study of the U.S. Northeast States and Eastern Canadian Provinces has focused on reduction of uses and emissions of mercury and safe management of the mercury life cycle. In 1997, Canada and the United States signed an agreement for the Virtual Elimination of Persistent Bioaccumulative Toxic Substances (PBTs) in the Great Lakes. The strategy sets long-term goals to promote emissions reductions of these toxic substances. EPA coordinates the U.S. activities by engaging all relevant stakeholders, developing action plans, coordinating reduction activities and reporting on progress.

The two governments have established three bi-national agreements that cover preparedness and response to pollution release accidents/emergencies that could arise along the border. These agreements could also be used by one country, in certain emergency instances, to call upon the other country to assist with a response to an emergency that may occur inland away from the bi-national border. One of the three agreements covers the four U.S.-Canada marine water regions and Great Lakes waters for oil and hazardous materials. Another one covers the rest of the inland border for oil and hazardous materials. The more recent one covers radiological emergencies.

North American Trilateral Cooperation Between the United States, Mexico and Canada

In the 1990s, the United States and Canada developed new trilateral cooperation with Mexico to increase multilateral cooperation on major issues such as PBTs, their sources, air transport, fate and deposition. Long-standing shared goals by the United States and Canada under their Great Lakes Water Quality Agreement on PBTs helped catalyze and focus larger trilateral efforts. The three countries are focusing together on PBTs and other pollutants, their environmental transport and other pathways. The United States, Canada and Mexico have increased their consultations and cooperation on the northward migration, or introduction, of animals, plants, and pathogens not native to North America (i.e., invasive species), with the shared goal of improving protection of the biological integrity of many North American ecosystems, and in the case of some invasive species, to protect the public health of populations of North America.

In 1993, Canada, Mexico, and the United States established the Commission for Environmental Cooperation (CEC) under the North American Agreement on Environmental Cooperation (the NAAEC) to address regional environmental concerns. The NAAEC complements the environmental provisions of the North American Free Trade Agreement (NAFTA). The CEC is facilitating tri-national coordination and cooperation on matters of cross-border flows of air pollutants, as well as invasive biological species. Capacity building, public participation, and facilitation of risk management actions through pollution prevention, market-based incentives, and technological controls are priorities of the organization.

In 2001, two meetings of air quality experts were sponsored by the CEC to address the exchange of emissions information for criteria air pollutants and greenhouse gases and to address air quality impacts of transboundary trade and transport corridors. To support environmental capacity building, a Mexican association of air quality experts has been established and a newsletter has been created to inform stakeholders in Mexico about the air quality program. The CEC is also providing funding for Mexican participation in the meetings of North American air quality experts addressing problems common to the three countries.

Under the auspices of the CEC, in 1995, Mexico, Canada and the United States developed a regional initiative on the sound management of chemicals. Under this initiative, CEC established regional action plans for PCBs, DDT, and chlordane and is developing an action plan for dioxins, furans and hexachlorobenzene. EPA provides technical input to these plans and coordinates relevant capacity building ac-

tivities, such as providing support for dioxin measurements, and assisting Mexico with obtaining international funding to address DDT stockpiles.

In 2001, the CEC air program collaborated with the Sound Management of Chemicals (SMOC) program and developed a national mercury air emissions inventory in Mexico. It is being combined with the national inventories in Canada and the United States to give a continental perspective for the globally cycling pollutant. Data comparability and information access are key to its success.

In addition to mercury, air quality experts in the three countries are developing inventories for sulfur dioxide, nitrogen oxides, carbon monoxide, volatile organic compounds, particulate aerosols, and greenhouse gases. They are also developing plans to obtain the needed information through monitoring and other implementation tools for any significant data gaps that may be identified.

Workshops facilitate the progress in the assessments and capacity building, and a leveraging of funds supports the implementation for phase 2 of the mercury NARAP, and those for DDT and PCBs, dioxins, furans and hexachlorobenzene. This year the NARAP on chlordane was completed, stopping production and use of chlordane in North America. Also building on NARAP activities, the DDT Task Force solicited and received funding from the Global Environmental Facility (GEF) to support a regional project to phase out DDT in Mexico and throughout Central America in 2000.

Consideration also is being given to how the CEC, and particularly SMOC, could facilitate the regional implementation by the Parties to the 2001 Stockholm Convention on Persistent Organic Pollutants. The effects of persistent toxics on wildlife are being monitored, as well as human health endpoints. A North American Pollutant Release and Transfer Register project addresses the sources, handling and stewardship of toxic chemicals from industrial activities in North America, and allows for better management of these transboundary pollutants.

Regional Cooperation Addressing Contamination Threats to Alaska and the Arctic, Including Indigenous Populations

The fragile Arctic environment and ecosystems, Alaska and indigenous populations are threatened by transboundary contamination mostly from sources in Russia. Transboundary transport mechanisms include atmospheric and ocean circulation and biological transmission through the Arctic food chain. The Russian contaminant sources are largely a legacy of the Soviet Union's armaments and military activities in the far North, the Cold War era industrial/agricultural infrastructure and practices, and related un-managed waste. The principal contaminant sources of concern include radioactive waste and spent nuclear fuel, PCBs mostly from the power grid system, dioxins/furans from incinerators and industrial sources, obsolete pesticides from huge collective farm era stockpiles, and heavy metals such as lead and mercury from industrial activities.

In the 1990's Russia had the highest concentrations of unsecured Cold War legacy radioactive waste in the world, and very little waste management infrastructure to address the deteriorating situation. The problems mounted rapidly as the nuclear submarine dismantlement program obligatory under the START treaty continued to generate large amounts of radioactive waste and unsecured spent nuclear fuel. Russia dumped the low-level liquid radioactive waste produced in the submarine decommissioning and dismantlement process in the Arctic, while the spent nuclear fuel accumulated in unsecured circumstance at Arctic coastal sites in Northwest Russia.

Under an EPA initiative responding to a Russian request for assistance, the United States (EPA, DOS/AID, DOD, and DOE) undertook in 1994 a multilateral project with Russia and Norway to upgrade and expand Russia's only operational radioactive liquid waste processing facility (originally developed for the Russian nuclear icebreaker fleet) to process the low-level liquid waste from the nuclear submarine disarmament program. Russia has terminated all ocean dumping of radioactive liquid waste since the start of the project and continues to work toward formal acceptance of the global ban on ocean disposal or radioactive waste under the London Dumping Convention.

Because unsecured spent nuclear fuel in the Russian Northwest constitutes 95 percent of the high level radioactive waste threat to the Arctic environment, EPA proposed the development of a prototype transportable spent nuclear fuel dry storage cask as a means of securing Russia's inventory of spent nuclear fuel arising from the decommissioning and dismantlement of large portions of their strategic submarine fleet under START. The U.S. nuclear power industry pioneered dry cask storage, and the EPA proposal was to develop a low-cost prototype transportable storage cask for use in Russia, based on a unique Russian concrete-metal cask concept.

The Transportable Spent Nuclear Fuel Storage Cask Project was organized as a trilateral effort between the United States, Russia and Norway under a military environmental cooperation declaration involving the three countries and lead by their respective defense establishments. For the United States, the effort has involved cooperation among DOD, EPA, DOE and DOS. The successful testing of the prototype cask has resulted in serial production to start under separate programs within Russia and, bilaterally, as part of the cooperative threat reduction efforts between Russia and the United States. A prototype concrete storage pad was proposed by EPA to hold the loaded casks. This portion of the cooperative program is also nearing completion and a completion event is scheduled in Murmansk, Russia, in the last half of 2003.

Since 1998, the EPA multilateral strategy on Arctic contamination has shifted emphasis to the problem of non-radioactive chemical threats to the Arctic environment and Alaska emanating from Russia's Cold war era legacy. The United States proposed a three phased project to the Arctic Council to assist Russia in addressing its PCB problems: (1) development of a PCB inventory for the Russian Federation, with emphasis on sources potentially impacting the Arctic; (2) assessment/feasibility of available technologies to address the particular major source problems identified by Russia; and (3) selection and demonstration of at least one technology addressing one or more major source categories.

The Russian PCB Project was endorsed as an official project of the Council's new Arctic Council Action Plan (ACAP) and EPA was asked to provide the project technical lead. The project has received funding from EPA and DOS plus all other Arctic nations and the Netherlands. The first (inventory) phase was completed in October 2000, with the results openly available. The second phase technology assessment and feasibility study concerned with evaluating alternative dielectric fluids to replace PCBs, as well as PCB decontamination and destruction technologies for application to the specific PCB source problems identified in the first phase effort was completed in October 2002. In 2003, work has started on the third and last phase of the project, to develop the first prototype demonstration for destruction of up to 200 tonnes of PCB liquids from electrical transformers and 200 tonnes of PCBs contained in 12,000 capacitors in Russia.

The project model is being applied to other Russian POPs problems under the Arctic Council: (1) "Russian Sources of Dioxin/Furans" under Swedish project lead and U.S./EPA co-lead, and (2) "Obsolete Pesticides in Russia" under U.S./EPA project lead. The Obsolete Pesticides project in Russia will assist Russia with management of its extensive stockpiles of Soviet Era pesticides, many of which are migrating into the Arctic. This is a cooperative project with Canada, Finland, Norway, Russia, Sweden and UNEP Chemicals. The three phases involve: (1) developing the inventory of obsolete pesticide stockpiles in the 19 priority Russian regions impacting the Arctic; (2) developing a strategy for safe interim storage and stabilization of stockpiles—this will include performing risk assessments for highest contaminated areas, evaluating destruction technologies, and designing a prototype storage facility that can be used throughout Russia; and (3) implementing a prototype demonstration for environmentally safe destruction of those pesticides stocks of greatest risk to the Arctic, including Alaska, and construction of a prototype storage facility.

The cooperative project, Reduction of Dioxins and Furans Releases in the Russian Federation, has as its primary objective the reduction of dioxins/furans releases to the Arctic from key industrial sectors, with particular focus on the pulp and paper industry and landfill incinerators. Initial activities completed include: translation into Russian of the UNEP Chemicals "Standardized Toolkit for Identification and Quantification of Dioxins and Furans Releases"; development of a draft Dioxins/Furans Fact Sheet for use in Russia; and a Workshop on Harmonization of Laboratory Methods between Russia and Western countries. This project also consists of three phases: (1) identify and verify sources of dioxins and furans in Russia, verify emissions and refine emission factor estimates, and modernize and harmonize Russian sampling and analytical techniques; (2) feasibility studies for technological improvements in the pulp and paper industry and industrial incineration; and (3) pilot demonstration project.

International Cooperation and Agreements Addressing Global Sources of Persistent Organic Pollutants (POPs) and Other Toxic Substances

Many Persistent Organic Pollutants (POPs) are subject to long-range transport processes, and consequently pose a common threat to human health and the environment (particularly sensitive ecosystems), all over the world. The United States is working to reduce and/or eliminate POPs and their releases on a regional and global basis. In 2001, the United States signed the Stockholm Convention on POPs and is working to ratify the treaty. The Stockholm Convention requires parties to

ban or restrict manufacture, use and release of 12 selected chemicals. The agreement also includes provisions on export and import restrictions, waste management, and the selection of additional substances for coverage.

Since the early 1990's, EPA has been involved with activities concerned with identifying and quantifying sources of contamination impacting the Arctic environment, ecosystems and populations under the Arctic Environmental Protection Strategy (AEPS). Subsequently, the AEPS was subsumed under the Arctic Council, a consultative mechanism whereby the eight Arctic nations collaborate and, for example, provide assistance to Russia in meeting environmental goals.

In 1998, the United States signed with other member nations of the United Nations Economic Commission for Europe (UNECE) a regional protocol on POPs under the Convention on Long-Range Transboundary Air Pollution and is working to ratify the Protocol. This regional agreement seeks to eliminate production and reduce emissions of POPs in the UNECE region and addresses 11 of the Stockholm Convention POPs and 5 additional chemicals. EPA would be involved in ensuring the United States meets the obligations of the protocol and is actively engaged in the scientific assessment of potential additional chemicals. The EPA also continues activities under the Convention on Long-Range Transboundary Air Pollutants (LRTAP Convention) Heavy Metals Protocol, signed by the United States in June 1998 and ratified in January 2001, whereby nations of the UN Economic Commission for Europe agree to control emissions of mercury, lead and cadmium.

EPA has initiated activities (previously described) under the Arctic Council/Arctic Council Action Plan (ACAP) intended to assist Russia in accepting and implementing the LRTAP protocols, as well as the Stockholm Convention. Russia has now signed the Stockholm Convention. The United States has also provided technical and financial assistance for POPs-related activities to a variety of countries besides Russia and regions other than the Arctic, including Mexico, Central and South America, Asia, and Africa. Examples of this assistance include projects led by the EPA on the development of dioxin and furan release inventories in Asia, the Chemicals Information Exchange and Networking Project for chemical managers in targeted countries in Africa and Central America, the destruction of pesticide stockpiles in Africa and Russia, and the reduction of PCB sources in the Philippines.

Very Long-Range Air Transport of Pollutants and Global Cycling of Mercury

Very long-range air transport of pollutants and the global cycling of mercury is a rapidly growing area of attention for the United States and other countries. At the present time these matters are heavily concerned with research, monitoring and development. EPA has taken many steps to better understand the sources and mechanisms of long-range transport of persistent bioaccumulative toxic (PBT) substances and other air pollutants, as well as undertaking some initial steps in developing co-benefit technologies for emissions control, promoting pollution prevention.

In July 2000, EPA sponsored the First International Conference on Trans-Pacific Transport of Atmospheric Contaminants, involving scientists from both sides of the Pacific Basin, including China, Japan, Russia, South Korea, Canada, and the United States. The conference discussed the state of science on long-range atmospheric transport in the North Pacific region, identified uncertainties and gaps in our knowledge, and promoted a network of individuals and organizations interested in these issues to further international collaboration.

In June 2001, EPA co-sponsored a workshop with Environment Canada entitled "Photo-oxidants, Particles, and Haze Across the Arctic and North Atlantic: Transport Observations and Models." This conference was conducted as part of the U.S. participation in the Convention on Long Range Transboundary Air Pollution (LRTAP Convention) and the Arctic Monitoring and Assessment Program (AMAP) under the Arctic Council. The meeting focused on identifying the research needed to quantify the sources-receptor relationships for ozone and fine particle transport across the North Atlantic and Arctic.

For mercury specifically, the Agency priority pollutant that cycles globally, EPA was instrumental in developing new methods for measuring the various species to assess long-range transport mechanisms. EPA is also developing state-of-the-art knowledge about transformation of mercury into various species in the atmosphere and the transport consequences. The species determines distance traveled and ultimate fate. Research utilizing these new analytical methods has been ongoing in South Florida, Cheeka Peak, Washington; Barrow, Alaska; and Mauna Loa, Hawaii to distinguish local sources of mercury from external sources. These studies have involved the first aerial measurements and studies at elevation as well as at ground level.

In regard to pollution emissions minimization abroad, EPA is sponsoring a mercury-SO_2 co-benefit demonstration project at a small coal-fired facility in Russia, in

order to evaluate the effectiveness of emissions reduction using an electrostatic precipitator (ESP) add-on system. If the expected minimum of 50 percent reduction in mercury is achieved, it will be possible to utilize this low-technology approach in many countries where similar Russian ESP systems are in place. Additionally, a higher technology, although higher cost, approach has also been identified which is expected to reduce mercury by 99 percent in conjunction with SO_2 reduction, is being considered for application in China.

In conjunction with the Department of State Cooperative Threat Reduction Program, EPA has initiated development of a proposal for mercury bioremediation at a former chloralkali facility in Kazakhstan, and in preparation for this project, sponsored a meeting in May 2002 of all scientists engaged in mercury research and pollution prevention in Kazakhstan and the neighboring countries of Kyrgystan, Azerbaijan, and Russia.

EPA also played an instrumental role with Department of State during the UNEP Governing Council session in February 2002, at which UNEP launched a global mercury assessment, with a technical report and set of alternatives for decisions presented to the February 2003 UNEP Governing Council.

OVERSIGHT AND ACCOUNTABILITY

Question. Most or all Federal agencies continue to have problems with ensuring that Federal funds are being used in a manner consistent with program requirements or grants requirements. What steps has the EPA taken in the last 2 years to improve accountability in the use of EPA funding?

Answer. Obligating appropriated funds in accordance with Congressional intent is something we have always emphasized in Agency communications, training and guidance. We have not noted a problem in this area at EPA. Nonetheless, the following steps have been taken in the last 2 years or are currently being undertaken to further underscore the proper utilization of funds for program and grant requirements:

Cost Accounting/Program Project

EPA developed approaches to provide greater program and project detail in the Agency's accounting system. Utilizing the principles of Cost Accounting, this additional level of reporting enables program managers to monitor more closely programmatic spending against budget targets and further serve to integrate the Agency's planning, budgeting and accountability systems.

To further integrate EPA's planning, budgeting and accountability systems, the Agency reached agreement on a plan to provide greater program and project detail in the Agency's accounting system. Critical elements of the approach have been agreed to by the Agency. As a result, Agency program managers will be better able to monitor programmatic spending against the goal/objective structure of the 2003 Strategic Plan and to link their operating budget to performance results.

Accountability

Agency budget estimates emphasizes prior year progress and the use of performance information as a key element in resource decision making. The Office of the Chief Financial Officer has been working with Agency managers to more clearly show the links between day-to-day activities and outcomes, to improve accountability between Headquarters and Regions, to build capacity of managers to use performance-based processes, to improve performance measures, and to expand Regional strategic planning.

EPA established a Managing for Improved Results Steering Group to come up with a comprehensive set of reforms on improving the Agency's use of performance and results information in all stages of the planning and budgeting process.

EPA launched an Agency-wide competition to support the development of improved performance measures. Forty proposals were submitted from a wide range of programs and Regional offices.

Program evaluations and performance measurement improvement projects that were competitively funded last summer yielded returns on the investment of extramural dollars and staff time.

For example, the Office of Solid Waste completed a program evaluation in April 2003, which identifies inefficiencies in the biennial reporting of hazardous waste generation, storage, transport and disposal by industry. Results include options for reducing States' and industries' reporting burdens by, for example, standardization of data and reporting protocols.

In another example, recommendations for Brownfields environmental indicators were developed for use by the Office of Brownfields Cleanup and Redevelopment as that program implements provisions of new legislation.

Grants Competition

With regard to grants requirements, EPA has aggressively promoted a new grants competition policy. The Agency also finalized and published guidance covering all areas of the EPA Order, published guidance clarifying the definition of Assistance programs, and continued to promote competition and provide technical support within the Agency.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

ARSENIC STANDARD: EPA FUNDING FOR COMMUNITIES

Question. Would you discuss what resources, if any, are being marshaled by EPA to assist communities faced with the extraordinary costs in meeting the new standards?

Answer: After promulgating the revised arsenic standard in January 2001, EPA has implemented a comprehensive strategy to assist communities that must install treatment technology to comply with the standard. This strategy is designed to: (1) enhance small systems' access to financial assistance; (2) fund the research, development, testing and implementation of effective, practical, and affordable treatment technologies to reduce compliance costs for drinking water systems affected by the revised standard; (3) provide Federal technical assistance and training on the new arsenic regulation to small community water systems; and, (4) use a variety of approaches to inform communities of their treatment options, and how and where to get help building their technical, managerial and financial capacity.

A key component of the Agency's support for small systems is to work with our State partners to maximize the availability of financial assistance under the Drinking Water State Revolving Fund (DWSRF) program. Through the DWSRF program, State SRF programs may offer principal forgiveness, reduced interest rates, or extended loan terms to systems identified by each State as serving disadvantaged communities. States also have the ability to set aside a portion of their Federal DWSRF allocation for technical assistance to small community water systems affected by the new arsenic rule. As of June 30, 2002, 74 percent of all DWSRF loan agreements, totaling just over $2 billion, have been completed with small systems serving 10,000 or fewer consumers.

In addition to maximizing the availability of DWSRF funds for infrastructure improvement loans and technical assistance, EPA and the U.S. Department of Agriculture (USDA) signed a 4-year Memorandum of Agreement (MOA) in 2002. Under this agreement, USDA's Rural Utilities Service (RUS) will identify as high funding priorities projects that assist small communities in complying with the revised arsenic standard for drinking water. Likewise, EPA will strongly encourage State agencies administering the DWSRF to coordinate funding decisions with RUS through Rural Development State staff. Further, under this agreement both agencies will make providing technical assistance resources to small systems a top priority.

Fiscal year 2003 is the second of EPA's 2-year, $20 million research and development and technical assistance program to identify more cost effective technologies to help small systems comply with the new arsenic standard. Also in fiscal year 2003, Congress directed EPA to utilize $5 million in additional funds to carry out demonstrations of low-cost arsenic removal technologies. With this overall funding, the Agency anticipates that some 26–32 demonstrations will be conducted at small water utilities with arsenic problems under the research program. EPA also is verifying the performance of arsenic treatment technologies under the Environmental Technology Verification Program to provide small utilities information to select technologies appropriate for their water quality problem. Four arsenic treatment technologies have been verified under the program.

Further, the Agency will continue its ongoing work with States to take full advantage of the suite of tools that the Safe Drinking Water Act (SDWA) provides to help small systems achieve compliance with the new arsenic standard. For example, EPA is phasing in the arsenic rule over a longer time-period by encouraging States to use the compliance extension authority provided by the SDWA. Under this authority, States can give eligible small systems (those serving fewer than 3,300 people) up to an additional 9 years to come into compliance, and allow Point-of-Use devices as a treatment option for very small systems

Finally, EPA has provided arsenic implementation guidance to State regulators, and made fact sheets, plain language guidance documents, and technology assistance manuals available to the public. This guidance is available both in printed

form and electronically at EPA's web site, at the National Drinking Water Clearinghouse, and through the Local Government Environmental Assistance Network.

ARSENIC STANDARD: LEGISLATIVE ASSISTANCE

Question. Would it be appropriate to try and assist those communities faced with debilitating costs in trying to meet the standard through some legislative means, perhaps in targeted assistance in treatment facility construction?

Answer. EPA believes the SDWA already provides the Agency and its partners with the appropriate flexibility to target resources to systems in need of compliance assistance, especially to small and disadvantaged communities. Under EPA's Drinking Water State Revolving Fund (DWSRF) program, States provide federally funded low-interest loans to eligible public water systems for infrastructure improvements or replacements. Collectively, these efforts help all public water systems, but they are particularly aimed at helping small systems, those that struggle the hardest to meet the demands placed on them. Of all DWSRF loan agreements completed since 1997, 74 percent have been established with small water systems that serve 10,000 or fewer persons, totaling 40 percent ($2 billion) of funds, well above the SDWA requirement that States provide a minimum of 15 percent of available funds to small systems.

Of the total DWSRF loans, 26 percent went to systems that States identified as serving disadvantaged communities. States provide disadvantaged assistance in the form of lower interest rates, principal forgiveness and extended loan terms of up to 30 years.

The Agency also has implemented a $20 million research and development program over the past 2 fiscal years to identify more cost effective technologies to help small systems comply with the new arsenic standard. The preliminary results of this research are encouraging: Since January 2001, a number of highly cost effective arsenic removal technologies have been identified, such as iron-based adsorptive media that have demonstrated superior performance in removing arsenic in water supplies over a range of water quality conditions. The State of Arizona has evaluated these technologies and has determined that iron-based media are the lowest cost alternatives for many of their systems that must comply with the new arsenic standard.

Further, the Agency will continue its ongoing work with States to take full advantage of the suite of tools that the Safe Drinking Water Act (SDWA) provides to help small systems achieve compliance with the new arsenic standard. For example, EPA is phasing in the arsenic rule over a longer time-period by encouraging States to use the exemption authority provided by the SDWA. Under this authority, States can give eligible small systems (those serving fewer than 3,300 people) up to an additional 9 years to come into compliance, and allow Point-of-Use devices as a treatment option for very small systems.

In addition to maximizing the availability of DWSRF funds for infrastructure improvement loans and technical assistance, in 2002 EPA and the U.S. Department of Agriculture (USDA) signed a 4-year Memorandum of Agreement (MOA). Under the MOA, USDA's Rural Utilities Service (RUS) commits to assigning high funding priority to projects that assist small communities in complying with the new arsenic in drinking water standard. Likewise, EPA will strongly encourage State agencies administering the DWSRF to coordinate funding decisions with RUS through Rural Development State staff. Further, under this agreement both agencies will make providing technical assistance resources to small systems a top priority.

CAFOS RULE: REGION 6 VERSUS NATIONAL RULE NO. 1

Question. Would you please comment on why Region 6 would, through its general permit, overrule the final CAFO national rule representing 5 years of work and millions of dollars in cost?

Answer. EPA issued revised CAFO regulations, on February 12, 2003, to take effect as of April 14, 2003. The regulations were developed with significant public input and with substantial involvement by the United States Department of Agriculture (USDA). EPA is currently in the process of working at the State and EPA Regional levels to implement the revised regulations. A key element of this implementation includes the development and issuance of permits consistent with the revised regulations. EPA Region 6 is currently in the process of preparing to develop a general permit consistent with the revised regulations for New Mexico and Oklahoma, but has not yet actually drafted a CAFO permit for public notice and comment.

In recent meetings, representatives of the livestock industry and Region 6 agreed that proper operation and maintenance of well-designed and constructed lagoons

(the basis of the technology standard for CAFO production areas) could alleviate most concerns regarding violations of water quality standards resulting from lagoon overflows. Region 6 and the livestock associations committed to work together to develop best management practices to ensure that water quality standards are met. EPA believes that this collegial approach will be constructive and effective.

CAFOS RULE: REGION 6 VERSUS NATIONAL RULE NO. 2

Question. Would it make sense for Region 6 to require a General Permit for Concentrated Animal Feeding Operations (CAFOs) in New Mexico that is more stringent than the national rule to protect water quality?

Answer. The revised regulations include technology standards for CAFOs, but do not specifically address water quality standards. In some cases, greater restrictions to ensure that water quality standards are met may be necessary and appropriate in permits to further control overflows that result in a discharge to surface waters. In order to do so, EPA would need to determine that the application of technology standards for specific facilities would not be adequate to protect water quality in surface waters where such facilities discharge.

However, EPA believes that going beyond the technology-based requirements of the revised CAFO regulations would generally not be required where facilities are adequately designed, constructed, operated, and maintained in accordance with accepted practices and guidelines that implement the technology-based standards. This may be particularly true in New Mexico, and other arid areas of Region 6, where there is minimal rainfall.

CAFOS RULE: REGION 6 GENERAL PERMIT

Question. Does it matter that the Region 6 rule is a general permit instead of one specifically tailored for watershed and riparian areas?

Answer. National Pollutant Discharge Elimination System (NPDES) general permits are often issued for State-wide coverage of one or more classes of facilities. The permits may be written to include requirements and conditions that are specific to certain watersheds or certain types of circumstances, and which would not be applicable to other dischargers covered by the permit. Alternatively, the permit may exclude coverage for facilities located in particular watersheds or meeting certain types of conditions, and require such facilities to seek coverage under an individual permit or another general permit. In particular, water quality-based limitations included in a permit are often designed to fit the specific conditions of a particular watershed or particular set of conditions, and would not be generally applicable to all permit holders covered by a State-wide general permit unless those ambient water quality conditions were common to all such permit holders throughout the State.

EPA strongly believes that the watershed approach, tailored within hydrologically defined boundaries, offers the most cost-effective opportunity to protect and restore our aquatic resources and ecosystems. Watershed-based permitting may be the preferred approach for the next Region 6 general permit. Region 6 will continue to work with diverse stakeholders to develop successful strategies to implement the Clean Water Act.

CAFOS RULE: NEW MEXICO PRODUCERS

Question. Would enforcement of the Region 6 rule unnecessarily harm otherwise nationally compliant producers in New Mexico?

Answer. The final CAFO rule establishes technology-based standards and permitting requirements in general. The technology standards are not designed to protect water quality. Rather, they are developed based on installing the "best available technology" that is economically achievable by the industry. In issuing permits, the permitting authority performs an analysis of the technology standards and then looks to see if any additional requirements based on a State's water quality standards are necessary. This process is the same for all States and Regions issuing permits and the requirements will vary depending on each State's water quality standards. Compliance is determined based upon the permit issued for the facility. Dischargers in New Mexico should not be at a competitive disadvantage, because all permit authorities evaluate water quality issues when developing permit requirements.

QUESTIONS SUBMITTED BY SENATOR BARBARA A. MIKULSKI

CORE WATER PROGRAMS

Question. Your written testimony says that the budget increases funding for "core water programs" by $55 million. But the Clean Water SRF is cut by $500 million. Is the SRF a "core water program"? If not, what are considered "core" programs? How are these priorities decided?

Answer. States are currently struggling with budget pressures in their water quality and drinking water programs and are facing expanding workloads and challenges to their programs (e.g., permit backlogs, TMDL court challenges, and petitions to withdraw State program authorizations). In recognition of the impact of budget pressures on implementation of core water programs and resulting challenges States and tribes are facing, EPA is requesting a $55 million increase focused on water quality standards, water quality monitoring and assessment, total maximum daily loads (TMDLs), national pollutant discharge elimination system permits (NPDES), drinking water implementation, and oceans and coastal protection. Most of this increase ($32 million) would be provided to States and Tribes through Clean Water Act Section 106 Grants and public water systems supervision (PWSS) Grants. The remaining increase ($23 million) will help EPA provide guidance and technical assistance to States and Tribes in each of the core program areas.

In addition to the requested increase in the core water programs, the administration plans to provide an additional $4.4 billion to the Clean Water SRF by extending funding through 2011. This increase in commitment is expected to increase the long-term target revolving level of the Clean Water SRF from $2 billion per year to $2.8 billion per year, a 40 percent increase.

WATER INFRASTRUCTURE: GAP FUNDING CUT

Question. In December, I joined 37 of my colleagues in writing to President Bush to request that the 2004 budget increase funding for water infrastructure to $5.2 billion—which is $3.5 billion more than the budget request. After the budget came out, Mitch Daniels wrote back to us and said that the President's budget request will be "sufficient to close, over the next 20 years, the projected infrastructure gap." Can you please explain to the subcommittee how cuts to water infrastructure will close the gap?

Answer. Previous administrations had set a target for the CWSRF to provide average annual assistance of $2 billion per year, based on capitalization through fiscal year 2005. With the funding appropriated by Congress to date, the $2 billion goal has been reached and, in fact, exceeded. Nonetheless, the fiscal year 2004 budget request expands this commitment from $2 billion to $2.8 billion, an increase of 40 percent. This level of funding is achieved by an appropriation of $850 million a year from fiscal year 2004 through fiscal year 2011. Administration analyses using historical information indicate that, by extending Federal capitalization of the CWSRF program through 2011 at $850 million per year, the President's proposal is projected to increase SRF loan assistance by $21 billion in 20 years, equivalent to the 20-year additional need identified by the Clean Water and Drinking Water Gap Analysis Report. By also utilizing other Federal, State and local sources of funding and improved management practices, we believe the infrastructure gap can be eliminated.

With the $800 million increase in the revolving level, States will be able to fund nearly 600 more projects each year on a long-term basis. In addition to funding more publicly financed projects, EPA will continue to focus on ways to utilize private funds to clean waterways by encouraging privatization and promoting technology innovation while maintaining affordability for consumers.

WATER INFRASTRUCTURE: GAP CONFERENCE

Question. In January, EPA convened a conference on how to "close the gap." The conference included State and local officials, business, and other experts to exchange ideas about how to meet water and sewer challenges. What happened at this conference? What were the conclusions? What are the next steps?

Answer. Attached is a copy of the summary from the January infrastructure forum "Closing the Gap: Innovative Solutions for America's Water Infrastructure." This summary is also available at the following web address: http://www.epa.gov/water/infrastructure/forum__summary.html

WATER INFRASTRUCTURE: WATER AND SEWER FUNDING

Question. As the protector of the environment, how is EPA working to make water and sewer funding a national priority?

Answer. EPA's new strategic plan features strong water quality and public health goals intended to assure linkage of our programmatic efforts to environmental gains. EPA, in partnership with the States, has set strong goals and objective to achieve these gains. Today's challenges demand a multi-faceted approach to managing and sustaining our infrastructure assets.

In addition to managing better, using less, and adequately pricing services, water and wastewater utilities may use a watershed approach to address the challenges. The CWSRF is a powerful tool for fostering and funding watershed projects. States can also use their flexibilities to support sustainable infrastructure, drinking water source protection, and efficient water use.

WATER INFRASTRUCTURE

Question. Communities like Baltimore are facing enormous costs to deal with crumbling water and sewer systems while meeting increased regulations. These are worthwhile challenges, but they are also unfunded mandates. We need new thinking on a national policy to help communities pay for water and sewer. What is EPA doing to develop new ideas?

Answer. The provision of clean and safe water in the 21st century is sufficiently challenging as to demand the energy, talent and creativity of both the public and private sectors. EPA has offered to collaborate with the Congress and the water and wastewater infrastructure industry and utilities to address the challenges of infrastructure financing. Following release of our report on the gap between water and wastewater infrastructure investment needs and current levels of spending, EPA sponsored an Infrastructure Forum in January 2003 to seek ideas from a broad array of experts. This Forum addressed, not only the financial needs of the Nation's water and wastewater infrastructure, but also needed innovations and efficiencies to help manage costs and achieve better results. Information on the forum can be found on the EPA website at: http://www.epa.gov/water/infrastructure/forum__summary.html. In response to the ideas and concerns expressed by these experts, EPA is continuing to challenge the Nation through articles, presentations and stakeholder discussions. In particular we are focusing on the ideas of sustainable management, efficiency, full cost pricing and watershed-based decision making. We are also examining approaches taken in other countries and seeking to find and publish best practices in use in U.S. communities.

CLEAR SKIES: BUDGET REQUEST

Question. The budget proposes $7.7 million for a Clear Skies research program. How does this new program relate, if at all, to the Clear Skies legislation that EPA sent to Congress?

Answer. Most of the $7.7 million increase EPA is requesting for the Clear Skies Initiative is not for a research program, but for development, enactment, and pre-implementation of the Clear Skies Act. The proposed 2004 budget requests $1.5 million in new funds for Clear Skies research that will support both implementation and assessment of market-based approaches such as those proposed in the Clear Skies legislation to reduce multiple air pollutants, with an emphasis on mercury, from utility boilers under the auspices of EPA's Office of Research and Development (ORD); $5.0 million in new funds for technical, analysis, and outreach activities in EPA's Office of Air and Radiation (OAR) to support enactment and/or pre-implementation of Clear Skies (depending on the progress of the legislation); and $1.2 million of reprogrammed funds for staff resources. The requested funds for OAR would be used for legislative support activities such as assessing monitoring and control technology options; analyzing costs and benefits of control levels and timing options; economic and technical analysis supporting the Regulatory Impact Analysis (RIA); emissions and air quality modeling; and establishing baseline indicators for tracking the environmental effects of reductions in sulfur, nitrogen, and mercury deposition.

CLEAR SKIES: LEGISLATION DEPENDENT

Question. Does the Clear Skies research depend on the enactment of Clear Skies legislation?

Answer. As noted above, much of the budget request is not for Clear Skies research. The proposed 2004 budget requests $1.5 million in new funds for Clear Skies research that will support both implementation and assessment of market-based approaches such as those proposed in the Clear Skies legislation.

CLEAR SKIES: LEGISLATION ENACTMENT

Question. Is the purpose of the budget item to work toward enactment of Clear Skies legislation?

Answer. The proposed 2004 budget requests $1.5 million in new funds for Clear Skies research that will support both implementation and assessment of market-based approaches such as those proposed in the Clear Skies legislation, with an emphasis on mercury, from utility boilers under the auspices of EPA's Office of Research and Development (ORD); $5.0 million in new funds for technical, analysis, and outreach activities in EPA's Office of Air and Radiation (OAR) to support enactment and/or pre-implementation of Clear Skies (depending on the progress of the legislation); and $1.2 million of reprogrammed funds for staff resources. The requested funds for OAR would be used for legislative support activities such as assessing monitoring and control technology options; analyzing costs and benefits of control levels and timing options; economic and technical analysis supporting the Regulatory Impact Analysis (RIA); emissions and air quality modeling; and establishing baseline indicators for tracking the environmental effects of reductions in sulfur, nitrogen, and mercury deposition.

CLEAR SKIES: FUNDING REQUEST

Question. What will the $7.7 million in the budget buy?

Answer. The proposed 2004 budget requests $1.5 million in new funds for Clear Skies research that will support both implementation and assessment of market-based approaches such as those proposed in the Clear Skies legislation to reduce multiple air pollutants, with an emphasis on mercury, from utility boilers under the auspices of EPA's Office of Research and Development (ORD); $5.0 million in new funds for technical, analysis, and outreach activities in EPA's Office of Air and Radiation (OAR) to support enactment and/or pre-implementation of Clear Skies (depending on the progress of the legislation); and $1.2 million of reprogrammed funds for staff resources. The requested funds for OAR would be used for legislative support activities such as assessing monitoring and control technology options; analyzing costs and benefits of control levels and timing options; economic and technical analysis supporting the Regulatory Impact Analysis (RIA); emissions and air quality modeling; and establishing baseline indicators for tracking the environmental effects of reductions in sulfur, nitrogen, and mercury deposition.

CLEAR SKIES

Question. Is this research that EPA is already doing? Or is it new research? How will the research be used?

Answer. EPA's fiscal year 2004 Clear Skies Research Initiative proposes new research to support both assessment and implementation of market-based approaches (i.e. a "cap and trade" system) to reduce multiple air pollutants from utility boilers as proposed in the Clear Skies legislation. This will include field testing mercury continuous emission monitors (CEMs), which have proven to be an important element of cap and trade programs where they are demonstrated to be efficacious and can be deployed at a reasonable cost. Such long-term testing has not been done and is not part of EPA's existing research program. EPA will, where possible, characterize compliance application performance at Department of Energy (DOE) control technology performance evaluation sites, where DOE currently focuses on using CEMs to characterize control technology performance and not testing them as compliance tools.

In addition, EPA will initiate new efforts to develop tools and approaches that can be used to determine the atmospheric fate of mercury. This will include development of an improved method to measure dry deposition of mercury deployment in routine monitoring networks and field studies to better define atmospheric processes impacting the forms of mercury present in the atmosphere. In addition to providing direct measurements, this research will also be used to evaluate and apply improved air quality models. Ultimately, the results of this research will lead to a better understanding of the atmospheric fate of mercury that will allow EPA to more accurately measure the environmental response to risk mitigation activities and to evaluate the effectiveness and progress of mercury programs with more certainty. The CEM and atmospheric fate research will be useful to individual States or regions of the country that decide to move forward with their own market-based programs that include mercury allowances under a cap and trade system.

CLEAR SKIES VERSUS CLEAN AIR ACT

Question. As I understand it, the Clear Skies legislation would set up a phased system to cap emissions from power plants. How does this proposal differ from the existing Clean Air Act? Does the proposal repeal any parts of the Clean Air Act?

Answer. The Clear Skies Act builds on the successes of the Clean Air Act and would significantly improve air quality across the Nation by requiring power plants to cap and reduce their emissions of SO_2, NO_X and mercury by 70 percent. Our analyses from last year project that power plants would emit 35 million fewer tons of SO_2 and NO_X over the next decade under Clear Skies than they would under the current Clean Air Act. As a result, we expect that the health and environmental benefits over the next decade from Clear Skies would be markedly greater than could be expected under the current Clean Air Act. These emissions reductions and health and environmental benefits would be achieved at a considerably lower cost, and with greater certainty, than would occur under the current Clean Air Act. This is due in large measure to the major innovation of Clear Skies—a multi-pollutant cap and trade strategy for power generation based on the proven successful Acid Rain Program.

After the next decade, under the current Clean Air Act, it is clear that power plants would be required to reduce emissions as a result of EPA and States regulatory actions. However, there are great uncertainties (regulatory development, litigation, implementation time, etc.) regarding the exact timing and level of these reductions.

Clear Skies would get greater reductions of SO_2 and NO_X than we expect from the current Clean Air Act power plant regulations that would be replaced or modified by Clear Skies (e.g., new source review (NSR), regional haze (or BART), the Acid Rain program, and the NO_X SIP Call). The changes Clear Skies would make to the NSR, BART and NO_X SIP call programs would only apply to sources covered by Clear Skies.

As for mercury, we expect less mercury to be emitted by power plants over the next 5 years if Clear Skies is enacted, but cannot predict what mercury emissions would be under the current Clean Air Act after that. This is because we are currently engaged in a rulemaking process (utility MACT) to set a standard for mercury emissions from power plants which will go into effect for existing sources no sooner than the end of 2007. As with other regulations, this rule will likely be litigated, increasing uncertainty regarding implementation and the emissions reductions it would achieve.

Clear Skies would not replace the fundamental protections afforded by the health-based air quality standards for ozone and fine particles—those standards will still have to be met. In setting the legal deadlines by which areas must attain the fine particle and ozone standards, the "attainment dates," Clear Skies relies on the common-sense principle that we should not require local areas to adopt local measures if their air quality problem would be solved in a reasonable time frame by the reductions in power plant emissions required by Clear Skies. The same philosophy was reflected in a 1997 Presidential memo governing implementation of the ozone and fine particle NAAQS. It recognized that where cost-effective emission reductions were required through regional controls, additional controls should not be imposed on local businesses where they were not needed to meet the NAAQS in a reasonable timeframe.

Under Clear Skies, areas that are projected to meet the ozone and fine particle standards by 2015 as a result of Clear Skies would have a legal deadline of 2015 for meeting these standards (i.e., will have an attainment date of 2015). These areas would be designated "transitional" areas. Clear Skies would provide two avenues for an area to become a transitional area: (1) EPA modeling completed after Clear Skies' enactment projects that Clear Skies would bring the area into attainment by 2015, or (2) the State adopts and EPA approves by December, 2004 additional measures sufficient to bring the area into attainment by 2015.

EPA expects that many Clear Skies Act transitional areas would meet the standards prior to the attainment date of 2015 because Clear Skies would provide certain, early emission reductions. Areas that qualify as "transitional" areas would receive that designation instead of "nonattainment" or "attainment." They would not have to adopt local measures (except as necessary to quality for transitional status) and would have reduced air quality planning obligations. These areas would not be subject to transportation conformity, nonattainment New Source Review, rate of progress, RACM or RACT requirements in most circumstances.

CLEAR SKIES: MERCURY MACT

Question. Mercury is linked to developmental delays in children. Before the administration announced Clear Skies, EPA was on track to release a rule, under the existing Clean Air Act, that would have required mercury reductions to be in place by 2007. Clear Skies does not require the first phase of mercury reductions until 2010, and full reductions are not required until 2018. How is waiting 10 extra years to reduce mercury emissions more protective of public health?

Answer. Due to the nature of the market-based trading and banking program, the mercury reductions under Clear Skies are expected to begin almost immediately upon enactment—as early as this year. By building on the existing acid rain trading program for SO_2, Clear Skies provides a mechanism to reward companies for early SO_2 reductions. Thus, we expect additional SO_2 reductions to begin immediately. SO_2 controls also reduce mercury emissions, so mercury reductions will also begin immediately. Existing Clean Air Act provisions and current schedules relating to utility MACT rules only require some level of mercury reductions from existing sources beginning on December 15, 2007. The nature, extent, and timing of these reductions are subject to the uncertainties associated with this rulemaking and litigation, so it is difficult to compare relative emissions reductions between the current program and Clear Skies. Litigation in this instance is highly likely, as both industry and environmental groups have signaled their intention to litigate, and such litigation might push compliance dates further into the future. In any event, although the ultimate mercury reductions in Clear Skies occur over an extended time period, the program does not wait 10 years before effecting more protective emissions reductions.

NO_x AND SO_2 REDUCTIONS

Question. Fine particulate matter, or soot, causes asthma, chronic bronchitis, and is linked to lung cancer. If Clear Skies is not enacted, can EPA require reductions of Sulfur and Nitrogen oxides under the existing Clean Air Act?

Answer. Even if Clear Skies is not passed by Congress, power plants will be required to reduce their emissions of SO_2, NO_X and mercury. There is no more cost effective way than Clear Skies to meet the requirements of the current Clean Air Act or to achieve our public health and environmental goals. We know that, absent new legislation, EPA and the States will need to take a number of regulatory actions, although it is unclear now when the requirements will come into effect or what their control levels will be.

Clear Skies has several benefits over the regulatory scheme that will otherwise confront power generators. Clear Skies is designed to go into effect immediately upon enactment. Power plants would immediately understand their obligations to reduce pollution and would be rewarded for early action. As a result, public health and environmental benefits would begin immediately. Given Clear Skies' design, it is unlikely that litigation could delay the program (particularly since Congress would decide the two most controversial issues—the magnitude and timing of reductions). In contrast, under the current Clean Air Act, power plants would not know what their obligations would be until after EPA and States started and completed numerous rulemakings.

Past experience suggests that litigation delays on the regulatory path are likely. Our experience with two cap-and-trade programs—the legislatively-created Acid Rain Trading Program and the administratively-created NO_X SIP Call—illustrates the benefits of achieving our public health and environmental goals with legislation rather than relying solely on existing regulatory authority.

Though we project a great number of benefits will arise from implementation of the NO_X SIP call, the journey has been difficult and is not yet over. The NO_X SIP call was designed to reduce ozone-forming emissions by 1 million tons across the eastern United States. The rulemaking was based on consultations begun in 1995 among States, industry, EPA, and nongovernmental organizations. A Federal rule was finalized in 1998. As a result of litigation, one State was dropped and the 2003 compliance deadline was moved back for most States. Most States are required to comply in 2004, although two States will have until 2005 or later. Meanwhile, sources in these States continue to contribute to Eastern smog problems. Although the courts have largely upheld the NO_X SIP Call, the litigation is not completely over. Industry and State challenges to the rules have made planning for pollution control installations difficult, raised costs to industry and consumers, and delayed health and environmental benefits.

In contrast, reductions from the Acid Rain Program began soon after it passed (even before EPA finalized implementing regulations). There were few legal chal-

lenges to the small number of rules EPA had to issue—and none of the challenges delayed implementation of the program.

It is clear from this example that existing regulatory tools often take considerable time to achieve significant results, and can be subject to additional years of litigation that may further delay significant emissions reductions. Under this scenario, there are few incentives to reduce emissions until rules are final, posing potentially significant delays in achieving human health and environmental benefits. Even once EPA issues a final rule, sources' incentive to make plans for compliance may be reduced by litigation.

The Clean Air Act contains several provisions under which EPA will be required to impose further emission controls on power plants in order to allow States to meet the new national ambient air quality standards (NAAQS) for $PM_{2.5}$ and ozone. For example, Section 126 of the Clean Air Act provides a petition process that States can use to force EPA to issue regulations to reduce emissions of SO_2 and NO_X from upwind sources, including power plants. A number of States have indicated that they intend to submit Section 126 petitions in the near future. However, compared to Clear Skies, this approach will almost certainly involve years of rulemaking and litigation, with resulting uncertainty about reduction targets and timetables.

CLEAN AIR: PROTECTING PUBLIC HEALTH

Question. In the meantime, is EPA doing everything possible to use existing authority to reduce soot and smog in order to protect public health?

Answer. EPA has made reducing particulate matter and ozone among its highest priorities. This includes reducing particulate matter (PM), sulfur dioxide (SO_2), nitrogen oxides (NO_X), and volatile organic compounds (VOCs), as well as taking steps to implement the new National Ambient Air Quality Standards (NAAQS) for these pollutants. Furthermore, reducing these pollutants as quickly as possible is a principal reason for expeditious passage of the Clear Skies Act.

We recently promulgated new rules to reduce NO_X, VOC, PM, and SO_2 from cars, trucks, heavy-duty engines, and large industrial sources. We have just proposed rules on non-road engines which will provide significant reductions in ambient levels and risk from particulate matter and ozone.

We are also moving forward to implement the revised standards for these pollutants. Implementation of the 1997 NAAQS for ozone has been slowed by litigation. Implementation of the 1997 $PM_{2.5}$ NAAQS had to await deployment of new ambient monitors and the collection of 3 years of data. With those hurdles largely behind us, EPA is now taking the steps required under existing authorities to implement the new standards.

In moving forward on the fine particle standards, on April 1, 2003, we proposed Guidance for Determining Boundaries of $PM_{2.5}$ Attainment and Nonattainment Areas. States and tribes should submit their recommendations to EPA by February 15, 2004. EPA expects to designate areas as attaining or not attaining the $PM_{2.5}$ standard by December 31, 2004.

We proposed a rule this spring to guide States in implementing the 8-hour ozone standard. The public, including interested stakeholders, will have an opportunity to comment on the implementation strategies in the proposed rule before EPA finalizes the rule by early 2004. The process for designating areas for the 8-hour ozone standard has already begun. In late 2000, States provided recommendations for ozone designations and EPA has asked them to revise and update those recommendations by July 2003. The EPA will make final designations for the 8-hour ozone standard by April 15, 2004.

INTERSTATE TRANSPORT OF AIR POLLUTION

Question. Under Clear Skies, if facilities in one State are harming air quality in a neighboring State, what recourse would the polluted State have?

Answer. By requiring 70 percent reductions in power plant emissions of SO_2 and NO_X, Clear Skies would significantly reduce the amount of pollution transported from one State to another. Instead of requiring the States and EPA to go through the Clean Air Act section 126 process and/or the section 110 interstate transport rulemaking process before requiring reduced power plant emissions in neighboring States (reductions that could be delayed further by litigation), under Clear Skies, power plants would begin to power plant emission reductions immediately. Enacting Clear Skies effectively gives States even greater reductions than they could have obtained through the sections 110 or 126 processes over the next decade, without making States go through the uncertain and contentious procedures necessary to obtain that relief under the current Act. We do not believe the current Clean Air Act interstate transport procedures (sections 110 and 126) could provide greater emission re-

ductions over the next decade than those under Clear Skies because our analysis indicates it would not be feasible to install more control technology over the next decade than what we expect under Clear Skies.

If States needed additional upwind power plant reductions, under Clear Skies they could file a section 126 petition seeking additional reductions starting in 2012. Clear Skies revises the standard for granting petitions under section 126 of the Clean Air Act so that it incorporates cost-effectiveness and air quality considerations. EPA believes this revision is appropriate because the cost-effectiveness of reductions should be determined in accordance with effects on air quality. (A provision of the Act eliminates this requirement if it is not technically feasible to implement.)

WATER QUALITY TRADING PROGRAM: CAPS

Question. I understand that this new policy is "modeled" after the Acid Rain trading program, which has been successful. Trading for acid rain has worked well because there is an overall cap on pollution levels, and trades must be under the cap. Will there be a cap on water pollution?

Answer. The policy does call for trading under a cap. The form of the cap will vary depending on whether trading is occurring under a Total Maximum Daily Load (TMDL) or not and whether trading is being used on a watershed scale or to offset the impact of a single discharger:

—*Trading Under a TMDL.*—For impaired waters for which a TMDL has been approved or established by EPA, the cap is set by the TMDL at a level necessary to meet water quality standards. The policy (Section III.E.3.) supports trading that is consistent with the assumptions and requirements upon which the TMDL is established. "EPA does not support any trading activity that would delay implementation of a TMDL . . . or that would cause the combined point source and nonpoint source loadings to exceed the cap established by the TMDL."

—*Trading in Impaired Waters Pre-TMDL.*—The policy (Section III.E.2.) "supports pre-TMDL trading in impaired waters to achieve progress towards or the attainment of water quality standards." This may be accomplished by individual trades that achieve a net reduction of the pollutant traded or by a watershed-scale trading program that "reduces loadings to a specified cap supported by baseline information on pollutant sources and loadings." For individual trades that involve point sources, the cap in most cases would be the sum of the trading partners' original water quality based effluent limitations, which under CWA § 301(b)(1)(C) must be established at a level necessary to achieve water quality standards. Where a point source trades with a nonpoint source, the cap would be the point source effluent limitation and the nonpoint source load that is either "derived from" or "consistent with water quality standards."

—*Trading in Unimpaired Waters.*—The policy also supports trading to maintain levels of water quality higher than that necessary to protect and support designated uses consistent with Federal antidegradation policy (Section III.E.1.) In this way trading could be used to offset new or increased discharges through actual pollutant reductions obtained from other sources—so that no lowering of water quality occurs. In this case, the cap (under a State's antidegradation policy) would be the high level of water quality that was present in the receiving water before the introduction of the new or increased load.

Question. How do you know that water trading will not increase pollution?

Answer. First, trading will take place bounded by caps. Second, water quality standards established to protect designated uses are the baseline for generating pollution reduction credits. (See Section III.D). The policy contemplates that a pollution reduction credit may be created whenever a point source achieves reductions greater than those required to meet water quality based limitations. These "surplus" reductions could form the basis of a trade. For example, where a TMDL has been established, the point source waste load allocation and nonpoint source load allocation would establish the baseline for generating a credit. A source generating a credit not only would need to reduce to the level set by the TMDL but also surpass that level before a tradable credit could be created. A source buying a credit therefore would be able to exceed its original allocation only in the amount of the "surplus" originally generated, with the result that the post-trade sum of loadings from the two sources would be equal to (or, depending on cap and program design, less than) the total amount of loadings that would have been discharged by the two sources in the absence of a trade.

The policy "does not support any use of credits or trading activity that would cause an impairment of existing or designated uses, adversely affect water quality

at an intake used for drinking water supply or that would exceed a cap established by a TMDL." (Section III.F.5.).

In addition, EPA's policy includes other features important to the integrity and environmental outcomes of a trading program: incorporating provisions for trading into permits issued to point sources (Section III.F.1. & 2.), addressing antibacksliding (Section III.F.6.) and antidegradation (Section III.F.7.), establishing nonpoint source accountability (Section III.G.1.) addressing uncertainty in nonpoint source pollution reductions (Section III.G.4.), emphasizing the importance of compliance and enforcement (Section III.G.5.) and encouraging public participation and access to information (Section III.G.6.). The policy supports program evaluations, including ambient monitoring, to assess progress and make revisions as needed (Section III.G.7.). EPA's oversight role is set forth in Section III.H, including the veto of permits, review and approval of TMDLs, and approval of revisions to State and tribal water quality standards.

WATER QUALITY TRADING PROGRAM: PERMIT LEVELS

Question. Wouldn't it be more protective of the environment to instead ensure that all facilities meet the levels in their permits?

Answer. All point source dischargers must meet the limits specified in their NPDES permits. These limits must be established at levels as stringent as necessary to achieve water quality standards established under CWA Section 303. See CWA § 301(b)(1)(C); 40 C.F.R. § 122.44(d)(1)(vii)(A). The policy supports trading as a means of complying with permit limits in a more cost effective manner, providing that no use of credits or trading activity would cause an impairment of designated uses, adversely affect a drinking water supply or exceed a TMDL cap. For point sources that trade, the policy calls for trading provisions to be incorporated into the permit (Section III.F.2.). In this way the public is given information and notice of a trade, the permit is written to allow limits to be met through trading, and compliance with the permit is enforceable.

WATER QUALITY TRADING PROGRAM: SENSITIVE AREAS

Question. How will this new policy help sensitive areas like the Chesapeake Bay meet aggressive pollution reduction goals?

Answer. EPA's Water Quality Trading Policy can help meet voluntary pollution reduction goals and facilitate implementation of TMDLs by providing economic incentives for voluntary reductions from unregulated sources, encouraging early reductions and reducing the cost of achieving water quality goals.

For example, Connecticut's Nitrogen Credit Exchange Program is creating faster-than-expected reductions under a TMDL established for Long Island Sound. Discharges from 79 municipal facilities, in aggregate, must be reduced by approximately 64 percent. The Nitrogen Credit Exchange Program provides incentives for point sources to reduce loadings sooner than required. The program is expected to meet the TMDL years ahead of the 14-year compliance schedule at a projected savings of approximately $200 million.

Trading can also help achieve pollution reduction goals by generating information on the cost and benefit of various control options. This information can be important in facilitating the development of TMDLs where voluntary efforts may not be sufficient to achieve water quality standards.

WATER QUALITY TRADING PROGRAM: MONITORING TRADES

Question. Who will be responsible for monitoring the trades?

Answer. Monitoring is essential to the credibility of any water quality trading program. EPA believes that the responsibility for monitoring trades should be shared by the States and sources that engage in trading. EPA's Water Quality Trading Policy calls for periodic assessments to evaluate the effectiveness of trading and serve as a basis for making program revisions. EPA believes this adaptive management approach is important for successful implementation of trading and other watershed initiatives. The policy specifically recommends ambient monitoring to ensure that impairment of uses does not occur and to document water quality. The policy also supports monitoring (Section III.G.4) and studies (Section III.G.7.) to quantify nonpoint source load reductions, validate nonpoint source control efficiencies, and determine if water quality objectives have been achieved. The policy supports the results of these evaluations being made available to the public and an opportunity being provided for public input on program revisions.

The policy calls for point source dischargers to conduct monitoring where required by regulations and specified in their permits. This is essential to provide clear and

consistent measures for determining compliance and to ensure that appropriate enforcement action can be taken (see Section III.F.4. of the policy).

QUALITY TRADING PROGRAM: INCREASED POLLUTION

Question. How will we be sure that trades will not end up increasing pollution?

Answer. The Clean Water Act (CWA) and its implementing regulations establish the legal basis for controlling pollution and supply the framework for trading to occur.

CWA Section 303(c) requires States and tribes to adopt water quality standards for waters within their boundaries. The level of water quality that must be attained and protected is established by water quality standards. (Emphasis added). Water quality standards are composed of three parts: (1) designated uses, e.g., protection of fish and wildlife, recreation and drinking water supply (40 C.F.R. § 131.10); (2) water quality criteria to protect those uses (40 C.F.R. § 131.11); and (3) an antidegradation policy (40 C.F.R. § 131.12). A State must submit to EPA for review and approval/disapproval any new or revised water quality standards it adopts (CWA section 303(c)(2)). If EPA approves the water quality standard, it takes effect and becomes a basis for establishing water quality based effluent limitations in National Pollutant Discharge Elimination System (NPDES) permits and establishing total maximum daily loads (TMDLs). (40 C.F.R. § 131.21.)

The second critical concept and foundation for water quality trading is the requirement under the CWA that National Pollutant Discharge Elimination System (NPDES) permits contain water quality-based effluent limits as stringent as necessary to meet water quality standards (CWA Section 301(b)(1)(C)). These water quality-based effluent limitations provide the baselines for point sources to generate a credit. A baseline is the level below which a reduction is made to create a pollutant reduction credit. The Water Quality Trading Policy (Section III.D.) encourages sources to create pollutant reduction credits by making reductions greater than necessary to meet a regulatory requirement. A point source may do so by reducing its discharge below the level necessary to comply with a water quality-based effluent limit based on a TMDL or other analysis.

All water quality-based effluent limitations, including alternate or variable limits that would apply where trading occurs, are subject to CWA section 301(b)(1)(C). EPA has promulgated regulations specifying when such water quality-based effluent limitations are necessary and how such limitations are to be derived. Among other things, EPA's regulations require the permitting authority to ensure that:

—The level of water quality to be achieved by limits on point sources established under this paragraph is derived from, and complies with all applicable water quality standards; and

—Effluent limitations developed to protect a narrative water quality criterion, a numeric water quality criterion, or both, are consistent with the assumptions and requirements of any available wasteload allocation for the discharge prepared by the State and approved by EPA pursuant to 40 CFR 130.7. (40 C.F.R. § 122.44(d)(1)(vii) (emphasis supplied).

Taken together the foregoing provisions of the CWA and implementing regulations provide a basis for ensuring that trades are consistent with water quality standards established to protect all existing and designated uses.

EPA's Water Quality Trading Policy includes provisions to be consistent with water quality standards (Section III. A., B. and D.). It also does not support trading that would cause an impairment of designated uses, adversely affect a drinking water supply or exceed a cap established by a TMDL (Section III. F.5.).

SHIP SCRAPPING: DISPOSING OF SHIPS

Question. What is EPA's current role in helping the Navy and the Maritime Administration dispose of obsolete ships? Can ships be exported? What is the process for export, and what is EPA's role? How many ships must be dismantled?

Answer. EPA has approved the export of 13 vessels owned by the Maritime Administration (MARAD) for dismantling and recycling at the AbleUK facility in Teesside, England. EPA and MARAD have visited and evaluated the AbleUK facility, and have also consulted with British government officials. We have determined that the work necessary to dismantle these vessels can be done in a manner that is protective of worker safety and health and the environment at this facility.

The AbleUK facility has substantial experience in deconstruction and demolition of large off-shore structures and has a strong history of environmental compliance based on regular inspections over the past 7 years. Provisions have been put in place to assure that AbleUK will manage all hazardous materials in an environmentally sound manner.

There are currently approximately 130 vessels in MARAD's National Defense Reserve Fleet (NDRF) that are designated for disposal. MARAD has been evaluating several options for disposal, including domestic dismantling, foreign dismantling, and preparation of ships to be sunk as artificial reefs.

The National Defense Authorization Act for fiscal year 2003 directs the Secretary of Transportation, Secretary of State, and Administrator of the Environmental Protection Agency to jointly carry out one or more pilot programs to explore the feasibility and advisability of alternatives for exporting these obsolete U.S. government vessels for scrapping. An important element of the legislation is that any pilot project involving export must be able to demonstrate that the work can be accomplished abroad in a manner that appropriately addresses concerns regarding worker health and safety and the environment.

SHIP SCRAPPING: INTERNATIONAL CONDITIONS

Question. On March 12, 2003, the *Washington Post* recently reported that U.S. officials planned to China to check out possible yards for scrapping ships. Did EPA staff participate in this travel? If so, did EPA staff find that conditions have changed since 1997, when a Pulitzer prize-winning series of articles in the *Baltimore Sun* exposed dangerous working and environmental conditions in ship scrapping abroad?

Answer. An EPA staff person accompanied the Maritime Administration (MARAD) officials on a visit to several sites in China in March. The visit was designed to screen potential scrapping facilities for further assessment of their capabilities to conduct ship scrapping in a safe and environmentally sound manner. The visit revealed a range of conditions at the various sites. Since EPA did not visit these yards in 1997, we cannot comment on whether conditions have changed since then.

SHIP SCRAPPING

Question. The same *Washington Post* article (March 12, 2003) referenced a 1994 ruling by EPA that these ships are too toxic to export, and that this ruling would have to be amended or waived by EPA to make export an option. What is the 1994 ruling? What would be the process for changing this ruling? Is EPA considering this?

Answer. EPA is not aware of the "ruling" cited in the *Post* article. EPA's stated position in 1994 (59 Federal Register 62817; December 6, 1994) was that it wanted to "allow export for disposal of PCB waste . . . on a case-by-case basis unless EPA has reason to believe that the PCBs in question will not be properly managed" in the receiving country. In allowing export, EPA also would look to whether other standard administrative procedures, similar to those required by the Basel Convention on transboundary shipment and disposal of hazardous wastes, were followed. While this proposal was not finalized, EPA has no plans at present to take any regulatory action related to the export of PCB waste for disposal.

ENFORCEMENT: PROPOSED CUTS

Question. In 2002 and 2003, EPA proposed cuts in the budget for Federal enforcement. The subcommittee rejected these cuts, and restored funding for "environmental cops on the beat." How many enforcement personnel did the Agency have in 2001, before the cuts were proposed? How many enforcement personnel does the Agency have now?

Answer. In fiscal year 2001, the Agency's enforcement program included 1,661.3 FTE in the Environmental Programs and Management (EPM) appropriation. The Agency's proposed enacted operating plan for fiscal year 2003 includes 1,632.3 FTE in EPM.

ENFORCEMENT: PERSONNEL BY ACTIVITY

Question. What is the breakout by activity (for example, civil enforcement, compliance monitoring, etc)?

Answer. The Agency's fiscal year 2003 budget includes 1,482.4 FTE for the enforcement program in the EPM appropriation. The following table identifies the programs that make up the enforcement program. This information only reflects the EPM appropriation.

Program	Fiscal year 2003 request (FTE)	Fiscal year 2004 request (FTE)
Compliance Monitoring	419.3	464.4

Program	Fiscal year 2003 request (FTE)	Fiscal year 2004 request (FTE)
Civil Enforcement	848.2	915.1
Criminal Enforcement	190.9	190.1
Homeland Security	24.0	24.0
TOTAL	1,482.4	1,593.6

ENFORCEMENT: PERSONNEL BY ACTIVITY—FISCAL YEAR 2004 BUDGET

Question. How many will the agency have under the 2004 budget? What is the breakout by activity?

Answer. The Agency's fiscal year 2004 Request includes 1,593.6 FTE for the enforcement program in the EPM appropriation. The fiscal year 2004 Request includes an overall increase of 100 FTE over the fiscal year 2003 President's Budget Request.

Program	Fiscal year 2003 request (FTE)	Fiscal year 2004 request (FTE)
Compliance Monitoring	419.3	464.4
Civil Enforcement	848.2	915.1
Criminal Enforcement	190.9	190.1
Homeland Security	24.0	24.0
TOTAL	1,482.4	1,593.6

ENFORCEMENT: EPA'S FISCAL YEAR 2004 PLANS

Question. Federal enforcement activities include a number of important programs—including civil enforcement and compliance monitoring. Over the last 2 years, the subcommittee has worked with the Agency to ensure that resources were distributed consistently. Does the Agency propose to shift priorities or personnel in 2004? Or are the Agency's plans for 2004 consistent with past distribution?

Answer. The Office of Enforcement and Compliance Assurance (OECA) is currently conducting an analysis of workforce-related issues. OECA's Assistant Administrator has appointed a Workforce Deployment Executive Steering Committee to examine and provide specific recommendations regarding the effective deployment of enforcement and compliance resources. OECA believes that a more holistic, collective and strategic approach to compliance and environmental problem solving is needed to respond to our workforce-related challenges. OECA expects to finish its analysis in August 2003, with possible implementation in fiscal year 2004.

ENFORCEMENT: VACANCIES

Question. Last year, EPA had over 100 unfilled enforcement jobs. How many vacancies in enforcement are there now? What is EPA doing to fill these vacancies?

Answer. OECA is pursuing an aggressive hiring strategy in fiscal year 2003 and continues to hire staff in high priority program areas. In fiscal year 2003, OECA received an increase of 154 FTE for enforcement. Because the appropriations bill was enacted later in the year and OECA only received funding for the FTE increase in late March, the Agency estimates that based on current charging OECA may be 50 FTE below ceiling. OECA's headquarters and regional offices will aggressively hire to the maximum extent possible.

ENFORCEMENT: GAO'S EVALUATION RECOMMENDATION

Question. Last year, GAO recommended that EPA do a comprehensive workforce study to evaluate whether enforcement resources are adequate to meet the need. Has EPA done this study?

Answer. The Office of Enforcement and Compliance Assurance is currently conducting an analysis of workforce-related challenges as a result of GAO's recommendation. OECA's Assistant Administrator has appointed a Workforce Deployment Executive Steering Committee to examine and provide specific recommendations regarding the effective deployment of enforcement and compliance resources. The analysis will address GAO's concerns and other workforce deployment challenges.

ENFORCEMENT: EPA'S EVALUATION

Question. Does EPA's evaluation include the needs of headquarters and regional offices?

Answer. Yes. The evaluation does consider the needs of headquarters and regional offices.

ENFORCEMENT: FISCAL YEAR 2004 BUDGET

Question. If the study has not been completed, how can the subcommittee be sure that EPA's 2004 budget request is adequate to ensure enforcement of our environmental laws?

Answer. The Agency's fiscal year 2004 Request for the Enforcement and Compliance Assurance program represents the highest funding level in that program's history and reflects this administration's strong commitment to the vigorous enforcement of our Nation's environmental laws. The request includes an increase of 100 FTE over the fiscal year 2003 Request to enhance inspection and enforcement coverage to better identify and address persistent noncompliance in an expanding regulated universe. Based on recommendations from OECA's workforce deployment Executive Steering Committee, OECA plans to target deployment of these resources to ensure a holistic and integrated approach to compliance, serving as a powerful deterrent to would-be violators.

QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

ELIZABETH MINE

Question. Last year, the administration dropped the Elizabeth Mine in Strafford, Vermont from the Superfund funding list. A recent mine safety inspection and analysis has shown that a potential failure of mine tailing piles could occur. This would result in a flood wave 8′ to 9′ high, traveling at a velocity of 10–15′ per second (7–10 miles per hour). This would result in serious environmental and property damage, causing public health and safety risks and long term ecological damage as far downstream as the Connecticut River.

The New England Region has invoked their emergency response authority and recommended to EPA headquarters that their proposed Superfund remedy be implemented and funded. This is a very serious situation. Can you assure me that EPA will fully fund the remedy at the Elizabeth Mine?

Answer. The Elizabeth Mine site is being addressed by both: (1) an on-going emergency removal action; and (2) a long-term remedial cleanup action.

EPA authorized an emergency removal action in March, 2003, to address the potential failure of the tailings piles due to an unlikely sudden snow pack melt or unexpectedly large (4–6″) rain event. As you noted, a recent report raised the possibility of a failure of a mining tailings pile.

Emergency removal activities to address potential failure of the tailings pile:

—EPA has taken and will continue to take emergency action at this site to minimize the immediate threat posed to downstream residents. EPA has installed stand-by pumps and a debris rack to prevent the accumulation of large amounts of standing water behind the tailings pile. EPA will continue to install graded filters to repair internal dam erosion. EPA has increased site monitoring.

—We have met with residents and continue to work with experts from the Vermont Department of Environmental Conservation and the U.S. Army Corps of Engineers to address dam erosion issues and improve the stability of the site as part of the emergency response removal action.

—Funding for emergency action and site monitoring are separate and distinct from the Superfund program's long-term remedial cleanup funding.

Long-term Remedial Action

For fiscal year 2003, the Agency continues to evaluate the Elizabeth Mine site, and other sites nationwide to determine how long-term remedial cleanup funds should be allocated in the coming year.

—When considering Elizabeth Mine, please be assured that the Agency will consider all the new information gathered about the conditions at the site.

—Each year EPA reviews funding requests for site cleanups and weighs funding decisions against needs for CERCLA sites across the country. This site will soon be re-evaluated through this process and ranked against other response actions for sites across the country to determine the relative priority for funding this project in whole or in part.

—Funding decision criteria include relative risk, potential for human exposure to site contamination, potential for ecological impacts, and the status of overall site progress.

MERCURY EMISSIONS

Question. Administrator Whitman, we have talked about the issue of mercury in the past, but I find it disconcerting when you consider the findings in the EPA long-overdue report, *America's Children and the Environment*, which outlines serious risks to pregnant women and children from mercury exposure. Last month, I along with Senator Olympia Snowe (R-Maine) introduced a comprehensive bill, "The Omnibus Mercury Emissions Reduction Act", to control mercury emissions from coal-fired power plants and other sources. This bill will provide tougher standards than the administration's Clear Skies proposal in reducing mercury pollution. In an EPA Report (2000) it was estimated that 29 tons of mercury emissions are released per year from coal- and oil-fired commercial and industrial boiler units. Yet, the EPA has not yet decided to regulate these emissions. Within the Mercury Omnibus bill it would require the EPA to set a maximum achievable control technology (MACT) standard that would reduce mercury emissions by at least 90 percent. Why did the EPA elect not to regulate these emissions?

Answer. The Agency has regulated mercury emissions from a number of important source categories, including Municipal Waste Combustors, Medical Waste Incinerators, and Hazardous Waste Combustors. In addition, we have proposed mercury limits for both new and existing solid fuel-fired industrial/commercial/institutional boilers and process heaters in a MACT standard that was proposed on January 13, 2003. The EPA expects the Clear Skies proposal to provide additional reductions from coal-fired utilities. We continue our work on the utility MACT, which is expected to be proposed in December 2003 and will include limits on mercury emissions from electric utility boilers.

CLEAR SKIES ACT VS. CLEAN AIR ACT

Question. According to the EPA, approximately 200 counties with more than 80 million people would not be able to meet the fine particulate matter standard expected to take effect in 2010. Under the Clear Skies initiative, power companies would be able to continue to emit tens of thousands of tons of sulfur dioxide by buying pollution credits from cleaner plants and thus avoid having to control older and dirtier plants. The initiative would allow significantly more air pollution, including: a 68 percent increase in nitrogen oxide over current law and standards that would take effect 8 years later than the current Clean Air Act; a 125 percent increase in sulfur dioxide and standards that would take effect 6 years later; and a 420 percent increase in mercury and standards that would take effect 10 years later. The administration purports that this will improve the efforts under the current Clean Air Act, how will this be by pushing back already much needed reductions to protect the American public from continually breathing dirty air?

Answer. Clear Skies would improve upon the Clean Air Act providing greater reductions from power plants over the next 10 years than would the current Clean Air Act. Our analysis indicates that the cumulative health and environmental benefits over the next decade from Clear Skies are markedly greater than could be expected under the current Clean Air Act. Last year's EPA estimates for Clear Skies project that, over the next decade, all the programs of the existing Clean Air Act would reduce power plant emissions of SO_2 and NO_X by approximately 23 million tons. Over the same time period, Clear Skies would reduce emissions of these same pollutants by 58 million tons—a reduction of 35 million tons of pollution beyond what can be achieved under current law.

Beyond the next decade, we cannot really predict what will happen under the Clean Air Act. We know that EPA and States will need to issue regulations to reduce power plant emissions, but we do not know for sure what the levels will be or when the reductions will be achieved. There are great uncertainties regarding regulatory development, litigation, and implementation time that affect reductions. Under this scenario, there are few incentives to reduce emissions until rules are final, posing potentially significant delays in achieving human health and environmental benefits. Litigation may further delay these benefits.

In contrast, the mandatory emissions caps at the heart of Clear Skies are a sure thing and guarantee that reductions will be achieved and sustained over time. The Clear Skies Act builds on the successes of the Clean Air Act and would significantly improve air quality across the Nation by requiring power plants to cap and reduce their emissions of SO_2, NO_X and mercury by 70 percent. Also, because cap and trade programs include economic incentives for early action, Clear Skies would begin im-

proving public health immediately. The Clear Skies Act would not replace the fundamental protections afforded by the national air quality standards. Where the Clear Skies Act is not sufficient to achieve attainment of the standards, States will still be required to attain those standards.

Our experience with the Acid Rain Program has demonstrated that the largest, highest emitting sources often achieve the greatest emissions reductions. Our analysis of the Clear Skies Act of 2002 projects that results under Clear Skies will be similar.

[NOTE.—The results herein are based on analyses of the Clear Skies Act of 2002 conducted in 2002.]

FISCAL YEAR 2004 BUDGET PROPOSAL

Question. Last year you proposed $7.621 billion, while Congress eventually appropriated $8.2 billion to assist you in addressing the numerous environmental issues this Nation faces. Now today you are requesting $7.63 billion for fiscal year 2004, a $570 million decrease over what was appropriated in fiscal year 2003. It is my understanding this will result in across the board cuts on water quality, reducing the enforcement branch by 100 employees (as compared to fiscal year 2001), and while you propose an increase of $60 million for the Superfund toxic waste cleanup program, this comes from requiring the American taxpayer to pay for the increase, not the polluter. At a time when the Nation needs increased vigilance in protecting the environment, you elect to reduce numerous programs and increase the costs to the taxpayer; what is the rationale for such proposals?

Answer. The President's fiscal year 2004 budget request of $7.6 billion provides the funding necessary for the Agency to carry out its mission efficiently and effectively—to protect human health and safeguard and restore the natural environment. Given the competing priorities for Federal funding this year, namely the War on Terrorism and Homeland Security, the request reflects the Agency's commitment to cleaning, purifying, and protecting America's air, water, and land. The request promotes these goals in a manner consistent with fiscal responsibility by strengthening our base environmental programs, fostering stronger partnerships, and enhancing strong science.

The increases requested in the Fiscal Year 2004 President's Budget Request will result in improvements to the Nation's water quality. Included in the fiscal year 2004 request is a $50 million increase for EPA's core water programs. The increased funding will support strengthening and integrating EPA's water programs and allow for increased technical assistance and direct resources for State drinking water and clean water programs. Specifically, the resources will target improving monitoring programs, setting water quality standards, establishing Total Maximum Daily Loads (TMDLs), drafting permits, and implementing State clean water and drinking water programs. There is also a $5 million increase to the wetlands program that will help States protect wetlands and isolated waters no longer under the jurisdiction of Section 404 of the CWA as a result of recent court decisions. In addition, for fiscal year 2004 the administration extended the Federal commitment to capitalizing the Clean Water State Revolving Fund through 2011 at $850 million per year. Extending the period of capitalization will significantly increase available resources to meet water infrastructure needs.

The Agency's Fiscal Year 2004 Request for the Enforcement and Compliance Assurance program represents the highest funding level in that program's history and reflects this administration's strong commitment to the vigorous enforcement of our Nation's environmental laws. The fiscal year 2004 request includes an increase of 100 FTE above the fiscal year 2003 President's request to enhance inspection and enforcement coverage to better identify and address persistent noncompliance in an expanding regulated universe.

The administration strongly supports Superfund's "polluter pays" principle and continues to make parties responsible for the hazardous waste sites clean them up. Typically, 70 percent of Superfund site cleanups each year are financed and cleaned up by the polluters. The remaining sites are cleaned up by EPA, but EPA sues any financially viable private parties after the cleanup to recover costs. EPA collected nearly $250 million last year through these cost recoveries. EPA only pays for the "orphan" sites where no viable responsible party can be found. All viable polluters pay their share of cleanup, either through cost recovery or by cleaning up the sites themselves. The requested increase will allow EPA to cleanup 10 to 15 additional "orphan" sites that would have to wait for cleanup otherwise.

CHILDREN'S HEALTH REPORT & CLEAR SKIES

Question. The EPA sat on the "American Children and the Environment" report for 8 months until an article by the *New York Times* forced it to come out to see the light of day. The report documents numerous threats of mercury to children and pregnant women. In particular the report notes that there is a "growing concern about exposure by women of childbearing age," yet the agency is attempting to further slow the need for cleaner air through its Clear Sky Initiatives. Shouldn't the EPA have a goal of protecting the environment, rather than rolling back environmental laws?

Answer. "America's Children and the Environment: Measures of Contaminants, Body Burdens, and Illnesses" is the U.S. Environmental Protection Agency's second report on trends in environmental factors related to the health and well-being of children in the United States. The report brings together, in one place, quantitative information from a variety of sources to show trends over time in levels of environmental contaminants in air, water, food, and soil; concentrations of contaminants measured in the bodies of children and women; and childhood illnesses that may be influenced by exposure to environmental contaminants.

The report revealed that the potential for mercury exposure in the womb is of growing concern because prenatal exposure to methylmercury can cause adverse developmental and cognitive effects in children. The report states that in 1999–2000, 8 percent of women of childbearing age had mercury blood concentrations at or above EPA's reference dose, a level of exposure beyond which EPA has concern (5.8 parts per billion).

"America's Children and the Environment: Measures of Contaminants, Body Burdens, and Illnesses" contains a large amount of technical information that relates to the scientific expertise and programs of numerous Federal agencies. Therefore, in order to ensure the quality of the report, it underwent an extensive interagency peer review process. The report was released upon completion of the interagency review.

Last year the President announced a legislative plan, Clear Skies, to control mercury, NO_X and SO_2 from electric power plants. Clear Skies compliments existing Clear Air Act programs, such as the new national air quality standards, by specifically addressing the harmful pollutants released from power plants. If enacted, Clear Skies would reduce mercury emissions from coal fired power plants through a cap and trade program that would cut emissions of mercury by almost one-half by 2010 and would cap mercury emissions by nearly 70 percent in 2018. Based on an analysis completed in 2002, Clear Skies would remove 35 million more tons of pollution over the next decade than under current law. EPA is also currently regulating mercury emissions from municipal waste and medical waste incinerators. EPA regulations require that these two types of sources reduce their emissions by over 90 percent.

LAKE CHAMPLAIN

Question. In 2002, Vermont and New York completed the revision of the 1996 comprehensive pollution prevention, control and restoration plan for Lake Champlain, the original 1990 Lake Champlain legislation was reauthorized by Congress and signed into law and the 7-member Vermont and New York Congressional delegation wrote to you requesting additional appropriations for this important work. In fiscal 2004, we will again be seeking a significant increase in Lake Champlain funding. What are the agency's plans for Lake Champlain related efforts in 2004?

Answer. The Lake Champlain Basin Program is a very successful interstate, interagency, and international partnership. We intend to continue our support and funding for the program—our 2004 request includes $955,000 for Lake Champlain, which is level funding from the 2003 President's Budget.

Activities will focus on several priorities identified in the draft revised management plan for Lake Champlain ("Opportunities for Action"), including: reducing phosphorus loadings through point and nonpoint source control measures and implementation of the recently approved TMDL for the lake; increased measuring and monitoring of ecological and environmental parameters in order to help gauge progress; controlling toxic substances by developing and implementing a comprehensive toxic substance management strategy which would emphasize pollution prevention opportunities; minimizing human health risks such as from blue-green algae; controlling the introduction, spread, and impact of nonnative nuisance species via revision and implementation of a comprehensive management plan in order to preserve the integrity of the Lake Champlain ecosystem, such as by reducing the introduction of non-native fish through angler education; and increasing the presence of the program in New York State.

SUBCOMMITTEE RECESS

Senator BOND. Since my colleagues have gone on to their other responsibilities, I hereby declare this hearing recessed. Thank you.

[Whereupon, at 11:02 a.m., Thursday, March 20, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, APRIL 3, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF SCIENCE AND TECHNOLOGY POLICY

STATEMENT OF JOHN H. MARBURGER, III, DIRECTOR

NATIONAL SCIENCE FOUNDATION

STATEMENT OF RITA R. COLWELL, DIRECTOR

ACCOMPANIED BY:

WARREN M. WASHINGTON, CHAIR, NATIONAL SCIENCE BOARD

CHRISTINE C. BOESZ, INSPECTOR GENERAL

MARY CLUTTER, ASSISTANT DIRECTOR FOR BIOLOGICAL SCIENCES

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Welcome. The Subcommittee on Veterans, Housing, and Independent Agencies will come to order. This hearing will be on the budget for fiscal year 2004 for the National Science Foundation, the National Science Board, and the Office of Science and Technology. We are pleased to welcome back Dr. John Marburger from OSTP, Dr. Rita Colwell from NSF, Dr. Warren Washington from the National Science Board, and we also welcome back Dr. Tina Boesz, Inspector General of the NSF, who has done an outstanding job of providing independent and objective information on the Foundation's management practices.

Because of very busy schedules today I have asked my distinguished colleague, Senator Mikulski, to give her opening statement first because I know she has many commitments, and we will try to do our best carrying on without her.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Well, thank you very much, Mr. Chairman, and I want to thank you for your courtesy and, of course, to welcome Drs. Colwell, Marburger, Washington, and Boesz. I once again want to reiterate how glad I am that we are partners on the National Science Foundation appropriations, and in our continued national goal of doubling NSF's budget; we are now in our second year of our 5-year commitment.

It looks like it is going to be a bit difficult to meet the doubling commitment, but the commitment is still there because not only do we think that science is bipartisan, but that science should be nonpartisan, and that we need to work together to fund the next generation of scientists and the next generation of ideas.

When I look at the NSF budget for 2004, I note that it is just 3 percent over last year, and I am troubled that the research budget, the very core of NSF, is increased only by 1.2 percent. This number does not even account for inflation.

We were disappointed last year with the NSF budget, and we still are. We are wholeheartedly and enthusiastically behind the increase in the National Institutes of Health, but it is not that we should fund one and not the other. I believe this is not an NSF budget. I believe it is an OMB budget.

In the omnibus, Senator Bond and I gave NSF a 10 percent increase over last year. Every major report on long-term U.S. economic competitiveness has cited the need for major increases in scientific research. This is where the ideas and the jobs will come for tomorrow.

The paltry 1.2 percent increase in research stands in marked contrast, however, to the increase for major equipment. I think we should keep an eye on the major equipment. We do need the hardware and telescopes and we are very pleased at the modernization at the South Pole, which had not been done in a number of years, but we need to really be looking at research.

The education budget fares only slightly better. It is increased by 4 percent, primarily in the President's Math and Science Partnership. We want to support the President, but we need to look at a more balanced approach.

I am enthusiastic, though, about the increase of graduate stipends to $30,000. Last year, we increased it from $18,500 to $25,000, and I said to Senator Bond, this could turn out to be one of the most important things we do this year, and I am so pleased that you told us that applications have gone from 5,000 to 8,000, and thanks to my Senator's calculations that is a 60 percent increase.

I believe that the President, his team, and you are very wise to say, let us increase it to $30,000, because I truly believe for many of our students their student loans are their first mortgage, and they cannot continue to layer on debt, particularly if they are looking for jobs in academia or in the nonprofit world.

So we really look forward to this. However, we do hope that we can find a way to fund TechTalent, which goes to undergraduate education, which being an Oriole fan, I know how important a farm team is. It really starts K through 12, even really starts in Head

Start, but all the way through, to make sure that our undergraduates are working on this.

We want to continue to work on workforce readiness, focus particularly on women and minorities, and we cannot forget our community colleges. Perhaps it does not prepare people for Ph.D.s, but it prepares them for the science world we need, the community college graduate in nursing, radiology technology. Allied healths alone, as well as some of the other basic fields, would be very important.

And again, we want to thank Dr. Marburger, an advisor to the President, and we look forward to working with him. Our homeland security does continue to be a top priority with both of us, and we look forward to hearing you.

Mr. Chairman, thank you. Those are my remarks, and just because I might have to leave does not mean that you do not have my wholehearted support in an idea on how we can continue our doubling efforts in strategic areas.

PREPARED STATEMENT

Senator BOND. Senator Johnson has submitted a statement that he wishes to be included for the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR TIM JOHNSON

Thank you Chairman Bond and Senator Mikulski for holding this important hearing today. I look forward to the testimony of our distinguished witnesses this morning to discuss the exciting opportunities in science and technology.

I strongly support efforts to enhance core sciences through investments in capacity, education, and basic research. Efforts to double the resources allocated to the National Science Foundation are essential to reinforce our understanding in multiple scientific disciplines. I applaud Senators Bond and Mikulski for their leadership on behalf of NSF and our scientific community.

The work of the National Science Foundation is instrumental to support basic research. The discoveries we make in core sciences lay the groundwork for applications and breakthroughs that impact telecommunications, health care, environmental sciences, biotechnology, and numerous aspects of our lives. Many of these developments evolve into commercial adaptations and other products which contribute to our national security, economic growth and enhance our quality of life.

I strongly support the important work accomplished by the EPSCoR program to help small States develop R&D infrastructure at colleges and universities. NSF's EPSCoR program has been instrumental in expanding scientific opportunities and building the capacity necessary to sustain research and development initiatives around the country. While the fiscal year 2004 budget proposal for EPSCoR is disappointingly low, I hope that we may work together to reinforce our commitment to develop scientific opportunities in all sectors of higher education.

There remains a great deal of interest within the scientific community with regard to establishing a National Underground Science and Engineering Laboratory. The National Academies of Science have reviewed the potential merits of such an initiative and have reported favorable findings. As the National Science Foundation continues to prioritize the needs and opportunities for fundamental scientific exploration, we appreciate the consideration provided to the views of scientists and researchers regarding this proposed initiative.

I congratulate NSF for undertaking exciting endeavors to better understand the composition, evolution, and interactive systems of our planet. The EarthScope initiative is employing new observational technologies to investigate the structure and dynamic processes of the North American continent. Among the many potential benefits of this program, the research may provide greater understanding of the evolution of the Rocky Mountains and the Northern Great Plains.

The NEON concept is another promising effort being initiated at NSF to establish national sites for the "National Ecological Monitoring Network." We look forward to the contributions of this important research.

I applaud the National Science Foundation, the National Science Board, and the Office of Science and Technology Policy for their commitment and dedication to our Nation's science programs.

Senator BOND. Well, thank you very much, Senator Mikulski, and before Senator Mikulski leaves I am going to take the chairman's prerogative to tell you a little parochial story.

This past Friday, talking about getting young people interested, I went to the St. Louis Science Center, which I believe is partially funded through the informal science education program. I was announcing three-quarters of a million dollars to help them develop a program to explain biotechnology to the kids, but the greatest thing, it was a rainy day and the place was jam-packed. They expected 10,000 kids, and there were kids from kindergarten up through all the grades. They were coming into this wonderful area to get them enthused and interested and curious about science.

And we are talking about the farm team. This is beginning to work at the little leagues, because if we can get them interested in and enthusiastic about science, we have got an opportunity to make mathematicians and scientists out of them. That is when I got really interested in it, and I was on that path until I ran into the theory of calculus, and that is when I decided to go into social sciences.

Senator MIKULSKI. Senator, for me it was organic chemistry and Boyle's gas laws, and there I learned that gas takes the size and shape of its container. That is interesting to know when you join the Senate.

Senator BOND. Senator, I do not believe we will follow that one any further. I believe we have gone far enough down that line. Now back to work.

But I agree with you it is truly exciting to see young people who are getting interested in science, and we have got to have lots more of them. Senator Mikulski and I have long joined you as leaders in our science effort to say that the tremendous challenge that our Nation faces is our failure to educate enough mathematicians, scientists, and engineers to deal with the tremendous developments that are coming forward in the future, so that is a very strong personal interest that we have.

But this hearing is a very important one today, because it gives us the opportunity to talk about the critical role the National Science Foundation plays in the economic and intellectual growth and the well-being of the Nation. Most policy experts believe that investment in the physical sciences and engineering not only benefits the high tech industries but all major research areas, including biomedical research.

In the words of Dr. Harold Varmus, the former Director of the National Institutes of Health, scientists can wage effective war on disease only if we as a Nation and as a scientific community harness the energies of many disciplines, not just biology and medicine, close quotes, or in my words, supporting NSF supports NIH.

Unfortunately, while Federal support in life sciences has increased significantly, the combined share of the funding for physical science and engineering has not kept pace. I am alarmed and troubled by this disparity, because a decline in funding for the physical sciences has put our Nation's capabilities for scientific in-

novation at risk and, equally important, at risk of falling behind other industrial nations.

Even the President's Council of Advisors on Science and Technology, the PCAST, believes that if the Federal Government continues the present pattern of funding between life sciences and physical sciences, it will, quote, lead to an inability to sustain our Nation's technical and scientific leadership, end of quote. That is why my good friend, Senator Mikulski, and I have led a bipartisan, bicameral effort to double NSF's budget.

I was very pleased that late last year PCAST recommended to the President that, beginning with the fiscal year 2004 budget and carrying through the next 4 fiscal years, funding for the physical sciences and engineering across all relevant agencies be adjusted upward to bring them collectively to parity with life sciences. Further, the President signed the NSF reauthorization bill last fall which authorizes $6.39 billion for NSF in fiscal year 2004, and called for a doubling of NSF's budget over 5 years.

Therefore, I was deeply disappointed that the budget request only provided $5.48 billion for fiscal year 2004, a paltry $170 million or 3.2 percent increase over fiscal year 2003. I have that feeling that Charlie Brown must have had when he asked Lucy to keep holding the football for him.

To say that OMB's budget request for NSF is disappointing would be an understatement. Nevertheless, we intend to continue fighting for additional funds for NSF despite the challenges in meeting funding needs for VA medical care, affordable housing, environmental protection, and space shuttle safety.

Let me just highlight a few areas in the budget. In the area of education, the cut to the TechTalent or STEP program again was disappointing. Senator Lieberman initiated this program along with Senator Mikulski, Senator Frist, Senator Domenici, and myself. At a time when the number of U.S. undergraduates in engineering and mathematics is declining, it is puzzling that the administration would propose a 70 percent reduction in a program designed to increase the number of undergraduates in these fields.

My biggest disappointment, however, is the cut to the plant genome program. Now, you may know I am a big supporter of plant biotechnology because it has generated exciting possibilities for improving human health and nutrition that eventually can be a very powerful tool for addressing hunger in many third world developing countries such as those in Africa and Southeast Asia.

The fiscal year 2004 budget request provides only $75 million for the NSF plant genome program, a $10 million cut from the fiscal year 2003 enacted level. The request seems to contradict the National Science and Technology Council's January 2003 report, which recommends the Federal Government invest $1.3 billion over the next 5 years on plant genome research. The plant genome program deserves more funding, and I hope to be able to address that in the fiscal year 2004 bill.

Let me now touch on a few other issues. First, I am interested in the National Science Board's operations and its implementation of a number of legislative directives enacted in the last Congress to ensure that the Board has tools to meet its statutory responsibilities. For fiscal year 2003, the Congress provided a separate budget

of $3.5 million to fund the Board's operations but, contrary to law, the administration zeroed out the budget for 2004.

I expect the administration to comply with the statute. For now, I will give the administration the benefit of the doubt that this was a simple oversight, and that the administration will submit a budget amendment to correct this obvious mistake.

Providing the Board with its own budget and hiring authority are two important steps in supporting the Board's independence. In other words, Congress took steps to ensure that the Board not be a rubber stamp for the Director of NSF, or the NSF organization itself. It was to be an independent organization offering advice and guidance and counsel.

But these are only the first steps. We also need to look at the structure of the Board's executive committee. The statute requires the Director to be the chair of the executive committee. It makes more sense to me that the NSB Chair leads the committee.

Before closing, I want to raise a few points about the Foundation's management. Last year before this subcommittee the inspector general raised a number of significant problems with the Foundation's management. Based on my review of the inspector's written testimony submitted for today's hearing, she continues to raise the same concerns, most notably large facility project management.

Over the past 3 years, the IG has conducted two significant audits of NSF's large research facility management, and recommended additional NSF oversight. However, I was disappointed to read in the IG's written testimony submitted today, she states, quote, the key recommendations from both these reports which relate to the development of new project and financial management policies and procedures remain unresolved by NSF management, close quotes.

My view is that NSF must take the management issues more seriously and with greater urgency. I am very pleased the Foundation has finally hired a new deputy director for large facility projects. It is a positive step in the right direction, but clearly more needs to be done, and faster.

Dr. Colwell, you have over a year left in your tenure. During your tenure, I know you have taken a great deal of pride that NSF has achieved a number of scientific policy and scientific goals, and we all benefit from those and we applaud those. All these goals can be overshadowed, however, by management problems if they are not resolved. It is my hope that you will use this year to solve these current management problems, and I think they can be resolved relatively quickly and easily, but the longer they persist, the harder they will be to fix. The long term viability and performance of the agency depends on a solid management and fiscal responsibility.

With that, I conclude my statement, and I will call on first Dr. John Marburger, Director, Office of Science and Technology Policy. Unfortunately, much to your great relief, I had to cut my statement short. Senator Mikulski cut hers short. We are in a food fight on the floor over the supplemental appropriations, so we have regrettably had to impose a time limit on the witnesses today. We will take your entire written testimony and ask that you submit any

further ideas or information in writing. We will have time, I hope, for a round or two of questions.

Dr. Marburger.

STATEMENT OF JOHN H. MARBURGER, III

Dr. MARBURGER. Thank you, Mr. Chairman. I will cut out all of the diplomatic thank yous at the beginning, but I do want to express my appreciation to this committee for your support of science during the past years and the excellent record that you have enabled us to achieve in the sciences in this country. I will summarize my longer written statement.

This budget requests another record-high level of funding for R&D, $123 billion, or a 7 percent increase over the 2003 request. The proposal does establish priorities. More than $5.9 billion of the R&D increase is in the Department of Defense development activities, reflecting the President's commitment to bolster our national defense and to win the war against terrorism. In preparing this budget, the administration has taken advice from numerous planning and advisory bodies that exist to guide science priorities, including PCAST, as you mentioned, various committees under the National Science and Technology Council, and Members of Congress, including this committee.

As we produced the fiscal year 2004 budget proposal we did not have final fiscal year 2003 numbers, so we related our budget figures to the President's fiscal year 2003 request. I will make comparisons to that base in my testimony, but I will also refer, where we have the numbers, to the recently passed fiscal year 2003 actual numbers.

So first let me turn to the budget for my Office of Science and Technology Policy. We have primary responsibility in the White House to coordinate interagency research initiatives. The 2004 request for OSTP is $7.027 million and it includes funding that is not reflected in previous OSTP budgets for rent and security costs associated with our relocation from the Eisenhower Executive Office Building. It also includes additional funding associated with responsibilities that our office has in the area of national security emergency preparedness, so the total new funding in these categories represents $1.542 million of our 2004 request.

For purposes of comparison, if you take out that sum, our request would represent less than a 2.2 percent increase over the previous levels requested for our core OSTP mission. So I would be glad to answer more questions about the OSTP budget if you have them, but now I would like to turn to highlight the budgets for the agencies for which this Senate committee has oversight.

I am pleased to be here today with the Director of the National Science Foundation, Rita Colwell, and the Chairman of the National Science Board, both of which are important to this committee and to this administration. The 2004 budget request increases the overall NSF budget by $453 million, or about 9 percent relative to the 2003 request and, as you noted, 3 percent over the enacted 2003 level.

This committee has shown strong support for Federal research in physical sciences, including that conducted under the NSF umbrella. The fiscal year 2004 investment for physical science at NSF

would increase by $100 million, or 13 percent over the 2003 request. In order to attract and retain more U.S. students into science and engineering, as you noted in your opening remarks, this budget proposal increases individual awards for graduated stipends from $25,000 to $30,000 annually. I think Senator Mikulski noted that.

For NASA, the President's request represents a total funding increase of 9 percent, and nearly $9.2 billion for the Federal science and technology programs, a 5 percent increase over the 2003 request, and 2 percent over the enacted level. The President's commitment to space exploration is evident in this budget, which was conceived before the tragic loss of the Columbia astronauts. The total funding for NASA is proposed to increase 3.1 percent over the 2003 request, and the shuttle budget, after taking into account the transition to full-cost accounting, receives nearly a 5 percent increase over the request for 2003.

We thank the committee for your support for funding in 2003 for the important work of the Columbia Accident Investigation Board, which will produce a report to which we are looking forward very eagerly.

The budget for the Environmental Protection Agency provides $776 million in the Federal science and technology category. The Agency has appointed a science advisor to improve science integration coordination across this Agency, and I am pleased at the progress that it is making in incorporating science in their recommendations.

There is a small set of priority R&D areas that are targeted in the President's budget request. Let me just list these and the amounts. The first area is combating terrorism, where the President has proposed $3.2 billion in R&D funding for homeland security. That is across all agencies. More than $900 million of this funding is requested for the new Department of Homeland Security, including $803 million specifically in the Science and Technology Directorate in that new Department.

On the computing initiative, the President's proposal includes $2.2 billion for networking and information technology R&D, a 6 percent increase over last year's request.

The largest increase in this category, interestingly, is in the Department of Health and Human Services, which would increase by $67 million, or 18 percent above fiscal year 2003, which reflects the importance of bioinformatics in this era of genomics.

The nanotechnology initiative—for that initiative the President's request provides $849 million. It is a 9 percent increase over the 2003 requested levels. Four new nanoscience research centers in DOE laboratories are included in this year's budget request, which would bring the total number of those nanocenters to five. The President's Council of Advisors for Science and Technology, PCAST, has recently begun a review of this important national program.

Climate change research, another priority—last year the President created the climate change research initiative, designed to accelerate high priority research to support policymaking. The CCRI was combined with the existing U.S. global change research program to create the climate change science program, which is now an interagency effort involving 12 Federal agencies. Funding for

that combined program remains level, but within the program, funds identified for accelerated work for CCRI are increased to $182 million, as compared with $40 million in the previous year's request.

PREPARED STATEMENT

Finally, math and science education, an important priority for this administration, is reflected in the budgets of the National Science Foundation, Department of Education, and the National Institute of Child Health and Human Development. Special emphasis is placed on the successful development and implementation of evidence-based educational programs and practices as called for in the No Child Left Behind Act of 2002.

I would like to thank you, Mr. Chairman and members of the committee, for your past and future support of my office, and for the Federal research and development enterprise in general. I look forward to answering any questions you may have.

[The statement follows:]

PREPARED STATEMENT OF JOHN H. MARBURGER, III

FISCAL YEAR 2004 OSTP AND FEDERAL R&D BUDGET

Mr. Chairman and members of the committee, it's a pleasure to meet with you today to discuss the President's fiscal year 2004 request for the Office of Science and Technology Policy (OSTP) and the Federal research and development budget.

As I testified last year, I am committed to maintaining a close and productive relationship with this Committee. I applaud your bipartisan and enduring support of our country's research and engineering enterprise, and look forward to continuing our relationship as we make important choices together to optimize the Federal R&D investment.

The President's budget focuses on winning the war on terrorism, securing the homeland, and strengthening the economy. Considering the context of an uncertain economic environment and growing Federal deficit, any increase in discretionary spending is difficult to justify to the American people. However, the President's budget requests another record high level of funding for R&D: $123 billion or a 7 percent increase over the 2003 request. Over $5.9 billion of the increase is in Department of Defense development activities, reflecting the President's commitment to bolster our national defense and homeland capabilities.

This increase in R&D spending is evidence of the great importance the Administration places on science and technology in addressing our country's present and future challenges. The President's budget also continues to emphasize improved management and performance to maintain excellence and sustain our national leadership in science and technology.

In my statement I will review the broad goals of the President's budget and provide detail on OSTP's budget and the Federal research priorities that cut across multiple agencies and research disciplines. My testimony includes comparisons to the President's fiscal year 2003 request, since those numbers were the ones used as a basis during formulation of the fiscal year 2004 budget. I will also attempt to include comparisons with some of the top-level fiscal year 2003 numbers that have more recently become available.

THE PRESIDENT'S FISCAL YEAR 2004 R&D BUDGET

Our President has a strong commitment to research and discovery in the national interest. Earlier this year, when we endured the tragic loss of the space shuttle Columbia, the President was unequivocal in his promise that, despite setbacks, the journey of discovery would go on. He said:

"This cause of exploration and discovery is not an option we choose; it is a desire written in the human heart. We are that part of creation which seeks to understand all creation."

The programs in the Federal R&D budget represent some extraordinary new vistas of science with the potential to revolutionize our understanding and our capabili-

ties. We cannot fund everything we'd like, but we will fund those exciting and high priority initiatives that keep this dream of discovery alive, and we will set the stage for the next generation scientists and engineers to take up new challenges that we cannot even imagine.

In preparing this budget, the Administration has taken advice from the numerous planning and advisory bodies that exist to guide science priorities. For example, the budget begins to respond to recommendations by the President's Council of Advisors on Science and Technology (PCAST) and others about needs in physical science and engineering. The budget also reflects an extensive process of consultation between the Federal agencies, OMB, and OSTP, to thoroughly understand agency programs and priorities, interagency collaborations, and directions for the future. The National Science and Technology Council (NSTC), which I will discuss later in my testimony, provided a valuable mechanism to facilitate this interagency coordination. This process resulted in guidance to agencies issued by OSTP and OMB last May, concerning their program planning, evaluation, and budget preparation, and culminating in the budget you see before you today.

The result is a budget that includes a strong emphasis on basic research across the agencies. Basic research is the source of tomorrow's discoveries and new capabilities, and this long-term research will fuel further gains in economic productivity, quality of life, and national security. Included in the budget, and emphasized in my comments today, is the budget category Federal Science & Technology (FS&T). This category, introduced in response to a recommendation of the National Academy of Sciences, excludes most of the development activities in the Federal R&D budget, including Department of Defense development, thereby only highlighting those activities devoted specifically to the creation of new knowledge and technologies.

The budget includes an increase in emphasis on the physical sciences. The physical sciences not only spur understanding of the universe, they are the theoretical foundation for a host of new and promising technologies. Physical science research also offers education and training opportunities vital for a technologically advanced society.

The budget also highlights investments in important research conducted by multiple Federal agencies in a coordinated fashion. Increasingly, the cutting edge of research is not cleanly confined to a specific science discipline, but spans a variety of disciplines or applications. Well-managed interagency collaboration takes advantage of the vast pool of capabilities represented across the Federal Government while minimizing new organizational structures. The high-priority multi-agency R&D initiatives for fiscal year 2004 are: combating terrorism R&D, network and information technology, nanotechnology, research on molecular life processes, climate change research and technology and education research.

Office of Science and Technology Policy (OSTP)

The Office of Science and Technology Policy has primary responsibility in the White House to coordinate interagency research initiatives. The fiscal year 2004 request for OSTP is $7,027,000. This figure includes funding not previously reflected in OSTP's budget for rent and security costs associated with our relocation from the Eisenhower Executive Office Building. It also includes increases associated with responsibilities this office has in the area of National Security Emergency Preparedness communications that have received new emphasis. Total new funding in these categories represents $1,542,000 of our fiscal year 2004 request. For purposes of comparison, if you back out the new funding not previously required, OSTP's fiscal year 2004 request would represent less than a 2.2 percent increase over fiscal year 2003 levels for the core OSTP mission.

AGENCY BUDGET HIGHLIGHTS

National Science Foundation (NSF)

The proposal would increase the overall NSF budget by $453 million, or about 9 percent relative to the fiscal year 2003 Presidential request, or 3 percent over the enacted fiscal year 2003 level.

—The budget invests heavily in the physical sciences: NSF physical science investments would increase by $100 million, or 13 percent, over the fiscal year 2003 request. Fundamental discoveries in the physical sciences are needed to spur progress in other areas, such as health research, energy, agriculture and the environment.

—The 2004 budget continues a multi-year effort to improve attraction and retention of U.S. students into science and engineering careers by increasing annual graduate student fellowship and training stipends from $25,000 to $30,000 and increasing the number of awards. Reducing the financial burden graduate stu-

dents face can have a significant impact on their choice of science or engineering as a career.

—The Major Research Equipment and Facility Construction program will receive a 60 percent increase from the fiscal year 2003 request to a total of $202 million in 2004. Simultaneously, NSF is taking a close look at their investments and priorities in research infrastructure, and has, for the first time, provided the Congress with a rank ordering of its approved large facility construction projects and a discussion of how these projects were selected, approved and prioritized.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION (NASA)

The President's request for NASA represents a total funding increase of 9 percent for R&D over the fiscal year 2003 request and nearly $9.2 billion for FS&T programs, a 5 percent increase over the fiscal year 2003 request and a 2 percent increase over the level enacted for fiscal year 2003.

—The President's commitment to space exploration is evident in this budget, which was conceived before the tragic loss of the Columbia astronauts. Total funding for NASA is proposed to increase 3.1 percent overall. The Shuttle budget, after taking into account the transition to full cost accounting, receives nearly a 5 percent increase over the fiscal year 2003 request.

—Included in the $4 billion in space science programs are several initiatives to increase the scientific and educational outcomes of future planetary missions, such as a new $31 million investment in optical communications technology and a $279 million investment in Project Prometheus, to include the development of propulsion systems that will enable exploration of our solar system's most distant planets.

Environmental Protection Agency (EPA)

The budget provides $776 million in the FS&T budget for EPA, essentially maintaining funding at the level requested in the fiscal year 2003 Budget, a 3 percent decrease from the level enacted for fiscal year 2003.

—The EPA budget supports significant efforts to continue to improve the scientific base in support of policy and regulations through: improvement in the use of science by the regional offices; ongoing efforts to attract and maintain a high-quality, diverse scientific workforce; and assessments to ensure the quality and consistency of science.

—Responding to concerns about the adequacy of its science, EPA has appointed an agency Science Advisor to improve environmental science integration and coordination at EPA.

—The President's Budget provides nearly a four-fold increase in funding to improve the Integrated Risk Information System (IRIS), a database which contains toxicity information of chemicals. IRIS is used by other Federal agencies, States, and international officials to help assess the potential health risks of chemicals and to develop regulations.

INTERAGENCY INITIATIVES

Beyond the individual agency initiatives, the President's budget outlines priority areas of research involving multiple agency participation. Last May, OMB Director Mitch Daniels and I sent out an fiscal year 2004 budget-planning memo to agencies to provide guidance and focus for these budget priorities. National R&D priorities set forth in the guidance memo include: R&D for Combating Terrorism, Networking and Information Technology, Nanotechnology, Climate Change, Molecular Life Processes and Education.

A mechanism for coordinating interagency initiatives lies within the President's National Science and Technology Council (NSTC), and my office has responsibility for the day-to-day operations of the NSTC. This Cabinet-level Council is the principal means for the President to coordinate science, space, and technology, bringing together the diverse parts of the Federal research and development enterprise. The Council prepares research and development strategies that are coordinated across Federal agencies to form an investment package aimed at accomplishing multiple national goals. The following describe high priority interagency initiatives the NSTC helps to coordinate:

Combating Terrorism.—Last month the Department of Homeland Security opened its doors for business. Standing up the new Department is a massive undertaking and one of the highest priorities of this Administration. The President has proposed $3.2 billion in research and development funding for homeland security and combating terrorism across the Federal Government. Over $900 million is requested for

combating terrorism research and development in the new department, including $803 million in the S&T directorate. This investment will be focused on robust research, development, testing, evaluation and systems procurement to ensure both evolutionary and revolutionary capabilities.

The National Science and Technology Council's Committee on Homeland and National Security will work with the Homeland Security Council, the National Security Council, the Office of Management and Budget, the Department of Homeland Security and other relevant departments and agencies to identify priorities for and facilitate planning of homeland and national security R&D. The coordinated Federal effort will emphasize:

—Strategies to combat weapons of mass destruction, including radiological and nuclear countermeasures and biological agent detection, diagnostics, therapeutics, and forensics;
—Information analysis;
—Social, behavioral, and educational aspects of combating terrorism;
—Border entry/exit technologies; and
—Developing standards relevant to both homeland and national security.

Networking and Information Technology.—The President's 2004 budget provides $2.2 billion for the Networking and Information Technology R&D Program (NITRD). This is a 6 percent increase over the fiscal year 2003 request. The largest increase above 2003 NITRD request level is proposed for the Department of Health and Human Services, which would increase by $67 million, or 18 percent. The increased life sciences budget reflects the growing importance of bioinformatics R&D—efforts at the intersection between biology and information technology—in furthering biomedical research. NSF maintains the largest share of NITRD program funding and the budget proposes a $45 million, or 7 percent, increase over the fiscal year 2003 request.

Agencies involved in developing or using high end computing are engaged in planning activities coordinated through the National Science and Technology Council's Committee on Technology. In 2004, NITRD research emphases include:

—Network "trust" (security, reliability, and privacy);
—High-assurance software and systems;
—Micro- and embedded-sensor technologies;
—Revolutionary architectures to reduce the cost, size, and power requirement of high end computing platforms; and
—Social and economic impacts of information technology.

National Nanotechnology Initiative.—The President's 2004 budget provides $849 million for the multi-agency National Nanotechnology Initiative (NNI). This is a 9.8 percent increase over levels requested for 2003. The Office of Science at the Department of Energy almost triples its investment in new nanoscale science research centers, with a proposed increase of $63 million to begin design and construction on four new nano-science research centers, bringing the total number of funded nanocenters to five. NSF continues to have the largest share of Federal nanotechnology funding, reflecting the broad mission of NSF in supporting fundamental research across disciplines, and the budget for NIH nanotechnology activities is increased by almost 8 percent relative to the fiscal year 2003 request. Altogether, 10 Federal agencies cooperate in the nanotechnology initiative with activities coordinated through the National Science and Technology Council's Committee on Technology. The NNI strategy for 2004 involves further investment in fundamental research across the range of scientific and engineering disciplines through investments in investigator-led activities at colleges and universities, centers of excellence, and supporting infrastructure.

Responding to a recent National Research Council recommendation, next month the President's Council of Advisors for Science and Technology (PCAST) will begin conducting an ongoing, external review of the NNI aimed at strengthening the program and helping to identify and measure progress toward strategic goals.

Climate Change.—Last year, to advance climate change science objectives, President Bush created the Climate Change Research Initiative (CCRI). The CCRI was combined with the existing US Global Change Research Program (USGCRP) to create the Climate Change Science Program (CCSP), an interagency research effort involving 12 Federal agencies. While funding for the combined CCSP remains level with the fiscal year 2003 request, the funds identified for CCRI is increased to $182 million as compared with $40 million requested for fiscal year 2003. The CCRI investment will develop resources to support policy making, provide computer resources for climate modeling for decision support studies, and enhance observations and data management for a climate observing system. The increase for CCRI is the result of a process that has focused on managing GCRP funding more effectively and refocusing some research toward CCRI goals. A draft strategic plan for the

CCSP has been produced and vetted through the science community using a multi-day public workshop held in December 2002 and in an open comment period. The response was overwhelmingly in support of the new management approach to the Federal program on climate change. A final strategic plan, relying on the extensive analysis and commentary resulting from the workshop, will be produced this spring and will guide the future activities of the program.

$40 million is identified for the National Climate Change Technology Initiative (NCCTI) Competitive Solicitation program—an innovative approach for funding technology research and development to reduce, avoid or sequester greenhouse gases. In 2004, government-wide spending on climate change technologies will be reviewed, and priority programs for emphasis in the NCCTI will be identified.

Math and Science Education—No Child Left Behind.—The improvement of pre-K–12 math and science education remains a major Administration priority, with special emphasis on the successful development and implementation of evidence-based educational programs and practices, as called for in the No Child Left Behind Act of 2002. The President's 2004 budget request includes support for two such programs involving the Federal research agencies: the Math and Science Partnership (MSP) Program and the Interagency Education Research Initiative (IERI). The MSP request for NSF is $200 million, and for the Department of Education is $12.5 million. The program funds new and ongoing partnerships between institutions of higher education and local school districts. This program also will fund teacher training summer institutes for more intense immersion into mathematics and science content areas.

The funding request for the IERI remains level with the President's 2003 budget request. The goal of the IERI is to improve pre-K–12 student learning and achievement in reading, math and science by conducting research on the scaling of educational practices that have already demonstrated their effectiveness in studies conducted with a limited number of students or classrooms. Currently the NSF, the Department of Education, and the National Institute of Child Health and Human Development (NICHD) participate in IERI.

Additionally, the 2004 budget includes a $10 million increase in research, development, and dissemination funding for the Department of Education's new "Institute of Education Sciences"—from $175 to $185 million.

Recognizing the need for better coordination of educational activities between the Federal research agencies, the National Science and Technology Council's Committee on Science has formed a Subcommittee on Education. This subcommittee will advise on best practices and will develop strategies to move agency programs away from fragmentation and duplication of effort towards a coordinated, complimentary set of individual agency and interagency programs.

MANAGING THE FEDERAL RESEARCH BUDGET

Equal in importance to the spending on the Federal research budget is the management of this investment. In addition to providing funding coordination, the NSTC will also be reviewing management aspects of research including:

—Analysis and recommendations concerning the requirements for Federal investment in major research facilities and infrastructure, and the best management practices to determine priorities and allocate funding; and

—An investigation of the changing business model for research, and recommendations for modernizing the management and funding of Federal research programs in response to this changing research environment.

The fiscal year 2004 budget emphasizes increased return on investment by improvements in management, performance and results of the research programs. Working together and with the Federal research agencies, OMB and OSTP are developing, implementing, and continuing to improve investment criteria for research programs across the government. Explicit R&D investment criteria have been developed to improve R&D program management, better inform R&D program funding decisions, and ultimately increase public understanding of the possible benefits and effectiveness of the Federal investment in R&D. In 2004, all R&D program managers must demonstrate the extent to which their programs meet the following three tests:

—*Relevance.*—R&D programs must be able to articulate why the investment is important, relevant, and appropriate. This must include complete planning with clear goals and priorities, clearly articulated societal benefits, and the mechanisms used for reviewing and determining the relevance of proposed and existing programs.

—*Quality.*—R&D programs must justify how funds will be allocated to ensure quality. Agencies must maximize quality through clearly stated, defensible

methods for awarding a significant majority of their funding. Programs must assess and report on the quality of current and past R&D.

—*Performance.*—R&D programs must be able to monitor and document how well the investments are performing. This includes tracking and reporting annually on objectives and milestones for relevant programs, and defining appropriate measures of performance, output, and outcome.

As a result of implementing these criteria, and consistent with the Government Performance and Results Act, the Administration strives to ensure that every dollar is invested as effectively as possible. Based on lessons learned and other feedback, the Administration will continue to improve the R&D investment criteria and their implementation towards more effective management of the Federal R&D portfolio.

CONCLUSION

Mr. Chairman and members of the committee, I believe this is a good budget for science and technology. I hope I have conveyed to you the extent of this Administration's commitment to advancing science and technology in the Nation's interest. I look forward to our work together as we move towards implementing a national science and technology strategy that will draw from the best in industry, academia, the non-profit sector, and all levels of government. The programs that we discuss today will help us protect our citizens and our national interests, advance knowledge, promote education, and preserve the dream of exploration and discovery. I would be pleased to respond to questions about this budget.

Senator BOND. Thank you very much, Dr. Marburger. That was excellent timing. You came out right on the money. Now we turn to Dr. Colwell. Welcome, Doctor.

STATEMENT OF RITA R. COLWELL

Dr. COLWELL. Chairman Bond, your consistent support and strong leadership has led to record increases for the Foundation's budget in the omnibus appropriations passed in February, and I speak for everyone at NSF when I say how grateful we are for your efforts. We thank you.

Before I begin with a brief overview of this year's budget, I would like to first relate to you some actions we have taken in response to concerns that you raised last year. First, we provided a prioritized list of all major research, equipment, and facilities construction projects that have been approved by the National Science Board and it is included in our budget.

Second, we've provided support to the National Academy of Sciences to assess setting priorities for major research equipment. We have hired a new deputy for our large facilities projects, Dr. Mark Coles. He will report to the chief financial officer, and will be a tremendous asset to NSF, and available for inquiry from you and your staff.

We have an active facilities oversight and guidelines manual vetted with both the National Science Board and the community. New comments have been received and are being incorporated into the next version of the guide, scheduled for release May 31.

We have a risk assessment guide for award oversight, vetted with the Science Board, drawn from other agencies' best practices, and we have taken the suggestions of the IG to heart, and we are incorporating more specific guidance to your staff.

We began making site visits last year using this risk model, and we have begun training staff in its use and making continuous improvements as we go along.

We have put in place procedures and guidelines to ensure the integrity of the taxpayer's money, attested to by the IG's clean audit opinion issued in January of this year, and my CFO has an active

plan in place to close out the remaining audit recommendations for large facilities projects by September 30 of this year, and I appreciate the effort that you and your staff have made on these issues, and I believe the results will be beneficial.

The NSF budget proposal for 2004 leaves no doubt that the President embraces the conviction that the surest way to keep our Nation prosperous and secure is to keep it at the forefront of learning and discovery. Our highest priority is maintaining the quality of U.S. science and engineering, and the 2004 budget includes $200 million for the Math and Science Partnership program, which is a centerpiece of the President's No Child Left Behind initiative.

To attract more of the most promising U.S. students to science and engineering graduate programs we have proposed a stipend increase to $30,000, and we thank you for your support, because this builds on making available graduate study attractive and affordable to talented American students, and this year's budget also increases support for our STEP/TechTalent program to improve the Nation's production of science and engineering majors.

We are also requesting $16.2 million for the CyberCorps program to train future Federal employees in information assurance and computer security. We have initiated a 21st century workforce focus to attract U.S. students to science and engineering fields and to broaden participation. We are going to fund three new Science of Learning Centers—again, I thank you for your support—to investigate how people learn, capitalizing on recent progress in cognitive science, neuroscience, and information technology.

We are also proposing a substantial increase in funding for the physical sciences, providing over $1 billion to sustain the vigorous research that has helped power advances in medicine, energy, agriculture, and understanding the environment, and I know you are very supportive of that.

One hundred million dollars has been requested for biocomplexity in the environment, including support for microbial genome sequencing and the ecology of infectious diseases, which are also areas of vital importance to antiterrorism efforts, and an $89 million investment in the mathematical sciences and statistics priority area will improve our ability to handle the massive data sets produced by today's sensors and observation systems and to model and manage uncertainty.

Building on previous investments in the social, behavioral and economic sciences, we are requesting $24 million to launch a human and social dynamics priority area that will investigate the impacts of change on our lives and the stability of our institutions. The largest dollar increase in NSF's 2004 budget is in tools. Our request of $1.34 billion will help meet the growing needs for small and mid-sized equipment and instrumentation as well as major facilities, as was enunciated by Senator Mikulski just a minute ago.

Our investment record is excellent. NSF puts its money where it will do the most good. Ninety-five percent of our budget goes directly to research and education to keep the knowledge base active, the economy humming, and benefits to society flowing. In addition, every dollar invested in academic institutions also contributes to recruiting and training the next generation of researchers and to ensure a well-informed citizenry.

Nevertheless, I have to point out, as our budget has expanded in recent years, so have our oversight obligations, yet NSF staffing levels have not changed in over a decade. We remain concerned that the Foundation has the human and capital resources necessary for responsible stewardship of our growing portfolio.

PREPARED STATEMENT

Mr. Chairman, I ask for your support for our fiscal year 2004 budget request, and I really want you to know how much the Foundation appreciates you and the committee's longstanding bipartisan support. I ask that my written testimony and a summary of the National Science Foundation's budget request be included for the record, and I will be very happy to answer any questions that you may have.

[The statement follows:]

PREPARED STATEMENT OF RITA R. COLWELL

Chairman Bond, Senator Mikulski and Members of the Committee, I am pleased to appear before you today. For more than 50 years, the National Science Foundation (NSF) has been a strong steward of America's science and engineering enterprise. Although NSF represents less than 4 percent of the total Federal budget for research and development, it accounts for one-fifth of all Federal support for basic research and 40 percent of support for research at academic institutions, excluding the life sciences. Despite its small size, NSF has an extraordinary impact on scientific and engineering knowledge and capacity.

During NSF's five decades of leadership, groundbreaking advances in knowledge have reshaped society and enabled the United States to become the most productive Nation in history. The returns on NSF's strategic investments in science, engineering, and mathematics research and education have been enormous. Much of the sustained economic prosperity America has enjoyed over the past decade is the result of technological innovation—innovation made possible, in large part, by NSF support.

In our 21st century world, knowledge is the currency of everyday life, and at the National Science Foundation we are in the knowledge business. Our investments are aimed at the frontiers of science and engineering research and education, where advances in fundamental knowledge drive innovation and progress.

Today, our Nation faces significant challenges—in security, health, the economy, and the workforce. The surest way to keep our Nation prosperous and secure is to keep it at the forefront of learning and discovery. The NSF budget proposal for fiscal year 2004 aims to do just that, and I am very pleased to present it to you today.

I'll begin with the big picture. This year the National Science Foundation is requesting $5.48 billion. That's an additional $453 million, or 9 percent more than last year's request.

This budget leaves no doubt that the President embraces NSF's vision and value. NSF-funded research and education will help us meet the economic and national security challenges facing us at home and abroad, now and in the future.

NSF has been growing—surely and steadily. Our investments this year put us on the right path, and with the leadership and vision of this Committee, the NSF Authorization Act, signed by the President in December, will keep us moving in the right direction in the years to come.

To promote the progress of science, NSF invests in three strategic areas.

People.—Facilitating the creation of a diverse, internationally competitive, and globally engaged workforce of scientists and engineers and well-prepared citizens is NSF's first priority. To achieve this goal, NSF supports improvement efforts in formal and informal science, mathematics, engineering, and technology education. Across its science, mathematics, engineering, and technology research and education programs, NSF works to enhance the diversity of our science and engineering workforce. The Foundation provides support for almost 200,000 people, including students, teachers, researchers, post-doctorates, and trainees.

Ideas.—Investments in ideas support cutting edge research and education that yield new and important discoveries and promote the development of new knowledge and techniques within and across traditional boundaries. These investments help maintain America's academic institutions at the forefront of science and engi-

neering. The results of NSF-funded projects provide a rich foundation for broad and useful applications of knowledge and development of new technologies. Support for ideas also promotes the education and training of the next generation of scientists and engineers.

Tools.—NSF investments provide state-of-the-art tools for research and education, including instrumentation and equipment, multi-user facilities, digital libraries, research resources, accelerators, telescopes, research vessels and aircraft, and earthquake simulators. These tools also include large surveys and databases as well as computation and computing infrastructure for all fields of science, engineering, and education. Support for these unique national facilities is essential to advancing U.S. research and education.

Of course, People, Ideas and Tools work together to give us the best returns in discovery, learning and innovation.

Before providing a few highlights of the budget, let me stress that the priority-setting process at NSF results from continual consultation with the research community. New programs are added or enhanced only after seeking the combined expertise and experience of the science and engineering community, the Director and Deputy, and the National Science Board.

Programs are initiated or enlarged based on considerations of their intellectual merit, broader impacts of the research, the importance to science and engineering, balance across fields and disciplines, and synergy with research in other agencies and nations. NSF coordinates its research with our sister research agencies both informally—by program officers being actively informed of other agencies' programs—and formally, through interagency agreements that spell out the various agency roles in research activities. Moreover, through our Committee of Visitors process there is continuous evaluation and feedback of information about how NSF programs are performing.

Producing the finest scientists and engineers in the world and encouraging new ideas to strengthen U.S. leadership across the frontiers of discovery are NSF's principal goals. NSF puts its money where it counts—95 percent of our budget goes directly to the research and education that keep our knowledge base fresh, our economy humming and the benefits to society flowing.

Each year, NSF funds about 33,000 proposals at the leading edge of research. And we support more than 200,000 students, teachers, and researchers.

Investing in People is key to developing the Nation's full talent and maintaining the quality of our workforce. There is no better place to begin than with our children. We must ensure that every child can participate in the Nation's prosperity and contribute to its progress.

The budget includes $200 million for the Math and Science Partnership program, a key component of the President's No Child Left Behind initiative. This is the third installment of a $1 billion, 5-year investment to raise the performance of all U.S. students in mathematics and science. The program links local schools with colleges and universities to improve teacher performance and provide a challenging curriculum for every student. And it creates innovative ways to reach out to underserved students and schools.

Our Nation's science and engineering workforce is the most productive in the world. To keep it that way, we have to attract more of the most promising students to graduate-level studies in science and engineering.

We have been steadily increasing stipend levels from a low of $15,000 in 1999, and it's working. Applications for graduate fellowships increased by 19 percent between 2001 and 2002. This year, we are requesting an increase to $30,000. And, we will also increase the number of fellowships.

Opportunities to advance knowledge have never been greater than they are today. NSF invests in emerging areas of research that hold exceptional potential to strengthen U.S. world leadership in areas of global economic and social importance. This year, we are requesting funding for six of these priority areas: biocomplexity, information technology, nanoscale science and engineering, mathematical sciences, human and social dynamics, and the 21st century workforce.

The budget includes a $100 million request for research in Biocomplexity in the Environment. This investment will continue support for microbial genome sequencing and the ecology of infectious diseases, two areas that are of vital importance to the Nation's anti-terrorism efforts. Research that charts the interactions among physical, human, and other living systems, will improve our ability to understand and manage our environment. The development of new technologies and tools rounds out this investment.

As the lead agency in two of the Administration's top interagency R&D efforts, NSF has provided an investment of $724 million in Networking and Information

Technology Research and Development and $249 million in the National Nanotechnology Initiative.

Our priority area investment in Information Technology Research of $303 million will advance every field of science and add to our economic prospects. We propose to expand fundamental research in high-end computation and large-scale networking. Other investments address the need for safe and dependable information systems for national security and consumer protection. To reap the educational benefits of the information revolution, we plan to focus on the use of cutting-edge IT research in the classroom.

The emerging field of nanoscale science and engineering promises a revolution at least as far-reaching as the one we've witnessed in information, computer and communications technologies. The ability to manipulate and control matter at the atomic and molecular levels will open new possibilities in materials and manufacturing, medicine, environment and energy, and national security. As the lead agency in the National Nanotechnology Initiative, NSF is requesting $249 million to expand basic research on new materials, biological systems at the nanoscale, and quantum computing. We will address the need to build capacity through investments in centers, training programs, and equipment. Research on the social and educational impacts of nanotechnology can prepare us to make the best use of new applications.

Mathematics is the lingua franca, or as I like to say, the Esperanto of science and engineering. It leads us to new and deeper insights in every discipline. We propose to invest $90 million in the Mathematical Sciences priority area to pursue fundamental research in the mathematical sciences and statistics, and programs that will bring cutting-edge mathematical and statistical techniques to all fields.

This investment will improve our ability to handle the massive data sets produced by today's sensors and observation systems, and to model and manage uncertainty. We also propose to strengthen connections between research and education in the mathematical sciences.

Building on previous investments in the social, behavioral, and economic sciences, NSF proposes to launch a Human and Social Dynamics priority area. An investment of $24 million will fund research and new techniques to deepen our understanding of the impacts of change on our lives and on our institutions. The request will help us build the large-scale databases and refined research methods needed for major progress in the social sciences.

Research will improve our understanding of how people make decisions, take risks, and deal with uncertainty. We will also support studies of large-scale change, such as globalization, the evolution of society and its interaction with the environment, and the implications of culture for conflict and assimilation.

The Nation needs both world-class scientists and engineers, and a workforce that has the scientific and technical skills needed to thrive in today's changing workplace.

NSF is requesting $8.5 million to begin the development of a Workforce for the 21st Century priority area to address three critical national science and engineering workforce needs: preparing scientists and engineers capable of meeting the challenges of the 21st century; attracting more U.S. students to science and engineering fields; and broadening participation in science and engineering. We will fund Integrative Institutional Collaborations that bring together and integrate NSF educational activities that work—the Louis Stokes Alliances for Minority Participation (LSAMP) program, Graduate Teaching Fellowships in K–12 Education (GK–12), the Integrative Graduate Education Research Traineeships (IGERT) program, Research Experiences for Undergraduates (REU), and Centers of Research Excellence in Science and Technology (CREST) program, for example.

We will expand research opportunities for students and faculty from high schools and from 2-year and 4-year colleges. Our investments will emphasize efforts to build stronger links between research and education at historically black colleges and universities and minority-serving institutions.

Every year it becomes more difficult to choose only a few NSF activities to highlight in the budget presentation. But they are all genuinely significant, and I want to make brief comments about each.

Our Nation is facing new and difficult challenges in homeland security. The NSF budget includes investments that will help us meet growing security needs. I've already mentioned programs in microbial genome sequencing and the ecology of infectious diseases. The Scholarships for Service program will train students in information security and assurance, in exchange for service in Federal Government agencies. Vital research in the Critical Infrastructure Protection program is designed to pinpoint vulnerabilities and strengthen protection for the Nation's power grids, transportation networks, and water supply systems. A diverse portfolio of security-

related information technology research rounds out the NSF contribution. Every one of these investments will have a big payoff.

This year, the NSF budget places special emphasis on investments in the physical sciences. We propose a 12.7 percent increase that will bring total funding in areas such as physics, chemistry, mathematics, and materials research to over $1 billion. We need this investment to spur the fresh and vigorous research in these fields that has helped in the past to power advances in medicine, energy, agriculture, and the environment.

As part of the President's multi-agency Climate Change Research Initiative, NSF will support focused research to reduce uncertainty in critical areas of climate change knowledge and provide timely information for policy decisions. We are requesting $4.5 million to establish 3 or more new centers to improve understanding of risk management, risk communication, and decision-making. These studies will complement NSF's ongoing programs in climate change science.

We know that diversity gives strength to the fabric of our society. The NSF request places special emphasis on broadening participation in science and engineering. The Historically Black Colleges and Universities (HBCU) Undergraduate Program increases by 43 percent, the Louis Stokes Alliance for Minority Participation, which helps minorities toward undergraduate degrees in science and engineering, and the ADVANCE program, aimed at more diversity among successful scientists with family responsibilities, will both increase by 23 percent, and finally, the Partnerships for Innovation program, which transfers knowledge from research and education into the creation of new wealth by strengthening local and regional economies, will double its budget to $10 million.

We are requesting $105 million for the EPSCoR program to continue building the capacity of educational institutions so that they can participate more fully in NSF research activities.

The Noyce Scholarships address the shortage of highly trained K–12 teachers by providing scholarships to talented mathematics, science, and engineering students who wish to pursue teaching careers in elementary or secondary schools.

This year, our budget provides $75 million to support ongoing research on the genomics of plants of major economic importance. This includes a program of Young Investigator Awards in Plant Genome Research.

The Science, Technology, Engineering and Mathematics Talent Expansion Program, or STEP, provides grants to colleges and universities to establish programs to increase the number of undergraduate math and science majors. We are requesting $7 million for the program this year, an increase of $5 million, or 250 percent, over the request for fiscal year 2003.

The National Science Foundation furthers its research efforts by entering into partnerships with other Federal agencies and regards these partnerships as a core strategy for enabling Foundation activities. As part of the Administration's multi-agency Climate Change Research Initiative, NSF will support research to reduce uncertainty in critical areas of climate change knowledge and provide timely information to facilitate policy decisions. The total fiscal year 2004 investment for CCRI increases by $10.0 million to a total of $25.0 million.

Finally, the budget provides $20 million to fund three or more new Science of Learning Centers. These centers will build on advances in the social sciences, computer science, engineering, and neuroscience to investigate how people learn, how the brain stores information, and how best to use information technology to promote learning. The aim is to bring fresh knowledge to the design of learning environments.

The most significant dollar increase in NSF's fiscal year 2004 budget is in Tools, with a total investment of $1.34 billion, a $219 million increase over last year's request. Rapidly changing technology and increasing demand for state-of-the-art tools have put tremendous strain on the Nation's laboratories and research facilities. We need to renew our science and engineering infrastructure across the board, large and small. For the first time, in order to help Congress better understand our future planning needs, our budget provides a prioritization of all ongoing and planned major facility construction approved by the National Science Board.

NSF plans to invest in major research equipment and facilities construction projects over the next several years. One new start, ocean drilling, is planned for fiscal year 2005, with two new starts, Rare Symmetry Violating Processes (RSVP) and Ocean Observatories, for fiscal year 2006.

I want to emphasize that the $220 million increase in Tools is distributed across all of NSF's programs. It includes a new $20 million CyberInfrastructure investment to bring next-generation computer and networking capabilities to researchers and educators nationwide. Other investments, in mid-sized and small equipment, for example, also receive a healthy portion of the increase.

In making these critical investments, NSF continues to put a very strong emphasis on effective and efficient management. We are proud of our track record.

Mr. Chairman and Members of the Committee, I hope that this brief overview conveys to you the extent of NSF's commitment to advancing science and technology in the national interest.

I ask not only for your support for our fiscal year 2004 budget request, but also want you to know how much I appreciate the long-standing bipartisan support of the committee for NSF. Mr. Chairman, I would ask to include a copy of NSF's budget summary as part of my testimony, and would be happy to answer any questions that you have.

Senator BOND. Thank you very much, Dr. Colwell. We are excited about the tremendous things that are going on, and appreciate very much your comments and your testimony.

Now I would like to turn to Dr. Warren Washington, who is Chair of the National Science Board.

STATEMENT OF WARREN M. WASHINGTON

Dr. WASHINGTON. Chairman Bond, I appreciate the opportunity to testify before you as the Chair of the National Science Board. Our National Science Board approved and supports the National Science Foundation's budget submission for fiscal year 2004. We fully support the Foundation's investment in six priority areas. The Board believes it is crucial to maintain a strong portfolio of investment in the core disciplines, and it is also crucial that as the Foundation's research portfolio increases the funds for award administration should be sufficient to maintain efficient and effective NSF management of the portfolio.

The Board and the Director continue to work effectively together and the Board is fully engaged in its policy and oversight responsibilities. The Board establishes policies for the Foundation, approves budgets, major new programs, agreements, and awards. It also includes the oversight for the Foundation's administrative processes and systems.

In November 2002, the Board approved the resolution on guidelines for setting priorities for major research facilities. A copy of that resolution with revised guidelines is attached to my written statement. The Board establishes priority order for the facility construction projects based upon set guidelines.

Let me comment on some other Board actions. We are currently in the process of selecting an executive officer. Our intent is to complete the selection soon after our May board meeting, and after the executive officer has been selected I plan to address the other staffing issues.

Senator Bond, at the previous hearing a year ago, you asked about openness. I am pleased to report that all board meetings, subcommittee and task force meetings, as well as the full board meetings are now open to the public, except for a very few portions that fall under the exceptions in the Sunshine Act. The new openness has been embraced by the board members and well received by the press and members of the public.

The Foundation's 2003 appropriations act provided a separate budget of $3.5 million for Board operations and activities in this fiscal year, and the accompanying conference report requested budget justification materials in support of the Board's 2004 budg-

et. We are allocating the first time appropriation for fiscal year 2003.

On the matter of the fiscal year 2004 budget, the Board's first meeting since the appropriations bill was signed took place in early March. There was limited opportunity for members to discuss the full range of options in this legislation. However, it is my intent to prepare the budget justification materials for fiscal year 2004 as requested in the conference report. At our May meeting, I have scheduled time for thorough discussion of the issues, and I will inform you of our plans as soon as possible after that meeting.

The Board is nearing the completion of two policy reports. Our Task Force on Science and Engineering Infrastructure has assessed the status, changing needs and strategies to ensure that the Nation will have science and engineering infrastructure needed, and this report will be released April 9. The Board's Task Force on National Workforce Policies for Science and Engineering has been studying U.S. science and engineering workforce needs and our national policy for ensuring a skilled workforce in the future, and we anticipate that this will be available in a couple of months. Any comments that you have on that will be especially valuable.

PREPARED STATEMENT

At this point, I would like to end my formal remarks, and I want to thank you for the opportunity to testify on budget issues and the Board's policy activities. I ask that my complete statement be included in the record. I am pleased to answer any questions. Thank you.

Senator BOND. Thank you very much, Dr. Washington. And of course, we will have your complete statement for the record.

[The statement follows:]

PREPARED STATEMENT OF WARREN M. WASHINGTON

Chairman Bond, Senator Mikulski, and Members of the Committee, I appreciate the opportunity to testify before you as Chair of the National Science Board. I am Warren Washington, Senior Scientist and Section Head of the Climate Change Research Section at the National Center for Atmospheric Research.

On behalf of the National Science Board, I thank the Committee for its long-term commitment to a broad portfolio of investments in science, mathematics, engineering, and technology research and education. These investments are important components of our Nation's security and economic strength and the well being of all Americans.

For more than 50 years, the National Science Foundation has been a major contributor to innovative science and engineering research and education. The Congress recognized these valuable contributions through the passage of the 5-year reauthorization bill last year, with steady and substantial increases in authorized budgets for the agency. This recognition is greatly appreciated.

The National Science Board approved and supports the National Science Foundation's budget submission for fiscal year 2004. We assure you that the $5.48 billion will be well spent. We fully support the Foundation's investment in the six priority areas of biocomplexity, information technology, nanoscale science and engineering, mathematical sciences, human and social dynamics, and the 21st century workforce. These areas hold exceptional promise for new discoveries, educational opportunities, and practical applications.

The Board also believes it is crucial to maintain a strong portfolio of investments in the core disciplines. The increased funds received for fiscal year 2003 will strengthen the core research and education programs. The Foundation's fiscal year 2004 budget request recognizes the need to increase funding to the physical sciences and includes a 12.7 percent increase for physics, chemistry, mathematics, and materials research.

It is crucial that, as the Foundation's research portfolio increases, the funds for award administration increase sufficiently to maintain effective and efficient NSF management of the portfolio.

Since 1950, the partnership explicitly spelled out in the founding documents between the National Science Board and the Foundation's Director has worked extremely well, and the Nation's science and engineering research and education have flourished. Although recent legislation has altered some administrative aspects of our partnership, I can assure you that we continue to work together effectively and that the Board remains fully engaged in its policy-making and oversight responsibilities for the agency. The full Board sets Foundation policy after detailed consideration of recommendations made by its committees. These standing bodies deliberate with great thoroughness and thoughtfulness about the numerous programmatic and managerial issues facing the agency.

—Our Committee on Programs and Plans is responsible for program initiatives and major new projects and facilities, proposed awards, and major program implementation issues (in all fields except those pertaining to education and human resources).

—Our Education and Human Resources Committee addresses matters dealing with education and training and the technical workforce.

—Our Audit and Oversight Committee is responsible for administrative processes and systems and also serves as the supervisor of the Inspector General.

—Our Committee on Strategy and Budget examines strategic budget matters and identifies long-term issues critical to the Foundation's future.

This last committee, the Committee on Strategy and Budget, was established in May 2001 to strengthen the Board's role in the Foundation's strategic budget process. The Committee identifies long-term issues that are critical to the Foundation's future and analyzes strategic and operating budgets to ensure progress toward strategic directions set by the Board. The Committee has worked with other Board members and Foundation staff on strategic issues such as management of the Major Research Equipment and Facilities Construction (MREFC) Account, support for the core disciplines, and the size and duration of graduate student and postdoctoral stipends.

When I appeared before this Committee a year ago, Committee members expressed concern about the Board's involvement in setting priorities for funding projects through the MREFC Account. I would like to bring you up to date on that issue while illustrating the effectiveness of the Committee on Strategy and Budget.

First, let me state that the Board continues to approve each project to be funded from the MREFC Account before the funds are obligated. Our Committee on Programs and Plans thoroughly reviews any proposed MREFC funding and brings recommendations to the full Board. There is ample opportunity for Board members to raise concerns before a vote is taken.

Throughout 2002, the Committee on Strategy and Budget discussed how best to accommodate within future budgets the initiation of new major research facilities that the community and Foundation identified as important to the advancement of science and engineering. In August the Committee, in collaboration with the Committee on Programs and Plans, set up a joint working group to determine whether changes to existing Board guidance on priority setting might be appropriate. Policy options developed by the group were discussed in October 2002 by the Board's Committee on Strategy and Budget and Committee on Programs and Plans.

In November 2002, the two committees brought a proposed resolution to the Board, the Resolution on Guidelines for Setting Priority for Major Research Facilities (NSB–02–189), and it was approved by the full Board. (A copy of the resolution with revised guidelines is attached.) We are working closely with Foundation management as the Large Facility Projects Management and Oversight Plan is implemented. We are pleased to see that a Deputy Director for Large Facility Projects has been hired, and we expect that he will report to the Board on a regular basis.

The Board's Major Research Facilities guidelines state that when considering a project for approval, the Board will review the need for such a facility, the research that will be enabled, readiness of plans for construction and operation, construction budget estimates, and operations budget estimates. The Board then establishes a priority order for facility construction projects, based on these guidelines:

—Highest priority is given to projects already under construction, as long as progress is appropriate.

—New candidate projects are considered from the point of view of broadly serving the many disciplines supported by the Foundation.

—Multiple projects for a single discipline, or for closely related disciplines, are ordered based on a judgment of the contribution that they will make toward the

advancement of research in those related fields. Community judgment is considered.

—Projects are authorized close to the time that funding requests are expected to be made.

—International and interagency commitments are considered in setting priorities among projects.

Let me comment on some other Board actions. We are currently in the process of selecting an Executive Officer. After conducting a national search for candidates, a short list has been developed for further consideration. References are being checked in preparation for interviews. Our intent is to complete the selection process soon after our May Board meeting. Once an Executive Officer has been selected, I plan to address other staffing issues so that we may be fully responsive to the interests of Congress in exercising our policy-making responsibilities.

The NSF Authorization Act expanded the Board's activities covered by the Government in the Sunshine Act. I know that the Committee has concerns in this area, and I am pleased to report that all Board committee, subcommittee, and task force meetings, as well as the full Board meetings, are now open to the public except for those very few portions that fall under the exceptions stated in the Sunshine Act. These procedures were in effect for our February and March meetings. While we continue to refine our processes, the new openness of our deliberations has been embraced by Board members and well received by the press and other members of the public.

The Foundation's fiscal year 2003 Appropriations Act provided a separate budget of $3.5 million for Board operations and activities in this fiscal year, and the accompanying conference report requested budget justification materials in support of the National Science Board's fiscal year 2004 funding requirements. I want to take this opportunity to report our progress on these matters.

We are working through the many details related to allocating this first-time appropriation for fiscal year 2003. We have prepared operating plans that enable the Board to allocate its expenses for the current fiscal year against that appropriation.

On the matter of a fiscal year 2004 budget, the Board's first meeting since the appropriation bill was signed took place in early March, only a short time after the bill was signed. Therefore, there was limited opportunity for members to discuss the full range of options this legislation presents for fiscal year 2004. However, it is my intent to prepare budget justification materials for fiscal year 2004 as requested in the conference report. Our next meeting is scheduled for May, and I have scheduled time for a thorough and thoughtful discussion of those issues with the full Board. On behalf of the Board, I appreciate your understanding our interest in taking the time necessary to properly address these important questions. I will inform you of our plans as soon as possible following the meeting.

Consistent with our role as national policy adviser, the Board is nearing completion of two policy reports. Our Task Force on Science and Engineering Infrastructure has assessed the status, changing needs, and strategies to ensure that the Nation will have the science and engineering infrastructure to enable new discoveries in the future. The Board's final report with policy recommendations is being prepared for release on April 9. We made an extensive effort to seek public comment on the draft report, and we will conduct a broad-based outreach effort to engage a wide range of stakeholders in follow-up on those critical recommendations.

Another Board task force, the Task Force on National Workforce Policies for Science and Engineering, has been working diligently on U.S. science and engineering workforce needs and national policy options for ensuring a skilled workforce in the future. We anticipate that the draft report will be available for public comment in a couple of months. Your views would be especially valuable to us.

One final comment concerning Board policy reports: we want these documents to have the maximum possible impact on national science and engineering research and education issues. To that end, we are examining new and better ways to engage members of Congress, Administration officials, and the community in a continuing dialog on these critical topics. I will keep you fully informed as these efforts evolve.

Mr. Chairman, at this point I would like to end my formal remarks. I thank the Committee for its strong and sustained support of the science and engineering enterprise, especially the National Science Foundation. I thank you for the opportunity to testify on Federal budget issues and recent administrative changes as well as the Board's national policy activities. I would be pleased to answer any questions you may have or to provide additional information for the record. Thank you, Mr. Chairman.

Attachments: NSB–02–189 and NSB–02–191.

NSB–02–189

NOVEMBER 21, 2002

RESOLUTION

NATIONAL SCIENCE BOARD

Guidelines for Setting Priority for Major Research Facilities

The Committee on Strategy and Budget and the Committee on Programs and Plans recommend that the National Science Board approve revision to the Board's November 15, 2001 "Guidelines for Setting Priority for Major Research Facilities" in accordance with the following resolution:

RESOLVED, that the National Science Board approves the attached revision to NSB–01–204, entitled "Guidelines for Setting Priority for Major Research Facilities," and dated November 15, 2001, as recommended by the Committee on Strategy and Budget and the Committee on Programs and Plans.

MAXINE SAVITZ CHAIR,
Committee on Strategy and Budget.

ANITA K. JONES CHAIR,
Committee on Programs and Plans.

NSB–02–191

REVISED AND ADOPTED NOVEMBER 21, 2002

NATIONAL SCIENCE BOARD

Guidelines for Setting Priority for Major Research Facilities

The advancement of research and education in all fields of science and engineering depends—at some times—on equipment that permits observation and experimentation. Therefore, the National Science Foundation (NSF) funds such equipment. It also funds the research necessary to advance the engineering of next generation instruments that may enable entirely new and improved modalities of observation and experimentation.

Some of the equipment that enables the advancement of research is large, complex, and costly. The term facility is used to describe such equipment, because typically the equipment requires special sites or buildings to house it and a dedicated staff to effectively maintain and use the equipment. Multiple experimental researchers working in related disciplines share the use of such large facilities.

From time to time, a consensus arises within a research community that a particular new facility is required to advance the state of knowledge in the field. Such a consensus matures through broad community discussion. Through that discussion, a consortium sometimes arises from the community to take the responsibility to build and operate the facility for the good of the entire community. In all cases there are clearly stated research questions that only the unique, envisioned facility could help answer.

The National Science Board approves all large facility projects, as directed by the NSF Act of 1950 and based on the Board's revised delegation of authority to the Director (NSB–99–198, Appendix B, "Delegation of Authority," 335 NSB Meeting, November 18, 1999). When considering a facility project for approval, the Board reviews the need for such a facility, the research that will be enabled, readiness of plans for construction and operation, construction budget estimates, and operations budget estimates. Construction of many facilities is funded through the NSF Major Research Equipment and Facilities Construction account.

Due to cost, not all facilities can be built at the time that their need is determined and plans are in order for construction. Consequently, the Board will order facility construction projects with the intent that funding be made available to projects in this rank order. If it becomes necessary, the Board will reconsider both individual project approval and project priority.

The guidelines observed by the Board in approving and prioritizing such major facility projects and in approving the NSF budget submission are:

—Once construction for an approved and prioritized project commences, highest priority is given to moving that project forward through multiple years of construction in a cost-effective way, as determined by sound engineering and as long as progress is appropriate. It is most cost-effective to complete initiated projects in a timely way, rather than to commence new projects at the cost of stretching out in-progress construction.

—New candidate projects will be considered from the point of view of broadly serving the many disciplines supported by NSF.
—Multiple projects for a single discipline, or for closely related disciplines, will be ordered based on a judgment of the contribution that they will make toward the advancement of research in those related fields. Community judgment on this matter is considered.
—Projects will be authorized close to the time that funding requests are expected to be made.
—International and interagency commitments are considered in setting priorities among projects.

The above are guidelines. Each facility consideration involves many complex issues. The Board will consider all relevant matters, and could deviate from these guidelines, given sound reasons to do so.

Senator BOND. I do not mean to push you, but if you are going to be looking at the full recommendation some time in May, I certainly hope it is earlier May rather than later May, because we are going to be putting our bill together in May, and the sooner you can get it to us, the more likely we are to be able to take into account your views, so timeliness is key. We would very much appreciate having your views and your consideration at the earliest possible time.

Now we turn to Dr. Boesz, the Inspector General for the National Science Foundation. Welcome, Dr. Boesz.

STATEMENT OF CHRISTINE C. BOESZ

Dr. BOESZ. Chairman Bond, thank you. I appreciate the opportunity once again to appear before you. NSF's work over the past 53 years has had an extraordinary impact on scientific and engineering knowledge. However, as the nature of the scientific enterprise constantly changes, NSF is continuously faced with new challenges for maintaining its leadership position.

My office has and will continue to work closely with management to identify and address issues that are important to the success of the National Science Board and the NSF. Today, I would like to highlight four of the top management challenges facing the agency and tell you why I believe they are significant.

The first area is the management of large infrastructure projects. Over the past decade, NSF has increased its investments in such tools. Overseeing the construction and management of large facility projects and programs requires disciplined project management, while working hand-in-hand with scientists and engineers. As you indicated, my office has conducted two audits focusing on projects funded through NSF's major research, equipment, and facilities construction appropriation account. As of today, approximately half of our recommendations have been implemented. However, key recommendations essential for successful oversight and management remain unresolved.

First, a large component of NSF's corrective action plan is the development of a facilities management and oversight guide. While substantial effort has gone into this guide, it is still in draft form.

Secondly, NSF has recently completed a lengthy search for a new deputy for large facility projects, and as Dr. Colwell has indicated, the new deputy will assume his duties in June. We are hopeful that NSF will now be able to complete the guide and resolve other outstanding issues in this area. Another of NSF's continuing man-

agement challenges relates to the operation and management of the United States Antarctic program.

As you know, conditions in Antarctica are remote and harsh, so one of the challenges for NSF management is to ensure the safety and health of Antarctic personnel and researchers. Last month, my office issued a report on health and safety in Antarctic operations. We recommended that NSF address aging facilities and infrastructure. Specifically, we recommended that NSF initiate capital asset management planning and separate line-item budgeting processes.

Although NSF prefers the current practice of using research funds in a flexible manner, I believe a long-term, line-item approach would better identify resources necessary to assure continued safe operations.

The third area is award administration. NSF's challenge is in administering and monitoring its awards once they are made. For the past 2 years, NSF award management has led to a reportable condition in its financial statements audit report. Consequently, the auditors recommend that NSF implement a comprehensive risk-based post-award monitoring program. One of the biggest challenges that NSF faces in addressing this is the increased strain it places on resources, including human capital and support services.

Like many Federal agencies, NSF is facing human capital needs and challenges. Large numbers of permanent staff are eligible for retirement, and staffing has remained relatively flat, despite healthy budget increases. The continued reliance on a growing number of temporary staff places additional burdens on NSF, particularly its Office of Human Resource Management. NSF has contracted with a consultant to perform a comprehensive $14.8 million business analysis of its operations. This does include a human capital component.

The first draft of the plan is due from the contractor in early 2004. The final plan at the end of 2005, so the fourth challenge focuses on human capital issues that demand urgent attention in the interim. NSF should develop a short-term plan that identifies its immediate human capital needs and the specific resources needed to support them such as training, space and equipment.

PREPARED STATEMENT

It is clear, however, that NSF needs resources to support its infrastructure as its budget expands and the workload increases.

Chairman Bond, this concludes my oral statement. I ask that my complete written statement be included for the record. I would be happy to answer any questions that you have. Thank you.

[The statement follows:]

PREPARED STATEMENT OF CHRISTINE C. BOESZ

Chairman Bond, Senator Mikulski, and distinguished members of the Subcommittee, I am Dr. Christine Boesz, Inspector General at the National Science Foundation (NSF). I appreciate the opportunity, once again, to appear before you today as you consider NSF's fiscal year 2004 budget request. NSF's work over the past 53 years has had an extraordinary impact on scientific and engineering knowledge, laying the groundwork for technological advances that have shaped our society and fostered the progress needed to secure the Nation's future. Throughout, NSF has maintained a high level of innovation and dedication to American leadership in the discovery and development of new technologies across the frontiers of science and engineering.

As the nature of the scientific enterprise is constantly changing, however, NSF is continuously faced with new challenges to maintaining its leadership position. My office has and will continue to work closely with NSF management to identify and address issues that are important to the success of the National Science Board and NSF. Each year, my office focuses on those issues that pose the greatest challenge for NSF management. These management challenges are developed based on our ongoing work with and knowledge of NSF's operations and programs. Today I would like to highlight four of these challenges and tell you why we believe they are significant.

MANAGEMENT OF LARGE INFRASTRUCTURE PROJECTS

For the past 3 years, we have considered management of large facility and infrastructure projects to be one of NSF's top management challenges.[1] Over the past decade, NSF has increased its investments in large infrastructure projects such as accelerators, telescopes, research vessels and aircraft, supercomputers, digital libraries, and earthquake simulators. Many of these projects are large in scale, require complex instrumentation, and involve partnerships with other Federal agencies, international science organizations, and foreign governments. Some, such as the new South Pole Station, present additional challenges because they are located in harsh and remote environments.

The management of these awards is inherently different from the bulk of awards that NSF makes. The majority of NSF awards are made to single investigators for individual research projects. In undertaking these "idea" projects, NSF researchers need to be given the freedom and autonomy to allow their research to evolve and move in new directions. In large facility and infrastructure projects, however, that same degree of freedom may sometimes be at odds with cost and schedule requirements. While overseeing the construction and management of these large facility projects and programs must always be sensitive to the scientific endeavor, it also requires a different management approach. It requires disciplined project management including close attention to meeting deadlines and budgets, and working hand-in-hand with scientists, engineers, project managers, and financial analysts. Furthermore, although NSF does not directly operate or manage these facilities, it is NSF that is ultimately responsible and accountable for their success. Consequently, it is vital that NSF exercise proper stewardship over the public funds invested in these large projects.

In December 2000, my office issued an audit of one of these large facilities, the Gemini Project, and made several recommendations to NSF management.[2] Primarily, our recommendations were aimed at increasing NSF's level of oversight of these projects with particular attention on updating and developing policies and procedures to assist NSF managers in project administration. In response to our report, NSF developed, and my office approved, a corrective action plan designed to address our recommendations. The final milestone in the corrective action plan, by which time NSF expected to fully address the report's recommendations and implement new policies and procedures, was December 2001.

Subsequent to issuing this audit report and at the request of this Subcommittee, my office conducted another audit focusing on all projects that NSF has funded through the recently renamed Major Research Equipment and Facilities Construction appropriation account.[3] We reported that certain practices discovered during our first audit have also occurred in other large projects, reinforcing the need for increased oversight by NSF management. NSF responded to our report by stating its intent to combine management improvements recommended by this audit with its efforts to respond to our previous Gemini audit.

As we will be reporting in our semiannual report to the Congress for the 6-month period ending March 31, 2003, NSF has taken steps to address approximately half of the report recommendations. However, key recommendations from both of these

---

[1] Memorandum from Christine C. Boesz, Inspector General, National Science Foundation, to Warren Washington, Chairman, National Science Board, and Rita R. Colwell, Director, National Science Foundation (Dec. 23, 2002) [hereinafter 2002 Management Challenges]; Memorandum from Christine C. Boesz, Inspector General, National Science Foundation, to Eamon M. Kelly, Chairman, National Science Board, and Rita R. Colwell, Director, National Science Foundation (Jan. 30, 2002) [hereinafter 2001 Management Challenges]; Letter from Christine C. Boesz, Inspector General, National Science Foundation, to Senator Fred Thompson, Chairman, Senate Committee on Governmental Affairs (Nov. 30, 2000) [hereinafter 2000 Management Challenges].

[2] Office of Inspector General, National Science Foundation, Audit of the Financial Management of the Gemini Project, Report No. 01–2001 (Dec. 15, 2000).

[3] Office of Inspector General, National Science Foundation, Audit of Funding for Major Research Equipment and Facilities, Report No. 02–2007 (May 1, 2002).

reports on developing new project and financial management policies and procedures remain unresolved by NSF management.

The unifying feature of NSF's corrective action plan was the development of a Facilities Management and Oversight Plan.[4] NSF staff has devoted substantial time and effort to develop this Plan. The Plan has four major goals: (1) to address organizational needs within NSF to effectively manage large facility projects; (2) to implement guidelines and procedures for all aspects of facilities planning, management, and oversight; (3) to improve the process for reviewing and approving large facility projects; and (4) to properly oversee facility projects to ensure their success. A large component of meeting these goals, especially the second and fourth, is the development of a Facilities Management and Oversight Guide, which is still in draft form.

We have been pleased to provide NSF with comments on various iterations of the Guide. Most recently, we reviewed and provided feedback on the November 8, 2002 draft. As we expressed to NSF, and will report in our upcoming semiannual report, our primary concerns with the Guide are (1) that its focus is too high level to provide NSF staff with the practical guidance necessary to effectively manage this complex portion of NSF's portfolio and (2) that it does not yet address recording and tracking the full cost of these facilities within NSF's financial system. Among the unresolved issues that we hope to see addressed in the final version of the Guide are the authority of the new Deputy for Large Facility Projects and his Project Advisory Teams, and the level of responsibility and autonomy of the individual program officers managing these projects. The Guide lays out general requirements that will need to be fleshed out in order to implement a successful management program. It also needs to address contingency issues, such as those arising with international partnerships, in more detail.

It has been over 2 years since our first audit report recommending improvements in NSF's management of large facility and infrastructure projects. Because of increased funding in this area, this issue needs to become one of greater urgency for NSF management. Some of this delay may have been due to the lengthy search for the new Deputy for Large Facility Projects. NSF announced last month that it has filled this position and the new Deputy will assume his duties on June 9, 2003. We are hopeful, with the new Deputy in place, NSF will be able to focus on the corrective actions and provide the resources necessary to fully implement the Facilities Management and Oversight Plan in order to resolve the outstanding issues in these two audits.

ANTARCTIC INFRASTRUCTURE PLANNING

Another of NSF's continuing management challenges relates to the operation and management of the United States Antarctic Program (USAP).[5] The USAP is the United States' national program for scientific research and geopolitical presence in Antarctica, the world's seventh and southernmost continent. Conditions in the Antarctic are remote and harsh. Temperatures at the USAP's three year-round research stations range from an average high of 2 degrees Centigrade at Palmer Station to an average low of minus 28 degrees Centigrade at South Pole Station. These conditions require much more support resources from NSF management than is required with other NSF-funded programs. As stated in NSF's fiscal year 2004 budget request, "[a]ll life support is provided by NSF, including facilities infrastructure, communications, utilities (water and power), logistics to, from, and within Antarctica and all related infrastructure—aircraft, runways, communications, passenger movement, baggage handling."[6] Consequently, one of the critical challenges for NSF management is to ensure the safety and health of USAP personnel and researchers.

Last month, my office issued a report on health and safety in the USAP.[7] We were pleased to report that the programs put in place and managed by NSF's USAP logistics contractor do protect the overall health and safety of the USAP participants. However, we did report on occupational health and safety issues related to aging facilities and infrastructure in Antarctica. They need to be addressed by NSF management through a capital asset management planning and budgeting process.

---

[4] National Science Foundation, Large Facility Projects Management & Oversight Plan NSB–01–153 (Sept. 2001).

[5] 2002 Management Challenges, 2001 Management Challenges, and 2000 Management Challenges, supra note 1.

[6] National Science Foundation Fiscal Year 2004 Budget Request to Congress.

[7] Office of Inspector General, National Science Foundation, Audit of the Occupational Health & Safety and Medical Programs In the United States Antarctic Program, Report No. 03–2003 (Mar. 17, 2003).

This is an issue that has also been raised to NSF management by the Office of Polar Programs' Committee of Visitors.[8]

The Antarctic facilities are different from other large facilities funded by NSF in that they are critical to the safety and health of researchers and their support personnel. Ongoing maintenance and upgrading of these facilities are necessary to prevent health and safety crises and to protect the personnel stationed in this harsh environment. We are pleased to see that NSF, in its fiscal year 2004 budget request, is recognizing the need to plan for these crucial infrastructure needs. We are still concerned, however, over the funding of and planning for these projects. We have recommended that NSF develop life cycle planning of these USAP assets to serve as a basis for a capital asset management plan. In addition, to provide dedicated funding for these projects that does not compete with day-to-day USAP operations or scientific research, we recommended that NSF establish a separate line item within its budget for funding this plan. NSF prefers the current practice of using research funds in a flexible manner. I believe a long-term, line-item approach would more clearly identify resources necessary to assure continued safe operations.

AWARD ADMINISTRATION

A third ongoing management challenge to NSF is the administration of research and education grants and cooperative agreements.[9] In a given year, NSF spends roughly ninety percent of its appropriated funds on awards for research and education activities. NSF recently reported that it received more than 35,000 proposals in fiscal year 2002 and made more than 10,400 awards to about 1,800 institutions.[10] This was accomplished with a staffing level that has remained relatively flat during the past decade, even in the face of large budget increases.

NSF is under pressure to process increasing numbers of proposals and to make awards. Many of these proposals are also more complex. This increase is leading to a resource drain. Because NSF's proposal processing system is not yet entirely electronic, incoming proposals need to be printed for distribution during the proposal review process. During January and February alone of this year, NSF received over 14,000 proposals, representing forty percent of the normal 12-month total. The enormous volume of proposals has led to a backlog in printing. Resources to develop and implement a fully electronic system are needed to meet the increasing number and complexity of proposals.

An even more important challenge for NSF is the way in which it administers and monitors these awards. Administering the public funds that are entrusted to it is an inherent function of any government entity. Federal agencies are responsible for monitoring the awards that they fund to provide reasonable assurances that (1) adequate progress is being made toward achieving the project's goals, objectives, and targets; (2) Federal funds are being expended appropriately; and (3) Federal funds are being used responsibly. This is the essence of providing stewardship over Federal taxpayer dollars.

To date, NSF has not had a comprehensive and cohesive program for monitoring its awards once they have been funded. Rather, NSF has devoted most of its resources to the pre-award and award phases. In each of the past 2 years, this gap in NSF's award management has led to a reportable condition in the annual audits of NSF's financial statements.[11] The auditors have found that NSF's post-award monitoring system is not systematic, risk-based, documented in writing, or consistently applied. As a result, the auditors found that awardees' use of Federal funds may not be consistent with the objectives of the awards; programs and resources may not be protected from waste, fraud, and mismanagement; laws and regulations may not be followed; and reliable and timely information may not be obtained, maintained, reported, or used for decision-making. As a result of these findings, the auditors have recommended that NSF establish a comprehensive risk-based award monitoring program and develop the tools necessary to carry out this program.

NSF has recognized the need to create a risk-based award monitoring program and has begun to address this issue. The agency has developed a draft policy for conducting this level of award oversight, and we have been pleased to provide com-

---

[8] Committee of Visitors Report on the Polar Research Support Section for the review period 1998, 1999, and 2000.

[9] 2002 Management Challenges, 2001 Management Challenges, 2000 Management Challenges, supra note 1.

[10] National Science Foundation, fiscal year 2002 Management and Performance Highlights 5 (Feb. 2003).

[11] Auditor's Report, fiscal year 2002 National Science Foundation Financial Statement Audit (Jan. 29, 2003); Auditor's Report, fiscal year 2001 National Science Foundation Financial Statement Audit (Jan. 18, 2002).

ments on that policy and anticipate that the final version will address our concerns. One of the biggest challenges that NSF will face in implementing this policy is the growing strain on its resources. The increased emphasis on award monitoring may require additional staffing and more resources for training, travel, and equipment. To meet all of its responsibilities, NSF management will have to show a greater commitment to this program. It may need to reevaluate its current business processes to ensure that its oversight responsibilities are fully integrated into them.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

As in the case of most Federal agencies, NSF is facing human capital needs and challenges. Forty percent of NSF's permanent workforce is currently eligible for either voluntary retirement or early out, and that number will grow to nearly sixty percent by 2007. Additionally, despite an increasing workload and a budget that has grown from $1 billion to over $5 billion over the past 20 years, the number of full-time equivalent positions at NSF has remained relatively static.[12] While NSF has been supplementing its permanent staff with temporary staff, or "rotators," this increase has also placed a significantly greater burden on the agency, particularly its office of Human Resource Management, to continually recruit and train personnel. Finding them suitable office space has also become a challenge—space has become a rare and precious commodity at NSF. Because of these concerns, I have identified strategic management of human capital as a top management challenge for NSF over the past few years.

Two years ago, this Subcommittee requested that my office analyze the adequacy of the agency's staffing and management plans in light of the efforts to expand NSF's budget of the next 5 years.[13] As I reported to you last year, NSF's workforce planning falls short of an actionable plan, which requires specific objectives, clearly assigned responsibilities, well-defined milestones for discrete actions, and practical measures of effectiveness for accountability. However, at that time, I also reported to you that NSF was in the process of contracting for a multi-year business analysis of its operations that will include a human capital management plan identifying its future workforce requirements.

Last June, NSF awarded a contract for a comprehensive, $14.8 million, 3- to 4-year business analysis, including a component on future workforce requirements. The contractor appears to be focusing on the workforce portion of the business analysis during the early phases of the project. One of the contractor's teams has been conducting focus groups to develop core competencies at NSF and another team is gathering information on individual office staffing, workloads, and priorities. OIG management has met with both of these teams to discuss OIG core competencies and workloads.

The first draft of the human capital management plan is due from the contractor in early 2004. However, the final plan is not due until the end of 2005. We are looking forward to seeing substantial and concrete results from this effort, but wonder how NSF will manage its valuable human capital assets in the meantime. Along with being a principal component of the President's Management Agenda, this is a management challenge that NSF has been facing for several years. Consequently, human capital issues demand urgent attention. NSF needs to develop a short-term plan that identifies its immediate human capital needs and the specific resources required to support them (e.g., training, space, and equipment). It is clear that NSF needs resources to support its infrastructure as its budget expands and the workload increases.

Chairman Bond, this concludes my statement. I would be happy to answer any questions you or other members of the Subcommittee may have, or to elaborate on any of the issues that I have addressed today.

2004 NSF BUDGET: INCREMENT OF INCREASE

Senator BOND. Thank you, Dr. Boesz, and thanks to all of you for very informative testimony. We will, of course, make all of the statements included in full in the record. My colleagues here are over on the floor, where I should be shortly, as I said, worrying about the supplemental appropriations bill. I can assure you that their absence from the hearing today does not reflect any lack of

[12] Compare NSF's fiscal year 1983 Budget Request to Congress with NSF's fiscal year 2004 Budget Request to Congress.
[13] S. Rep. No. 107–43 (2001).

interest or enthusiasm for the scientific work that is covered by your testimony today.

Let me begin by asking a question. I am going to ask first Dr. Marburger and then Drs. Colwell and Washington to comment on it. As we discussed yesterday, PCAST issued a report that recommended that beginning 2004, funding for physical sciences and engineering be substantially increased over the next four budget cycles. As co-chair of PCAST, you approved the recommendation the President sign the authorization bill authorizing a doubling of the budget in 5 years.

The fiscal year 2004 request only provides a 3.2 percent increase. What happened? Can you explain why the budget request is inconsistent with both PCAST and the NSF reauthorization act?

Dr. MARBURGER. Senator, probably the most important thing that happened was the absence of a passed 2003 budget at the time that the final budget was being put together.

Senator BOND. You did have the reports from both the House and the Senate which showed that we were going to increase substantially over the requested level for 2003.

Dr. MARBURGER. That is true, and I do believe the President put a lot of important signals in the budget narrative and in the priorities that are evident in the budget. His request for NSF was substantially greater than that for other science agencies and the evidence of his support for the doubling bill itself, for the authorization bill itself was, I think, significant, and bodes well for the future.

ADDITIONAL FUNDS INVESTMENTS

Senator BOND. I would ask you to comment on that, Dr. Colwell and Dr. Washington, and also we are going to find additional funds somewhere, somehow. Where would you recommend we spend them?

Dr. COLWELL. One of the major efforts that we have underway, of course, is increasing the grant size and duration, but first let me just say that the overall conclusion I do draw from the budget we got was that the President placed his full support and confidence in NSF's mission, but we did not have a budget to work from until recently.

In any case, one of the major initiatives for the National Science Foundation, and with the report that was requested, I believe, by OMB, we have found that the grant size and duration, which has gone from $89,000 in 1998 to, through the good graces of this committee and Congress and the President, we have been able to increase it this year to $128,000, but it is a long way to the $250,000 that we would like to see for a per-year budget, and a 5-year budget for each grant, instead of just 2 years, which is inefficient. That is a very, very important investment for the National Science Foundation, and we either do this incrementally—of course, if we were to do it in one fell swoop it would be $6 billion, so it is clear there are a lot of unmet needs, and we do appreciate the support that you and the committee have provided for the National Science Foundation.

Senator BOND. Dr. Washington.

Dr. WASHINGTON. Well, I was just going to add that the Foundation has the six priority areas, and we also have the need to increase funding in the core discipline areas.

When I talk with the program managers and the directors, they have many proposals that are excellently rated, and yet they do not have enough funds to actually, to sort of make those awards, and so there is a need for increased funding.

Senator BOND. Well, are there other particular program areas, like nanotechnology, plant genome, TechTalent, that you would see as meriting increases? Dr. Colwell.

Dr. COLWELL. Very clearly, the biggest crisis we face as a Nation, which was outlined in the Hart-Rudman report is that second, and I paraphrase, an attack on one of our cities, would be to lose leadership in science and engineering research and education, and it is very clear to me that the 21st century workforce is one of our major challenges, and we must address it, and again I would like to thank you for the increase in the stipends for graduate fellowships, because in this request we are requesting an additional 350 fellowships, and we know that these will go to American citizens, because that is the requirement that is there for the graduate fellowships, the IGERT and the GK–12.

And I must say that if I could I would like to share with you just some of the wonderful things that are happening in the investment in plant genomes, a novel method for determining gene function, which is called targeted induced local lesions in genes, or TILLIG, was developed through NSF funding, and what this does is, it allows selection for natural variance of rice genes with useful properties, and this is being set up, the TILLIG facilities for looking at these gene variations, at places including the International Rice Research Center in the Philippines.

Senator BOND. In the Philippines—where they have developed the golden rice, the beta carotene enriched rice.

Dr. COLWELL. Absolutely, so I think that is just one small example.

EXAMPLES OF ADDITIONAL FUNDS INVESTMENTS

Senator BOND. If you would send me a small packet of information on that I would like to find out more about it.

Dr. COLWELL. I would be delighted, sir.

[CLERK'S NOTE.—The information referred to has been retained in subcommittee files.]

Senator BOND. Thank you. Dr. Marburger, any thoughts you have on this?

Dr. MARBURGER. Yes. My office has formed interagency working groups under the National Science and Technology Council which tries to each year identify priorities that come up from the agencies and the advisory committees of the agencies, including the National Science Board, PCAST, and the National Research Council reports. We have identified for fiscal year 2004 six priorities, including the ones that I mentioned in my oral report and are outlined more completely in my written testimony, but certainly nanotechnology, networking and information technology, research on climate change, the need for technology associated with home-

land security, educational issues, and certain areas of biology that are not adequately funded under the NIH funds.

All of these areas are strongly represented in the NSF portfolio, and I know that NSF's priorities in science are quite consistent, not by accident, with the national priorities that have been identified for all areas, so I am confident that the increases in the NSF budget will be applied to the national priorities. We work closely together to make sure that that happens.

HUMAN AND SOCIAL DYNAMICS PRIORITY AREA

Senator BOND. Let me reflect upon a comment or recommendation made by the CBO, which suggested that when you look at the priorities, and certainly the priorities that you have outlined today are in hard physical science, math, engineering, but you are requesting increased funding in human and behavioral science. Well, that happens to be my area, but that does not happen to be what I thought the focus of the NSF was on.

With the tremendous short-changing we have of engineering and the hard physical sciences, where does human and behavioral science, which is also under a wide range of agencies that have interest and do research there, why does that continue to be a priority in the National Science Foundation?

Dr. Colwell.

Dr. COLWELL. Senator, it is very clear that the analysis of risk and understanding of risk and research on risk is very important, and it is funded through the social, behavioral, and economic sciences as part of the climate change initiative. Understanding risk is really critical.

Secondly, through the Computer Science Directorate, the human-computer interface is really very, very important to understand, and in the Education Directorate the use of technology in enhancing education is again critical, and that interface between understanding, as I pointed out in our Science of Learning Centers, understanding the cognitive aspects of learning, understanding the physiological basis of it and the reinforcement, this is all part of fundamental research that is very appropriate to the National Science Foundation.

NATIONAL SCIENCE BOARD BUDGET

Senator BOND. Let me move on with funding for the National Science Board, a question for Dr. Washington, then I might ask Dr. Marburger to comment on it.

The 2003 appropriations act and NSF reauthorization act provided the Board with tools to ensure fully effective statutory responsibility, execution, and providing independent science policy advice and overseeing the budget. The administration zeroed out the Board's budget despite what I thought was rather clear in the law. I understand the Board intends to comply with the law. Dr. Washington, does that mean that you expect OMB and the administration to submit a budget amendment?

Dr. WASHINGTON. I am still working that issue, but the feeling of the Board is that we would, of course, comply with the authorization act, so we will be preparing materials and presenting them to the Congress as requested.

Senator BOND. Dr. Marburger, can you help on that?

Dr. MARBURGER. The administration intends to comply with the law, sir.

Senator BOND. Well, I have got a suggestion. I trust you will take that back. Where the Congress has provided the Board, Dr. Washington, with the authority to hire its staff, I understand the Board is about to hire an executive officer. I hope the Board will also hire its own legal counsel so that the Board understands the laws that we pass, confusing as they may be, but I would like to get an update from you on where you are going with that authority and what you are doing with that.

Dr. WASHINGTON. Okay. Well, we are in the process of getting ready to interview on the final list in the search, and we expect to be carrying out the interviews somewhere at the time of the board meeting, and then it will be up to me to make the final selection for the new executive officer.

I have assembled an interview team made up of several board members, and hopefully we can come up with a final decision on that.

Now, in terms of legal counsel and all of that, I am going to talk to the Board about that at the May meeting, and working with the new executive officer, hopefully we can determine the sort of designated senior level staff members needed.

LARGE FACILITY MANAGEMENT ISSUES: PROGRESS

Senator BOND. Well, as a lawyer myself, I hate to be wishing more lawyers on people, but there are some issues, obviously, where it may be helpful.

Turning to Dr. Boesz, your testimony indicates that the Foundation's management has made little progress in responding to the large facility management problems identified. As we both have noted, the Foundation has just hired a deputy director. Do you believe that NSF can resolve these problems easily? Are they more complicated? Do you believe the NSF should have made more progress in addressing the management problems you identified, despite the delay in hiring a deputy director?

Dr. BOESZ. Mr. Chairman, there is a lot in that question. I believe that NSF has put a substantial effort into planning. From the perspective of my staff, this has been going on for about 2 years. Where we have become disappointed is, we were hopeful that the whole process would have been accelerated, because once all of these pieces are in place, the new deputy, the guidelines, they still require a tremendous amount of training both of NSF staff and the field.

So the fear has been on our part that this delay in getting all of these pieces in place will delay the training and delay the ultimate implementation, so I think the next challenge is going to be the training, assuming we are successful now.

Senator BOND. Two years does seem a bit long. Dr. Colwell.

Dr. COLWELL. Yes. I would like to state that we share the IG's sense of urgency in these issues, and we agree that NSF needs resources to support the infrastructure as our budget expands and the workload increases, but I want to tell you we are working very hard to live within our means and address the many opportunities

that we have to choose from in this very dynamic environment, and in a sense it is sort of like changing the tires when the car is moving at 60 miles an hour. It looks like things are in slow motion when you are in the car, but things are really moving very fast on the ground.

So over the past year we have accomplished a lot, as the NSF IG has recognized. There is more to be done, and we have an action plan in place, and many of our planning processes are iterative ones. We seek broad community input. We work to have consensus, expert opinions, and the result still may be a draft document, but we want to let the breezes in rather than carve things in stone. We developed living, breathing plans and guides that will evolve as the lessons are learned and as more best practices are identified. We want documents that work with us, not something written for the record and stuck on a shelf.

So I would like to say, is there more to be done? No question, but there is a lot of hard work being done at NSF by the people there, and you have my personal commitment that we will finish these activities and we will do it the right way, preserving the flexibility of the research enterprise, the integrity and stewardship of the taxpayer's dollars, and the excellent reputation of NSF, and your help would be appreciated. We need your support for the 2004 budget.

PLANT BIOTECHNOLOGY EDUCATION

Senator BOND. Let me assure you you have my support. If the car is going 60 miles an hour, pull off the interstate for a minute, hire the people you need. If you need more resources let us know, because we want to make sure that that 60-mile-an-hour car is going in the right direction. That worries me. If you are going 60 miles an hour and you do not know where you are headed that is not necessarily progress, so let us know if you need resources.

And finally, I want to try to conclude this by 11 o'clock, but I cannot get out of here without talking about plant biotechnology, and I know you would be disappointed if I did not. I just had to bring this in.

Dr. Marburger, yesterday you and I discussed, we are very interested in expanding plant biotechnology to the developing world countries in places like Africa. Unfortunately, Africa is being afflicted with and infected with the eurosclerosis, which has come from certain scientific know-nothings who think that plant biotechnology is going to create the tomato that eats Missouri.

I would like to know what plans the administration has for trying to educate and lead and assist other countries in learning about regulating and implementing the benefits of plant biotechnology.

Dr. MARBURGER. Plant biotechnology is an important area of research for us and for our agricultural industry and for other industries that may benefit from plant genomics and products that are made by plants. Our organization, OSTP, has an interagency working group that has just produced a report on plant genomics, a 5-year document that we have made available to your office, and we plan to encourage the agencies that are involved in that to take the necessary steps to implement the plan.

Members of my office do travel to international conferences to learn about attitudes in other countries regarding plant genomics. We encourage people from other scientific agencies as well to participate in forums and discussions and brainstorming sessions regarding this very difficult issue.

I meet twice annually with the Science Ministers from the other G–8 countries, and this issue of properly educating the public regarding the promise of plant genomics is always on the agenda. Someone always brings it up in those countries, and discusses how we can work together to identify and promulgate best practices.

It is an international problem. It is not only in Europe. There are pockets of concern not always rational about these issues, and we are watching this very closely and trying to develop strategies where we can.

Senator BOND. Yes, Dr. Colwell.

Dr. COLWELL. Senator, as you know, I am committed to expanding NSF's activities with the developing world. My own personal research on cholera has led to strong collaborations in Bangladesh and other countries in the third world. The National Science Board also produced an excellent report on international science and engineering, stressing the importance of developing collaborations with scientists in the developing world.

We have a series of workshops that we are supporting, and collaborative efforts throughout the developing world focusing in many cases on plant biotechnology, and we have collaborations on the banana and plantain research in Africa, Central and South America. We have PIs working on various cereals involved with the AID-sponsored activities to develop the cereal genome initiative that links researchers in the United States and developing countries.

Clearly, this is an important area, and I personally am very committed to it, as are the rest of the scientists at the National Science Foundation.

ENGINEERED VACCINATIONS

Senator BOND. Talking about cholera, would you tell us, I keep hearing that perhaps we can genetically engineer a banana or some other vegetable or fruit to contain a vaccine to vaccinate children throughout the emerging world against cholera and other diseases. Do you see this as a potential? Where is this? To me it sounds like science fiction, but I am hoping it can be a reality.

Dr. COLWELL. Senator, this is one of the most exciting developments, the ability to insert vaccine genes into a banana or a potato, and then children being able to be vaccinated without having a cold chain.

One of the problems with vaccine delivery is keeping it refrigerated and therefore potent, but if you have got the genes inserted and it is a benign immunological procedure that takes place by just eating the banana, this is a wonderful way for vaccination to work. Charlie Arntzen and his team are responsible for having achieved this. The field tests have been done, and it has proved effective, so yes, this is clearly one of the most exciting developments in plant genome sciences, and again, thank you for your support.

NSF/USAID COLLABORATION

Senator BOND. This is truly exciting, and it is not only the cold chain, but for the small child that is going to get vaccinated, a banana is certainly a lot less threatening than a needle or a bunch of pinpricks.

Dr. Clutter, could you come up just for a second and tell us what you have been doing in your area in the collaboration with USAID and other areas on this work?

STATEMENT OF MARY CLUTTER

Dr. CLUTTER. Well, Senator Bond, before I say anything about what we are doing with AID, I would like to express our appreciation to you for having taken the lead in the plant genomics field, because whether you realize it or not, your support and the committee's support of plant genomics has transformed plant biology forever. I just wanted you to know that.

Senator BOND. Thank you.

Dr. CLUTTER. We have begun some discussions with AID. In the past, we had a very successful program with AID in which we supported, NSF supported research in this country, and the training of developing country scientists, students in our universities, and when they went back home to their developing world countries, AID provided support for them and their research, so this kind of capacity building is very, very important, and we are looking to the future for more interactions.

Senator BOND. Thank you very much, Dr. Clutter.

Dr. Colwell, we appreciate that. We intend to support it.

Dr. Clutter, I sincerely appreciate your kind words, because when you and I and Dr. Colwell's predecessor were working on this, I do remember the scientific outcry that some politician would be messing around in the area of science, and I am going to frame some of those comments that were made at the time. I wear them as a badge of honor. Thank you very much.

ADDITIONAL COMMITTEE QUESTIONS

As I said, I would love to spend the whole day here, but I think I have other duties calling. I know you have work to get on with. We have got a lot of kids that we need to get interested in science and engineering, and I wish you well. Carry on this work. This is the vital work for the future, and I thank all of you. We will submit questions for the record.

[The following questions were not asked at the hearing, but were submitted to the agencies for response subsequent to the hearing:]

QUESTIONS SUBMITTED TO THE NATIONAL SCIENCE FOUNDATION

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

NSF FUNDING PRIORITIES

Question. I will try to provide additional funds for the Foundation in the fiscal year 2004 bill. Drs. Colwell and Washington, what priority areas do you recommend for additional funds?

Answer. Both NSF and the NSB are in agreement that increasing the average award size and duration are priorities of the Foundation. NSF grants to researchers currently average about $128,000/year for 3 years, well below the optimum level of

$250,000/year for 5 years as identified in the Principal Investigator (PI) survey conducted last year. PIs indicated that additional funds would most often be used to support more graduate students and post-docs in the research activity.

LEGAL COUNSEL FOR THE NATIONAL SCIENCE BOARD

Question. The Congress provided the National Science Board with the authority to hire its own staff. I am a big proponent of this measure because it helps ensure the independence of the Board and helps the Board meet its oversight responsibilities.

Dr. Boesz, do you have your own legal counsel?

Answer. Yes; in carrying out audits, investigations, and other activities that are the responsibility of the Office of Inspector General (OIG), I periodically need legal advice and assistance. It is important that the OIG have its own counsel, to minimize conflicts of interest for the attorney serving in this position and to preserve the operational independence of the OIG. The OIG counsel reports directly to me.

Question. Dr. Boesz, do you believe the Board should hire its own legal counsel?

Answer. Yes; for the same essential reasons that the OIG has its own counsel, separate from the National Science Foundation Office of General Counsel, I believe it is important that the Board have its own counsel. The reasons are to minimize conflict of interest for the attorney serving the Board and to support Board independence.

MAJOR RESEARCH EQUIPMENT AND FACILITIES CONSTRUCTION FOR FISCAL YEAR 2004

Question. Since the fiscal year 2004 budget request provides funds for the completion of HIAPER, which was already provided in the fiscal year 2003 Appropriations Act, would NSF support using these funds for other large facility projects? Which particular project(s) would NSF support?

Answer. Funding was provided for both HIAPER and IceCube in fiscal year 2003 appropriations, though no funds were requested. Therefore, NSF would first allocate fiscal year 2004 funds requested to all ongoing projects to make up for the rescinded amounts from fiscal year 2003, totaling $15.81 million. With the same attention to maintaining the planned funding streams for projects, EarthScope would receive $5.0 million, and Terascale $10.0 million from remaining unallocated fiscal year 2004 funds. NSF would then use all the remaining funds ($40.725 million) to support Scientific Ocean Drilling (SOD), the next project on the NSB-approved priority list as shown in the fiscal year 2004 budget request. This would allow us to initiate RSVP in fiscal year 2005, 1 year earlier than shown in the President's fiscal year 2004 budget request.

(Dollars in Millions)

	Fiscal year 2003 appropriation with rescission	Fiscal year 2004 request	Adjusted fiscal year 2004 request	Fiscal year 2005 request	Fiscal year 2006 request	Fiscal year 2007 request	Fiscal year 2008 request
Project:							
ALMA	29.81	50.84	51.04	49.67	48.84	47.89	46.49
EarthScope	29.81	45.00	43.73	47.35	49.75	26.80	.....
HIAPER	25.36	25.53	0.17	.....	.....	.....	.....
IceCube	24.54	60.00	35.46	33.40	34.30	35.30	36.30
LHC	9.66	.....	0.06	.....	.....	.....	.....
NEES	13.47	8.00	8.09	.....	.....	.....	.....
NEON	0.00	12.00	12.00	16.00	20.00	20.00	20.00
SPSM	6.96	0.96	1.00	.....	.....	.....	.....
Polar Aricraft Upgrades	.....	.....	.....	.....	.....	.....	.....
Terascale	9.94	.....	10.06	.....	.....	.....	.....
Subtotal, Current MREFC	149.54	202.33	161.61	146.42	152.89	129.99	102.79
New Starts	.....	.....	40.73	.....	.....	.....	.....
Total, MREFC	149.54	202.33	202.33	146.42	152.89	129.99	102.79
New Starts:							
Scientific Ocean Drilling	.....	.....	40.73	36.12	23.00	.....	.....
RSVP	.....	.....	.....	30.00	42.66	44.00	20.25

(Dollars in Millions)

	Fiscal year 2003 appropriation with rescission	Fiscal year 2004 request	Adjusted fiscal year 2004 request	Fiscal year 2005 request	Fiscal year 2006 request	Fiscal year 2007 request	Fiscal year 2008 request
Ocean Observatories	.....	.....	.....	.....	24.73	40.33	72.46
New Total, MREFC	.....	.....	202.33	212.54	243.28	214.32	195.50

OPEN MEETINGS OF THE NATIONAL SCIENCE BOARD

Question. The NSF reauthorization bill included a requirement to ensure that the Board opened up its meetings.

Dr. Washington, can you describe what steps you have taken to comply with the law? You mentioned in your testimony that Board meetings are open for a few exceptions. Can you describe those exceptions?

Answer. The National Science Board publicizes its meeting schedule and meeting agenda, including discussion topics and agenda for the various committees on the Board website well in advance of all meetings. The Board is working to ensure that our plans and activities are open and transparent to all interested parties and publics. The few instances where sessions were briefly closed, Board members were involved in discussion and approval of budget items, personnel matters such as vacancies, selection of candidates for major awards and recognition, and other similar matters of a sensitive nature.

Question. Dr. Boesz, can you give us your assessment of the open meetings since you are required to audit the Board's compliance with this provision?

Answer. In my opinion, the Board has embraced openness in all of its meetings. The norm is now for open committee meetings and they have been reasonably well attended. This appears to have been a smooth transition with a minimal amount of disruption to Board activities. We look forward to submitting our first audit report next February and are pleased with the changes we have already seen taking place.

MAJOR RESEARCH EQUIPMENT AND FACILITIES CONSTRUCTION PROGRAM

Question. The budget request contains a timeline and cost estimates for future construction projects through fiscal year 2008. Some of these future projects will receive a certain level of pre-development funding from the R&RA accounts even though its actual construction support will come from the Major Research Equipment and Facilities Construction account.

Dr. Colwell, I have two questions: (1) Aside from the projects mentioned in the requested budget, how many other projects are in the pipeline, and how much is NSF spending on pre-development for these projects? (2) Does NSF have a centralized system to track any new potential large facility projects that receive pre-development funds?

Answer. NSF often supports the early design and development of potential large facility projects. NSF has developed, and is in the process of implementing, a centralized system to track projects at all stages, including the early stages of design and development. While NSF may track such projects in their early stages, they are not identified and tracked as MREFC projects (or being in the pipeline) until they are approved by the National Science Board (NSB), which is usually after initial design and development is completed.

Currently, there are three projects approved by the NSB but not yet funded. These projects—Scientific Ocean Drilling, Rare Symmetry Violating Processes, and Ocean Observatories—are identified and discussed in the MREFC chapter of the Fiscal Year 2004 Request.

BUSINESS ANALYSIS PLAN

Question. Last June, NSF entered into a 3-year, $14.8 million contract with Booz-Allen-Hamilton to develop a business analysis plan for the agency's administration and management. Frankly, this is a large and expensive contract for an agency of the size of NSF. I am also concerned that your term, Dr. Colwell, is scheduled to end before the planned completion of the business analysis plan contract.

What assurances can you provide the Committee that this contract will be implemented as planned and will provide the anticipated deliverables geared to sup-

porting NSF's mission and making informed future investments in administration and management?

Answer. NSF has developed an Administration and Management (A&M) strategy as part of its overall strategic planning process that is consistent with the President's Management Agenda priorities and other external requirements. A key element of NSF's A&M strategy is a comprehensive, multi-year business analysis. The outcomes of this business analysis will guide long-term integrated administration and management investments that promise important mission-focused results. The business analysis responds directly to issues raised in the President's Management Agenda, to government-wide issues identified by the General Accounting Office (GAO) and others, and to agency-specific challenges such as the effective management of an increasingly multidisciplinary science and engineering research and education portfolio, and the management and oversight of an increasing number of complex large facility projects.

The business analysis involves the concurrent consideration of human capital and next-generation technology-enabled systems in an analysis framed around the Agency's core business processes:

—Resource Allocation;
—Merit Review;
—Award Management and Oversight;
—Knowledge Management; and
—Performance Assessment and Accountability.

The primary goals of the NSF Business Analysis effort are to:

—Document each of the agency's core business processes and define its contribution to the NSF mission;
—Define process effectiveness and efficiency improvements that capitalize on best practices;
—Develop future-looking business process scenarios and criteria for success;
—Design a human capital management plan to provide next-generation human capital capabilities; and
—Develop an integrated technologies and enterprise architecture plan for future systems in support of the agency's business processes.

NSF has also identified a series of indicators for success of the business analysis to help guide the project planning throughout the 3-year effort. Through the business analysis, NSF expects to achieve:

Business Processes that . . .
—Effectively address emerging trends in NSF's S&E portfolio;
—Leverage NSF core strengths and are consistent with NSF's mission and vision;
—Achieve NSF customer service goals; and
—Incorporate best practices from the public and private sectors.

A Human Capital Management Plan that . . .
—Enables the hiring/retention of the right mix of people;
—Addresses succession planning and Government-wide human capital requirements;
—Identifies effective learning strategies that develop critical competencies and skills;
—Manages projected workload and competency needs; and
—Provides flexible workforce classifications.

A Technology and Tools Plan that . . .
—Provides an integrated Enterprise Architecture (EA) platform that supports and enables NSF's evolving business processes;
—Defines a migration strategy to guide NSF's implementation of its new EA;
—Provides the infrastructure capability to meet future workflow demands; and
—Leverages technology to support forward-thinking business processes.

The business analysis is structured to ensure maximum participation and "buy-in" on the part of NSF management and staff and the external communities that NSF serves. Nearly 300 members of the NSF staff have already participated in the business analysis effort through interviews, focus groups, and process teams. In addition, over 2,000 NSF grant applicants responded to a survey developed as part of the business analysis to gauge community satisfaction with NSF's processes and services.

The business analysis is also designed to produce fully researched and justified recommendations that can be implemented by NSF. Rather than submit to NSF a list of static recommendations at the end of the review period, the contractor, working in partnership with NSF, will develop scenarios for process improvement throughout the course of the study. These scenarios will include a business case, pros and cons, an implementation plan, and criteria for successful implementation.

NSF is completely confident that the business analysis will produce a clear roadmap for significant improvements in NSF's business processes, human capital management, and technology and tools management; and will inform the agency's investments in Administration and Management for the foreseeable future.

MATH AND SCIENCE PARTNERSHIP (MSP) PROGRAM

Question. Can you give us an update on the progress of the new Math and Science Partnership program. To what extent are you coordinating your program with the Department of Education?

Answer. In fiscal year 2003, 271 proposals were received for the second solicitation (NSF 02–190) for MSP Comprehensive and Targeted Projects (84 Comprehensive projects and 187 Targeted projects). In February and March 2003, reviewers came to Arlington to provide their analyses of the proposals. These proposals are currently in the review process with awards expected by September 2003.

The initial MSP Program Solicitation for Comprehensive and Targeted Projects, NSF 02–061, was developed by NSF staff in cooperation with staff from the Department of Education (ED). In addition to the formulation of guidelines and review criteria that met the MSP and other goals of the Foundation, NSF and ED staff also worked to purposefully insert language into the program solicitation that would encourage the field to submit MSP proposals of interest to ED.

For the second MSP solicitation, NSF 02–190, ED provided the names of numerous potential reviewers, many of whom were invited and then joined on sub-panels that met in February and March 2003. As noted above, analysis of all the submissions and reviews are ongoing with awards expected by early Fall 2003.

NSF and ED Program Officers also work together on the Research, Evaluation and Technical Assistance (RETA) portfolio. Both NSF and ED senior managers and staff contributed to an inaugural meeting of RETA Principal Investigators and other project leaders in November 2002. For the full RETA solicitation, NSF 03–541, ED Program Officers were invited to participate in the development of the new solicitation and were invited to review the names of the reviewers that will meet to review MSP RETA proposals in June 2003.

In addition to collaboration on MSP at the staff level of the two agencies, further discussion and collaboration occurs at an interagency level through regular meetings co-chaired by Dr. Judith Ramaley (NSF) and Dr. Susan Sclafani (ED), thus bringing senior level insights and decision-making into the evolving MSP effort.

NSF and ED staff also worked together on an initial MSP Learning Network meeting, held in January 2003, that brought together Principal Investigators and other personnel from the initial cohort of Comprehensive, Targeted and RETA projects.

For fiscal year 2003, ED received an appropriation of roughly $101 million to be reallocated to States for local Mathematics and Science Partnership efforts. NSF is collaborating with ED to arrange a workshop for staff from the Department of Education of each State and U.S. territory to learn about this new source of funding and to receive guidance on developing Requests for Proposals. The workshop is currently planned for June 13–14, 2003 in Washington, DC.

INTERGOVERNMENTAL PERSONNEL ACT APPOINTMENTS

Question. NSF's budget request includes a 21 percent increase in rotators through the Intergovernmental Personnel Act (IPA). These people come from other agencies to work at NSF for up to 4 years, but typically 2 to 3 years, and then return to their former agencies.

If there is a need for a larger workforce at NSF, why is NSF requesting to keep the number of FTEs for NSF staff at the current level? Why is NSF increasing its dependence on IPAs, which are temporary in nature?

Answer. NSF aims to employ a mix of permanent staff, IPAs, and Visiting Scientists, Engineers, and Educators throughout the Foundation. NSF's permanent staff provides the stable base of knowledge and expertise needed to operate efficient and productive programs within the Federal structure. IPAs and other temporary staff give NSF a direct, ongoing connection to the research and education community that complements the work of our external advisory committees and Committees of Visitors.

The plan for an increase of 30 IPAs in the fiscal year 2004 request should be viewed in context of the ongoing development and implementation of NSF's Administration & Management (A&M) Strategic Plan and the business analysis currently underway by Booz-Allen-Hamilton. NSF elected to request an increase in IPAs and defer requesting additional FTEs pending the outcome of the business analysis. We

expect the fiscal year 2005 request will be informed by the results of the business analysis.

THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATHEMATICS TALENT EXPANSION PROGRAM (STEP)

Question. An ongoing concern of Congress is the need for making sure that we have enough college students with majors in science, engineering, and technology fields. Congress has shown support for this program by making significant increases to the tech talent or "STEP" program in the last fiscal year. Why is NSF requesting only $7 million for Tech Talent?

Answer. The NSF fiscal year 2004 budget was submitted to Congress before final action had been taken by Congress on the fiscal year 2003 request. The $5 million (250 percent) increase requested by the Foundation for the STEP program in fiscal year 2004, from $2 million to $7 million, was approved by OMB many months earlier. The increase reflected our strong commitment to the importance of attracting more students to science and math and encouraging more students to major in science, technology, engineering and mathematics (STEM) fields. NSF agrees that our future as a Nation will be shaped in significant ways by the science and math competency of our citizens and by the quality and diversity of the science, technology, engineering and mathematics (STEM) workforce. Taken as a whole, NSF's commitment to workforce development is expressed in a cluster of related requests that together address key points of transition along the pathway to STEM careers. These include preparation for college and the transition to postsecondary study (MSP), the quality of the undergraduate experience (STEP), innovations in technological education (ATE) and support for advanced study (IGERT, GRF, GK–12). These investments are a package. They are supported and enhanced by the NSF request for the establishment of a new Workforce for the 21st Century priority area.

In addition, there are other components of the EHR portfolio that specifically address the preparation and professional development of science and math teachers and faculty. As a whole, the portfolio has a strong emphasis on workforce development.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH (EPSCOR)

Question. In fiscal year 2003, Congress appropriated $90 million for the core EPSCoR program, but NSF requested only $75 million in fiscal year 2004. This is below the fiscal year 2002 appropriation of $80 million and would take EPSCoR back to the fiscal year 2001 level. I am disappointed to see that the National Science Foundation, while seeking an increase in funding in fiscal year 2004, has so reduced the EPSCoR program. Please justify the requested funding level.

Answer. Within the constraints of the overall EHR request, it was not possible to accommodate the priority increases such as the Math and Science Partnership while maintaining all programs in the existing portfolio at the Fiscal Year 2003 Current Plan levels. This required difficult decisions on where reductions could be taken while minimizing the adverse impact on program outcomes. In the case of EPSCoR, the requested fiscal year 2004 funding level of $75 million will allow the program to meet its current obligations, including approximately $41 million for existing Research Infrastructure Improvement awards. This level of funding will also allow continuation of EPSCoR's highly successful outreach program to acquaint EPSCoR researchers with NSF programs and policies and a comprehensive program of technical assistance designed to increase the success ratio of EPSCoR institutions in the NSF's major grant programs (e.g., Engineering Research Centers). Finally, the EPSCoR program also participates in co-funding efforts within the Foundation's regular grant programs, providing for an additional $30 million for investigators in EPSCoR States to a total of $105 million.

RESEARCH INFRASTRUCTURE IMPROVEMENT AWARDS

Question. I believe that the Research Infrastructure Improvement (RII) awards are the heart of the EPSCoR program. Without these awards, growth in science and research is virtually impossible in the participating States. States are now eligible for up to $3 million per year for infrastructure awards. Please provide a status report on the awards made and the amount per State.

Answer. Over the past 3 years, the Research Infrastructure Improvement (RII) awards have provided support for infrastructure improvements in almost all EPSCoR States. To date, all States have had the opportunity to compete for these

awards of up to $9 million for 36 months, although not all States have been successful in securing funding. The NSF staff works closely with unsuccessful States to provide a level of assistance that will help ensure increased competitiveness in the future. Shown below is a chart summarizing the RII funding to date.

RESEARCH INFRASTRUCTURE IMPROVEMENT GRANT PROGRAM (FISCAL YEAR 2001-FISCAL YEAR 2003)

[Dollars in millions]

State	Fiscal year 2001	Fiscal year 2002	Fiscal year 2003	Total
Alabama	3.0	3.0	2.5	8.5
Alaska	9.0	0.0	0.0	9.0
Arkansas [1]	0.0	0.0	0.0	0.0
Delaware [2]	0.0	0.0	0.0	0.0
Hawaii	0.0	0.0	3.0	3.0
Idaho	0.0	3.0	3.0	6.0
Kansas	0.0	0.0	3.0	3.0
Kentucky	0.0	3.0	3.0	6.0
Louisiana	3.0	3.0	3.0	9.0
Maine	0.0	0.0	2.0	2.0
Mississippi	0.0	2.0	2.0	4.0
Montana	3.0	3.0	3.0	9.0
Nebraska	3.0	3.0	3.0	9.0
Nevada	0.0	3.0	3.0	6.0
New Mexico	0.0	2.0	2.1	4.1
North Dakota	0.0	2.0	2.0	4.0
Oklahoma	0.0	3.0	3.0	6.0
Puerto Rico	0.0	0.0	2.1	2.1
South Carolina	0.0	3.0	0.0	3.0
South Dakota	3.0	0.0	3.0	6.0
Vermont	0.0	0.0	2.8	2.8
Virgin Islands [2]	0.0	0.0	0.0	0.0
West Virginia	0.0	3.0	3.0	6.0
Wyoming [3]	0.0	0.0	0.0	0.0
TOTAL:	.....	.....	.....	108.5

[1] Pending RII Proposal in fiscal year 2003.
[2] Denotes New EPSCoR Jurisdictions with planning grants.
[3] Submission in fiscal year 2003.

USE OF EPSCOR STATE FACULTY IN MERIT REVIEW PROCESS

Question. There has been considerable discussion about the need to increase the number of scientists and researchers from EPSCoR States on peer review panels and advisory committees. Please describe your progress and efforts to place more faculty from EPSCoR States on these panels and committees.

Answer. The National Science Foundation and the EPSCoR Office in particular have focused significant efforts in increasing the numbers of merit reviewers from the EPSCoR States. During the period 1996–1999, the EPSCoR Office monitored and reported the share of total NSF reviewers and panelists from EPSCoR States engaged in the Foundation's merit review process. The names of over 2,000 potential EPSCoR reviewers were also distributed among NSF's various Directorates. In addition, EPSCoR's outreach initiative has allowed NSF Program Officers to become more familiar with researchers and educators in EPSCoR States and encourage them to serve as merit reviewers and panelists for NSF grant competitions. The EPSCoR Office will analyze the reviewer data for fiscal year 2003 to determine if these activities have increased EPSCoR's share of total NSF reviewers and panelists engaged in the Foundation's merit review process from its previous level of approximately 7 percent (1996–99).

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

RESEARCH INSTRUMENTATION AND INFRASTRUCTURE

Question. The National Science Board has released a draft report recommending that the Foundation substantially increase that portion of its budget that goes to help institutions acquire state-of-the-art instrumentation and research infrastruc-

ture. We know from past experience fields like astronomy are very dependent on infrastructure. The National Radio Astronomy Observatory (NRAO) operations in New Mexico and elsewhere are just one example.

Dr. Colwell, how does the Foundation intend to respond to the Board's report—particularly to the recommendation that calls for a program to address what is called "mid-sized infrastructure" (equipment in the millions to tens of millions of dollars)? How will such an effort be structured to benefit both the universities and national user facilities supported by the NSF?

Answer. Since the NSB report was released only 2 months ago, we are still examining its recommendations and how best to implement them. The Foundation's fiscal year 2004 budget request proposed increased funding for S&E infrastructure, including the MREFC Account and mid-size infrastructure projects, such as the Advanced Modular Incoherent Scatter Radar (AMISR). I have also encouraged Assistant Directors and Office Heads to continue to propose new mid-size infrastructure projects for funding in subsequent budget years.

In addition, NSF has continued to request increases in the Major Research Instrumentation Program (MRI). For this program $90 million is requested in the fiscal year 2004 budget. In addition to support to research-intensive institutions for state-of-the-art research instrumentation, MRI provides substantial support to small schools, non-Ph.D.-granting institutions and minority serving institutions that are in need of cutting-edge instrumentation.

NATIONAL RADIO ASTRONOMY OBSERVATORY (NRAO)

Question. Dr. Colwell, in the fiscal year 2003 appropriations bill, we provided NRAO with a budget of about $45.7 million. In the fiscal year 2004 request, NSF is proposing to fund NRAO at a level of $42.7 million, which represents a reduction of about $3 million. The request level of $42.7 million would put NRAO below the fiscal year 2001 level. Given the new activities going on at NRAO—such as the construction of the new ALMA telescope and work to revitalize the VLA—what is the justification for such a budget cut?

Answer. The National Radio Astronomy Observatory (NRAO) remains one of NSF's most respected and productive national facilities. Our recent decision to proceed with construction of the international Atacama Large Millimeter Array (ALMA), in which NRAO leads the North American participation, exhibits our confidence in their management and the exceptional scientific merit of the program that they are carrying out across a wide range of radio astronomy.

The operating budget for NRAO in fiscal year 2001 was $45.43 million, which included a $5 million one-time increment for improvement of infrastructure, particularly at the Green Bank site. The fiscal year 2003 request level for NRAO was $39.63 million. This request represented an approximate 2 percent decrease from the fiscal year 2002 level of $40.43 million (which reflected the reduction of the $5 million one-time increment) even though the request for the Division of Astronomical Sciences was down by 2.8 percent from the fiscal year 2002 level.

The fiscal year 2004 request level for NRAO is $42.73 million, formulated before the fiscal year 2003 appropriation level was known. This is $3.1 million above the fiscal year 2001 level (when the one-time increment is taken into account) and would support operations, maintenance, and instrumentation for the Robert C. Byrd Green Bank Telescope, the Very Large Array, and the Very Long Baseline Array as well as continued progress on the Expanded Very Large Array.

FORMULA-DRIVEN FUNDING INCREASES

Question. Dr. Colwell, you know that I am a major advocate for increasing research through the National Science Foundation and I am sure that Senator Bond and Senator Mikulski are going to do everything they can to support the Foundation even though the budget picture will be very constrained. Nevertheless, in recent days we have heard from those in the science community who are advocating something they call a "3–2–1" increase for NSF. For example, if the subcommittee could give NSF a $600 million increase (an amount not too different than last year's increase), they contend that $300 million would go to increase research; $200 million should go for education and training (at the collegiate and K–12 level); and $100 million be targeted for the Science Board's infrastructure recommendation. Do you think such a distribution makes sense and why?

Answer. A formula-driven increase in funding is unlikely to appropriately reflect either opportunities or needs in the research community. The distribution of a hypothetical increase in NSF's appropriation should reflect the priorities stated in the original budget request, which in fiscal year 2004 emphasized the need for investments in research tools and infrastructure. Other priorities include the need to in-

crease both the size and duration of awards, and the desirability of funding a greater proportion of existing quality proposals that go unfunded in every cycle. In that respect, additional funding for research activities could be used immediately to support proposals already reviewed, with a minimum of additional cost to the agency.

PROPOSED REDUCTION FOR THE SCIENCE, TECHNOLOGY, ENGINEERING, AND MATHEMATICS TALENT EXPANSION PROGRAM (STEP)

Question. Dr. Colwell, last year I joined with Senator Mikulski and Senator Bond—and others—to establish a program at NSF we call "tech talent"—a program designed to attract more U.S. citizens to pursue and acquire undergraduate degrees in science and engineering. Senator Mikulski, the chair of this subcommittee, provided $22 million for that program last year. The fiscal year 2004 budget request provides $7 million. Do you really want us to reduce the program by some 66 percent in 1 year when clearly the United States must do more to encourage our citizens to pursue degrees in these fields? What is the Administration's rationale for this recommendation?

Answer. The NSF fiscal year 2004 request was submitted to Congress before the fiscal year 2003 budget was approved by Congress. The $5 million (250 percent) increase requested by the Foundation for the STEP program in fiscal year 2004, from $2 million to $7 million, was approved by OMB many months earlier. This reflected our strong commitment to the importance of attracting more students to science and math and encouraging more students to major in science, technology, engineering and mathematics (STEM) fields. NSF agrees that our future as a Nation will be shaped in significant ways by the science and math competency of our citizens and by the quality and diversity of the science, technology, engineering and mathematics (STEM) workforce. Taken as a whole, NSF's commitment to workforce development is expressed in a cluster of related requests that together address key points of transition along the pathway to STEM careers. These include preparation for college and the transition to postsecondary study (MSP), the quality of the undergraduate experience (STEP), innovations in technological education (ATE) and support for advanced study (IGERT, GRF, GK–12). These investments are a package. They are supported and enhanced by the NSF request for the establishment of a new Workforce for the 21st Century priority area.

In addition, there are other components of the EHR portfolio that specifically address the preparation and professional development of science and math teachers and faculty. As a whole, the portfolio has a strong emphasis on workforce development.

NATIONAL SCIENCE DIGITAL LIBRARY

Question. Dr. Colwell, NSF has been a leader in helping to close the so-called "digital divide" by its support for research and development related to digital libraries. However the fiscal year 2004 budget seeks to cut NSF's support for the national science digital library (NSDL) from $23 million to $18 million—a $5 million reduction in 1 year is substantial. Can you explain the rationale behind such a proposal?

Answer. The decrease in the request for the national science digital library was primarily due to the funding of the Core Integration project the previous year that allowed for centralized management of the library. Centralized management allows for operational efficiency and enabled a reduction in overall funding need for fiscal year 2004.

QUESTION SUBMITTED BY SENATOR TIM JOHNSON

EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH (EPSCOR)

Question. Despite increases provided by Congress for NSF EPSCoR, the budget request for NSF EPSCoR has remained flat. The fiscal year 2004 budget request is $75 million. This is the same level of funding as the level of funding appropriated for NSF EPSCoR in fiscal year 2001. Does NSF believe it would be beneficial to seeking greater levels of EPSCoR funding in the future?

Answer. Funding levels proposed for specific NSF programs each fiscal year are based on a number of factors including Administration priorities, and a desire to balance funding among competing priorities. The requested fiscal year 2004 funding level of $75 million will allow the program to meet its current obligations, including approximately $41 million for existing Research Infrastructure Improvement awards. This level of funding will also allow continuation of EPSCoR's highly successful outreach program to acquaint EPSCoR researchers with NSF programs and policies and a comprehensive program of technical assistance designed to increase

the success ratio of EPSCoR institutions in the NSF's major grant programs (e.g., Engineering Research Centers). Finally, the EPSCoR program also participates in co-funding efforts within the Foundation's regular grant programs, providing for an additional $30 million for investigators in EPSCoR States to a total of $105 million.

QUESTIONS SUBMITTED TO THE OFFICE OF SCIENCE AND TECHNOLOGY POLICY

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

PLANT BIOTECHNOLOGY RESEARCH IN THE DEVELOPING WORLD

Question. I am very interested in extending plant biotechnology to developing world countries in places such as Africa. I strongly believe that plant biotechnology can be a powerful tool in addressing the starvation that is occurring in Africa. However, like Europe, there are public misperceptions about the benefits of genetically modified crops.

To what extent is the Administration trying to educate other countries about plant biotechnology?

Answer. The State Department, USAID, USDA and other agencies have numerous activities designed to provide information to other countries on agricultural biotechnology. These include bilateral and multilateral (OECD, Codex, APEC, etc.) efforts to foster biotechnology research and the use of science-based regulatory systems. USAID has increased it spending in this area to $25 million in both fiscal year 2002 and fiscal year 2003. The USDA is sponsoring a major ministerial conference that will be held this summer in California on new agricultural technologies (including biotechnology).

Question. The NSF Authorization Act expanded the plant genome program to develop partnerships between United States and developing world research institutions. What thoughts do you have in implementing this new authority?

Answer. One of the most effective ways to develop long-lasting partnerships in plant biotechnology between United States and developing world research institutions would be to form close working relationships directly between scientists. Scientists from developing countries can articulate their needs and U.S. scientists can tailor their participation based on those needs. Within the United States, this sort of activity would be best managed by an interagency collaboration between the NSF, USAID and USDA. Each agency brings to the table unique strengths that can be combined into a coherent program.

Question. To what extent have you discussed this matter with USAID? How can OSTP help us in coordinating these activities with other relevant agencies such as USDA?

Answer. The majority of OSTP's effort in agricultural biotechnology has focused on domestic regulatory issues, risk assessment research, and genomics. OSTP coordinates these activities through: the NSTC Interagency Working Group (IWG) on Plant Genomes, which has provided oversight and overall guidance to the National Plant Genome Initiative since 1998; the NSTC Subcommittee on Biotechnology; and the NEC Agricultural Biotechnology Working Group. Using these mechanisms, OSTP will work with the agencies to assist in the coordination of their international agricultural biotechnology activities. For example, the IWG on Plant Genomes is exploring ways to link developing country scientists to U.S.-funded plant genome research programs.

PRIORITY SETTING FOR MAJOR RESEARCH FACILITIES

Question. Due to the perceived subjectivity of NSF's priority-setting process for large research facilities, there has been an increased effort by various scientific interest groups to lobby the Congress on their specific project. This creates the perception that if you cannot get past the decisions of the Director, then going to Congress directly is an acceptable route. In response to this concern, we asked the National Academy of Sciences to develop criteria to rank and prioritize large research facilities.

Dr. Marburger, what are your views about this issue? Do you support the NAS study and do you think that a rational, objective, and fair system can be created to prioritize NSF's large facilities?

Answer. No longer the exclusive province of physics and astronomy, resource-intensive instrumentation has opened significant new opportunities for discovery and applications in every technical field. This has led to the emergence of demands for expensive facilities and instrumentation across a wider spectrum of fields than in the past. As a result, the fields traditionally associated with "Big Science" are expe-

riencing increased competition for funds. I regard the interest shown among the science community and within Congress in NSF's facilities programs to be a symptom of this growth in the need for complex, expensive instrumentation in the post cold-war era. The issues Congress has asked the National Academy of Sciences to address are not confined to the National Science Foundation and probably cannot be fully resolved in isolation from other agencies, or indeed from other nations. I am supportive of the process that the National Academy has undertaken and am looking forward to learning of their recommendations.

MATH AND SCIENCE PARTNERSHIPS

Question. Can you give us an update on the progress of the new Math and Science Partnerships program? To what extent are you coordinating your program with the Department of Education's math and science program?

Answer. The Math and Science Partnership (MSP) program is administered by the Education and Human Resources Directorate (EHR) of the National Science Foundation (NSF). The guidelines for proposals under the initial MSP Program Solicitation (NSF 02–061) for Comprehensive and Targeted Projects were released on January 30, 2002. In response to this Solicitation, 286 MSP proposals were submitted from the field in April 2002. These were reviewed in June 2002 by 23 subpanels. Reviewers were drawn from around the Nation and represented a diverse group of distinguished researchers, educators and practitioners from institutions of higher education, K–12 schools and school districts, not-for-profit and for-profit organizations, and other stakeholders representing the fields of mathematics, science, engineering, administration, evaluation, assessment, technology, and policy. Ultimately, 24 awards were made, 7 to Comprehensive projects (K–12, both mathematics and science) and 17 to Targeted projects (more focused in scope).

In fiscal year 2003, a second solicitation (NSF 02–190) for MSP Comprehensive and Targeted Projects called for full proposals to be submitted by January 7, 2003. In response, 271 proposals were received for 84 Comprehensive projects and 187 Targeted projects. In February and March 2003, reviewers came to Arlington to provide their analyses of the proposals. These proposals are currently in the review process with awards expected by September 2003.

In addition to the competition for MSP Comprehensive and Targeted Projects, the MSP program also makes awards for Research, Evaluation and Technical Assistance (RETA) projects to support the work of the partnership projects. A "Dear Colleague" Letter (NSF 02–103) calling for such RETA proposals was posted in March 2002, and 42 proposals were received in June 2002. Fifteen awards—many for design of potential larger scale efforts to be funded in the future—were made from the NSF fiscal year 2002 appropriation, and NSF program staff are currently managing these projects. A full solicitation (NSF 03–541) for RETA was posted in February 2003, with proposals due in May 2003 and to be reviewed in June 2003.

Regarding coordination of NSF efforts with those of the Department of Education (ED), OSTP has worked with staff from both agencies since the initial conceptualization of the MSP to make sure that they coordinate their efforts. The initial MSP Program Solicitation for Comprehensive and Targeted Projects was developed by NSF staff in cooperation with staff from ED. In addition to the formulation of guidelines and review criteria that met the MSP and other goals of the NSF, NSF and ED staff also worked to purposefully insert language into the Program Solicitation that would encourage the field to submit MSP proposals of interest to ED. The Solicitation included the following wording:

"As a subset of the targeted awards, the U.S. Department of Education and NSF will consider co-funding partnerships that address the following strategies:

a) engaging classroom teachers in mathematical or scientific research and development projects sponsored by institutions of higher education and/or other private and public sector research organizations;

b) engaging practicing teachers as professional colleagues who work together with scientists, mathematicians and engineers to master advanced new content and teaching strategies;

c) demonstrating how technology can be used in the classroom to deepen the scientific and mathematical understanding of teachers and to promote higher student achievement; or

d) establishing and evaluating the effectiveness of differential salary scales used to make the mathematics and science teaching profession more comparable in pay to the private sector, both as a tool to attract beginning teachers with deep mathematical or scientific training and as a means to create a career ladder capable of retaining highly skilled and effective teachers."

Following the release of the initial solicitation, NSF Program Officers met weekly to discuss the MSP review process and post-award management, and were joined by the lead ED MSP Program Officer who regularly participated in our cooperative work. An important component of that work was the identification of potential reviewers for the MSP proposals that were submitted. The ED Program Officer involved in MSP was also assigned as a Federal officer to two of the sub-panels of reviewers that met in June 2002.

Decisions about which proposals were most competitive for funding involved strong collaboration between NSF and ED. Twenty-two partnership projects were funded entirely through the NSF MSP appropriation. Two jointly funded projects continue to be cooperatively managed by program staff at both NSF and ED.

For the second MSP solicitation, NSF 02–190, ED provided the names of numerous potential reviewers, many of whom were invited and then joined on sub-panels that met in February and March 2003. As noted above, analysis of all the submissions and reviews are ongoing with awards expected by early Fall 2003.

NSF and ED Program Officers also work together on the RETA portfolio. In response to the initial "Dear Colleague" Letter, they (a) established the sub-panels that would review the proposals, and (b) guided the process of making decisions for awards. Both NSF and ED senior managers and staff contributed to an inaugural meeting of RETA Principal Investigators and other project leaders in November 2002. For the full RETA solicitation, ED Program Officers were invited to participate in the development of the new solicitation and were invited to review the names of the reviewers that will meet to review MSP RETA proposals in June 2003.

As you can see, both NSF and ED have continued to work in partnership on this program, culminating in a Math Summit hosted by Secretary Paige in February of this year. Dr. Colwell, Representative Ehlers and I spoke at the event, which launched the new Math and Science Initiative (MSI). The MSI is a broad based, interagency effort that includes not only ED and NSF, but also other science agencies such as NASA, NIH and the Department of Energy. More recently, representatives from private foundations, professional associations and textbook publishers have joined the Initiative. The goals of the MSI are to increase public awareness of the importance of math and science education, to improve the quality of teacher knowledge in these subjects, and to build the scientific knowledge base to guide improvements in teacher professional development and classroom practices. I continue to work with all of these agencies to ensure that Federal investments in improving the quality and effectiveness of K–12 math and science education are implemented in a manner that minimizes duplication and maximizes the difference these programs make for students and their teachers.

TECH TALENT

Question. An ongoing concern of Congress is the need for making sure that we have enough college students with majors in science, engineering, and technology fields. Congress has shown support for this program by making significant increases to the tech talent or "STEP" program in the last fiscal year.

Why is NSF requesting only $7 million for Tech Talent?

Dr. Washington and Dr. Marburger, what are your views on the tech talent program? Do you believe there is a strong need for this program?

Answer. While the NSF reauthorization included the STEP program at levels of $22 million in fiscal year 2003, $30 million in fiscal year 2004, and $35 million in fiscal year 2005, the NSF fiscal year 2004 budget was submitted to Congress before the fiscal year 2003 budget was approved by Congress. The increase requested for STEP in fiscal year 2004 reflects a strong commitment to the importance of attracting more students to science and math and encouraging more students to major in science, technology, engineering and mathematics (STEM) fields. I agree that our future as a Nation will be shaped in significant ways by the science and math competency of our citizens and by the quality and diversity of the STEM workforce. Taken as a whole, the Administration's commitment to workforce development is expressed in a cluster of related NSF requests that together address key points of transition along the pathway to STEM careers. These include preparation for college and the transition to postsecondary study (MSP), the quality of the undergraduate experience (STEP), innovations in technology education (ATE) and support for advanced study (IGERT, GRF, GK–12). These investments are a package. They are supported and enhanced by the NSF request for the establishment of a new workforce for the 21st century priority area whose goals are as follows:

—Prepare scientists, mathematicians, engineers, technologists and educators capable of meeting the challenges of the 21st century;

—Attract more U.S. students to science and engineering fields; and

—Broaden participation in science and engineering fields.

In addition, there are other components of the EHR portfolio that specifically address the preparation and professional development of science and math teachers and faculty. Taken as a whole, I believe that the portfolio has a strong emphasis on workforce development.

QUESTION SUBMITTED BY SENATOR PETE V. DOMENICI

Question. Dr. Marburger—in January of this year the full Committee published in the Congressional Record a report to accompany what turned out to be the Senate's omnibus fiscal year 2003 appropriations bill. In that report, we called on OSTP to convene an interagency working group to look at the semiconductor design and manufacturing situation in this country relative to what was going on in other countries. Can you tell us where the Administration is on this matter? Is this Nation in danger of losing both its semiconductor design and manufacturing capabilities to other nations?

Answer. The Administration recognizes the importance of manufacturing to the Nation's economy and security, and is following the issue of manufacturing competitiveness through parallel activities. First, the President's Council of Advisors on Science and Technology (PCAST) is undertaking a study of high technology manufacturing. Because manufacturing plays a significant role in several important industry sectors, this study will not be limited exclusively to semiconductor manufacturing. It will, however, have a specific emphasis on the information technology manufacturing sector—including semiconductor manufacturing—and will be investigating issues of international leadership and offshore manufacturing trends, and their impact on technical capability and economic competitiveness. Mr. George Scalise, President of the Semiconductor Industry Association, will chair the PCAST sub-panel leading this study.

Second, Commerce Secretary Evans has asked his Undersecretary for Trade, Grant Aldonas, to work with others at the Department of Commerce and elsewhere in the government to undertake a comprehensive look at issues influencing the long-term competitiveness of U.S. manufacturing industries. This effort will include substantive outreach to the private sector. A report documenting the findings of this investigation and making recommendations for moving forward is expected later this year.

We expect that the studies that are now underway will provide a more definitive view into the issue of our Nation's semiconductor design and manufacturing capabilities and its ramifications and we will keep you informed as they progress.

SUBCOMMITTEE RECESS

Senator BOND. The hearing is recessed.

[Whereupon, at 11:05 a.m., Thursday, April 3, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, APRIL 10, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:10 a.m., in room SD–138, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

STATEMENT OF LES LENKOWSKY, CEO

ACCOMPANIED BY:

MICHELLE GUILLERMIN, CHIEF FINANCIAL OFFICER

J. RUSSELL GEORGE, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The VA–HUD and Independent Agencies Appropriations Subcommittee will come to order, and we will continue hearings on the fiscal 2004 budget. We will hear from two of the subcommittee's independent agencies, the Corporation for National and Community Service, and the Department of the Treasury's Community Development and Financial Institutions Fund. We will first hear from the Corporation's Chief Executive Officer, Dr. Les Lenkowsky, the Corporation's Chief Financial Officer, Ms. Michelle Guillermin, and the Corporation's Inspector General, Mr. J. Russell George.

I welcome back Dr. Lenkowsky, who made his first appearance before this subcommittee last year, and a warm welcome, Ms. Guillermin and Mr. George, who are making their first appearances. Both Ms. Guillermin and Mr. George joined the Corporation last fall, and I am sure both feel like it has been a baptism by fire. After we hear from our witnesses from the Corporation, the subcommittee will turn to the CDFI.

For fiscal 2004 the administration is requesting a total of $962,400,000 for CNCS, of which $957.7 million is for programs under the VA–HUD jurisdiction. The budget request is a $165.6 million, or 38 percent increase over the fiscal year 2003 enacted

level. Further, the Corporation proposes to expand its AmeriCorps program participation from 50–75,000 members.

This year the Corporation is celebrating its tenth anniversary. This is no small feat, given the political and ideological debate about the AmeriCorps program, the long-standing and numerous management problems, and the annual funding battles. Since its inception, the Corporation has been plagued by management problems due to poor financial management systems and lack of quality staff and managers.

In light of the latest management fiasco over enrolling AmeriCorps members without the necessary budgetary resources, it is truly amazing that the Corporation has survived, but there have been, as I mentioned earlier, mismanagement problems since its inception one decade ago. One could say that it was built on a poor foundation, but despite its occupants' efforts to correct the problem, the foundation continues to crack and sag. I would even go so far as to say the doors are missing locks, the roof is leaking, and the windows are broken. That makes it an interesting challenge.

Despite these problems, the previous and current administration embraced the Corporation and proposed an expansion of the AmeriCorps program. In my opinion, requesting an expansion of the AmeriCorps program right now is like proposing to build an addition to a broken house. While I am not a building engineer, I think most experts would agree that building an addition to a house with a questionable foundation is not a wise judgment. Frankly, it will be difficult for the Corporation to receive a loan to underwrite this Corporation due to its poor credit history, and as the primary funding source for the Corporation I can tell you that I am not yet ready to support additional funds to expand the AmeriCorps program.

Nevertheless, all hope is not lost. The Corporation has hired a very capable and competent CFO. I am impressed with her fiscal management and financial aptitude and believe that her efforts can put the Corporation's management on the right track. I am also pleased with the work of the new IG, who has responded quickly to our requests to audit and investigate problems swirling around the National Service Trust Fund.

Unfortunately, the Corporation needs more help. While Ms. Guillermin has my utmost confidence, it will be difficult for her alone to resolve the long-standing management problems. It is absolutely critical that she have the support not only through staff resources, but through a cultural shift that makes the entire Corporation more sensitive to fiscal responsibility. This is the job of everybody there, and it is not just one person's. For too long, the Corporation has been fixated on public relations and promotion at the expense of management responsibility. I think the time has come to say the Corporation needs a serious paradigm shift.

It is disappointing and sad that problems continue to persist. I support and applaud the President's call to service, and believe that the Corporation can play an important role in improving the lives of many Americans in the communities in which they serve. Further, with increased insecurities and fear of terrorism, there is a huge cry to volunteer. People want to help. During my trips

across my State of Missouri I have heard these cries. I have heard people say, what can I do to help?

Well, I think if we harness this in the right fashion, volunteerism in this country can once again reach the heights that it achieved when this country was founded. However, the Corporation must make sure that it is responsive to the American taxpayer, who demands to know what sort of return it is receiving on the investment it is providing to the Corporation.

To date, Congress has appropriated well over $4 billion to the National Service programs. However, 10 years later the Corporation still cannot tell us how the programs are performing and how much money the programs are costing, and in some instances cannot even accurately count the number of volunteers actually supported.

When the Corporation discovered last fall that the National Trust Fund lacked adequate funds to meet its liabilities due to an over-enrollment of AmeriCorps members in the program, it then found out that this practice has been occurring for the past few years. More recently we learned that last year the Corporation approved more than 20,000 more slots than it had budgeted. Because of the Corporation's inability to count, it had to suspend enrollments last November since it did not have the funds to support the 20,000 it had approved.

In response to the administration's revised request, Congress provided $100 million in the 2003 Appropriations Act to the Trust Fund to "back-fill" these slots and to cover the cost of its new members in 2003. While I appreciate the Corporation's efforts to address the problems with the Trust, I question the Corporation's response. I was troubled to learn from the IG's testimony that senior management was aware of overenrollments as early as last July. The Corporation did not notify Congress until it realized that the Trust Fund "could be in a precarious position if the continuing resolutions did not end soon". These findings raise a number of questions about the Corporation's response.

Second, I remain puzzled by the Corporation's efforts in holding the appropriate individuals responsible for these programs. While I understand that one individual recently retired, other individuals remain employed. In fact, one particular employee was moved to a senior management position. If this is not rewarding bad behavior, I do not know what it is. I find it frustrating and mind-boggling that the individuals still employed at the Corporation have not had appropriate administrative penalties imposed.

Because of my concerns about the problems with the Trust, I asked the General Accounting Office and the Corporation's Inspector General to conduct an audit and investigation into the Corporation's management and oversight of the Trust Fund. Based on their preliminary findings, both GAO and the IG found problems with the Corporation's internal control and coordination and communication between appropriate staff. In other words, enrollment decisions were done on an ad hoc basis with no oversight.

In addition to the GAO and the IG audits, I asked the GAO to review the legal issues surrounding the over-enrollment of AmeriCorps members in the Trust. Yesterday, I received GAO's legal opinion on the obligation practices, and that opinion states

that "the Corporation incurs an obligation for education benefits when it enters into a grant agreement."

Now, this is a significant finding because it raises questions on whether the Corporation complied with the Anti-Deficiency Act. Under that act, an agency may not incur an obligation in excess of the amount available to it in any appropriation. In other words, the Corporation has to ensure that it has adequate funds to cover all of its obligations.

We look forward to the Corporation's response to the GAO findings. I was disappointed that GAO's statement for the record states, "the Corporation established new policies that may improve the overall management of AmeriCorps if the policies are fully implemented. The Corporation has not made policy changes to correct a key factor, how it obligates funds."

The GAO recommendation is critically important in preventing the stress and disappointment that occurred last November when the Corporation had to suspend enrollments of AmeriCorps members. As GAO states, "had the Corporation properly tracked and recorded its obligations in the Trust at the time of the grant award when it approved new enrollments, it likely would not have needed to suspend enrollments."

I understand the Corporation disagrees with the GAO's finding and legal opinion, but let me help eliminate any further debate on the issue. I agree with the GAO, and I will assure that future appropriations bills require the Corporation to comply with GAO's recommendation.

It is unfortunate that AmeriCorps is being hampered by these legal and management questions. I do not want to belabor the problems of the past, but I do expect the current leadership of the Corporation to take the necessary steps to avoid the mistakes.

I now turn to my colleague and Ranking Member, Senator Mikulski, for her statement and comments.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. I want to welcome Dr. Lenkowsky, Ms. Guillermin, Mr. George, and their respective teams, and to get right to the heart of the matter, as really the principal founder of National Service I fought long and hard to uphold the principles that our National Service program was founded on over 10 years ago.

These principles were very much old-fashioned American values, to provide qualitative and quantifiable services to local communities while we created the habits of the heart in the next generation who were losing a sense of obligation to their country and a sense of citizenship, and at the same time were facing substantial student loan debts.

The idea behind National Service was to link our values to public policy and to help young Americans with the opportunity to serve their community, help deal with the issues of going to college, and supported these principles when they were not popular, while being mindful of the need for responsible stewardship of the taxpayer's dollar. I also supported President Bush's call to service at this time when the passion for patriotism runs higher in this country than at any time in my adult lifetime, but I cannot support a bureauc-

racy that violates the law, mismanages taxpayers' dollars, and creates uncertainty for our communities and our volunteers.

I am very proud of what goes on in National Service, all of those wonderful volunteers in AmeriCorps out there every day, helping build community in our country, the National Civilian Community Corps, which has actually responded to compelling needs, almost like SWAT teams around the country, have done an outstanding job.

Learn and Serve America has been outstanding, because it starts at a very young age to create that sense of volunteerism whether you become an AmeriCorps volunteer or not, that you go on and you volunteer regardless of where life takes you. From that standpoint, in the grassroots I think National Service is alive and well, but at headquarters we are deeply troubled about its management and financial situation. Unless we get the house in order at the top, I do worry that we will be unable to take National Service into the new century to meet the new challenges and the new opportunities for our country.

I am so pleased that President Bush has embraced the concept of National Service, and I do want to work with him in a bipartisan way, but again, we could only repeat the management issues that my chairman has stated. I want the Corporation to restore confidence in our communities and nonprofits and to the graduates of National Service programs that the money will be there if they want to be helping our community, that the VA–HUD Subcommittee is on their side. Second, I hope the Corporation can restore the subcommittee and the Congress' confidence that appropriate steps are taken to prevent mismanagement and uncertainty.

I was really troubled when the Corporation revealed that it had enrolled more volunteers than the Corporation had funds to support. Last year, the Corporation budgeted 50,000 volunteers but enrolled 70,000. That was not just a mistake, that was a colossal mistake. This created a significant shortfall in the National Trust which pays the volunteer education awards.

I am concerned that the Corporation actually violated the law. The law requires that for every volunteer enrolled there must be a deposit in the Trust to pay for the volunteer's education award. The concept was to be simple and straightforward and was spelled out in the Corporation's statute. The Corporation's mismanagement of AmeriCorps has jeopardized the principles of the program and concern about its impact on volunteers. We have had to freeze volunteer enrollments, and it creates uncertainty for volunteers waiting for assignment, for communities who need these volunteers, and for the graduates of the Corporation's program concerned about the status of their education award. That is a triple storm from my perspective.

The consequences of the Corporation's mismanagement are grave. When the House and Senate met last year in conference, the House had zero funding for National Service, and the only reason National Service is still alive is because of my advocacy and the cooperation of the chairman. When Clinton was President, he was really outstanding on how we could keep it going. Now Bush is here, and we face the same problems. One of the historic characteristics of National Service is, great volunteers and a collapse at the

top. This cannot continue. I could elaborate more on this. I think the chairman has stated it, but we are very concerned.

Then we go to OMB, and they made it worse, by changing the rules on the Trust. The Corporation has always been able to count on both appropriations and interest when calculating the Trust. Now OMB says they can no longer count interest earning. Well, I know we want to eliminate the tax on dividends, but I do think we should be able to count interest earnings in future budgeting.

So we had to again bail out the Corporation with $64 million. We are foraging here. We forage for National Service to keep it going, so we have got a significant issue here. We need to hear your testimony, Doctor. We think you really understand National Service, but I think we are coming to the end of the line here. We are now truly at a train wreck, and it is going to be very difficult to keep this going, yet at the same time when we have the passion of the people who want to volunteer we want to make use of that. We have a President of the United States who is enthusiastic about it, and we now need to make sure that we get the organization in order to make use of our young people, the President's enthusiasm, and this great wave of patriotism, that it keeps going on for the rest of the century.

Thank you.

Senator BOND. Thank you very much, Senator Mikulski, and Senator Mikulski has long been recognized as the foremost champion, and I do not know whether godmother of AmeriCorps is the appropriate term, but certainly one of the earliest advocates.

But what she said is correct, she and I have kept this alive, and there have been lots of people who want to kill it, and there are lots more who still want to kill it, and with that glum overhang, if you would care to enlighten us with your testimony, we are happy to have you, sir. Thank you.

STATEMENT OF LES LENKOWSKY

Dr. LENKOWSKY. Thank you very much, Chairman Bond, Senator Mikulski.

I am pleased to be with you this morning to discuss the President's budget request for fiscal year 2004 for the activities of the Corporation for National and Community Service under the jurisdiction of this subcommittee. Joining me, as you have noted——

Senator BOND. Excuse me, if I may interrupt, I think we have advised you we will accept your full statements for the record, and ask you to keep your testimony to about 7 minutes. Thank you.

Dr. LENKOWSKY. Joining me is our Chief Financial Officer, Michelle Guillermin. I have submitted written testimony that provides detail and justification for the President's request, but before answering your questions I would like to give you a brief report on the Corporation.

For the past few months, as you have already noted, there has been a lot of bad news about us, but I want to tell you some good news. In the budget request before you, President Bush has reaffirmed his confidence in the Corporation's programs and our role in helping Americans respond to his call to service. The amount the President has requested, 38 percent above our current spending level for the programs under the National and Community Service

Act, would enable the Corporation to enroll 75,000 AmeriCorps members and engage over 1 million students in our Learn and Serve America program in 2004.

The President's commitment to the passage of the Citizens Service Act, which would reauthorize and put some vitally needed improvements in place in our programs, remains steadfast, as he indicated in his State of the Union message, and also steadfast is the President's commitment to sweeping management reforms.

Already, we have made long strides toward developing a new culture of management at the Corporation with new leaders or, to use your analogy, chief contractors such as our CFO and our Inspector General, J. Russell George, who is here today as well, and there will be more to come, I can assure you of that, new units such as a completely revamped program evaluation team, and new procedures aimed at achieving the highest standards of public accountability and fiscal integrity.

We are determined to make our organization a model of effective, innovative Government. We have a lot more to do, a lot more, but we are pleased to note that as a result of our efforts we have recently received our third consecutive unqualified opinion from our independent auditors.

Last but not least, I am pleased to give you the good news. Thanks to you and your colleagues in the other chamber, the omnibus appropriation bill for 2003 has given the Corporation the funds it needs to resume enrollments in AmeriCorps. With the adoption of the additional measures President Bush last month submitted to Congress, I am confident that AmeriCorps can have a solid and fiscally responsible year of accomplishment working for our communities and contributing to the development of a new culture of citizenship, service, and responsibility in the United States.

Between November and March, the Corporation did not enroll a single member of AmeriCorps, despite the fact that thousands of Americans were eager to start serving and hundreds of organizations were waiting to put them to work meeting the countless needs of our communities. I have explained in letters to you and in my written statement what caused the Corporation to institute an enrollment pause, and am ready to discuss that further this morning, but what I cannot adequately convey is the anguish all of us at the Corporation have felt at taking this drastic but necessary step, and the disappointment and hardship it has caused so many people.

Our Board of Directors, our executive team, our entire staff and our grantees never again want to be in a position of having to say to Americans who wish only to serve their country that we cannot permit them to do so, and we have taken aggressive actions inside the Corporation to do all we possibly can to ensure that we will not have to say that ever again.

The GAO opinion to which you referred, Mr. Chairman, we just received yesterday. We are studying it. As you know, we have a slightly different interpretation from OMB and our statute has some inconsistencies about it. As soon as we can determine the proper legal standard for our obligations in the Trust, I want to assure you that we will live by that and report completely and regularly to this committee.

More than ever before, Americans want to serve in our programs and our Nation's charities want to use them, charities ranging from nationally known ones like Habitat for Humanity, Campfire, and the Sisters of Notre Dame to grassroots community groups known only to those whose lives they have changed.

More than ever before, our fellow citizens need opportunities to serve, citizens like Jesus Santiago, II, who was by the age of 6, he says, an alcoholic, later moved on to using LSD, cocaine, and other drugs, dropped out of school by 16, and by 17 was jailed for 11 months. Then he found his way to the Ohio Conservation Corps, an AmeriCorps grantee, where, by helping others, he helped himself to become a new person and is now in college studying to become a social worker.

PREPARED STATEMENT

Amid all the evil we see in our world we must, as President Bush often reminds us, find ways to do some good, one heart, one soul at a time, as we did with Jesus Santiago. That is why, amid all the bad news you have heard about the Corporation recently, I am pleased to share with you some good news and ask for your continued backing in enabling more good to come.

Thank you very much. That concludes my oral statement, and both Ms. Guillermin and I would be pleased to answer your questions.

[The statement follows:]

PREPARED STATEMENT OF LESLIE LENKOWSKY

Mr. Chairman and Members of the committee, thank you for the opportunity to discuss President Bush's fiscal year 2004 budget for the Corporation for National and Community Service. It is my pleasure to be here on behalf of the President, and our Board of Directors under the chairmanship of Stephen Goldsmith.

I would also like to take this opportunity to thank Chairman Bond, Senator Mikulski, and their staff for recommendations with regard to management improvements within the Corporation and their recent efforts in support of the National Service Trust.

As you review this first budget for our second decade, it is altogether fitting that we collectively consider what the Corporation has accomplished, what we have learned, and where we are going. This 2004 budget affirms that we have a great deal to be proud of. But as we have also recently seen, we have had to learn some substantial lessons about how to manage and support a decentralized system of national and community service, and we have a great deal more to do.

The past performance of the Corporation, including recent problems with the National Service Trust, raises appropriate questions regarding the management of the Corporation's national service programs. I am here today to answer your questions about fiscal, programmatic, and management improvements underway at the Corporation, and to discuss the President's 2004 budget request for the Corporation. The work that AmeriCorps members do in communities across the country—along with the efforts of hundreds of thousands of volunteers supported by the Corporation's other programs—makes an important difference in the lives of countless individuals. With our Board of Directors, we are working to strengthen the management of the program so it can continue to support their work.

I would like to highlight some of the management changes we are making, as well as some of the challenges we face in fiscal year 2003. In addition, I will discuss the resources we will need in 2004 to support President Bush's vision of national service programs that will strengthen the vitality of America's many nonprofit organizations, including the tens of thousands of non-profit and community and faith-based organizations that deliver vital services to Americans in need.

MANAGEMENT REFORMS

Management and Personnel

In the past year, the Corporation has made a number of management and personnel changes to improve the effectiveness and accountability of our programs. Senators Bond and Mikulski, and their staff, have generously lent their expertise to the process.

Just over a year ago, we began to establish a new financial management team including Senate confirmed appointees for the posts of Chief Financial Officer and the Inspector General. Today I am pleased to be joined by our new CFO, Michelle Guillermin, and our new Inspector General, J. Russell George. In addition, we have hired new senior AmeriCorps officials, among other additions to our top management team.

The aim of these changes is to strengthen the Corporation's ability to complete high-level programmatic and financial analysis; to ensure that we are able to exercise strong internal controls over our operations; and to be absolutely certain that the resources Congress and the taxpayers entrust to us are used effectively to help meet the Nation's most pressing needs through fostering citizen service.

Tracking Procedures

The recent challenges concerning the National Service Trust stemmed, in part, from inadequate tracking procedures. Most of the Corporation's grant awards were made with the expectation that the positions would be renewed for 2 additional years unless the grantee performed in an unsatisfactory manner. In the last 3 years, the Corporation planned for an AmeriCorps enrollment of 50,000 positions in the National Service Trust and exceeded targeted enrollments.

By law, AmeriCorps cannot enroll new members unless funds are available in the National Service Trust to cover the costs of their education award. To comply with this requirement, and as a result of the increased enrollments, in November 2002 the Corporation instituted a pause in enrollments until new appropriations could be deposited in the Trust. The pause has since been lifted—an action made possible by your efforts and those of your staff, to pass the fiscal year 2003 Omnibus Appropriations bill which secured funding for the Trust.

As a response to this enrollment problem, the Corporation has instituted a number of reforms around Trust management and accounting procedures. From now on, prior to the Corporation approving AmeriCorps positions, the CFO will certify that sufficient funds are available in the Trust to support the Education Awards that will be earned by members serving in those positions. Moreover, we will insist on more timely reporting of commitments and enrollments by our grantees. The Grants Management Task Force of the Board of Directors, convened last fall by Chairman Goldsmith, is charged with examining the procedures we use to solicit, review, award, and monitor grants in AmeriCorps, Learn and Serve America, and Senior Corps. We look forward to the Task Force's final report, due in May.

At our request and the request of Congress, the CNCS Inspector General is examining the circumstances that led to the enrollment problem and our corrective measures. We are awaiting this report, along with the report of the GAO on these matters that Congress asked for.

Finally, the development of performance measures and measures of financial accountability for both Corporation offices and our grantees will continue to be important in the current and upcoming fiscal years. We will be providing enhanced professional development, training, and technical assistance to ensure that all staff members can fully utilize the programmatic and financial information that will increasingly be available to them.

We are in the first year of implementing a new electronic grants management system, using funding provided specifically for this purpose by the Congress. With development and testing completed, we have begun implementation on a phased basis throughout fiscal year 2003, consistent with our established grant cycles. When fully operational, the Corporation will have an integrated grants management system providing comprehensive financial and program management information for all grants and cooperative agreements. Grantees in all our programs will apply for and receive assistance electronically, greatly reducing current paperwork burdens. The design meets the Grants Financial System Requirements of the Joint Financial Management Improvement Program, and the requirements of the Government Paperwork Elimination Act and the Federal Financial Assistance Management Improvement Act.

FISCAL YEAR 2003 APPROPRIATIONS

As the subcommittee is aware, the administration submitted its 2004 budget prior to Congress completing action on the 2003 appropriation. We look forward to continued discussion with you and the committee staff to ensure that Congressional intent is carried out in fiscal year 2003 and to meet the President's objectives for growing and strengthening AmeriCorps in fiscal year 2004.

On Tuesday, March 4, 2003, President Bush sent a letter to Speaker Hastert asking Congress to consider amendments to the 2003 Omnibus Bill concerning AmeriCorps and the National Service Trust. Specifically, this request would provide an additional $64 million to the National Service Trust to liquidate obligations incurred in previous years. This language was included in the 2003 supplemental appropriation approved by the Senate on April 3.

One area of the 2003 appropriation that remains a concern to the Corporation is language surrounding Innovation, Assistance, and Other Activities. The current Conference Report language earmarks spending of all dollars appropriated. Our intent is to comply with the spirit of the specifications provided in the Conference Report. Further information on this topic is contained in the Operating Plan which has been transmitted to Congress. We have also complied with the Congress' request to provide quarterly enrollment reports and are working with staff to create an effective and regular reporting system.

FISCAL YEAR 2004 BUDGET REQUEST

The budget request before this subcommittee for fiscal year 2004 totals $592.7 million. This is an increase of $163.7 million above enacted amounts in 2003. The request funds AmeriCorps*State and National, AmeriCorps*NCCC, Learn and Serve America, the National Service Trust, program administration and State commissions, Innovation and Assistance programs, and three additional programs: America's Promise, the Points of Light Foundation, and Teach for America.

The Corporation has identified these five budget priorities for fiscal 2004: providing opportunities for 2.5 million citizens to serve their communities and their country; meeting critical community needs in the areas of education, homeland security, public safety, public health, disaster preparedness, the environment and community development; promoting civic engagement and member development; strengthening accountability and effectiveness; and empowering faith-based and grassroots organizations. The Corporation will carry out these priorities through our AmeriCorps, Learn and Serve America and Senior Corps programs.

AmeriCorps

The President has requested program funding levels that will support as many as 75,000 AmeriCorps members in fiscal year 2004, a 50 percent increase in the number of participating members. The request for transfer authority as referenced in the budget justification, which requires Congressional notification prior to carrying out any such transfer, would ensure that the mix between National Service Trust funding and program funding is adequate to support this level of participation. We anticipate and look forward to continued discussion with the committee on this proposal.

AmeriCorps members provide countless hours of service in schools, health clinics, homeless shelters, wilderness areas, neighborhood centers, and other places where public work needs to be done. They recruit and manage tens of thousands of their fellow Americans to help build homes, tutor children, respond to disasters, enhance homeland security, clean up streets and vacant lots, and feed the hungry. They promote what is best about our country—individuals helping those in need.

AmeriCorps is a collaboration of governor-appointed State commissions and national nonprofits that are largely responsible for determining where members can be most useful. After a sometimes challenging decade, commissions are now operating in all but one State, increasingly meeting financial and administrative standards and playing key roles in new initiatives, such as assisting community and faith-based organizations and enhancing homeland security. AmeriCorps partners include many of the Nation's preeminent nonprofit organizations.

Members have the opportunity to earn an education award to help finance higher education or pay back student loans upon successful completion of service. At present, approximately $750 million in education awards have been earned by AmeriCorps members. Awards are taxable and are paid directly to the college, university, or lending institution for student loans.

Members serve in full-time, part-time and reduced-part time positions. Slightly more than half of the members serve full-time and receive a very modest living allowance of about $9,000 per year for 1,700 hours of service. At least 15 percent of

the living allowance must be matched in dollars (not in-kind) by the grantee. Part-time members receive a reduced living allowance or none at all.

There are three main components of the AmeriCorps program. Two are funded under the National and Community Service Act under the jurisdiction of this subcommittee: (1) AmeriCorps*State and National provides grants to States and to national nonprofit organizations to support members in local communities across the country, and (2) AmeriCorps*National Civilian Community Corps, or "NCCC," a 10-month, full-time residential service program for men and women, ages 18 to 24 years, that combines the best practices of civilian service with the best aspects of military service, including leadership and team building. The third component is funded under the Domestic Volunteer Services Act by the Labor-HHS Appropriations bill: AmeriCorps*VISTA focuses members' activities on supporting community and faith-based organizations in helping build the self-sufficiency of low-income communities. These members are also eligible for education awards funded through the National Service Trust.

Focusing on performance measurement and evaluation, we will ensure that AmeriCorps programs are accomplishing their objectives and training a new generation of civic leaders. Further, AmeriCorps programs must show they are enabling national and community based programs to develop their own resources and become self-sustaining. The Corporation has changed its restrictions on AmeriCorps member participation in capacity-building and sustainability efforts of their host organizations. We now encourage members to engage in such activities as mobilizing resources and developing community partnerships intended to strengthen communities.

Recruiting, supporting, and managing volunteers are among the most crucial ways AmeriCorps members have helped build the "capacity" of the organizations with which they have worked. Our program directions seek to foster more—and a broader range of—such activities and some of the programs we fund have already begun to meet these capacity building needs.

AmeriCorps has a long tradition of assisting grassroots and faith-based groups. Often relatively small in size, but large in stature in their communities, these organizations are frequently among the most successful in reaching needy people. Their impact is sometimes limited by their organizational and financial capacity—an area in which AmeriCorps members can play a crucial role. Our FACES initiative, or Faith and Communities Engaged in Service, seeks to build on our past efforts in reaching out to faith-based groups, break down barriers small groups face in participating in our programs, and increase their administrative, management, and technological capacity.

In addition to its role in assisting small community and faith based organizations, AmeriCorps*VISTA has been a leader in initiating asset development and wealth creation programs such as Individual Development Accounts (IDA). More recently, AmeriCorps*VISTA has dedicated members to entrepreneur education and micro-enterprise initiatives, which help low-income people become self-sufficient by developing their own businesses. In 2002, AmeriCorps*VISTA launched the Entrepreneur Corps to expand its efforts in this area by allocating an estimated 400 members to assist organizations in developing wealth-creation programs for families and individuals while also developing the assets of the organizations they are placed with through sound technology planning and financial management and development. In fiscal year 2004, AmeriCorps*VISTA will further develop the Entrepreneur Corps and continue to dedicate substantial resources toward this programming area.

With regard to technology, AmeriCorps*VISTA will also continue to support an extensive network of sponsoring organizations that are tackling the problems of the digital divide. Members will continue to play a significant role in helping community organizations to assess their technology needs; develop and design technology plans; set up school-based or neighborhood-based computer learning centers; secure resources for hardware and software; and recruit volunteers for a variety of activities including hardware installation, instruction and mentoring, and staffing computer labs.

The experience all AmeriCorps members have when they work with community program sponsors is one of the reasons participation in national and community service can help create a lifelong habit of civic responsibility. We have also learned that reflection and more formal instruction in the role civic activity plays in our system of government are necessary components of the service experience. To help meet this objective, the Corporation is in the process of completing guidance based on pilot efforts to increase members' knowledge, skills, and behaviors related to citizenship.

*AmeriCorps*State and National*

The President's 2004 budget for AmeriCorps pursues these new directions and creates additional opportunities for national and community service. Specifically, our fiscal year 2004 budget requests $313.2 million for AmeriCorps*State and National Programs. The intent is for these funds to be used by State commissions and to fund local community-based non-profit organizations to support AmeriCorps programs. The budget proposes an increase of $138 million above 2003 levels in order to support, when combined with the other components of AmeriCorps and the allocation for the National Service Trust, as many as 75,000 members in 2004.

*AmeriCorps*NCCC*

The 2004 budget also requests $27 million for the AmeriCorps*National Civilian Community Corps. Under this request, AmeriCorps*National Civilian Community Corps would operate five campuses, including a new satellite campus and engage an estimated 1,350 members. In last year's committee language, you requested a report regarding the proposed expansion AmeriCorps*NCCC. This report has been drafted and we will be sharing it with members and staff of this committee shortly. Members will complete about 650 projects and invest more than 2.3 million service hours in local communities. Homeland security and disaster response will continue to be a high priority for AmeriCorps*NCCC. Among their recent projects, NCCC members from the Denver campus are assisting the U.S. Forest Service in searching for debris from the explosion of the Space Shuttle Columbia. The team consists of Forest Service-trained members who normally spend the majority of their service at the Arapahoe National Forest in Colorado. And a team of AmeriCorps NCCC members were recently in the District of Columbia, helping the city recover from record snows.

AmeriCorps Education Award Program

The AmeriCorps Education Award Program, providing education awards without living allowances, is currently funded from demonstration authority under Subtitle H of the Act. Pending action by Congress, the President's Budget contemplates funding the program within Subtitle C, in order to expand the types of programs and organizations in which AmeriCorps members may serve, while minimizing the cost to the Corporation and the Federal Government. Under subtitle H, the level of support is set by the Corporation.

National Service Trust

The President's budget requests $120 million for the National Service Trust. This level of funding—along with transfer authority language referenced in the Corporation's budget justification—would permit the Corporation to enroll as many as 75,000 AmeriCorps members in 2004, cover forbearance costs associated with members holding loans during service, and provide 7,000 Presidential Freedom Scholarships through the Learn and Serve America program.

Learn and Serve America

Our budget request includes $43 million to support Learn and Serve America, which operates in our Nation's elementary and secondary schools and institutions of higher education. Over the last decade, the programs funded by the Corporation have committed themselves to developing America's tradition of volunteering by integrating service with school curricula. Among their accomplishments are improving elementary students' school achievement, promoting children's readiness for school, improving the English skills of immigrants, and improving adult literacy and job skills. In 2002, our grants supported 106 elementary and secondary programs and 68 higher education programs with approximately 1.2 million participants including adult faculty and staff.

This year, and in fiscal year 2004, the Learn and Serve America program will focus on helping schools fulfill their primary civic mission: to create informed and thoughtful citizens, able and eager to participate in America's democratic institutions through their lifetime. Studies show that young people's civic knowledge is weak. Though more and more of them participate in community service, fewer and fewer individuals understand the civic or political principles that lie beneath and give meaning to effective community service. Learn and Serve America will seek to address this by encouraging its grant applicants to design age-appropriate learning activities that foster civic knowledge, attitudes, and behavior.

As with AmeriCorps, we will make the expenditure of Federal funds more accountable through the implementation of performance measures for all grantees. Learn and Serve America published guidance in January 2003 to solicit new grant applications with detailed accountability expectations for all programs. Performance measures negotiated with each grantee will become part of the grant award agree-

ment and programs will report on their progress against these measures for the 3-year grant period. Failure to make adequate progress will result in sanctions.

In 2004, we propose to allocate the $43 million in funding for Learn and Serve America as follows: approximately $20 million by formula to State education agencies, which make subgrants to local programs; $6.5 million for school-based programs through a competitive process in which State education agencies, Indian tribes, and multi-State nonprofit organizations are eligible; up to 3 percent, or $800,000, within the school-based funds to be awarded competitively to Indian tribes and U.S. territories; $4.8 million for competitive grants to community-based programs serving school-age youth in settings outside of school, awarded competitively to the State Commissions on National and Community Service, as well as to national nonprofit organizations; and $10.75 million awarded competitively to individual institutions of higher education or consortia.

Innovation, Demonstration, and Other Assistance

In the area of innovations and demonstrations, the administration is requesting $26 million for various purposes, including: training and technical assistance, recruitment, Martin Luther King, Jr. Day grants, statutorily-mandated disability grants, unified State plans, and external communications. In addition to supporting these services, the Corporation will continue to work with the White House, through the invaluable umbrella established last year, the USA Freedom Corps, to support the President's Call to Service, his challenge to all Americans to give at least 2 years of service to their communities and country over their lifetimes. We also plan to convene a conference for the new AmeriCorps and Senior Corps homeland security grantees to ensure high quality implementation of homeland security activities across the country. Through our Faith and Communities Engaged in Service (FACES) initiative, we will continue to increase its involvement with faith-based and small community organizations and help to expand the capacity of these innovative groups to meet critical needs in their communities.

With Congressional approval of our request to transfer the AmeriCorps Education Awards program from this category, we will have greater flexibility to carry out the original intent of this funding stream. Through these funds, the Corporation can provide leadership development and training and technical assistance support to grantees and service programs to make sure that we are supporting best practices and that we are training tomorrow's community leaders. The Corporation will also be better able to support research aimed at identifying steps necessary to renew the ethic of civic responsibility in the United States and improve the ability of service programs to address unmet community needs.

Evaluation

The Corporation conducts or contracts for evaluations of its programs, initiating several studies each year on a range of issues, as mandated by the National and Community Service Act. Other studies are an important part of the Corporation's compliance with the Government Performance and Results Act (GPRA), and in conjunction with our efforts to gauge program performance through the new Program Assessment Rating Tool (PART). In fiscal year 2004, we are requesting $7 million to support the studies identified in our budget justification and to facilitate the implementation of performance measures for our grantees. These efforts are critical to enhance program performance and are a high priority for both our authorizing and appropriations committees. We believe strongly in the centrality of research and evaluation to the future of national and community service.

In addition, the Corporation's Office of Research and Policy Development is playing an increasingly central role as a resource for other governmental, nonprofit, and philanthropic groups on a wide range of research and evaluation issues related to volunteering and service. For example, it helped initiate a Census Bureau survey of volunteering, which will now be done regularly by the Bureau of Labor Statistics (BLS) and should provide information useful to organizations eager to enlist Americans in service. It is also in the final stages of developing a survey on volunteering among teenagers, a long-time focus of the Corporation's efforts. These activities not only enhance the impact of the resources available to the Corporation, but also contribute to the Corporation's ultimate mission of renewing "the ethic of civic responsibility" in the United States.

Earmarks

The Corporation's proposed fiscal year 2004 budget includes allocations for three organizations: Teach for America, the Points of Light Foundation, and America's Promise—The Alliance for Youth. The Corporation has had a long relationship with each of these and believes each merits such treatment because of its ability to meet performance goals and deliver effective services. However, as a general rule, con-

sistent with administration policy, the Corporation seeks to limit the use of earmarking funds through the appropriations process.

Program Administration

Our budget request for fiscal year 2004 includes $36 million for program administration, of which 40 percent would support State Service Commissions. Our budget materials describe the use of these funds in detail.

Office of the Inspector General

As a separate request, the President's budget requests $5 million for the audit and investigative activities of the Office of the Inspector General.

We all value the important work of that office to conduct independent and objective audits and investigations and to prevent and detect fraud, waste, and abuse. In addition to the number of important reviews of program operations conducted by this office in the past year, the Inspector General has also formed a new unit within his office to facilitate work related to program performance. One example of the kind of work this unit will do on a regular basis is the special examination undertaken earlier this year of the Corporation's innovative "alternative personnel system" The final report, which will be available later this month, will include a number of important recommendations for improvement.

LEGISLATIVE REFORMS

In 2002, the administration and Congress began work on a bill to reform and improve the quality of national and community service programs. While we are pursuing many reforms administratively, some require your assistance through legislation. We appreciate, and are encouraged by, the progress this reauthorization bill made during the last session of Congress. We will continue to work with the members and staff of the authorizing committees to complete action this year on the Citizen Service Act of 2003, which the President called on the Congress to pass during his State of the Union Address earlier this year.

Importantly, this legislation will allow us to strengthen our management practices and fulfill our commitment to investing in programs that produce results. The Corporation is already working to ensure that all grantees in our AmeriCorps, Senior Corps, and Learn and Serve America programs have specific objectives and accountability requirements linked to significant service outcomes and program impacts.

In 2004, 2.5 million Americans of all ages will serve and volunteer through the support of the Corporation's programs. To ensure that these programs are effectively meeting the needs of our Nation's communities this year and in years to come, we encourage Congress to pass the Citizen Service Act of 2003.

CONCLUSION

Mr. Chairman, this concludes my statement concerning the Corporation's budget request for fiscal year 2004. In preparing this statement—and in all of our operations—we at the Corporation have kept constantly before us the vital importance of the commitment made by our members, their response of the heart to the needs of their Nation and their neighbors.

At the public Board meeting of the Corporation, we had the opportunity to hear from some of those people. One of them was Jesus Santiago II, a young man from Ohio and a member of the Ohio Civilian Conservation Corps. Mr. Santiago is the product of a broken home. By the age of 6, he says, he was an alcoholic. He later moved on to using LSD, cocaine, and other drugs. At 16, he dropped out of school; by 17, he was jailed for 11 months.

During his incarceration, Mr. Santiago learned about the Ohio CCC. He joined when he was released, and it made all the difference in his life. Here's what he told the Board of the Corporation: "While I've been out making changes in communities it has given my life new meaning. I have helped people in two communities recover from tornado damage, worked in parks and forests and regularly participated in recycling drives. I've changed from being a bad kid to one who helps other young people get their lives back on track. I've been promoted twice and now serve as a Corps leader." Mr. Santiago is now attending college, thanks to his AmeriCorps education award. He's in recovery and on the road to a productive life as a social worker so that he can help others do the same.

We hear these kinds of stories from members every day, and they help to inspire and motivate our work. I hope that his story will also inspire this committee to support our efforts to strengthen these national service programs. They are important, and they do make a difference—in communities, in the lives of those served and those who serve, and for our Nation as a whole. They deserve to be run as well as we possibly can. You have my commitment that we will work ever harder to do this,

because the public expects us to—and because people like Jesus Santiago need us to.

As challenging as the road ahead of us might look, we should be heartened by the fact that we start from a decade's worth of accomplishments and lessons learned. These should encourage us not only to aim higher, but also to be confident we can succeed. With the continued assistance and oversight of this subcommittee, I am certain that we can accomplish all that we are charged with and appreciate this committee's support and guidance. We are available to address any questions.

Senator BOND. Thank you, Dr. Lenkowsky, and now we turn for comments and a summary of the full written statement from Mr. George.

Welcome, Mr. George.

STATEMENT OF J. RUSSELL GEORGE

Mr. GEORGE. Thank you, Mr. Chairman, Senator Mikulski. Thank you for inviting me to appear here today. As requested, my oral comments will focus on the issue of the National Service Trust.

The Trust was created to fund education awards and to pay interest that accrues on qualified student loans while an individual is serving as an AmeriCorps member. If a member does not use the award within 7 years, the right to the award is forfeited.

The Corporation's financial statements, which were being audited as part of my office's annual review, indicated that as of September 30, 2002, the Trust's assets exceeded its liabilities by $1,851,000. An unqualified opinion on the Corporation's financial statements report was issued on February 4, 2003.

Following up on your request, Chairman Bond, my office initiated an investigation into whether the Anti-Deficiency Act was violated. As of today, no evidence of a violation of that Act was found. The audit confirmed, however, that the Corporation had not complied with the Trust Act when it approved, although not enrolled, more AmeriCorps positions and grant awards over the course of fiscal year 2002 than the Trust would have been able to financially support in the future. The Corporation concedes that it did not comply with this requirement.

The number of approved National Service positions for program years 2000, 2001, and 2002 were approximately 59,000, 61,000, and 67,000 respectively, yet we found that the Corporation based its budget estimates for the Trust on anticipated enrollments that ranged from 49,717 to 51,717. The Corporation approved more positions than it budgeted because historically many AmeriCorps members do not complete a term of service and, of those who do, some may not earn a full education award or do not use the education award at all.

The yearly congressional appropriations and investment income combined to create Trust fund surpluses that grew at a rapid rate. By 2000, the surplus in the Trust was at such a level that Congress rescinded $81 million from amounts in the Trust. In 2001, the amount was still considered to be in excess of its needs, and Congress rescinded an additional $30 million from the Trust.

During discussions with OMB and congressional staff, Corporation management was informed that the Corporation's budget was going to be reduced. Management decided they could meet the administration's budget reduction by not requesting appropriations for the Trust. Based on model forecasts, they believed that there

were sufficient funds in the Trust to cover the estimated liabilities even with no appropriations. This belief led management to request no appropriations for the Trust in the Corporation's fiscal year 2002 budget request.

My investigation found that Trust liability projections were not being made by Trust staff but instead by a senior-level official in the Corporation's executive office. The Trust Director's position description states that the person holding that job is solely responsible for all aspects of Trust operations, yet in practice the Trust Director managed only day-to-day operations. Although Trust staff were aware of the liability projections, they did not have ownership of this process.

We also found that the computer programs used to monitor the system did not contain any automatic programming to alert the appropriate officials when AmeriCorps member enrollments reached a predetermined level. No safeguards were built in to prevent additional enrollments until reviewed and approved by Corporation staff. Although certain Corporation managers were aware that enrollments were increasing, the reporting and tracking of these enrollments were not timely. This lack of automated alerts and safeguards allowed AmeriCorps enrollees to exceed expectations, which resulted in a freeze on further enrollments.

Some of the reasons for this included the fact that the Corporation did not have effective internal controls to assess the impact of enrollments on the Trust prior to authorizing new National Service positions. In addition, Corporation staff focused exclusively on appropriations made available for AmeriCorps grants, and did not adequately consider the impact of education awards when making grant decisions to support new National Service positions.

And finally, there was a lack of coordination between senior Corporation officials, AmeriCorps, Office of Grants Management, and Trust staffs as to how many new National Service positions could be allocated annually to the programs.

Senators, subsequent interviews with Corporation officials found that most failed to make the connection between increased enrollments and Trust funding levels. One official told my investigators that it did not become an issue until they realized that the fiscal year 2003 continuing resolutions prevented them from budgeting any funds for the Trust, since no appropriations had been requested in the prior year.

The Office of Inspector General determined that the Corporation could generate reports showing numbers of AmeriCorps enrollments for any given time. Further, through interviews with the former Director of the National Service Trust and her staff, we discovered that the Corporation generated other reports showing the financial status of the Trust on a monthly basis. These reports were forwarded to senior Corporation management. However, there was no known reconciliation of the number of AmeriCorps enrollees to future Trust liabilities.

Additionally, quarterly National Service Trust status reports were sent to Congress detailing the Trust's assets, model-calculated liabilities, revenues, expenses, and net position. The quarterly reports to Congress also contained AmeriCorps member enrollment

data, but it appears that the Corporation member enrollment data was never reconciled with the Trust status reports.

At this stage of our review, the Office of Inspector General is in a position to make some preliminary recommendations based upon our findings. We recommend that policies and procedures should be revised to ensure that the staffs of the AmeriCorps Program Office, the Office of Grants Management, and the Trust Office are involved in the budgeting process, National Service position approval and amendment process, too.

The Trust Office staff should ensure that funds are available in the Trust to meet the estimated liability to be incurred prior to National Service position approval. And finally, reports should be generated on a monthly basis to compare the number of approved National Service positions to the actual members enrolled.

PREPARED STATEMENTS

Senior management should review these reports on a timely basis to ensure that enrollments do not exceed the Corporation's estimates, and I would add that automated controls should be implemented to limit approval of additional enrollments to authorized officers in the Grants Management Office and to prevent grantees from enrolling members after the program year enrollment period ends.

Mr. Chairman, Senator Mikulski, this concludes my prepared statement. I would be pleased to answer any questions you might have.

[The statements follow:]

PREPARED STATEMENT OF J. RUSSELL GEORGE

Mr. Chairman and members of the subcommittee, thank you for inviting me here today. As you know, President Bush nominated me for the position of Inspector General of the Corporation for National and Community Service in February of 2002, and the Senate honored me by voting to confirm my nomination last July. This is my first appearance before this subcommittee, and I appreciate the opportunity to discuss with you some of the major issues that have come to my attention since assuming my position.

ESTABLISHMENT OF EVALUATION SECTION

Before addressing the issue of the National Service Trust, I would like to point out that I am altering the structure of the Office of Inspector General (OIG) to expand its scope and to better enable it to serve its purposes. In that regard, I am in the process of establishing an Evaluation Section, and hope to have it fully operational in the coming months with an assistant inspector general and three evaluators. The mission of the unit will be to review the various functions of the Corporation and to make recommendations for improvement, hopefully before problems occur. It will also assist grantees and other beneficiaries of the Corporation's programs avoid pitfalls through proactive educational initiatives.

REVIEW OF THE CORPORATION'S ALTERNATIVE PERSONNEL SYSTEM

When the Corporation was established in 1994, Congress permitted it to set up an "Alternative Personnel System," one that is different from the traditional Title 5 or General Schedule that exists in most Federal agencies.

Following complaints made by Corporation employees to their union, to Congress, the Corporation's Chief Executive Officer, and the Corporation's Chairman of the Board, the OIG engaged management specialists at Deloitte and Touche, LLP, to conduct a study of the system. DeLoitte and Touche was tasked to determine if the Corporation's personnel policies, procedures, and practices are able to accomplish and are achieving the Corporation's need to maintain adequate staffing and to administer in a fair and equitable manner the use of term appointments, performance

bonuses, salary increases, and hiring actions under the policies created pursuant to the alternative personnel authority.

Based on this review, a final report will be issued in the coming weeks and it will make recommendations for improvement to the system that I believe will benefit all employees of the Corporation. Some of the recommendations will concern clarifying the roles and the authority of Corporation managers in the system, making appointment and promotions procedures more clear, and ensuring that the budget process identifies the need for adequate funding for salary increases.

AUDITS OF STATE COMMISSIONS

Approximately two-thirds of the Corporation's AmeriCorps grant funds go to State commissions, who are appointed by State Governors, who subgrant it to organizations in their States that perform AmeriCorps programs. We have been conducting audits of these commissions since 1999. In March we issued an audit report for the Indiana State Commission, and we plan to conduct audits of the State commissions in the States of Wisconsin, Ohio, Maine, Pennsylvania, and Connecticut in the coming year. As a result of past audits of State commissions, our auditors have made numerous questioned cost findings of the grantees. These costs were primarily due to inadequate record keeping on their part, and we have worked with commissions and Corporation management to resolve these findings.

We have also completed the annual audit of the Corporation's Financial Statement. KPMG, who completed the work, gave an unqualified opinion on the statements, but noted a reportable condition with respect to the situation that arose concerning the Trust. As I will discuss in greater detail shortly, we intend to review the Corporation's grant management procedures in the coming year.

Other audits that have been completed in the last 6 months include the Points of Light Foundation, Parents as Teachers, Navajo Nation Foster Grandparent Program, and RSVP of Bergen County, New Jersey. Work in progress includes the 2002 fiscal year Management Letter, and audits of congressionally earmarked funds to America's Promise—The Alliance for Youth, and Communities In Schools Inc.

NATIONAL SERVICE TRUST AUDIT AND INVESTIGATION

On November 11, 2002, Dr. Les Lenkowsky, the Corporation's Chief Executive Officer (CEO) informed me it had recently come to his attention that in the preceding months the Corporation had approved more AmeriCorps member positions as part of their grant awards to national service programs than the National Service Trust (Trust) could support.

The National and Community Service Trust Act of 1993 established the Trust to fund education awards and to pay interest that accrues on qualified student loans while an individual is serving as an AmeriCorps member. The Trust does not pay member benefits such as living allowances or health benefits, only education awards, interest forbearance, and Presidential scholarships. Education awards are for AmeriCorps members who successfully complete their term of service and request the award. After the award is approved it can be used to pay back the member's student loan, current education expenses or approved school-to-work programs through the member's qualified institution of higher learning defined under a Title IV Program Participation Agreement with the U.S. Department of Education. AmeriCorps members, in accordance with the National and Community Service Trust Act, have 7 years to use their approved award. If a member does not use the award within 7 years, the right to the award is forfeited.

In fiscal year 1994, the first year of the Corporation's operations, Congress appropriated $93,250,000 for the Trust. For all subsequent years, except fiscal year 2002, Congress has appropriated between $59,000,000 and $115,070,000 for the Trust. The Trust receives these funds under a "no year" appropriation, i.e., funds that are available until expended. The funds for the Trust are kept in an account in the U.S. Treasury and are invested in Treasury securities. The National and Community Service Trust Act requires that the Corporation ensure that there will be sufficient funds available in the National Service Trust to pay for education awards.

The CEO informed me that to prevent excessive Trust liability from occurring he had directed that program grantees cease enrolling members for their coming program year until the fiscal situation was resolved. The CEO also informed me that he had earlier reported the situation to this subcommittee. On November 20, 2002, I received a letter from Chairman Bond requesting that my office investigate and audit the Corporation's management and oversight of the National Service Trust. Part of our review included the audit of the Corporation's financial statements being performed at the time by KPMG. I directed the OIG investigative staff to identify

persons responsible for the situation, and to determine if the Anti-Deficiency Act had been violated.[1]

AUDIT OF THE TRUST

We initially turned to the Corporation's financial statement for the year ending September 30, 2002, to determine whether the grant recipients had enrolled so many AmeriCorps volunteers that the Trust's liabilities had exceeded assets. The Corporation's financial statements indicated that the Trust was still solvent. As of September 30, 2002, the Trust's assets exceeded its liabilities by $1,851,000. The audit firm, KPMG, working under contract to conduct the financial statement audit, concurred in this judgment. An unqualified opinion on the Corporation's financial statements report was issued by the OIG on February 4, 2003, a copy of which is attached to my testimony.

However, KPMG auditors confirmed that the Corporation had not complied with the National and Community Service Trust Act when it approved, although not enrolled, more AmeriCorps positions in grant awards over the course of fiscal year 2002, than the Trust would have been able to financially support in the future. KPMG characterized this as a reportable condition but did not consider the matter a material weakness.

Section 129(f) of the National Service and Community Trust Act, 42 U.S.C. §12581(f), requires that the Corporation approve National Service positions in its grants to AmeriCorps programs by "taking into consideration funding needs for [education awards] based on completed service." The Corporation concedes that it did not comply with its own authorizing legislation.

The reasons found by the auditors for the Corporation's approval of positions in excess of what the Trust could reasonably support were:

—The Corporation did not have effective internal controls to assess the impact of enrollments on the Trust prior to authorizing new National Service positions.

—Corporation staff focused exclusively on appropriations made available for AmeriCorps grants, and did not adequately consider the impact of education awards when making grant decisions to support new National Service positions.

—There was a lack of coordination between senior Corporation officials, AmeriCorps staff, Office of Grants Management staff, and Trust staff as to how many new National Service positions could be allocated annually to the programs.

KPMG noted that under the grant award process in place during fiscal year 2002, the Corporation published Notices of Funds Availability based on its approved priorities and guidelines and appropriations level. KPMG found that AmeriCorps staff, in consultation with other senior staff, decided the funding level and the numbers of positions to be awarded to each program. These awards were made with regard to funds available for member living allowances and the grantee's administrative costs, but not with regard to education awards that could be funded by the Trust when members completed service. The AmeriCorps staff prepared a certification form that specified the grant budget and the number of positions allocated to that grantee's program.

Based on the certification prepared by the AmeriCorps staff, the staff of the Office of Grants Management issued a Notice of Grant award to the grantee. This document includes the grant number, and specifies the project period, award amount and number of approved National Service positions for the program. Grants management staff sent the number of approved National Service positions to the staff of the Trust. The information was entered into two distinct databases, the System for Programs, Agreements, and National Service Participants (now known as eSPAN),[2] and the Web Based Reporting System (known as WBRS).[3]

The auditors noted that AmeriCorps program officers and grant officers had access to the WBRS database and could approve additional AmeriCorps member enrollments in excess of what had been originally approved in the Notice of Grant Award, contrary to the rule specified in the Program Director's Handbook, which al-

[1] One of the items requested in Chairman Bond's letter was to identify the Corporation staff responsible for managing, administering, and monitoring AmeriCorps member enrollment and Trust operations. I am not able to address this aspect of the request in my testimony, as this matter is still under review.

[2] eSPAN is a database used principally by Trust personnel for the tracking and reporting of AmeriCorps members and their education award use. AmeriCorps member's ultimate approval and payment of their education award is initiated from this database.

[3] WBRS is a database established to facilitate program and member data input from the field. Grant recipients are responsible for inputting data for each new AmeriCorps member they enroll.

lows approval only by a grants officer. In addition, there were no controls in WBRS to prevent grantees from enrolling members after their program year had officially ended.

The number of approved National Service positions uploaded into eSPAN and WBRS for program years 2000, 2001, and 2002, were approximately 59,000, 61,000, and 67,000 respectively, yet an inquiry by the OIG's investigative staff found that the Corporation based its budget estimates for the Trust on anticipated enrollments in the Trust that ranged from 49,717 to 51,717 for these years. The Corporation, as a matter of practice, previously approved more positions than it budgeted because historically many AmeriCorps members do not complete a term of service, and of those that do complete their term of service, some may not earn a full education award or do not use the education award.

Our investigation has determined that the Corporation successfully suspended enrollments of AmeriCorps volunteers into the National Service Trust before the liabilities created by new enrollees exceeded the Trust's assets.[4] KPMG noted that the Corporation gives grants to AmeriCorps programs for specific budget periods, and for approved National Service positions documented on the Notice of Grant Award. Once a program receives an award it has 1 year to recruit AmeriCorps members for their particular projects and enroll them into the Trust. The beginning date for a program may start at anytime during the grantee's budget period. Even when the program's beginning date is the last month of the grantee's budget period, the program still has 1 year from that date to enroll all their approved members for that particular program year. This time lag allowed the Corporation to successfully pause enrollments of prospective AmeriCorps members before the Trust became insolvent.

INVESTIGATION OF THE TRUST

Following up on Chairman Bond's November 20, 2002, request the OIG initiated an investigation into whether the Anti-Deficiency Act had been violated with regard to the funding of the number of AmeriCorps members enrolled in the Trust. No evidence of a violation of the Anti-Deficiency Act was found. The inquiry confirmed KPMG's findings that conditions existed that contributed to a breakdown in communication and coordination between the Corporation's budget development function, the AmeriCorps Program staff and the Trust staff.

Our inquiry found that in the first years of the Corporation's existence, specifically 1994 and 1995, the Director of the National Service Trust at that time expected no more than 24,000 AmeriCorps members to enroll in the Trust, but this number was no more than a guess as there was no historical data to draw upon. During these first years, the Trust's liability was based on the number of enrollee's multiplied by the actual amount of the education awards.

Toward the end of 1995, it became evident to Corporation officials that actual AmeriCorps enrollment never reached the expected enrollment number and it was clear that not all enrollees were successfully completing their service. The pattern became clearer over subsequent years. For example, from program year 1994 through program year 2000, the actual number of AmeriCorps enrollments ranged from 25,149 in program year 1994 to a high of 52,891 for program year 2000, but the number of AmeriCorps members who actually earned an award ranged from 18,778 in program year 1994 to 36,353 for program year 2000.

Moreover, it later became evident to Corporation officials that many AmeriCorps members, who successfully completed a term of service and earned an education award, never used the award. OIG staff calculates that had the Corporation continued to base the Trust's liability along a straight line computation of one award per one enrolled AmeriCorps member, the Corporation would have had to commit a cumulative amount in excess of over $1 billion dollars from fiscal year 1994 through fiscal year 2002.

In 1996, based on the experience of these early years, the then National Service Trust director developed a series of formulas to estimate the number of enrollees who would successfully complete their service, when during their enrollment they would complete their service, and when, after completing their service, they would claim their education award. In addition to estimating raw numbers of AmeriCorps members, the formulas also estimated dollar amounts associated with the estimated education awards. These early formulas were also used to forecast estimated future

[4] During the enrollment pause, the Chief Financial Officer's office performed an analysis of the Trust. This analysis assumed that if the Corporation ceased to exist and no new additional appropriations were received, the Trust's assets were sufficient to pay out awards for enrolled members.

funding requirements for the Trust, and became known as the Service Award Liability Model. The goal of the model was to provide better management of the Trust funds and to provide more realistic liability data for the Corporation's financial statements versus a strict liability of one award per one AmeriCorps member.

Despite the liability forecasts derived from the Service Award Liability Model, the yearly Congressional appropriations and Trust investment combined to create Trust fund surpluses that grew at a rapid rate. By 2000, the surplus in the Trust was at such a level that Congress rescinded $81 million from amounts in the Trust. In 2001, the surplus in the Trust was still considered to be in excess to the Trust's needs, and Congress rescinded an additional $30 million from amounts in the Trust.

In 2001, PriceWaterhouseCoopers was engaged to assess the Corporation's model. PriceWaterhouseCoopers found that the model produced reliable estimates and made recommendations for enhancements to it. Some of these enhancements included a fiscal versus program year approach, weighted average outlays to reflect changes in program year award amounts, a standardized discount and Treasury rate assumption, a centralized input worksheet, and a quarterly-basis approach versus yearly. The Corporation adopted these changes.

During discussions with the Office of Management and Budget and Congressional staff, in this same year (2001), Corporation management was informed that the Corporation's budget was going to be reduced. In an effort to prevent the perception that the Corporation's budget was going to be cut, Corporation management decided they could meet the administration's budget reduction by not requesting appropriations for the Trust. Corporation management, based on model forecasts, believed that there were sufficient funds in the Trust to cover the estimated liabilities, even with no appropriations. This belief led Corporation management to request no appropriations for the Trust in the Corporation's fiscal year 2002 budget request. In the Fiscal 2002 Budget Estimate and Performance Plan, dated April 2001, page 17, the Corporation stated:

"We have calculated the requirements for the Trust and have determined that no new authority is required in fiscal 2002 for the Trust Fund costs associated with new AmeriCorps members. This determination reflects several changes to policies and estimating procedures when compared to prior year Trust Fund requests, including:

—"The explicit recognition that future interest earnings in the Trust lower the requirements for new authority in the current year's budget request. We have made this change as a result of the review of the estimating model. In the past, the assumption was that future interest earnings would affect budget authority needs in the out years.

—"A program budget that is based on no growth in the number of AmeriCorps members in 2002.

—"An assumption that AmeriCorps will remain at 48,000 members beyond 2002.

"There are sufficient balances in the Trust to cover the estimated education award liability associated with the members supported in the fiscal year 2002 program budget."

In May 2001, Chairman Bond requested that the OIG review the methodology used by the Corporation to determine that no additional Trust appropriations were necessary for fiscal year 2002. The OIG contracted with KPMG to perform this review. KPMG found adequate support for the Corporation's decision to request no additional Trust funding for fiscal year 2002:

"The Corporation's decision not to request additional funding for the Trust Fund for fiscal year 2002 is supported by the documentation and analysis reviewed. It indicates that sufficient Trust Fund assets will be available to fund educational awards, Presidential scholarships, and interest forbearance earned and expected to be paid for all service performed by Members through program year 2002."

KPMG noted that it was likely that Congress would need to appropriate approximately $75 million in fiscal year 2003 to fund the additional awards for the 2003 program year, assuming Congress elected to continue the AmeriCorps member levels consistent with historical experience over the past several years.

My investigation found that Trust liability projections were not being made by Trust staff, but by a senior-level official in the Corporation's Executive Office. The Trust Director's position description states that the person holding that position is solely responsible for all aspects of Trust operations, yet in actual practice, the Trust Director managed only day-to-day operations. Although Trust staff were aware of the liability projections, they did not have ownership of this process.

We also found that neither the WBRS nor eSPAN systems contained any automatic programming to alert Grants officers, AmeriCorps Program officers or Trust

Office staff when AmeriCorps member enrollments reached a predetermined level. No safeguards were built in to prevent additional enrollments until reviewed and approved by Corporation staff. Although certain Corporation managers were aware that enrollments were increasing, the reporting and tracking of these enrollments were not timely. This lack of automated alerts and safeguards allowed AmeriCorps enrollees to exceed expectations, which resulted in a freeze on further enrollments.

In the summer of 2002, Corporation senior staff were aware that actual enrollments of AmeriCorps members in the Trust had exceeded the model forecasts, but it was not until late in the year that Corporation management realized that Trust liabilities could exceed assets. Congress passed a series of continuing resolutions to allow the Corporation and other Federal agencies to re-budget based on the prior year's authorizations. Since the Corporation had not requested or received fiscal year 2002 appropriations for the Trust, they were unable to budget any funds for the Trust from the continuing resolutions.

On July 11, 2002, the senior Corporation manager who had been tracking Trust enrollments sent an e-mail message to the CEO, the CEO's senior aide, the Chief Operating Officer, and the Director of AmeriCorps. This message informed the recipients that AmeriCorps member enrollment had reached 56,500 for program year 2001, that the estimated enrollment could reach 58,000 by year end, and that "down the line" the Corporation would have to be sure the Trust had sufficient funds to handle the increased enrollment.

On August 28, 2002, this official sent another message to the same addressees as his July 11, 2002, e-mail and also included the Director of Research and Policy Development, the Director of the Office of Public Affairs, and the Deputy Chief Financial Officer who at the time was serving as the acting CFO. This message stated that AmeriCorps enrollments had hit 60,000, an all time high and that the Trust budget funding estimates need to be updated "as we go forward."

Subsequent OIG interviews with the Corporation officials who received the messages found that most failed to make the connections between increased enrollments and Trust funding levels. One official stated he responded to the e-mail saying he would be careful about publicizing the good news because readers may question how the Corporation could exceed their target goal and still pay the additional amounts. Another official said that it did not become an issue until they realized that the fiscal year 2003 continuing resolutions prevented them from budgeting any funds for the Trust since no appropriations for the Trust had been requested in the prior year.

We found that during early November the Chief Financial Officer's staff informed her that there might not be enough funds in the Trust to cover future education awards due to the continuing resolutions. Shortly after this, she and other Corporation senior staff reviewed the situation and determined that the Trust's funding could be in a precarious position if the continuing resolutions did not end soon. The next day the CFO notified the CEO of the potential problem.

We determined that the Corporation could generate eSPAN reports showing numbers of AmeriCorps enrollments for any given time. Further, through interviews with the former Director of the National Service Trust and her staff, we discovered that the Corporation generated other reports showing the financial status of the Trust on a monthly basis. These reports were forwarded to senior Corporation management; however, there was no known reconciliation of the number of AmeriCorps enrollees to future Trust liabilities. Additionally, quarterly National Service Trust status/financial reports were sent to Congress detailing the Trust's assets, model calculated liabilities, revenues, expenses, and net position. The quarterly reports to Congress also contained AmeriCorps member enrollment data, but it appears that the AmeriCorps member enrollment data was never reconciled to the Trust status/financial reports.

RECOMMENDATIONS

At this stage of our review, the OIG is in a position to make some preliminary recommendations based upon the findings from our investigation, as well as conclusions reached by our auditors:

—Policies and procedures should be revised to ensure that the AmeriCorps Program Office staff, the Office of Grants Management staff and the Trust Office staff are involved in the budgeting process, National Service position approval and amendment process. The Trust Office staff should ensure that funds are available in the Trust to meet the estimated liability to be incurred prior to National Service position approval.

—Reports should be generated on a monthly basis to compare the number of approved National Service positions to the actual members enrolled. Senior man-

agement should review these reports on a timely basis to ensure that enrollments do not exceed the Corporation's estimates.

—Automated controls should be implemented in WBRS to limit approval of additional enrollments to authorized officers in the Grants Management Office, and to prevent grantees from enrolling members after the program year enrollment period ends.

On January 7, 2003, the CEO directed that new procedures be implemented regarding AmeriCorps enrollment. My office has initiated work to assess these procedures and will issue a report on the matter. Initial meetings have been held with senior management. We are in the process of gathering and reviewing procedures that have been developed and are currently being implemented. Every 2 weeks, Trust enrollment Summary Reports are now being provided to senior management. These reports show the number of positions awarded and enrolled.

Mr. Chairman, this concludes my prepared statement. I will be pleased to answer any questions you might have.

PREPARED STATEMENT OF CORNELIA M. ASHBY, DIRECTOR, EDUCATION, WORKFORCE AND INCOME SECURITY ISSUES, AND SUSAN A. POLING, ASSOCIATE GENERAL COUNSEL, GENERAL ACCOUNTING OFFICE

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

PRELIMINARY OBSERVATIONS ON THE NATIONAL SERVICE TRUST AND AMERICORPS

Why the GAO Did This Study

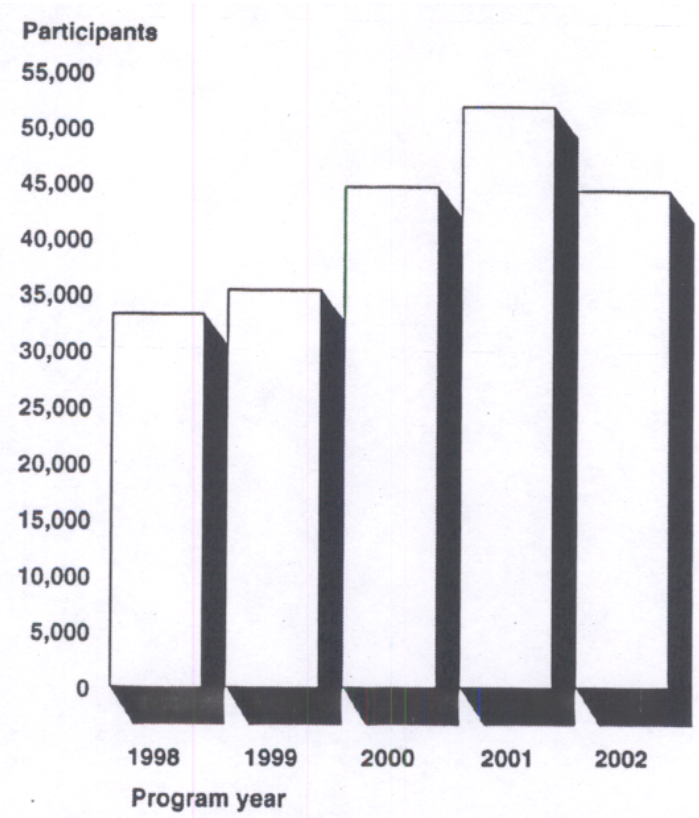
In November 2002, the Corporation for National and Community Service suspended enrollments in the AmeriCorps program due to concern that the National Service Trust may not contain enough funds to meet the education award obligations resulting from AmeriCorps enrollments. This testimony reflects GAO's preliminary review of the factors that contributed to the need to suspend enrollments and GAO's preliminary assessment of the Corporation's proposed changes.

What GAO Found

As shown in the figure below, the number of participants enrolled in AmeriCorps increased by about 20,000 from program year 1998 to program year 2001. However, the number of AmeriCorps participants was not reconciled with the number of education awards that the National Service Trust could support.

GAO identified several factors that led the Corporation to suspend enrollments. The factors included inappropriate obligation practices, little or no communication among key Corporation executives, too much flexibility given to grantees regarding enrollments, and unreliable data on the number of AmeriCorps participants.

The Corporation has established new policies that may improve the overall management of the National Service Trust if the policies are fully implemented. However, the Corporation has not made policy changes to correct a key factor—how it obligates funds for education awards.



Source: 1998 through 2001 data from the National Service Trust database. 2002 data provided by the AmeriCorps program office.

Note: Participants shown are for AmeriCorps*State and National programs only. Participants for AmeriCorps*National Civilian Community Corps and its VISTA programs are not included. Data for program years 1998 through 2001 represents actual participants. Program year 2002 data represent awarded positions. Program year varies by grantee.

Mr. Chairman and Members of the subcommittee, we are pleased to have the opportunity to comment on the preliminary findings from our ongoing study of the Corporation for National and Community Service's (the Corporation) management and oversight of the National Service Trust (the Trust). The National Service Trust is a dedicated fund within the Corporation that is to maintain sufficient funds to pay National Service educational awards to participants in the Corporation's AmeriCorps program. In November 2002, AmeriCorps suspended enrollment of program participants. This statement will identify some of the factors that contributed to this suspension and related policy changes the Corporation has made since then.

These comments are primarily based on our preliminary analysis of documents and information obtained through interviews with Corporation staff. In addition, this statement reflects the April 9, 2003, opinion we provided the committee concluding that the Corporation incurs an obligation for education benefits when it enters into a grant agreement for the approved number of new participants and therefore it must record the obligation against the budget authority available in the Trust. See Appendix I for the opinion. In summary, the factors we identified, to date, that led the Corporation to suspend enrollments include inappropriate practices for obligating funds, little or no communication among key Corporation executives, and too much flexibility given to grantees—they were allowed to adjust authorized positions and were not required to provide timely information about the

number of participants. While the Corporation has established new policies that may improve the overall management of AmeriCorps if the policies are fully implemented, the Corporation has not made policy changes to correct a key factor—how it obligates funds.

BACKGROUND

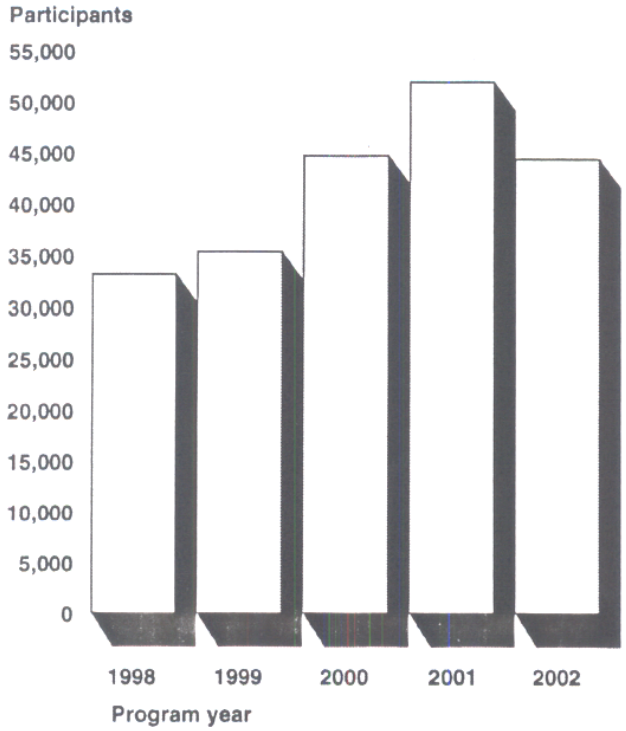
The Corporation for National and Community Service was created to help meet community needs in education, the environment, and public safety and to expand educational opportunity by rewarding individuals who participate in National Service.[1] The Corporation is part of USA Freedom Corps, a White House initiative to foster a culture of citizenship, service, and responsibility and help all Americans answer the President's call to service. The Corporation receives appropriations to fund program operations and the National Service Trust. The Corporation makes grants from its program appropriations to help grant recipients carry out National Service programs.

AmeriCorps is one of three National Service programs the Corporation oversees.[2] Most of the grant funding from the Corporation for AmeriCorps programs goes to State service commissions, which award subgrants to nonprofit groups and agencies that enroll the AmeriCorps' participants. Participants in the AmeriCorps program can receive a stipend as well as health benefits and childcare coverage. For example, about one-half of AmeriCorps' participants received an annual living allowance of $9,300 and health benefits. Those participants who successfully complete a required term of service earn an education award that can be used to pay for undergraduate school, or graduate school, or to pay back qualified student loans. In exchange for a term of service, full-time AmeriCorps participants earned an education award of $4,725 in program year 2002. Participants have up to 7 years from the date of completion of service to use the education award. AmeriCorps also enrolls participants on a part-time basis and as "education awards only" participants. Part-time participants who serve 900 or fewer hours annually earn education awards proportional to those earned by full-time participants. Under the "education awards only" program, AmeriCorps does not pay the participant a living allowance or other benefits, but provides grant funding for administrative purposes only, about $400 per full-time participant annually. However, each participant receives an education award equivalent to that earned by a paid AmeriCorps participant. The number of AmeriCorps participants increased by nearly 20,000 from 1998 to 2001. The program year 2002 data indicate the number of positions awarded will decrease by about 8,000. (See figure 1.)

[1] The National and Community Service Act of 1990 created the Corporation.

[2] The Corporation oversees the Senior Corps, AmeriCorps, and Learn and Serve America. AmeriCorps consists of three programs: AmeriCorps*State and National, AmeriCorps*VISTA, and AmeriCorps*National Civilian Community Corps.

Figure 1. AmeriCorps Participants from 1998 to 2002



Source: 1998 through 2001 data from the National Service Trust Database. 2002 data provided by the AmeriCorps program office.

Note: Participants shown are for AmeriCorps*State and National programs only. Participants for AmeriCorps*National Civilian Community Corps and its VISTA programs are not included. Data for program years 1998 through 2001 represents actual participants. Program year 2002 data represent awarded positions. Program year varies by grantee.

In November 2002, the Corporation suspended enrollments in AmeriCorps because total enrollments were potentially higher than the Corporation had expected. No new funds had been requested by and appropriated to the Trust for fiscal year 2002, and under the continuing resolution at the start of fiscal year 2003, no new funds would be deposited into the Trust until the Corporation's fiscal year 2003 appropriations were enacted. The Corporation concluded that if its grantees and subgrantees were to fully enroll new participants up to the maximum number of enrollments the Corporation had approved in its grants, the Trust would not have a sufficient amount to provide the educational awards to those participants. Enrollments in AmeriCorps were frozen from November 2002 through March 2003.

THREE FACTORS CONTRIBUTED TO THE NEED TO SUSPEND AMERICORPS ENROLLMENTS

Three factors contributed to the Corporation's need to suspend enrollments in AmeriCorps. Although the Corporation specified the maximum number of new participants in the grants it awarded, the Corporation did not recognize its obligation to fund participant education awards until it actually paid the benefits. Had the Corporation properly tracked and recorded its obligations in the Trust at the time of grant award when it approved new enrollments, it likely would not have needed to suspend enrollments. In addition, there was little, if any, communication among the AmeriCorps program office, the grants management office, and the Trust about the number of positions that the Trust could support. Furthermore, by allowing

grantees various flexibilities and not requiring them to provide timely enrollment information, the Corporation and AmeriCorps managers could not be certain about the number of participants.

Inappropriate Obligation Practices

The Corporation did not appropriately record or track its obligations for education awards to program participants. Generally, an agency incurs an obligation for the amount of the grant award with the execution of a grant agreement. The Corporation enters into grant agreements with State service commissions in which it specifies the budget and project period of the award, the total number of positions approved, the total amount awarded for program costs for the approved positions, and the terms of acceptance. The award for the program costs is used to pay participants' stipends and health and child care coverage. The Corporation incurs an obligation for these program costs at the time of grant award.[3] While the costs of education awards for the new participants are not specified in the grants, in the grant agreements the Corporation commits to funding education awards for all of the qualified positions initially approved in a grant if the subgrantee enrolls all of the participants before the Corporation modifies the terms or conditions of the grant. In other words, upon award of the grant, the Corporation, at a minimum, has accepted "[a] legal duty . . . which could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States." However, the Corporation has concluded that it is not necessary to obligate funds until an individual actually enrolls in AmeriCorps. Therefore, the Corporation recorded education award obligations on an outlay basis. That is, obligations were recorded at the time of the quarterly drawdown of amounts for education awards from the Trust.

By failing to recognize and record its obligations at the time of grant award, the Corporation had no assurance that the number of positions approved in grant awards did not exceed the amount of educational awards the Trust could support. Proper recording of obligations serves to protect the government by ensuring that it has adequate budget authority to cover all of its commitments and prevent agencies from over-obligating its budget authority.

Lack of Communication

Corporation executives we interviewed said that there was little if any coordination between the AmeriCorps program office and officials responsible for the management of the Trust about the number of positions that the Trust could support. The AmeriCorps director said that she considered the grant budget independent from the Trust and she neither consulted with nor received direction from the Trust director when making decisions about the grants. In addition, in recent years, AmeriCorps has tried to increase the number of participants by enrolling them in the "education awards only" program. Under this program, which was an effort to lower the per participant program cost, AmeriCorps provides funding to grantees for administrative purposes only, currently about $400 per full-time participant annually. Increasing the number of participants in this way is at a low cost to the AmeriCorps program appropriation, but at full cost to the Trust, which funds the education awards, because each participant receives an education award equivalent to that earned by a paid AmeriCorps participant. Consequently, the number of positions funded by AmeriCorps grants was not reconciled with the number supportable by the Trust. According to Corporation officials we spoke with, the Trust's funding needs were based on an expected enrollment of 50,000, while the AmeriCorps program office approved grants for about 75,000 participants.

Corporation officials also said that prior to suspending enrollments in AmeriCorps, the Trust was so well funded it did not warrant their attention. They told us that early in the AmeriCorps program, a goal of 50,000 participants annually was used for Trust budgeting purposes. However, it was found that fewer than that number of participants enrolled, and not all of those who participated earned education awards. Additionally, a Corporation budget official said that in the past those who earned education awards were not using them as quickly as expected. Even as the number of AmeriCorps participants grew, the Trust's accounting records showed an unobligated balance that was high enough for Congress to rescind $111 million over fiscal years 2000 and 2001, resulting in the deobligation of the Trust by this amount. Given this history, Corporation managers did not see the need to reconcile the number of positions created by grant funding with the number the Trust could support. The Trust balance was not viewed as a constraining factor. Because the

[3] We have not examined and accordingly express no opinion on whether the Corporation is appropriately obligating program costs in the applicable appropriation account.

number of positions approved in the grants was not reconciled with the Trust before grants were awarded, there was the potential for grantees to enroll more participants than the Trust could support.

Grantees Allowed to Adjust Authorized Positions and Not Required to Provide Timely Participant Information

Two program management policies affected the number and type of participants and, therefore, the use of Trust funds. One policy permitted grantees to over enroll participants under certain circumstances with approval from their AmeriCorps program officer. Specifically, the policy allowed grantees to over enroll up to 20 percent. The program year 2002–2003 data indicate that while only a few of the grantees increased their enrollment, some increased theirs by more than 20 percent. Another policy allowed grantees to convert positions from full-time to part-time as long as the total number of full-time equivalents supported by the grant did not change. While this practice did not affect the program funds, it did affect the Trust. After the enrollments were suspended, Corporation officials determined that part-time participants used their education awards at a higher rate than full-time participants and therefore the number of part-time participants resulted in a relatively higher level of use for the education award.

The Corporation did not have reliable data on the number of AmeriCorps participants during the period leading up to the suspension. Enrollments are recorded by grantees through the Corporation's Web-Based Reporting System (WBRS). While the enrollment information in WBRS was uploaded into the Corporation's database and used to track education award obligations on a weekly basis, Corporation officials said that discrepancies existed between the number of participants enrolled and the number the Corporation was aware of, because of the length of time between when a participant started to serve and when the grantee entered information into WBRS. A Corporation official said that it was not unheard of for some grantees to be 60 to 90 days late in entering an enrollment into WBRS.

By allowing grantees the flexibility to change the number and type of participants coupled with delays in receiving information on enrollments, the Corporation and AmeriCorps managers could not be certain about the number of participants. Corporation officials said that this resulting lack of confidence in the data was a contributing factor to the decision to suspend enrollments.

NEW POLICIES ESTABLISHED, BUT ADDITIONAL CHANGES MAY BE NEEDED

In response to concerns that the AmeriCorps program may have enrolled participants without adequately providing for their education awards, the Corporation has developed several new policies. While the Corporation is modifying its practice of when it records obligations, the Corporation overlooks the legal duty it incurs at the time of grant award. Other policy changes are directed to improving communication among key executives, limiting grantees' flexibilities and requiring more timely information on participants. While these policies were only recently introduced, they could, if implemented, help the Corporation keep track of the day-to-day aspects of the AmeriCorps program and provide information needed to monitor the use of the Trust in order to determine whether the Corporation should make adjustments, such as deobligating excess funds. However, data integration problems between WBRS and the program the Corporation uses to track the education awards earned by AmeriCorps participants may hamper the effectiveness of the new procedures.

New Policies for Obligating Funds

The Corporation is in the process of modifying its practices regarding when it will record obligations. The Corporation's General Counsel explained that the Corporation will record obligations at the time of enrollment, instead of on a quarterly drawdown basis and that the obligations will be based on estimates of what these enrolled members will draw down in the future. The Corporation is of the opinion that it does not incur an obligation for an education award until the time of enrollment because it may modify the terms and conditions of a grant, including a reduction in the number of new participants the grantee may enroll, prior to the enrollment of all positions initially approved in a grant, to prevent a shortfall in the Trust. The General Counsel also said ". . . binding agreement between the Government and an AmeriCorps member [participant] exists only upon the member's [participant's] authorized enrollment in the Trust."

While it may be true that the Corporation has no binding agreement with a participant until the participant enrolls in AmeriCorps, this is not the controlling consideration for fund control purposes. In our opinion, this view overlooks the legal duty the Corporation incurs at the time of grant award when it commits to funding a specified number of participants and the constraint imposed on the Corporation

by the National and Community Service Act. Specifically, the act says ". . . [t]he Corporation may not approve positions as national service positions . . . for a fiscal year in excess of the number of positions for which the Corporation has sufficient available funds in the National Service Trust for that fiscal year . . .". The Corporation, by its own admission, may modify the number of approved participants only if it amends the grant agreement to reduce the number of enrolled positions prior to enrollment. When a grant is awarded, the number of new participants approved in the grant establishes a legal duty that can mature into a legal liability for education awards by virtue of actions of the grantee, unless the Corporation modifies the grant prior to participant enrollment. While the Corporation may unilaterally reduce the number of authorized positions awarded to a grantee prior to participant enrollment, from the time of grant award until the Corporation acts to reduce the approved number of positions, the grantee and its subgrantee, not the Corporation, will control the number of participants who may enroll, up to the maximum number of participants the Corporation has approved in the grant agreement.

It is also significant to note that the grantee and subgrantee, by their actions in enrolling participants, not the Corporation, control the amount, ultimately, of the Corporation's liability. If the amount of liability to the government is under the control of the grantee, not the Corporation, the government should obligate funds to cover the maximum amount of the liability. As more information is known, the Corporation should adjust the obligation—deobligate funds or increase the obligation level—as needed.

The Corporation also said that at the time a member enrolls it would record its ". . . best estimate of the Government's ultimate liability of education awards provided to members [participants] enrolled in the National Service Trust." According to the Corporation's General Counsel, the Corporation's estimates of the amount that enrolled members [participants] will draw down is based on historical information, such as attrition rate and actual usage by participants who complete a term of service and earn an education award. It appears to us that the Corporation is confusing its accounting liability—projections booked in its accounting systems for financial statement purposes, with its legal liability—amounts to be recorded in its obligational accounting systems and tracked in order to ensure compliance with fiscal laws. One of the Federal financial accounting standards States that a liability for proprietary accounting purposes is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. Traditionally, projections of accounting liability consider the same factors, such as historical trends, that are considered in the Corporation's model. To track its obligations, the Corporation should be recording its unmatured legal liability for the education awards, which is the total cost associated with the enrollment of all approved positions. The Corporation's obligation should be recorded as it is incurred and should be calculated by multiplying the number of approved positions in a grant by the total cost of a National Service educational award.

More Communication Planned Among Key Corporation Managers

Policy changes at Corporation headquarters are designed to improve communication between several key offices and officials. A major change is that the Trust balance is to be a limiting factor on grant awards and, therefore, enrollment levels. In addition, beginning with the 2003 grant cycle,[4] one new policy calls for the AmeriCorps director to work with the grants director, the Chief Financial Officer (CFO), and the Trust director to compare projections of positions to be approved in grants with those supported by actual appropriations, and the Chief Executive Officer (CEO) will only approve the number of positions the Trust can support. Additionally, the CEO will approve all AmeriCorps grants after consultation with the CFO on the number of education awards that can be supported by the Trust. Also, the policy states that the CEO, CFO, the Trust director, and the AmeriCorps director will meet at least monthly to review and reconcile enrollment data and Trust data. Through bi-weekly reports, the AmeriCorps director and the Trust director are to keep the CEO and CFO informed of the number of approved and filled positions. The Trust director is to monitor factors relevant to forecasting Trust liabilities and report regularly to the CFO, highlighting deviations from assumptions in the model. Each month the CFO is to use actual enrollment data to re-evaluate the model for forecasting Trust liabilities. If the revision results in a need to change enrollment targets, the CFO will notify the CEO and AmeriCorps director immediately. The CEO will take appropriate action and report any such action to Congress, the Corporation's Board, and the Office of Management and Budget.

[4] The Corporation's 2003 grant review cycle began in the spring of 2003.

Regular meetings and attention to the enrollment data should help the Corporation keep track of the day-to-day aspects of the AmeriCorps program. Such updated information is an important step in monitoring the use of the Trust in order to determine whether the Corporation should make adjustments. For example, if the Corporation obligated the full cost for each of the positions approved at the time of grant award, and later determined that many of the positions will not be filled, it could reduce the number of approved positions and deobligate some of the funds. The policy changes and new procedures were announced in January. We will continue to monitor the implementation of these policy changes.

Grantees No Longer Permitted to Change Authorized Positions

The Corporation has changed policies regarding its grantees ability to over enroll participants, replace participants who leave with new enrollees and change positions from full-time to part-time. In a January 22, 2003, memorandum, the director of AmeriCorps cancelled the policy that allowed grantees to over enroll members by up to 20 percent over the ceiling established in the grant award in order to take account of attrition. Furthermore, an official said AmeriCorps now considers a position to be filled for the term of the grant once the grantee enrolls a participant, even if the participant later drops out of the program, whether or not an education award was earned. The official said that in the past, grantees could enroll a new member to serve out the balance of the term if grant funds were available. A Corporation official also said that there is a new policy that restricts grantees from converting full-time positions to part-time positions. Grantees must now request and receive approval from the Corporation before such changes can be made.

Since grantees will not be permitted to modify the number and type of authorized positions, the Corporation's ability to manage the AmeriCorps program should improve. Most 2003 grant positions have not yet been awarded; therefore, it is too early to tell whether these new policies will be effective. We will monitor these policies and assess the extent to which they have been implemented as we complete our work.

Grantees Will Be Required to Report Participant Information Within 30 Days, but Data Reconciliation Problems May Need To Be Addressed

In January 2003 the Corporation informed all grantees that AmeriCorps will require timely reporting of participant information to ensure that the Trust database receives current information on the number of participants eligible for an education award. Grantees will be required to keep AmeriCorps informed of the number of participants offered positions and the number who accept and enroll and to document enrollment through WBRS no later than 30 days after participants start working. The memorandum warns grantees that failure to comply with this requirement could result in reductions in the number of positions or termination of the grant. Additionally, the memorandum directs State commissions and other AmeriCorps grantees—the organizations responsible for the oversight of subgrantees—to implement procedures to ensure that timely notification of participant commitments and enrollments is part of their review and oversight functions.

Furthermore, the Corporation has made changes to WBRS, which is used to track participant, grant, and budget information. First, controls have been put in place to limit the number of positions listed in WBRS to no more than the number of approved positions. The Corporation's Biweekly Trust Enrollment Summary, as of March 2003, shows that award totals are being tracked and compared with the data estimates in the Trust. However, officials told us that there are some data reconciliation problems between WBRS and the program used by the Corporation to track the education awards earned by AmeriCorps participants. Corporation staff have had to make manual adjustments to reconcile the data.

Accurate and timely information about enrollments should help the Corporation and AmeriCorps manage the program. As grants are awarded, we will be able to assess whether the policies have been fully implemented.

CONCLUSION

The Corporation's new policies, if fully implemented, should help the Corporation manage the AmeriCorps program by providing better information on day-to-day operations. However, without obligating the full amount associated with all of the positions authorized in the grants, the Corporation remains at risk of having the actual number of enrollments exceed the estimated number the Trust can support. We will monitor the implementation of the Corporation's new policies as we continue our review.

GAO CONTACT AND ACKNOWLEDGMENTS

For further information regarding this statement, please call Cornelia M. Ashby or Susan A. Poling. Individuals making key contributions to this testimony included Carolyn M. Taylor, Tom Armstrong, Anthony DeFrank, Joel Marus, and Hannah Laufe.

APPENDIX I: OBLIGATIONAL PRACTICES OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

UNITED STATES GENERAL ACCOUNTING OFFICE,
Washington, DC, April 9, 2003.

Subject: Obligational Practices of the Corporation for National and Community Service

The Honorable CHRISTOPHER BOND,
Chairman,

The Honorable BARBARA MIKULSKI,
Ranking Minority Member,
Subcommittee on VA, HUD, and Independent Agencies, Committee on Appropriations, United States Senate.

This responds to your letter dated February 25, 2003. You requested that we determine whether the Corporation for National and Community Service (Corporation) incurs a legal liability for the award of National Service educational benefits of AmeriCorps participants at the time it enters into a grant agreement authorizing a grantee to enroll a certain number of AmeriCorps participants, or at the time a participant enrolls in the AmeriCorps program. Subsequent to your letter, your staff explained to us that your question arises in the context of your efforts to ensure that the Corporation is properly recording obligations of the Corporation for National and Community Service National Service Trust (Trust).

As we explain in further detail below, the Corporation incurs an obligation for education benefits when it enters into a grant agreement. At the time of grant award, the Corporation approves the grantee's enrollment of a specified number of new participants in the AmeriCorps program. By this action, the Corporation incurs a legal duty that once fully matured, by action of the grantee and participants outside the Corporation's control, will require the Corporation to pay education benefits to qualified participants from the National Service Trust. As the Corporation incurs an obligation for the education benefits, it must record the obligation against the budget authority available in the Trust.

You also requested that we review the Corporation's request for a deficiency appropriation for the Trust. We will provide a subsequent response addressing this request.

Background

The Corporation for National and Community Service was created to help community needs in education, the environment, and public safety, to expand educational opportunity by rewarding individuals who participate in national service, and to encourage citizens to engage in national service. National and Community Service Trust Act of 1993, Pub. L. No. 103–82, 107 Stat. 785, 42 U.S.C. § 12501. One of the three National Service programs the Corporation oversees is AmeriCorps. Participants in the AmeriCorps program who successfully complete a required term of service earn a National Service educational award of up to $4,725 that can be used to pay for college, graduate school, an approved school-to-work program, or qualified student loans. 42 U.S.C. § 12604(a); 45 C.F.R. § 2527.10. Participants who earn the award have up to 7 years in which to use it. 42 U.S.C. § 12602(d)(1). While the Corporation pays the education benefits directly from the Trust, 42 U.S.C. § 12601(c), the Corporation also is authorized to make grants for the purpose of assisting grant recipients in carrying out National Service programs. 42 U.S.C. § 12571(a). The Corporation provides grant funds for program costs, including a stipend, and health and child care coverage. In its grants, the Corporation also approves enrollment of a specified number of new participants. See, e.g., AmeriCorps Grant Award to City Year, Inc., Aug. 3, 2000.[1] Most of the grant funding from the Corporation for AmeriCorps programs goes to governor-appointed State service commissions, which award subgrants to nonprofit groups, who then enroll the AmeriCorps participants. Corporation for National and Community Service website, http://www.nationalservice.org.

[1] The Corporation provided us with a copy of this grant agreement.

The AmeriCorps program is funded through the Departments of Veterans Affairs, Housing and Urban Development, and Independent Agencies Appropriations Act (VA–HUD Appropriations Act). Congress appropriates amounts in the VA–HUD Appropriations Act on a no-year basis to the National Service Trust. See, e.g., VA–HUD Appropriations Act, 2001, Pub. L. No. 106–377, 114 Stat. 1441 ("not more than $70,000,000, to remain available without fiscal year limitation, shall be transferred to the National Service Trust account for educational awards authorized under subtitle D of title I of the Act"). The National Service Trust is a dedicated fund within the Corporation used to pay National Service educational awards to eligible participants. 42 U.S.C. § 12601(c) ("[a]mounts in the Trust shall be available, to the extent provided for in advance by appropriation, for payments of National Service educational awards in accordance with section 12604 of this title"). The amount deposited into the Trust is to be equal to the product of the value of a National Service educational award and the total number of approved National Service positions. 41 U.S.C. § 12571(c). Of significance is a provision that prohibits the Corporation from approving positions for a fiscal year unless sufficient funds are available in the National Service Trust. It states that "[t]he Corporation may not approve positions as approved national service positions . . . for a fiscal year in excess of the number of positions for which the Corporation has sufficient available funds in the National Service Trust for that fiscal year . . ." 42 U.S.C. § 12581(f).

Your question arises in the context of the Corporation's decision to suspend participant enrollment in the fall of 2002 because the Corporation feared that the Trust would not have sufficient funds to cover education awards for all approved enrollees. For fiscal year 2002, the President did not request and the Congress did not appropriate funds for the Trust, based apparently on the administration's determination that sufficient funds were available to support fiscal year 2002 education benefit outlays. Letter from Phillip J. Perry, General Counsel, Office of Management and Budget, to Susan A. Poling, Associate General Counsel, General Accounting Office (GAO), Mar. 31, 2003. According to the Corporation's General Counsel, in the fall of 2002, internal controls alerted the Corporation to the fact that grantees were enrolling members at an unexpectedly high rate, and the Corporation determined that "in all likelihood the obligations associated with those approved positions would exceed budgetary resources in the National Service Trust." Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. In response, the Corporation amended all AmeriCorps grants to suspend enrollments as of November 15, 2002, and did not permit any additional enrollments until Congress appropriated additional funds to the Trust. Id. Notwithstanding these actions, according to the audit of the Corporation's fiscal year 2002 financial statements, in fiscal year 2002, the Corporation had approved AmeriCorps National Service positions in excess of the number of positions that the Trust could support and thus violated 42 U.S.C. § 12581(f). Audit of the Corporation for National and Community Service's fiscal year 2002 Financial Statements, Audit Report 03–01 at 24, KPMG, Feb. 4, 2003.

Analysis

The issues presented are (1) when does the Corporation incur an obligation for education benefits, and (2) in what amount does the Corporation incur an obligation for these benefits. Understanding the concept of an obligation and properly recording obligations are important because an obligation serves as the basis for the scheme of funds control that Congress envisioned when it enacted such fiscal laws as the Antideficiency Act. 31 U.S.C. § 1341(a); B–237135, Dec. 21, 1989. Under that act, an agency may not incur an obligation in excess of the amount available to it in an appropriation, 31 U.S.C. § 1341(a); accordingly, proper recording of obligations permits compliance with the Antideficiency Act by ensuring that government agencies have adequate budget authority to cover all of their obligations. 42 Comp. Gen. 272, 275 (1962).

Determining the Obligational Event

A general definition of an obligation is "a definite commitment that creates a legal liability of the government for the payment of goods and services ordered or received." B–116795, June 18, 1954. A legal liability is defined, generally, as any duty, obligation or responsibility established by a statute, regulation, or court decision, or where the agency has agreed to assume responsibility in an interagency agreement, settlement agreement, or similar legally binding document. See Black's Law Dictionary 925 (7th ed. 1999). While we ordinarily consider obligations as "legal liabilities," for the concept to be meaningful for funds control purposes, we have not limited the definition solely to agency actions that create legal liabilities, but also have extended the definition to include "[a] legal duty on the part of the United States

which constitutes a legal liability or which could mature into a legal liability by virtue of actions on the part of the other party beyond the control of the United States . . .'' 42 Comp. Gen. 733, 734 (1963); see also McDonnell Douglas Corp. v. United States, 37 Fed. Cl. 295, 301 (1997).

When the Corporation awards a grant, it enters into a binding agreement authorizing the grantee to enroll a specified number of new participants in the AmeriCorps program. In addition, when the Corporation enters into grant agreements with State service commissions, it specifies the budget and project period of the award, the total number of positions approved, the total amount awarded for related program costs for the approved positions, and the terms of acceptance. See, e.g., AmeriCorps Grant Award to City Year, Inc., Aug. 3, 2000. The amounts awarded for related program costs are used by the grantee to pay participants' stipends and health and child care coverage. The Corporation incurs an obligation for these program costs at the time of grant award.[2] See, e.g., B–289801, Dec. 30, 2002; B–167790, Jan. 15, 1973. The costs of education benefits for the new participants are not specified in the grants.

Nevertheless, at the time of grant agreement, the Corporation commits to fund education benefits for all of the positions approved in the grant if all of the positions are enrolled before the Corporation modifies the terms or conditions of the grant. Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. At the time of grant award, when the Corporation approves enrollment of a specified number of new participants, the Corporation has taken an action that can mature into a legal liability for the education benefits of the new participants by virtue of actions taken by the grantee and participants, not the Corporation. In other words, upon award of the grant, the Corporation, at a minimum, has accepted ''[a] legal duty . . . which could mature into a legal liability by virtue of actions on the part of the grantee beyond the control of the United States.'' 42 Comp. Gen. 733, 734 (1963). In our view, therefore, the Corporation incurs a recordable obligation at grant award for the education benefits of the approved number of new participants.

We think our view of when the obligational event occurs is entirely consistent with applicable provisions of the National and Community Service Trust Act. As noted above, the Act requires the Trust to have adequate funds to cover the total number of approved positions. 42 U.S.C. § 12581(f). The language of section 12581(f) focuses on the Corporation's approval of positions as the obligational event for fund control purposes: ''[t]he Corporation may not approve positions as approved national service positions . . . for a fiscal year in excess of the number of such positions for which the Corporation has sufficient available funds in the National Service Trust for that fiscal year . . .''.

The General Counsel of the Corporation has concluded, however, that the obligational event with respect to the education award occurs no earlier than the enrollment of an individual in the Trust. Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. In the past, the Corporation recorded education award obligations on an outlay basis, i.e., it recorded an obligation at the time of the quarterly drawdown of education awards from the Trust. Id. The General Counsel explained, however, that the Corporation is in the process of modifying its procedures for recording obligations and now will record obligations at the time of enrollment based on estimates of what these enrolled members will draw down in the future. Id. The General Counsel stated that the Corporation does not incur an obligation for an education award until the time of enrollment because the Corporation may modify the terms and conditions of a grant, including suspension of enrollment into the Trust, prior to the enrollment of all positions initially approved in a grant. According to the General Counsel, this permits the Corporation, if necessary, to prevent a shortfall in the Trust. The General Counsel also stated that ''a binding agreement between the Government and an AmeriCorps member exists only upon the member's authorized enrollment in the Trust.'' Id. While it may well be true that the Corporation has no binding agreement with a participant until the participant enrolls, we do not view this as the controlling consideration for funds control purposes. In our opinion, this view overlooks the legal duty the Corporation incurs at time of grant award when it commits to funding a specified number of participants and ignores the constraint imposed on the Corporation by section 12581(f).

The Corporation, by its own admission, may modify the number of approved participants only if it amends the grant agreement to reduce the number of enrolled positions prior to enrollment. While the Corporation may unilaterally reduce the

[2] We have not examined and accordingly express no opinion on whether the Corporation is appropriately obligating these costs in the applicable appropriation account.

number of authorized positions awarded to a grantee prior to participant enrollment, from the time of grant award until the Corporation acts to reduce the approved number of positions, the grantee and its subgrantee, not the Corporation, controls the number of participants who may enroll, up to the maximum number of participants the Corporation has approved in the grant agreement. The fact that the government may have the power to amend unilaterally a contract or agreement does not change the nature or scope of the obligation incurred at time of award. Were it otherwise, every government contract that permits the government to terminate the contract for the convenience of the government (48 C.F.R. § 49.502), or to modify the terms of the contract at will (48 C.F.R. §§ 52.243–1, 243–2, 243–3), would not be an obligation of the government at time of award. Long-standing practice and logic both of the Congress (31 U.S.C. § 1501, 41 U.S.C. § 5) and the accounting officers of the government (B–234957, July 10, 1989, B–112131, Feb. 1, 1956) have rejected such a view. As we explained earlier, at the time of grant award, the Corporation's approval of a specified number of new participants establishes a legal duty that can mature into a legal liability for education benefits by virtue of actions of the grantee that are beyond the control of the Corporation unless the Corporation takes affirmative action to modify the grant.

Amount of the Obligation

For purposes of identifying the amount of the Corporation's obligation at grant award, it is also significant that the grantee and subgrantee, by their actions in enrolling participants, ultimately control the amount of the Corporation's liability. If the amount of liability of the government is under the control of the grantee, not the Corporation, the government should obligate funds to cover the maximum amount of the liability. See, e.g., B–238581, Oct. 31, 1990; B–197274, Sept. 23, 1983. As more information is known, the Corporation may adjust the obligation, i.e., deobligate funds or increase the obligational level, as needed.

The General Counsel stated that at the time a member enrolls and the Corporation records an obligation for the member's education benefits, the Corporation will record its "best estimate of the Government's ultimate liability for education awards provided to members enrolled in the National Service Trust." Letter from Frank R. Trinity, General Counsel, Corporation for National and Community Service, to Susan A. Poling, Associate General Counsel, GAO, Mar. 21, 2003. According to the General Counsel, the model the Corporation will use to make estimates of what enrolled members will draw down in the future, i.e., the amount the Corporation will obligate, uses historical information, such as attrition rate and actual usage by members who complete a term of service and earn an education award.

It appears to us that the Corporation is confusing its accounting liability, projections booked in its proprietary accounting systems for financial statement purposes, with its legal liability, amounts to be recorded in its obligational accounting systems and tracked in order to ensure compliance with fiscal laws. For proprietary accounting purposes a liability is a probable and measurable future outflow or other sacrifice of resources as a result of past transactions or events. FASAB Statement of Federal Financial Accounting Standards Number 1. Some types of projections of accounting liability consider the same factors, such as historical trends, that are considered in the Corporation's model. For purposes of tracking its obligations, the Corporation should be recording its unmatured legal liability for the education benefits, which is the value of an educational award multiplied by all approved positions. At the time of grant award, the Corporation should record an obligation incurred for the education benefits against the National Service Trust and the obligation incurred for the related program costs awarded for each of the approved positions against the appropriate account in the VA–HUD Appropriations Act. As the grantees' authority under the grant agreement to enroll participants in the AmeriCorps program expires or if the Corporation modifies the grantees' authority, under the grant agreement the Corporation should deobligate previously obligated amounts to reflect the change in the Corporation and the Trust's legal exposure.

We trust this is responsive to your request. If you have any questions, please contact Susan A. Poling, Associate General Counsel.

ANTHONY H. GAMBOA,
General Counsel.

[CLERK'S NOTE.—The audit documents submitted as attachments to the statement from the Corporation for National and Community Service have been retained in Committee files.]

EDUCATION TRUST ENROLLMENTS

Senator BOND. Dr. Lenkowsky, I have expressed my disappointment about the overenrollment problems. The IG found that the senior staff was aware of the problem as early as last July, but you did not inform the committee or take action until November.

When these warnings were first disclosed, were they disclosed to you in July? What did you do? What specific steps did you take to address the problem and respond, and why did you not notify the committee or suspend enrollments sooner?

Dr. LENKOWSKY. Mr. Chairman, I was informed in late July that the enrollments were going above 50,000, and I think the full memo will be in the Inspector General's report that minimized the relevance of that for the Trust. It said, in effect, down the line we may have to look at the Trust. Most of the memo was devoted to explaining that the reason we were getting such high enrollments was because we were lowering the cost per member.

I have been concerned from the day I walked into the Corporation about two things, and I have been making that point pretty clearly, including my testimony here last year. One was our inability to tell what was happening. We knew applications were going up, but we were unable to tell where the applicants were going, whether they were filling positions.

And the second, which was the point I made at this committee last year, was that our program staff and grantees were not always connecting program expenditures to Trust expenditures. This was the first warning sign.

The second came about 6 weeks later, in August. At that point I was advised that certain individuals in the Corporation were going to examine this in more detail and get back to me. At that point, I went over to our congressional people. The President had nominated Ms. Guillermin to be our new Chief Financial Officer. The nomination was pending before Congress at that point, and I asked our congressional people to make sure Congress understood the importance of getting a new Chief Financial Officer in place.

In retrospect, I probably should have advised the committee, once we began to see these numbers going up, but I wanted to make sure I understood properly what was going on and what the implications were.

Ms. Guillermin arrived in October, mid-October. She immediately went to work on this problem, notified me there might be a problem, spoke to me—I was actually on a brief vacation at the beginning of November—and upon receiving that information I made the decision first to pause and at the same time to brief this committee—as soon as I had a full understanding of the nature of the problem I believe we came up here.

MANAGEMENT OF THE TRUST

Senator BOND. Mr. George, your testimony indicates that the Corporation did not respond until it realized that the CR prevented them from budgeting funds for the Trust. Are you implying that if the CR did not occur we may not have found out about the problem?

Mr. GEORGE. That is a possibility, Senator, yes.

Senator BOND. Mr. George, your testimony states that your investigation found that Trust liability projections were not being made by Trust staff but by a senior-level official in the Corporation's executive office. I understand this investigation is going on, so I will not ask you to name names, but can you tell me about the position of the senior-level official in the Corporation's executive office? In your opinion, was it appropriate for this official to be in charge of the Trust liability projections?

Mr. GEORGE. The person held the position of the Coordinator of National Service Programs, and under the position description of the Trust's Director, it was not the Coordinator's responsibility to make that call, so the answer is, while input, of course, could have been provided, the final decision should have been with the Trust's Director.

Senator BOND. Dr. Lenkowsky, how have you responded to the findings about the involvement of the senior-level official in those projections?

Dr. LENKOWSKY. As you know, Senator, I have reassigned two very senior officials in our organization, one of whom is, as noted in your remarks, planning to retire. Based on the evidence before me I felt those were the actions I could take at that time. I am awaiting the results of the Inspector General's report and the GAO report to determine whether, on the basis of their analysis, there is sufficient cause for further personnel action. I will be glad to discuss any of this with you, since it involves individuals, in executive session.

Senator BOND. Let us know. Let me ask Ms. Guillermin if you could briefly describe the steps that have been implemented to correct the past problems of overenrolling AmeriCorps members.

Ms. GUILLERMIN. We have not had the opportunity to implement the full range of new procedures because we have not gone through the full grant cycle, so as the opportunity arises because of the cycle of the process we are implementing the new procedures.

The procedures will span, going forward, the period that begins with our budget development, 2 years before our fiscal year begins, through to analysis, throughout that time frame. We will during the budget development process perform calculations to determine what the targeted enrollment levels are and the appropriate funding against those levels.

What needs to change in addition to very simple review and oversight procedures is a change in culture, as you mentioned, which includes transparency, involvement of all appropriate areas, and analysis and reforecasting. The changes are very simple and easy to implement, but will require a company changing culture to make effective.

Senator BOND. We wish all of you luck in making those changes.

Senator Mikulski.

CNCS SENIOR LEADERSHIP

Senator MIKULSKI. First of all, Mr. George, thank you very much for this report. I think it is excellent. It is like you are both a fiscal and management radiologist and I think we all see some very serious issues here.

What is so troubling to me is, both your report, sir, and then the GAO report that we asked for, indicate that there have been inappropriate obligation practices, little or no communication among key Corporation executives, a whole culture of one group not talking to the other, and a lot of flexibility given to grantees regarding enrollments, but no reliability on the number of AmeriCorps participants.

I think there has been a complete lack of leadership here. First, you have to know I am very disappointed in the Corporation's Board. I am very, very, very disappointed in the Corporation's Board.

One of the reasons we established this as a Corporation is so that there could be the best practices from the private sector. That it had to exercise oversight and accountability so it would not run wild, that was number 1, and also to allow creativity and ingenuity. I think the Board has been a bust. I think it has been like Enron goes nonprofit. I think they have exercised no stewardship, no responsibility, no accountability, and if this does not get fixed in the next year I will most respectfully ask President Bush to terminate the Board membership.

I am truly serious, because we cannot, as appropriators, be the kind of watchdogs and stewards that we would like to be, so that was the whole point of establishing the Board. There were so many questions about National Service when it started that we felt the Board would be the proper balance of good business practices, sound financial accounting and stewardship, and it has been a B–U–S–T, and I think there has been a lack of leadership on the Board.

Second, I am not going to pinpoint here, but I think there is a lack of leadership in Headquarters culture. There is a huge lack of communication. The Trust Director's position states that the Trust Director was supposed to be in charge of the Trust, but the person in charge of the Trust was like a day-to-day accountant rather than a Trust manager, and I do not get a sense that everybody gets into the same room, or the same virtual room, because of data, to really be able to stand sentry to be sure we are getting taxpayer's value for taxpayer's dollar but we are not violating the law.

So I again think if this leader, if there is not a change in culture and a change in leadership, we then have to look at where we are going, Mr. Chairman. I think this is the most serious we have come to, so I have a series of questions, but I feel very strongly.

I would like, with your concurrence, Mr. Chairman, that we take the Inspector General's report, the GAO report and others that are appropriate that have been briefed to us, and we send it to the Board, and we ask the Board to get their act together and get the Corporation's act together, and if not, then we will have to take this to the White House.

That is where the accountability needs to be, along with, quite frankly, Mr. Lenkowsky, you and your team, but I am going to say this to you and your team. I think you really know National Service cold, but we have got real issues here. What I do not understand is how the Corporation approved more positions, and we keep approving positions, but there seems to be no data on why volunteers do not earn an education award and do not use the education

award at all. This should be the very first thing that every year you decide how much money you have got, how much is in the Trust, and therefore how many volunteers you can enroll. Why do you not know this?

EDUCATION TRUST MODEL

Dr. LENKOWSKY. We do have a model that forecasts obligations for the Trust that is based on estimates using historical data.

Senator MIKULSKI. But you do not have good data.

Dr. LENKOWSKY. We are getting better. Remember, we have just gone through a first class——

Senator MIKULSKI. But you do not have good data. The model is a bust.

Dr. LENKOWSKY. I think I would like to ask Ms. Guillermin to comment on that. She has been working on the model. My understanding of the situation is that we had one of those garbage-in, garbage-out problems.

Senator MIKULSKI. That is exactly right.

Dr. LENKOWSKY. The garbage, though, was not the model. It was the numbers going into the model. I think the model was basically sound, but I would like Ms. Guillermin to comment on that because she has been looking at that very closely.

Ms. GUILLERMIN. The model has been reviewed, and it operates in accordance with the assumptions that it was built to operate around. What we are finding, given the OMB feedback and now this GAO feedback, is that the assumptions upon which the model were based were erroneous and the model should never have been built around those assumptions at all.

Senator MIKULSKI. So what are you going to do about it?

Ms. GUILLERMIN. We need to modify the model. We need to——

Senator MIKULSKI. We need to, but what are you going to do about it, when are you going to do it, and how will you know that the model is accurate? I need urgency, urgency, urgency here.

Ms. GUILLERMIN. Yes, ma'am.

Senator MIKULSKI. I need passion. I need from you all such an outrage. Do you have the outrage?

Ms. GUILLERMIN. We have the outrage and we are exhausted from spending many, many hours on this issue over the past 6 months. We have implemented new procedures. We have changed the culture. We are determining, because as you have noted there have been a number of different opinions as to what the right accounting is, when the obligation should go into effect, and how much that obligation should be, and we can implement immediately—we have the GAO report as of yesterday and can implement today the recommendations that they have made.

Dr. LENKOWSKY. May I just add to that? As I said in my opening statement I think there is deep and profound anguish over what has gone on and a determination to change it on the part of senior leadership and on the Board itself. I speak for my chairman in this, that he, too, realizes the Board has not been implementing effective oversight, and we are making steps to change that, including regular metrics for the Board's use at each Board meeting.

Now that we have both the IG and the GAO, now that OMB has weighed in, what we intend to do is determine once and for all

what the proper legal standard is for developing obligations. We actually spoke a little bit about this at last year's hearings, as you may remember, Mr. Chairman. Once we get that down, we will get that right in place immediately——

Senator MIKULSKI. Well, when are you going to get it down?

Dr. LENKOWSKY. Now that we have those reports in we are going to move with all deliberate speed to get this down.

Senator MIKULSKI. Can I have a due date?

Dr. LENKOWSKY. I think what we need to do is get OMB, GAO, our Appropriations Committee——

Senator MIKULSKI. That is a process answer. I want a due date. I am done with process.

Dr. LENKOWSKY. Yes, I think I can give you a due date. I believe our first round of grants for 2003 is scheduled to be made at the beginning of June, and everything will be in place before then.

Senator MIKULSKI. Well, we want the legal definition to this committee by Memorial Day.

Dr. LENKOWSKY. Fine.

Senator MIKULSKI. Mr. Chairman, you have been generous, so I will wait for a second round.

RELATIONSHIP WITH FREEDOM CORPS

Senator BOND. Thank you, Senator Mikulski. We will note the June 1 date. I would say that we will certainly forward this information, along with our opening statements, to the Board. We will also forward them to the White House.

I would tell you I have been getting regular calls from the White House, because the President does support the concept very strongly, and I have told him, I have told the representatives of the White House the concerns we have. We will share this with them, and I expect we will all be hearing a lot more from them, but with all the respect I have for the White House and all of the wonderful members of the Board, they ain't going to get no more money until we get the thing cleaned up, so that just happens to be my opinion. Now, somebody may beat me on the floor, but I doubt it.

Dr. Lenkowsky, the Corporation plays a significant role in supporting U.S.A. Freedom Corps. The budget justification for 2004 indicates that collaboration will continue with U.S.A. Freedom Corps, but there are no details. Besides the mainstream AmeriCorps programs, what other activities, what amount of funding does the Corporation expect to provide in supporting U.S.A. Freedom Corps initiatives? Do you expect to fund the President's Council on Service and Civic Participation? What are you going to do? Where are you going to spend the money, please?

Dr. LENKOWSKY. Senator, we work very closely with the Freedom Corps, which as you know is a White House Coordinating Council aimed at implementing the President's call to service. Everything we do with the Freedom Corps is completely consistent and, indeed, adds to the value of the Corporation's own programs within that larger context.

In our operating plan which we have submitted to this committee we have identified—I think it is a good thing to ask us to identify this and I am glad we have now established that procedure—the items that we expect to spend on Freedom Corps in 2003. They do

include the Council. They will include support for the 800 number, the web site, things like that. They will include some collaborative research efforts aimed at gauging some of the motivations that may or may not affect the willingness of Americans to volunteer.

As we go forward in 2004, we would expect to do exactly the same with you, which is to identify within an operating plan context what items within our budget will be part of our collaborations with Freedom Corps.

Senator BOND. If you expect to get the money for this collaboration in 2004 we do not want to wait until sometime in 2004, after we pass the budget, to get your operating plan. We need to know now what you plan to do, how you plan to support it, where you plan to spend the money. This should be part of your budget submission to us so we know what you plan to do. Just telling us you are going to collaborate does not get it.

Dr. LENKOWSKY. We will provide that information to you as we know it. As you can appreciate, Senator, in the course of the year, especially with the new effort like the President's call to service, there are things that are developing, but I think we have established the procedures so that as soon as we are aware of potential collaborations we will make sure this committee is.

FISCAL YEAR 2004 CHALLENGE GRANT REQUEST

Senator BOND. Well, if you want us to fund them, you need to tell us about them in the process.

My last question, Dr. Lenkowsky, on challenge grants. We provided in the 2003 budget $6 million for new challenge grants because we think that having you decide among all of the worthy recipients is the best way to do it. We provided funds in response to huge demands and earmarked requests from Teach for America, Girl Scouts, National Mentoring Partnership, to name a few.

I am very disappointed the administration zeroed out this program and instead added a new earmark of $3 million for Teach for America. Why do you not want to be able to make the judgments on how the work of these many worthwhile groups will best complement the objectives of the Corporation for National Service, and does this mean now that OMB, which criticizes Congress for earmarking, now OMB believes that we should be earmarking? Do you know what is going on there?

Dr. LENKOWSKY. I do. I think this was a quirk of the unusual budgeting process we had in the past year. At the time we were putting in the 2004 request we did not have, as you know, the 2003 request in place. Consequently, as we discussed this with OMB we were advised that they did not want to put a number in, not knowing if Congress would have put the $6 million in. Let me say to you that now that we have the $6 million in there, we are prepared to work with this committee to put in the challenge grant provision with funding in the future.

I should also add we did issue a request for proposals under the $6 million challenge grant. The response has been extraordinary. It exceeded our expectation in terms of letters of intent to apply, and we are hoping to make the first awards, and we will be notifying you well in advance of who those awardees will be. I believe

our timetable might even be as early as next month, or perhaps early June, but it is very quick.

Senator BOND. Well, number 1, you knew what the appropriations bill was going to be because you saw the bills. Essentially we did the bills last summer and then we finally got them passed, so you knew what was coming.

Number 2, I have no doubt that the total requested is probably far beyond $6 million. I would like to know what you see the total is, what your estimate of the worthy ones is, and what you think we should set aside, because we have got to have a number in it. We have got to take money and put it in this Challenge Grant Program to the extent that it really performs a necessary service for the Corporation, and if you can do well through those, it seems to me to be a good idea.

So what is the total, what do you estimate we need, and what do you request for 2004?

Dr. LENKOWSKY. I will be able to give you a better answer to that when we see the proposals. Right now, we do have letters of intent to apply. I do not have in front of me the data. I believe we have shared the RFP with the committee staff. If not, we will, and as soon as we get that information together I will be glad to supply it to you.

Again, with respect to the budget process, I can assure you that in our discussions with OMB the Corporation did emphasize the value of the Challenge Grant Program. We are very excited by it.

Senator BOND. I would like to know how much you can use. My staff did find it on the web, so it did not come from you.

Senator Mikulski.

ADMINISTRATION EARMARKS

Senator MIKULSKI. Thank you very much, Mr. Chairman. I would like to follow up on that, because first of all we like Teach for America, but we also note that there is more money in here earmarked by the White House for Points of Light, we understand its historic point of interest to this administration and the role that it has played.

Then we earmarked something for America's Promise, which was started by General Powell, now Secretary Powell. There is very little anecdotal evidence that this has had very much traction. I am not a real enthusiast of America's Promise, only because I do not know what it has done. I am not going to argue with it. I would argue why should they get $7.5 million, but let's go to the challenge grants. How many proposals did you get?

Dr. LENKOWSKY. Right now we are at the stage of the process where we are soliciting letters of intent to submit proposals.

CHALLENGE GRANT PROPOSALS

Senator MIKULSKI. But you said it was overwhelming.

Dr. LENKOWSKY. We have received 60 of them. At last count from the program officer responsible, she told me she had 60 letters of intent to apply. I believe that is the stage we are at.

Senator MIKULSKI. Okay, so that would be 60, and then roughly what were they applying for?

Dr. LENKOWSKY. I believe the minimum grant we are going to give is $500,000.

Senator MIKULSKI. And what is the maximum?

Dr. LENKOWSKY. The maximum grant level is $3 million. I am also told, by the way, that many of these are organizations that are not otherwise engaged in working with the Corporation, so we are really reaching out.

Senator MIKULSKI. Well, let us go back, then, to the intent. Well, so just using this sum already, Mr. Chairman, we are talking $20–30 million.

Senator BOND. If you only gave half of them——

Dr. LENKOWSKY. If they only applied for half, it is probably $20–30 million.

Senator MIKULSKI. That is exactly right, and if you recall last year, just in our subcommittee, we received $40 million in requests, and they were all bona fide requests. These were the Scouts, the Boys and Girls Clubs, bona fide track records, and they had a track record for criteria. First of all they were national organizations. They have national organizations with local delivery systems. They therefore came there with their own financial dowry. We were not their bankroll.

The other thing is that they had an organized, systematic way of recruiting and training volunteers that we thought was great. Boys and Girls Clubs do background checks to make sure the kids are safe. We know what the Girl Scouts do. We know what Teach for America does, that they have to be fit for duty to be in the classroom.

So I am glad that you are hearing, they are new, but the whole idea of the challenge grant was to do this. Number 1, get us out of the earmark business so that we did not all come with our teachers' pets. I have some of my own, so does Senator Bond, et cetera, so that earmarks were not based on, who is our teacher's pet.

We all agreed Teach for America was a teacher's pet, but at the same time our criteria was that these were national in scope but local delivery, and yet we could count on them for the way they recruited, screened, and trained volunteers, that there would be a consistency, not necessarily uniformity, because we want responding to the local context, but there would be consistency in those volunteers so we could have confidence in them.

So it was to get us out of the earmark business and it was putting us into helping these groups of national scope, coming with their own matching funds, and they had that infrastructure. I would hope we would stick to this and not think about breaking new ground. Was that your understanding?

Dr. LENKOWSKY. That is exactly our philosophy. We are very excited——

Senator MIKULSKI. I am not talking about philosophy. I am talking about real criteria here.

Dr. LENKOWSKY. Yes. We are beginning the review process now and I think——

Senator MIKULSKI. Is that your criteria?

Dr. LENKOWSKY. Those will be the criteria.

Senator MIKULSKI. Is that currently your criteria?

Dr. LENKOWSKY. I think those criteria are stated in the RFP, and again we will make that available for you if you do not have it.

Senator MIKULSKI. No, I want you to know what your own criteria is.

Dr. LENKOWSKY. Oh, they are certainly my criteria, absolutely.

Senator MIKULSKI. So you see what the intent was, and I believe the criteria—I think as a National Service expert, would you agree that that is the sound criteria for challenge grants?

Dr. LENKOWSKY. Absolutely.

FINANCIAL MODEL: LARGE CAP, MID CAP, IPOS

Senator MIKULSKI. Okay. Now, let us go to something else. They were meant to be for large caps.

Dr. LENKOWSKY. That is right.

Senator MIKULSKI. Okay. These were—when we looked—to use a financial model, the large cap, the mid cap, and the IPOs, the large cap were these national groups to be dealt challenge grants. The money that goes to States that Governors would be mid cap. Then we had what we call the IPO. These were the small start-up groups that through, hopefully, a Board exercising due diligence in your professional capacity would identify small groups that were the Teach for America of a decade ago, the City Year of a decade ago. Now, where are we with that $4 million? Where are you with that, and do you agree that that is the criteria that is meant to be identifying small groups that are emerging? Will you even want to test it to see, are these the groups of the future, so that they can then go to a Governor, go to a United Way, et cetera?

Dr. LENKOWSKY. I agree completely. We received a letter from you, Senator, and from the chairman a few days ago. I immediately convened a meeting of our program staff. We had that meeting yesterday and began to work on this. Obviously, there is going to be a lot of outreach involved, a lot of technical assistance. There are a number of questions we had which I believe our Congressional Affairs Office will be discussing with committee staff about such things as can we use some technical assistance money within that grant amount to help nurture some of these start-ups.

Senator MIKULSKI. We want to know what you think, though.

Dr. LENKOWSKY. I agree completely with your philosophy.

Senator MIKULSKI. Well, what do you think we need to do——

Dr. LENKOWSKY. I think we need to——

Senator MIKULSKI [continuing]. And do you think, number 1, is it worth the $4 million public shot, and what do you think it ought to be?

Dr. LENKOWSKY. Well, as we discussed——

Senator MIKULSKI. What does that Board think it ought to be?

Dr. LENKOWSKY. The Board has not had an opportunity to review this yet, again, because this came in the 2003 appropriation. We have not had a Board meeting since then.

Senator MIKULSKI. Well, what do you think about it?

Dr. LENKOWSKY. We will be reviewing it in May.

Senator MIKULSKI. What do you think about it?

OUTREACH TO ORGANIZATIONS THAT SERVE IMMIGRANT POPULATIONS

Dr. LENKOWSKY. I think that what we need to do is identify areas or kinds of organizations where we ought to be reaching out and seeing whether—for example, one I mentioned, we have got a lot of new immigrants in this country.

Senator MIKULSKI. Right.

Dr. LENKOWSKY. And it is not obvious to me—I have met with a couple of groups—that the traditions of service, if you will, are as well-established in immigrants from countries where there was not that tradition, and so what I suggested, as our program staff begins to work on this, we identify a couple of specific areas, proactively go out, go talk to existing organizations, talk to experts in the field, see where the needs are, and then see what we can do to help nurture, if it needs to be nurtured, a new generation of service.

Let me give you one example that we already did which is a little bit—it is not quite a new organization, but I think it is close in concept. Early in my tenure I visited a remarkable organization called ACCESS. It is the Arab Community Center for Economic and Social Services in Dearborn, Michigan. It is a settlement house for Arab Americans and, as you probably know, there are more Arab Americans living in the Detroit area than in any part of the world except the Middle East and France, and it was a wonderful operation.

Senator MIKULSKI. What is it doing?

Dr. LENKOWSKY. It is a settlement house, so it does everything from teaching English to people seeking jobs, health services—one thing the settlement——

Senator MIKULSKI. Could I interrupt? First of all, we certainly do want to reach out to Arab Americans and to the new immigrant populations, but is this, by going to this settlement house, the potential for a national movement here?

Dr. LENKOWSKY. Well, that is exactly what we have already done. In advance of this grant they came in and successfully received a grant to replicate in a few other communities what they were doing successfully in Dearborn, and that is precisely the philosophy that we will be——

BOARD OF DIRECTORS

Senator MIKULSKI. Okay. I do not mean to be brusque, but my red light has been flashing for some time. I just want to say this. I am really frustrated, and what I feel is that Senator Bond and I have been the Board. We have come up, working with you, with the idea of the challenge grants, we have come up with the seed grants, we then have to give guidance and criteria—I feel like we have been the Board.

Now, the people did elect us in many ways to function, but I am very frustrated. That is what a professional staff is supposed to be doing, that is what a Board of Directors is supposed to be doing, and if we are going to be the Board, then we will be the Board, and then you do not need a Board, and I am pretty hot about this.

Senator BOND. Thank you very much, Senator Mikulski. I would just point out that there should be criteria in a sense for the na-

tional challenge grants, since it was requested in 2003, the $6 million was in response, I guess, to a $10 million budget request, so it should not come as a surprise to anybody that there is a program that needs to have grants, and I would also second what Senator Mikulski had to say about what great performance we are seeing from Teach for America. We wonder why that had to be earmarked, why the Corporation was not taking care of it, and I will be quite honest, I have heard nothing but questions about America's Promise and what it is actually accomplishing, so we are going to be taking a look at those.

ADDITIONAL COMMITTEE QUESTIONS

Well, we do have a number of more questions, obviously that we will have to submit for the record. We have another part of this hearing. We thank you very much, Dr. Lenkowsky, Ms. Guillermin, and Mr. George, and I guess we will be seeing lots of you in the weeks and months to come. Thank you.

Dr. LENKOWSKY. Thank you very much, Mr. Chairman.

Mr. GEORGE. Thank you.

[The following questions were not asked at the hearing, but were submitted to the Corporation for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

ACCOUNTABILITY

Question. In Mr. George's testimony, he "found that Trust liability projections were not being made by Trust staff, but by a senior-level official in the Corporation's Executive Office."

Dr. Lenkowsky, it is clear that this "senior-level official" should not have been making Trust liability projections. How have you responded to this finding? Have you taken any disciplinary action? Will you take disciplinary action if the IG or GAO investigations identify more problems?

Answer. The "senior-level official" held the position of Director, Office of Planning and Program Integration. A career government employee, he was reassigned in November 2002 to the staff of the Department of Research and Policy Development and retired at the beginning of May 2003. The Office he headed has been eliminated and Trust liability projections are now the responsibility of the Chief Financial Officer.

I have already advised the IG that I intend to take additional personnel actions depending upon the outcome of that investigation. I will also act upon any findings or recommendations that emerge from the GAO investigation.

USA FREEDOM CORPS

Question. The Corporation plays a significant role in supporting the USA Freedom Corps' activities. The Corporation's budget justifications for fiscal year 2004 indicate that "collaboration will continue with USA Freedom Corps." However, there are no details.

Besides the mainstream AmeriCorps programs, what other activities and what amount of funding does the Corporation expect to provide in supporting USA Freedom Corps initiatives? For example, do you expect to fund the President's Council on Service and Civic Participation? If so, how much money do you expect to provide to the Council in fiscal year 2004?

Answer. The Corporation participates in activities related to National Service jointly with other agencies, which are many times, coordinated through the USA Freedom Corps (USAFC). In 2002, the Corporation spent approximately $371,000 on such activities, which include co-sponsorship of a toll-free number which directs potential volunteers to the National Service Programs and publishing of the Record of Service Journal, which allows volunteers to record their lifetime service experiences. In 2003, the Corporation plans to participate in a number of activities coordinated through USAFC as well as a number of activities in which USAFC is nomi-

nally involved. These include continued sponsorship of the toll-free number and websites, the White House Task Force on Disadvantaged Youth, the White House Forum on Civics, History and Service, as well as the President's Council on Service and Civic Participation. While USAFC participates in the President's Council, it is important to note that the Council is housed at the Corporation pursuant to Executive Order 13285. The direct costs of these programs total approximately $740,000.

In 2004, the Corporation will continue to participate in activities in which USAFC is involved. However, these items are included in the Innovation, Assistance and Other Activities funding stream (H Funds), the level of which has yet to be determined by the fiscal year 2004 appropriations.

PERFORMANCE MEASURES

Question. The fiscal year 2003 appropriations bill directed the Corporation to establish performance measures for each grantee, require each grantee to submit a correction plan should the grantee not meet the measures, and reduce or terminate any award where the grantee does not meet the performance plan.

Please tell us how you have implemented these directives.

Answer. In 2002, the Corporation launched a major initiative to work with applicants and programs to strengthen the accountability and performance of organizations receiving funds under the National Service laws. The Corporation restructured its evaluation office, creating a new Department of Research and Policy Development (RPD) reporting directly to the Chief Executive's Office. RPD is leading an intensive effort to measure the performance of federally funded community service programs. The performance measurement initiative will take several years to fully implement, and will provide an ongoing assessment of the short- and long-term effects of community service on volunteers, host organizations, individual beneficiaries and communities. This initiative is essential to enable the Corporation to fulfill its mission of achieving direct and demonstrable results. The Performance Measurement Initiative affects all programs under the Corporation's umbrella: AmeriCorps (AmeriCorps*State and National, AmeriCorps*VISTA and AmeriCorps*National Civilian Community Corps) and Senior Corps (Foster Grandparents Program, Senior Companions, and the Retired and Senior Volunteer Program); and Learn and Serve America (school- and community-based programs for young people).

The Corporation's Performance Measurement Initiative has six major components:

1. Department of Research and Development (RPD).—In 2002, the Corporation's CEO, Leslie Lenkowsky, created a Department of Research and Policy Development, which absorbed the old evaluation division and assumed a broader mandate to link program evaluation to policy design. At the heart of RPD's mission are (1) monitoring and evaluating program expansion and developing policy-relevant research to assure accountability, quality and continued innovation in policies and programs; and (2) documenting compliance with the Government Performance and Results Act to encourage a culture of outcome-based management.

2. Comprehensive Review of the Corporation's Performance Measurement Systems.—To lay the foundations for this initiative, the Urban Institute, a leader in the field of performance measurement, completed a review of the Corporation's performance measurement systems and provided recommendations for improvement in July 2002. The report identified several weaknesses in the Corporation's performance measurement system including: few programs had performance indicators in their budget estimates or performance plans and many indicators that did exist were designed to measure outputs (statistics) rather than outcomes and results. The Urban Institute recommended that the Corporation revise this performance measurement system to make them more results oriented and require grantees to identify specific performance indicators to track their performance. The Corporation has adopted the report's recommendations and is revising the performance indicators and requiring grantees to identify specific indicators on which they will collect regular data to report on their performance beginning with applications filed in fiscal 2003.

3. Development of Internal Performance Measures.—RPD is leading the effort to implement performance measures within the Corporation, as well. Each major program and department, from Congressional Affairs to RPD itself, has devised outcome indicators to help department heads manage for performance. In developing the Fiscal Year 2004 Budget, the Corporation completed the new Program Assessment Rating Tool (PART) for the AmeriCorps program, and currently is implementing reforms to address finding and recommendations to improve the program's effectiveness rating.

4. Performance Measurement Requirement for Grantees.—Each grantee (and subgrantee) is now required to identify 3–5 performance measures and then collect, in a regular and systematic way, the quantitative data for those measures. Under the

new protocol, short- and long-term outcome measures are required. In addition, service programs are required to report the data to the Corporation. Under the new management system, each of the three principal actors in a service setting will assess the others. These three actors are the service-corps member/volunteer, the nonprofit administrator overseeing the volunteer, and the beneficiary of the service. Their collective feedback will count in funding decisions.

5. Creation of a Performance Measure Toolkit.—The Corporation contracted to develop a Performance Measurement Toolkit to help grantees understand performance measurement concepts, provide information on how performance measurement can be applied to National Service programs, and help potential applicants for funding respond to the performance measurement requirements of the application process. The toolkit was completed in late 2002 and disseminated to the field in early 2003. The toolkit also contains an explanation of how to use a logic model to structure National Service programs, identify the key program elements that must be tracked to assess the program's effectiveness, and improve program planning and performance by identifying the ways to measure program results and areas for improvement. The Corporation also provides training and technical assistance on performance measurement to all Corporation program staff, State commissions, organizations receiving funding, and organizations interested in submitting an application for funding.

6. Introduction of Performance-based Grant Making.—Rather than spreading service funds around and hoping that the outcome will be good, the Corporation will tie future grants to documented performance. Low-performing grantees that are unable to improve will not have their grants renewed. First-time applicants will have to provide the Corporation with a solid, workable performance-measurement plan. Equally important, performance data will be shared with the public, including beneficiaries and prospective volunteers, to spur improvements by programs.

This year we are devoting approximately $3.8 million in contract support to strengthen program measurement at the local level, to develop standard instruments that local organizations may use, to provide training to local organizations, and to collect certain basic data concerning the impact of these programs.

In addition to these amounts, a significant percentage of staff time at the Corporation is devoted to monitoring and assessing the impact of local programs, as well as providing support in how to implement performance measures. This staff time does not represent additional costs, but is a shift in focus. We think this shift is justified and is critical to strengthening national and community service programs.

SUSTAINABILITY

Question. Last year, I raised the question about sustainability because of my concerns about the Corporation funding the same organizations every year.

Dr. Lenkowsky, how have you addressed sustainability, especially in terms of reducing grantee reliance on Federal funds?

Answer. The Senate Appropriations Committee, Subcommittee for VA/HUD-Independent Agencies, in action on the budget for fiscal year 2003, directed the Corporation for National and Community Service to provide a report that details its efforts to measure a grantee's reliance on Federal funding and to reduce grantee reliance on Federal funds both in terms of total Corporation resources provided to grantees, and as a percentage of grantee operating costs.

This report was submitted to the subcommittee in May, 2003. In general, the Corporation is committed to supporting programs that are sustainable and has made a number of recent policy changes to achieve the objective of reducing reliance on funding (other than education awards) from the Corporation. These policy changes are described in detail in the attached report.

"CHALLENGE" GRANTS

Question. The fiscal year 2003 appropriations bill provided $6 million for a new challenge grants program. We provided funds for this new program in response to the huge demand of earmark requests from groups like Teach For America, Girl Scouts, and the National Mentoring Partnership, to name a few. I am disappointed that the administration zeroed out this program and added a new earmark of $3 million for Teach for America.

Can you give me a status of this year's challenge grants program? How many applications have you received and how many do you expect to fund?

Answer. The Challenge Grant Notice of Funds Availability (NOFA) was printed in the Federal Register on March 25, 2003 with an April 10, 2003 deadline for applications. We received 53 applications. During the first stage of the review process,

the compliance review, we determined that 38 applications were compliant and these were sent to the first round of review. Most of the non-compliant applicants had an insufficient match.

Thirty-eight applications were reviewed in the first round of review. Twenty-one were sent to the next round of review which is currently in progress. With $6 million in the 2003 appropriation, and a minimum request of $500,000, we can make up to 12 grants. The CEO will receive the final recommendations of the review committee in early June and plans to notify the Senate and House Appropriations Subcommittees on VA/HUD and Independent Agencies by the third week of June, prior to the notifications going to awardees.

Question. Regarding Teach for America, I understand that despite their great performance, they continue to receive the same level of funding year-in, year-out. If an organization like TFA is performing well and is experiencing a greater demand for its program, why is it not able to receive more funds?

Answer. Teach for America has done an excellent job of leveraging its AmeriCorps funding with significant private and non-Federal support. In 2002, about 10 percent of its total operating budget comes from the Corporation ($1.6 million). In addition, every member of Teach for America is eligible to earn an education award. As demand for the program grows and it enrolls more members, the Corporation commits more funding for these awards. In fiscal year 2002, Teach for America received $19.7 million in private support from corporations, foundations and individual giving and events which represents 74 percent of TFA's total revenue.

With regard to Corporation support in previous years, Teach for America received the following Corporation grants between 1994–2002:

1994–1998:	
National Direct Programs	$8,433,000
1999:	
National Direct Programs	1,433,000
2000:	
National Direct Programs	1,632,970
2001:	
State Competitive Programs	269,230
National Direct Programs	1,725,400
Subtotal	1,994,630
2002:	
State Competitive Programs	268,921
State Formula Programs	100,000
National Direct Programs	2,798,201
Subtotal	3,167,122
Total	16,660,722

COST ACCOUNTING SYSTEM

Question. For several years, I have asked the Corporation to develop a cost accounting system so that we can have actual cost data on its programs and grants. Last year, PriceWaterhouseCoopers (PWC) assessed the Corporation's implementation of its new cost accounting system and it recommended that the new system is refined to calculate cost per grant or cost per grant dollar.

What is the status of your new cost accounting system? When do you expect to be able to provide us with actual cost data on your programs?

Answer. During fiscal 2001, the Corporation implemented a cost accounting application that enables the Corporation to track and report expenses by major program. The Statement of Operations and Changes in Net Position contains comparative expense information by program. This application is the mechanism by which the Corporation determines the total cost to operate each of its three major programs: AmeriCorps, Learn & Serve, and National Senior Service Corps. Support and administrative costs are allocated to each of the programs based on a systematic and rational cost driver. During fiscal 2002, an independent contractor, PriceWaterhouseCoopers, determined that the Corporation's cost accounting application is in compliance with the Federal Accounting Standards Advisory Board's Statement of Federal Financial Accounting Standards Number 4, *Managerial Cost Accounting Concepts and Standards for the Federal Government*. This accomplish-

ment places the Corporation ahead of many Federal entities in achieving compliance with the cost accounting standard.

In 2002, we implemented recommendations from PWC to add functionality to the model to calculate the administrative cost per grant or administrative cost per grant dollar so that we can monitor and measure improvements in administrative cost management over time. These changes, coupled with full implementation of the eGrants system (expected in late 2003) will allow the Corporation the first opportunity to fully apply the new model to reliable data and perform cost accounting on our actual experience.

LEVERAGING MORE VOLUNTEERS

Question. The Corporation added a new criterion in its AmeriCorps application process that takes into account the leveraging of additional volunteers. I am a big supporter of this because I believe the AmeriCorps program can be more effective by focusing more on "wholesale" activities instead of "retail" activities.

Please provide an update on how you have addressed this matter.

Answer. A fundamental purpose of AmeriCorps is to help recruit, support, and manage the networks of volunteers assisting nonprofit organizations in meeting community needs. By creating volunteer opportunities and helping organizations to effectively engage volunteers, AmeriCorps programs multiply their impact, build organizational capacity, and support the development of sustainable programs. Volunteering also provides an ideal opportunity to bring together people of many racial, ethnic, and religious backgrounds around a common goal and to foster the active citizenship upon which the health of our democratic system depends.

We have increased our emphasis on supporting programs that engage volunteers in their activities. Accordingly, our guidelines for the 2003 award competition state that successful applicants will be those that address how their AmeriCorps program will effectively engage and support volunteers in meeting community needs and staff reviewing applications have been asked to report on proposed uses of volunteers.

The Corporation is also developing a process to standardize reporting procedures for volunteer leveraging and create uniform definitions for counting community volunteers and across programs. We will develop these measures in consultation with grantees. For example, the Corporation is interested in creating standard definitions or categories of community volunteers based on the level of service they contribute. We are also exploring a standard approach to assessing AmeriCorps members' involvement in or contribution to the recruitment of volunteers.

Although programs will have the flexibility to determine the best approach to volunteer recruitment and management based on their program design and local characteristics, all programs are expected to include volunteer recruitment as one of their 3–5 performance measures. We understand that not every program may be able to meet this requirement, particularly in the first year. If a program is unable to include volunteer recruitment and management, they are required to include an explanation in their application. We will consider volunteer recruitment (and/or the explanation for not including this element) during the grant application review process.

REAUTHORIZATION

Question. Both Senator Mikulski and I sit in a unique position to address the policy and programmatic issues of the Corporation since we both sit on its authorizing and appropriations committees.

Do you expect to submit a reauthorization bill this year? Do you have any specific legislative proposals that would help strengthen the Corporation's management practices?

Answer. We have had indications of intent, from the House and Senate authorizing committees, to introduce reauthorization bills during this Congress. We anticipate that both bills would use HR 4854, passed by the House Education and the Workforce, Subcommittee on Select Education in the 107th Congress, as the basis for their bills this year. Among the management-strengthening measures included in HR 4854 are:

—Emphasis on establishment of grantee performance measures including corrective action or termination for noncompliance.

—Requirements to contain costs by capping grant costs per member.

—Transfer of the Education Award Program from Subtitle H to C to make it an ongoing program of AmeriCorps. Including it in the grants program would provide additional flexibility managing all aspects of the program.

HR 4854 also included two provisions that would strengthen the oversight of the Board of Directors of the Corporation. The first provision would allow Board members to serve until a successor is appointed and the second would establish a standard 5-year term for Board members. The Board has also expressed an interest in having authority to direct some staff at the Corporation; however, such direct authority would require a change in statute.

LITERACY

Question. I am a big supporter of child literacy mentoring and tutoring programs. How much funding support currently goes to the Corporation's literacy initiatives and what kind of results are we seeing?

Answer. The Senate Appropriations Committee Report, in action on the budget for fiscal year 2003, directed the Corporation to "continue at least the current level of support ($100,000,000) for programs designed to help teach children to read by the third grade." In fiscal year 2002, the Corporation awarded $113,987,656 in grants under its AmeriCorps State/National program to programs for which children's literacy is a major focus.

As reflected in the Fiscal Year 2003 Guidelines, programs are required to conduct performance evaluations and report to the Corporation to ensure that Corporation-funded tutoring programs operate in the spirit of the No Child Left Behind Act. These policies are described below in "Guidelines for 2003 Grants" and "Training and Technical Assistance for Tutoring Programs".

These policy changes will significantly enhance the standards by which our programs operate. Additionally, as with all grantees, the Corporation proposes to track the performance of programs whose participants engage in tutoring with the new system of performance measurement, which will be initiated for programs starting in fiscal year 2003. By doing so, the Corporation will establish not only that grantees are operating programs that are consistent with Federal guidelines, but also that the children being tutored actually increase their reading ability.

In issuing 2003 guidelines for funding, the Corporation set forth new policies related to programs that teach and promote reading skills. Beginning with the 2003 grant award process, successful applicants must demonstrate that their tutoring programs address the following criteria:

—Curricula;
—Tutor training;
—Outcomes; and
—Standards for tutors.

After grants are awarded, the Corporation will work with grantees to ensure that all funded tutoring programs make suitable progress toward the goal of increased child literacy. The following provides the sections related to tutoring and child literacy as set forth in the 2003 grant guidelines (entire guidelines are attached): [1]

Overall Statement of Policy

"A significant percentage of programs supported by the Corporation provide tutoring and other support to assist children in learning to read. The No Child Left Behind Act, enacted by the Congress in 2001, sets new scientifically-based standards for programs in schools across the country. This year with Corporation funding, successful applicants will have to demonstrate that their activities incorporate scientifically-based approaches to reading. Specifically, programs proposing tutoring and other literacy activities should address curricula, tutor training, outcomes, and standards for tutors."

"The Corporation recognizes that there are a wide variety of literacy activities being conducted by AmeriCorps programs, ranging from book drives to one-to-one tutoring programs. The above expectations apply only to those applicants engaged in tutoring or reading instruction in schools and related institutions such as non-profit organizations running after-school programs."

Curricula

"Your application should describe curricula and tutoring strategies that are scientifically-based and include the five components of reading and reading instruction identified by the National Reading Panel OR demonstrate that the activities you conduct are part of a program in a school under the No Child Left Behind Act that provides individuals with systematic instruction and practice in the five basic reading components."

---

[1] [CLERK'S NOTE.—This document has been retained in Committee files.]

Tutor Training

"Tutor training should take place both before and during service and give tutors the skills and knowledge to support students' learning of the specific components of reading addressed in the report of the National Reading Panel . . . Programs may also, where appropriate, demonstrate school site participation in training design and implementation and/or evidence of linkages between the instructional program of the tutee's school district and content of tutoring sessions conducted after school."

Outcomes

"Your application should identify student achievement goals and show links between program objectives, tutoring activities, tutor training, and proposed strategies for achieving these goals. Applicants should address the approach they will use to measure outcomes."

Standards for Tutors

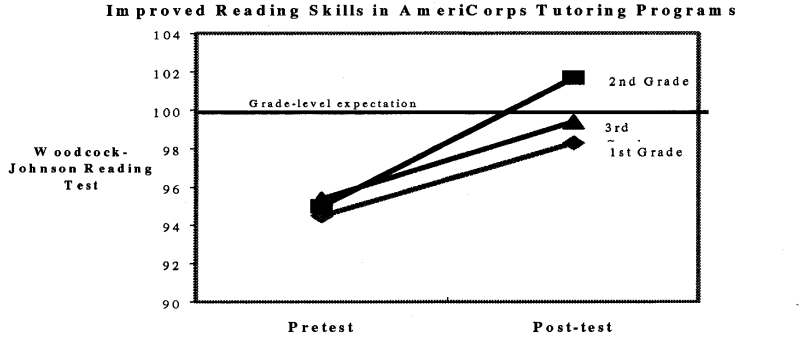
"Your program should identify any standards that you propose to use to qualify individuals as tutors. For example, some programs may screen individuals through a qualifications test; others may require enrollment in, or completion of, a reading course. Still others may require demonstration of certain academic skills, such as completing at least 2 years of college. During the coming year, the Corporation plans to work with organizations and programs to set standards for tutors."

Continued Training and Technical Assistance

"The Corporation will work with successful applicants to provide training and support to achieve effective tutoring programs and to maximize their impact on the individuals being served."

In addition to these guidelines, the Corporation commissioned a study by Abt Associates in 2001 to determine the impact of AmeriCorps literacy program, which is summarized below.

Well-designed AmeriCorps programs impact early grade reading performance in school and in school readiness. A study of children in grades 1–3, completed in 2001, found that "students participating in AmeriCorps tutoring programs improved their reading performance from pre-test to post-test more than the gain expected for the typical child at their grade level."[2] In an assessment report from the Evaluation of the Jumpstart Program (2000–2001 National Composite), Shelby Miller, Ph.D. stated that the findings from the evaluation show significant program effects on the participating preschool-age children's language, social, and adaptive skills based on their teachers' assessments. While the program participants began the program year behind their non-participant peers in all areas, their teachers reported that they made significantly more substantial gains during the year than their counterparts.



Source: Abt Associates. 2001. AmeriCorps Tutoring Outcome Study.

[2] Abt Associates. 2001b. AmeriCorps *Tutoring and Student Reading Achievement*. Final Report. Cambridge, MA.

AMERICA'S PROMISE

Question. I understand that your [IG] office is auditing America's Promise.

Please tell me about the scope of the audit, audit completion date and report issuance date, and any preliminary findings. Lastly, please tell me how often the Federal Government audits the programs of America's Promise and how the Corporation monitors the performance of its programs.

Answer. The Office of Inspector General had originally planned to perform a financial-related audit of Corporation funds awarded to America's Promise. However, the Office of Management and Budget (OMB) requires all Federal grant recipients that qualify as "major programs" to be independently audited on an annual basis. America's Promise qualifies as a "major program" under OMB criteria and, consequently, must perform an annual A–133 audit. In fiscal year 2001, the audit firm Grant Thorton conducted the A–133 audit of America's Promise and noted no matters involving noncompliance or internal control over financial reporting. Furthermore, no matters were noted involving noncompliance or internal control over the major programs that were considered to be material weaknesses.

The Office of Inspector General reviewed the work performed by the Grant Thorton auditors and relied on their conclusions to avoid a duplication of effort. Therefore, our audit focused on determining whether America's Promise appropriately reclassified general costs as grant costs for fiscal year 2001. In addition, our audit examined fiscal year 2002 grant costs to ensure that they were allowable. Our audit was completed on March 17, 2003, and it questioned $23,432 of salaries, benefits, and travel costs. This amount is approximately .3 percent of the $7,483,000 of costs claimed under the grant. The questioned costs were incurred prior to the effective date of the award. We also questioned $911 of interest earned on Federal funds. A copy of our audit of America's Promise is enclosed.

On March 31, 2002, the Corporation issued its Proposed Management Decision and Notice of Final Action on the America's Promise audit. The $23,432 of costs incurred outside the grant period were allowed by the Corporation because the costs were allowable, related to the project, and incurred in accordance with the proposed budget program. The Corporation also determined that if America's Promise had requested the Corporation's permission prior to incurring these costs, the request would have been approved. America's Promise was informed that it must receive the Corporation's written consent before incurring costs outside the grant period. The $911 of interest earned on Federal funds was disallowed and repaid.

With respect to your question of how often the Federal Government audits America's Promise, this organization, as noted above, qualifies as a "major program" according to OMB criteria and must perform an A–133 audit on an annual basis. The A–133 audit tests the grantee's system of internal controls to ensure that they are adequate to account for Federal funds. The A–133 audit also tests compliance with grant provisions and the allowability of grant costs.

With respect to your question of how the Corporation monitors the performance of its programs, a Corporation staff member monitors the America's Promise grant as well as other earmark grants. This staff member receives progress reports from America's Promise and performs fiscal and programmatic monitoring.

If I can be of further assistance, please do not hesitate to contact me. I look forward to working with you to achieve our mutual goal of making the Corporation a more efficient and effective organization.

PERFORMANCE OF AMERICA'S PROMISE

Question. Our committee has appropriated well over $25 million to America's Promise to support their efforts in meeting the needs of at-risk youth.

To what degree has America's Promise been able to meet its goals? What activities does America's Promise support with the appropriated funds (administrative expenses, grants to other nonprofit organizations, etc.)? What is the difference between America's Promise's activities and the Points of Light Foundation? Is there any duplication of efforts between these two organizations?

Answer. The Corporation's grant to America's Promise supports operational costs of the organization, including personnel salaries and benefits, contracts to develop technical assistance materials, research and evaluation, travel, and supplies. It does not include any "sub-grants" to other nonprofit groups and all administrative expenses are in areas permissible for Federal grant funds.

America's Promise recently provided Congress, including the subcommittee, with a report that had been requested concerning its activities and accomplishments. This provides a comprehensive picture of the current status of the effort to achieve the "Five Goals" to youth. The Corporation for National and Community Service has not conducted an evaluation of the effectiveness and accomplishments of America's

Promise. However, America's Promise has begun to take a more focused approach to its work, focusing on a limited number of specific communities and building on successful "Communities of Promise." This seems realistic and avoids the diffuse approach that may have characterized early efforts of the organization.

A major difference between America's Promise and the Points of Light Foundation is that America's Promise focuses, as stated in the subcommittee's question, on meeting the needs of children and youth. Citizen volunteer service is one important strategy in meeting these needs through reaching the "Five Promises" to youth identified by America's Promise. The Points of Light Foundation promotes and supports citizen volunteering directed at the entire spectrum of national and community needs including but not limited to those of children and youth. The Foundation supports volunteering by youth, and in support of youth, but the efforts of the two groups complement rather than duplicate one another.

MULTIPLE FEDERAL FUNDING SOURCES

Question. The Corporation funds a number of organizations that also receive funds from other Federal agencies. For example, Habitat for Humanity and YouthBuild receive funding from both CNCS and the Department of Housing and Urban Development.

How many CNCS grant recipients currently receive funds from other Federal agencies? Please provide me a top ten list of organizations that receive funds from multiple Federal funding sources. Please rank the organizations based on the amount of dollars they receive from the Federal Government.

Answer. The Corporation is committed to supporting programs that are sustainable and has made a number of recent policy changes to achieve the objective of reducing the reliance on funding from the Corporation. Funds from Federal sources other than the Corporation may be used as matching funds for the operating costs of AmeriCorps State and National programs. Pursuant to OMB Administrative Requirements, the Corporation requires that verifiable records on match be retained by grantees for audit purposes.

The 2003 application guidelines include a new requirement that nonprofit organizations make available to the Corporation more detailed information about the finances of the organization, including their sources of funding, either through copies of annual financial statements or IRS information returns. However, other than funds claimed as match for its grants, the Corporation does not keep records on the funds that its grantees receive from other Federal agencies.

Should the committee instruct the Corporation to report such information, the Corporation would be required to seek direction from the Office of Management and Budget. However, the Corporation is currently examining alternative data sources for gathering this information. Options include using IRS Form 990 data (Return of Organization Exempt from Income Tax), instituting special surveys, or imposing additional reporting requirements upon Corporation grantees.

We would be glad to discuss this issue further with the committee.

DEPARTMENT OF THE TREASURY

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

STATEMENT OF TONY T. BROWN, DIRECTOR

ACCOMPANIED BY:

LINDA DAVENPORT, ACTING DEPUTY DIRECTOR FOR POLICIES AND PROGRAMS

OWEN JONES, DEPUTY DIRECTOR FOR MANAGEMENT AND CHIEF FINANCIAL OFFICER

Senator BOND. Mr. Brown, if you will go ahead and take your seat, Senator Mikulski will be back in just a few minutes—she had to make a call—so we will save the important part, like your testimony, for her return. I will get my comments out of the way so we can get on with that.

We welcome Mr. Tony Brown for the second panel. He is the Director of the Community Development Financial Institutions Fund, who has joined us this morning to testify on the President's fiscal year 2004 budget request.

While the CDFI Fund is one of our smallest agencies within VA–HUD, it is responsible for a number of very important programs which are designed to make credit and capital available in distressed rural and urban neighborhoods through financial institutions. In addition, the CDFI Fund is now responsible for the New Markets Tax Credit program, which makes tax credits available for leveraging private dollars and investments in low-income communities.

I am disappointed in the President's budget that only requests $51 million for the CDFI Fund in 2004. This is a reduction of some $17 million from the $68 million requested for 2003 and a reduction of some $23.5 million from the fiscal year 2003 enacted level of $74.5 million, and while I understand CDFI's position that this is essentially level funding for the CDFI program, as to the amount of funds that can actually be used in 2004 by CDFIs, I am not convinced that the fund cannot implement reforms that will ensure a more effective use of funds by CDFIs.

I know we have many low-income communities without adequate access to credit and capital, especially communities in rural America and in Native American areas, and without these CDFI resources many of these communities will continue to be economically distressed and stagnant.

I am also concerned about the budget request of only $8 million for the Bank Enterprise Award Program for 2004. I understand that this reduced funding is consistent with perceived BEA funding needs as new regulations for the program are being implemented. Nevertheless, this has been a very successful program. For example, the Central Bank of Kansas City has used some $2.4 million in BEA grants over the last 7 years to leverage $15.3 million for

lending activities, and that lending has translated into 282 units of affordable housing, created or saved 525 jobs, and created or assisted some 148 small businesses in the most distressed communities of Kansas City.

The Central Bank has made a tremendous difference in the lives of many low-income families. Nevertheless, I understand that the 2004 funding request of $8 million for 2004 may mean that the Central Bank will get significantly reduced or no funding, and that any funding provided will not be consistent with its level of commitment to the BEA Program. I do not like to think that we may be turning our backs on successful CDFIs like the Central Bank, and I need to understand why we should underfund these important financial institutions.

I also have some questions about the New Markets Tax Credit program. I know we are asked to appropriate $13 million just for administrative costs for the New Markets program, and the program itself is responsible for allocating $15 billion worth of tax credit investments which will be used to leverage private capital to invest in low-income communities.

I am unhappy, however, that the CDFI Fund is beginning to turn its back on funding CDFIs with their mission of making capital and credit available in distressed communities. This is a vital need that the New Markets program will not meet. Instead, the New Markets program is so broadly defined that the eligible communities include 32 percent of the U.S. population and nearly 40 percent of the land area. I am not sure how the CDFI Fund will be able to ensure accountability, exercise oversight, or measure success. We are going to need answers for all those concerns.

Finally, I am especially concerned about the fund's effort in addressing distressed communities in rural areas. Many members of this subcommittee share my concern, and I do have many of those communities I have visited throughout Missouri. They are economically distressed, and we work hard to help distressed areas of large cities, but the economic distress in some of the rural areas is even more pronounced and even more hopeless than we find in some of the cities. I would like to hear how the fund plans to continue to address this issue.

I look forward to your testimony, and then I will call on my distinguished Ranking Member for her comments.

Senator MIKULSKI. Mr. Brown, we want to welcome you once again to the committee, but Mr. Chairman, in the interests of time I am going to submit my written statement into the record, but first let me make a few quick points. I am very concerned about the fact that the budget request for CDFI is $51 million and it is 30 percent below what we funded it at. I am concerned that this is an appropriations request from OMB and not CDFI.

PREPARED STATEMENT

Second, we need to make sure we stay focused on the core mission of CDFI to provide capital and credit in underserved markets and low-income communities. I know we have 16, but the New Markets Tax Credit, in implementing it, is not what a CDFI Fund is, so we do not want the discouragement of the new markets, but I agree—there are a lot of flashing yellow lights around here—I

would like us to have enough money to do the CDFI core mission, which is a pretty good one, and then in an accountable, transparent way measure how we are doing in implementing the new markets.

I am looking forward to hearing you, Mr. Brown, but I feel like we are getting off the mark and we are getting underfunded, so I am happy to hear what you have got to say.

[The statement follows:]

PREPARED STATMENT OF SENATOR BARBARA A. MIKULSKI

Welcome Director Brown. This is the second time Mr. Brown has testified before this subcommittee. Unfortunately, each time we see you, the CDFI Fund request gets lower.

For fiscal year 2004, the administration requests $51 million for the CDFI Fund. This is a 30 percent cut from the fiscal year 2003 enacted level. And it would put the CDFI Fund back at its 1997 level. When I look at the CDFI budget request, I do not see a CDFI Fund request or a Tony Brown request; I see an OMB request. The CDFI Fund has a very important mission. It invests in organizations that are dedicated to improving low-income neighborhoods, and the lives of low-income people.

When I look at the budget for the CDFI Fund, I do not evaluate numbers. It is not about numbers; the CDFI budget has to be about people. There is one increase in the 2004 budget request for CDFI—and it is for administration. I believe that oversight and management is important. But, Federal resources should support people, not bureaucracy. There are 16 CDFIs in Maryland. They are very important to community development in my State. They provide loans for small business development, they fix up storefronts, and they build community centers. They also provide homeownership loans that are not predatory and fraudulent.

On March 6, I asked the HUD IG to investigate a mortgage service agency called Fairbanks. I heard about Fairbanks sending fraudulent foreclosure letters to homeowners in Baltimore. I asked Sec. Martinez and the IG to conduct thorough criminal investigation, share information with other Federal agencies and to act as clearinghouse for victims' calls.

We are waiting for a preliminary report from the HUD IG. What we know for sure is that people who are subprime borrowers are targets for predatory scams. CDFIs provide a safe haven for low-income borrowers. I am very concerned that cuts to the CDFI fund mean cuts to non-predatory loans. I have been involved in the issue of predatory lending and flipping for a long time now. And we have made some good progress in Baltimore, where flipping has gone down by 40 percent. In Baltimore one of our partners in the fight against flipping is the Baltimore Community Development Financing Corporation—they are a CDFI. The Baltimore Community Development Financing Corporation administers the Baltimore HELP program. One of the things I did in Baltimore was to get $1 million of HUD money for the Baltimore HELP program. That program provides counseling on loans, and refinances predatory mortgages so that people don't go into default. We need more programs like the Baltimore HELP program, not fewer.

The CDFI fund is shifting its focus away from the Fund to administering the New Markets Tax Credit. The Fund recently announced the first round of tax credits totaling $2.5 billion. Four Maryland groups received awards totaling $161 million. I believe that the New Markets Tax credits are an important tool in community development. And I am pleased that Maryland will benefit from them. But I do not believe that New Markets Tax Credits are a substitute for the CDFI Fund. Administration of the tax credit program is very important—now is the time to start the data collection, and institute proper program oversight.

I want to hear from the CDFI Fund today about program oversight. And about how this proposed budget reduction will affect communities and people. I want to hear about people, not programs, about advocacy, not accounting. We look forward to your testimony.

Senator BOND. Thank you, Senator Mikulski. I think you summed it up pretty well.

Mr. Brown, as I said, we will make the entire statement part of the record and ask you to summarize your remarks in 7 minutes, and then my colleague and I will have some questions.

STATEMENT OF TONY T. BROWN

Mr. BROWN. Thank you, Chairman Bond, and also thank you, Ranking Member Mikulski. I appreciate the opportunity to testify before you today on behalf of the Department of the Treasury's Community Development Financial Institutions Fund and in support of the President's budget for the 2004 program. Your remarks were quite direct, and I hope that my opening statement as well as my response to your questions will address many of your concerns.

Joining me today are Linda Davenport, the Acting Deputy Director for Policies and Programs, and Owen Jones, who is the Deputy Director for Management and our Chief Financial Officer.

The President's budget requests a $51 million appropriation for the CDFI Fund. The proposed budget supports the CDFI program, our Native American CDFI Development Program, the Bank Enterprise Award Program, which are all important facets of the CDFI Fund's community development financing continuum that also now includes the $15 billion 7-year New Markets Tax Credit program. The administration of the New Markets Tax Credit program is also supported by the proposed appropriation.

The administration's approach for investing in CDFIs revolves around three major and very important strategies. We are focusing our program awards on the Nation's most economically distressed areas. We have established a growth continuum to address our mission of building the capacity of CDFIs. We believe that the strategy of our award decisions will allow awards to be provided to support CDFIs to the point where they can be self-sustaining, thus permitting the CDFI Fund to provide assistance to candidates with unmet needs in other distressed communities.

And third, we are taking actions to obtain the information necessary to measure and report on the impact of the fund's investments. As we talked last year, it is not about the fund's output, but about the CDFI's impact in the communities that they serve. I characterize my visit before you today as filled with a great sense of accomplishment and enthusiasm for the potential of the CDFI Fund. This potential is shared by the administration.

Last year, I shared with you the administration's vision for the fund and stated that fiscal year 2003 would serve as a transition year for the fund where our agency would shift primarily from being seen as a grants-making organization to one that stimulates the economy of low-income communities through target investments for community development finance. The $51 million appropriation is expected to leverage $442 million in other private and public resources, which is a leverage ratio of about 12 to 1. The leverage ratio excludes funds appropriated for administrative purposes and does not include data associated with the New Markets Tax Credit program.

Senator Bond, as you indicated, we feel that this appropriation will help support the creation or maintenance of 24,000 jobs and the rehabilitation of over 26,000 affordable housing units. I am pleased to report to you substantial gains in the achievement of our goals for the fund. First, we have made a significant change to the performance indicators included in our budget submission. During

fiscal year 2002, the fund completely revamped its performance plan by more clearly identifying our objectives and by identifying outcomes and impacts related to those objectives. It is about people and not about accounting.

The objectives of the CDFI Fund have been simplified to three key statements. The fund invests in institutions whose loans in equity will increase financing to businesses and individuals that we feel have low wealth, have limited collateral, and are located in our Nation's underserved communities.

We invest in institutions which expand the supply and quality of affordable housing units in underserved communities and increase home ownership rates in those markets and among targeted populations. The fund invests in institutions that expand access to affordable financial services for the unbanked, low-income people and others in underserved communities.

Also, in fiscal year 2003 we simplified and substantially revised the fund's investment program offerings. The financial assistance components you have formally known as Core and SECA have been simplified, and it is our primary program of investments that allow CDFIs to apply for financial assistance and technical assistance awards. The technical assistance component of the CDFI Fund Program also includes our Native American technical assistance component, and allows CDFIs to apply for technical assistance awards where a match is not a requirement, and the BEA Program, through which insured depository institutions may apply to receive grants, enables the fund to provide incentives to regulate institutions to support community development lending and investment activities.

As my written testimony notes, in fiscal year 2002 the administration initiated extensive and substantive regulatory changes to the BEA Program that takes effect this fiscal year. We began implementation of these regulatory changes prior to OMB's evaluation of the BEA Program. We feel these changes address the critical evaluation of the BEA Program by OMB, which requested and required that we seek clear program objectives that distinguish the BEA activities from the mandates of the Community Reinvestment Act. The administration fully supports the continuation of the BEA Program.

Quickly, the major successes this year. The fund, through new systems improvements, was able to significantly improve the rate at which we approve and disburse funds to our awardees. Fiscal year 2002 also marked the fifth consecutive year in which we were able to maintain our unqualified audit opinion with no material weaknesses, nor reportable conditions, nor instances of noncompliance with laws and regulations.

The CDFI Fund is making great strides in its efforts to increase the capacity of CDFIs to respond to credit, investment, and financial service needs within our Native American, Alaska Native, and Native Hawaiian communities. As you requested last year, the CDFI Fund is preparing a Native American strategic plan that will address the issues of CDFI reach and service to Native American, Alaska Native, and Native Hawaiian communities.

And finally, in fiscal year 2002 and 2003 the CDFI Fund evaluated 345 applications to the New Markets Tax Credit program.

These applications together requested the authority to issue nearly $26 billion in equity for which new markets tax credits may be claimed. Last month, Secretary Snow announced the allocation of new markets tax credit authority to 66 community development entities at a special event in Ohio.

The allocatees received a total of $2.5 billion, and they represent a broad cross-section of community development entities. They are both large and small community development entities. They are affiliates of nonprofits, as well as for-profit entities, and these community development entities will focus locally as well as nationally, and they will focus on both rural as well as urban locations.

The majority of allocatees will focus on either business investments and loans in real estate, or they will do—I am sorry, let me clarify that.

The majority of allocatees will focus on either business investments and loans, or real estate investments and loans, and a smaller number will make investments in other community development entities as well as purchase loans from other community development entities.

PREPARED STATEMENT

The CDFI Fund is now poised to use the Nation's extensive network of community development financiers and developers to help develop sustaining economies in our underserved communities. Our reporting will let you know that this network serves people and communities.

Again, I thank you for the opportunity to present my testimony in support of the President's 2004 budget request, and look forward to answering any questions.

[The statement follows:]

PREPARED STATEMENT OF TONY T. BROWN

INTRODUCTION

Chairman Bond, Ranking Member Mikulski and Members of the subcommittee, I appreciate the opportunity to testify before you today on behalf of the Department of Treasury's Community Development Financial Institutions (CDFI) Fund and in support of the President's fiscal year 2004 budget. Last year was my first visit before this honorable body.

I am Tony Brown, Director of the CDFI Fund. The Secretary of the Treasury selected me to serve in this post in August 2001. I bring a 20-year prior experience in banking and a personal passion for community development finance. Joining me today are my Acting Deputy Director for Policy and Programs (Linda Davenport) and Deputy Director for Management/Chief Financial Officer (Owen Jones).

I characterize my visit before you today as filled with a great sense of accomplishment and enthusiasm for the potential of the CDFI Fund. Our goal is to help make America a place where all of its people, including those in economically distressed communities, can realize the American dream through better access to credit, capital and financial services. Fiscal year 2003 has been a transition year where the Fund has shifted from primarily a grants-making organization to one aimed at measurably improving the economic conditions of the residents of low-income communities by spurring economic growth and jobs through community development finance.

The CDFI Fund aims to do this primarily through the New Markets Tax Credit (NMTC) Program, the Community Development Financial Institutions (CDFI) Program, the Bank Enterprise Award (BEA) Program, and the Native American CDFI Development (NACD) Program.

My testimony today will focus on three key areas: the President's fiscal year 2004 budget proposal; the CDFI Fund's management and operations in fiscal year 2003; and some background on the CDFI Fund programs.

PRESIDENT'S FISCAL YEAR 2004 BUDGET

The President's fiscal year 2004 budget requests a $51 million appropriation for the CDFI Fund. The proposed budget supports the administration of the NMTC Program, the CDFI Program, the NACD Program, and the BEA Program. Because the NMTC Program involves an allocation of tax credits rather than program funds, all costs associated with the development, implementation and monitoring of the NMTC Program are administrative. The $51 million appropriation is expected to leverage $442 million in other private and public resources, a leverage ratio of 12:1. The leverage ratio excludes funds appropriated for administrative purposes and does not include leverage data associated with the NMTC Program. This appropriation will help support the creation or maintenance of 24,000 jobs and the rehabilitation of 26,000 affordable housing units. The administration's request reflects the following factors:

First, the NMTC Program is aimed at achieving similar economic development objectives as the CDFI and BEA Programs.

Second, the NMTC Program is vastly larger in scope than the other CDFI Fund programs. The first year NMTC Program allocation authority of $2.5 billion is some 50 times larger than the entire CDFI Fund request.

Third, the administration currently is considering possible legislative changes to the BEA Program. In the near future, I expect that we will consult with Congress regarding legislative options that would clearly distinguish the program from the mandates of the Community Reinvestment Act and ensure that awardees use BEA Program awards for community development activities. In fiscal year 2002–2003, the CDFI Fund's own internal evaluation of the BEA Program concluded that the program needed to be re-formed so that awards would be better targeted to wealth-building activities and outcome-based performance goals to better track the program's impact would be adopted. The Fund's adopted these regulatory modifications for the fiscal year 2003 funding round.

Fourth, this proposed fiscal year 2004 funding level, reflecting a division of resources, is adequate to continue an effective baseline funding level in each program, particularly in light of the reforms put in place in recent months. The recent reforms reflect the organizational maturity of the CDFI Fund and the CDFI industry so that a better, more targeted effort is now possible, focusing on opportunities where real needs can be addressed through sustainable economic development.

The proposed fiscal year 2004 budget includes increased funding for administrative expenses to $13 million to support staffing requirements of the NMTC Program and technology requirements to enhance our support for E-grants and E-government. The E-grant and E-government activities support a "green rating" received from The Department of the Treasury on the Presidential Management Agenda Scorecard.

MANAGEMENT AND OPERATIONS

Internal Financial and Management Controls.—The CDFI Fund has implemented effective financial and management controls, as verified by its independent auditors (KPMG, LLP). These controls have allowed the CDFI Fund to receive an unqualified (clean) audit opinion. Additionally, this marks the fifth consecutive year that the independent auditors have identified no material weaknesses or reportable conditions. KPMG's opinion affirms that the CDFI Fund's Statements of Financial Position, Operations, and Changes in Net Position and Cash Flow are fairly presented. These findings reflect the commitment of the CDFI Fund to sustain and improve its internal controls, operating policy and procedures, and awards management.

The CDFI Fund continues to comply with the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). The CDFI Fund's internal management systems, accounting and administrative controls are operating effectively.

Administrative Processes.—During my tenure as Director, I have spent a significant amount of time reviewing the CDFI Fund's internal operations. We have made successful changes that have streamlined our awards process. In fiscal year 2002, we successfully reduced the amount of time required for our award processes. In a September 2002 Treasury Office of Inspector General audit report titled "CDFI Fund Post-Award Administration Process," the OIG concluded "that the CDFI Fund's post-award administration process is effective in ensuring that CDFI award recipients are carrying out their activities in accordance with their assistance agreements." The report further states, "[T]he Fund has taken steps to reduce the length of time that it takes to disburse funds. These steps include Program and Compliance staff performing a compliance and matching funds analysis, implementation of the Reports Monitoring Database, and revising how it processes assistance agreements."

Integration of New Programs.—We successfully integrated the NMTC Program within our existing operations without increasing the number of new employees above fiscal year 2001 levels. One of the most significant E-government initiatives undertaken by the CDFI Fund in fiscal year 2002–03 was the implementation of electronic applications for the NMTC Program, facilitating ease of the application scoring process and metrics for various management reports by having captured data readily available for analysis and reporting. This was an overwhelming success and the CDFI Fund is moving forward to introduce electronic applications for each of its financial assistance programs in fiscal year 2003.

Compliance and Portfolio Monitoring.—In fiscal year 2004 and beyond, we will continue to enhance the CDFI Fund's research capacity, implementing market and portfolio analyses to measure the availability of financial services in underserved markets and to critique the financial and program performance of existing CDFIs. The CDFI Fund has an investment portfolio of over 600 awards, totaling over $500 million currently under compliance review.

Measuring Investment Impact.—The CDFI Fund places a high priority on measuring impact and is in the forefront of improving performance reporting within the CDFI industry. The CDFI Fund is building on its experience with the CDFI Data Project, an initiative undertaken by the CDFI Fund and CDFI industry representatives, to develop a more sophisticated data collection system for CDFIs and CDEs that will allow for the collection of transaction-level data to provide the specific location and characteristics of each loan in a CDFI/CDE's portfolio, thus allowing the CDFI Fund to measure impact at the census tract level. The CDFI Fund plans to use this data to compare CDFI/CDEs' lending behavior and community development impact to that of traditional financial institutions and thus demonstrate that CDFI/CDEs lend in areas where traditional banks have less of a presence.

You will notice a significant difference in the format of the fiscal year 2004 budget submission. In the past, the CDFI Fund reported nearly 20 measures, mostly measuring activity outputs. The introduction of our fiscal year 2004 budget complies with the President's mandate for integrated budget performance measures. The CDFI Fund received a "green rating" from the Department of the Treasury in its latest scorecard reporting for this Presidential Management Agenda initiative.

The stated objectives of the CDFI Fund have been simplified to three key statements: (i) increase financing to businesses (including non-profit businesses) and individuals that have low wealth, have limited collateral, are located in underserved communities, or have other characteristics that inhibit them from obtaining financing from traditional financial sources, but who present good opportunities for assistance promoting sustainable economic development in the community; (ii) expand the supply and quality of housing units in underserved communities and increase homeownership in these markets by increasing the availability of housing financing that leverages conforming mortgages or non-traditional sources of housing finance; and (iii) expand access to affordable financial services for the "unbanked," low-income people and others in underserved communities.

New baseline performance measures have been established and set into motion this year, through the CDFI Fund's fiscal year 2003 programs, and include better tools for tracking investment results and the use of the CDFI Fund's awards. We will continue the process of improving the CDFI Fund's programs by evaluating for measurable results, targeting resources through sustainable financial institutions, with an emphasis on supporting financial services that impact our Nation's most distressed areas.

Interagency Cooperation.—The CDFI Fund has worked very closely with the Internal Revenue Service to develop the guidance and regulations necessary to implement the NMTC Program; engaged in extensive discussions with the Small Business Administration on how to best match the NMTC Program requirements with the SBA's New Markets Venture Capital Program; and conducted numerous meetings with the General Accounting Office to determine appropriate compliance and performance measurement requirements for NMTC Program allocatees.

Investment Underwriting.—The CDFI Fund will use the new data collection system to implement PLUM, a new CDFI performance rating system. PLUM stands for Performance/community development impact; Liquidity and overall financial condition; Underwriting/portfolio quality; and Management capacity. Based on these four broad components, the CDFI Fund will use PLUM to rate each certified CDFI's financial strength and level of community development impact. The CDFI Fund's plan is to use this rating system to better manage its investment portfolio by creating a compliance "watch list" of under-performing entities, and to identify and promote best practices in the industry. Eventually, we plan to incorporate PLUM in the Fund's award underwriting process.

E-Gov Enhancements.—The CDFI Fund will soon announce a new electronic web-based customer relationship tool called "myCDFI." This new tool will assist interested parties with a variety of services from a single location. The initial services to be offered through myCDFI include: access to all program electronic applications; access to historical electronic applications (read-only mode); self service address and organizational information updates; ability to create and maintain additional user accounts with various access levels; ability to access target service area information created while using the CDFI Fund Help Desk (including Hot Zones); and access to a message box for communication with CDFI Fund staff. Additional features will be added in the near future, including the ability to submit electronically reports required by the CDFI Fund per award agreement terms.

CDFI FUND PROGRAMS OVERVIEW

The strategic goal of the CDFI Fund is to improve the conditions of economically distressed communities by enhancing greater access to capital and other financial services through CDFIs (which generally are small business and housing loan funds, as well as regulated, community-oriented depository institutions), CDEs (which include for-profit and nonprofit corporations and partnerships), and insured depository institutions (banks, thrifts and credit unions).

The approach for investing in CDFIs includes three major strategies: (1) focusing CDFI Program awards on the Nation's most economically distressed areas; (2) establishing a "growth continuum" strategy in award decisions, through which awards are provided to support CDFIs to the point where they can be self-sustaining, thus permitting the CDFI Fund to provide assistance to CDFIs with unmet capital needs in other distressed communities; and (3) taking actions to obtain the information necessary to measure and report on the impact of the CDFI Fund's programs.

Targeting CDFI Fund Resources.—The authorizing statute allows the CDFI Fund to provide incentives for the purposes of facilitating increased lending and provision of financial and other services in economically distressed communities. The economic distress definitions vary among the CDFI Fund's programs.

The CDFI Fund views its partnership with CDFIs, CDEs, and insured depository institutions as a catalyst for vigorous community and economic development financing activity. In fiscal year 2003, the CDFI Fund introduced "Hot Zones" to the CDFI Program to help prioritize and direct the CDFI Fund's limited investments. By managing CDFI Fund resources to entities that serve Hot Zones, our dollars will be prioritized for investments into areas with the greatest needs and among CDFIs that can produce strong measurable impact.

TARGETING RESOURCES GEOGRAPHICALLY

		CDFI Program		BEA Program Eligible Distressed Communities	NMTC Program Eligible Low-Income Communities
	National Total	Eligible Investment Areas	Hot Zones		
Total Metro Census Tracts	52,241	20,093	10,851	1,670	19,732
Percent of National Metro Tracts	100	38	21	3	38
Non-Metro Census Tracts	14,063	4,966	[1]	656	6,605
Percent of Non-Metro	100	35	[1]	5	47
Total Tracts	66,304	25,059	[1]	2,326	26,337
Percent of National	100	38	[1]	4	40
Non-Metro Counties	2,319	743	285	[1]	[1]
Percent of National	100	32	12	[1]	[1]

[1] Not Applicable.

Sources: 2000 Census data, U.S. Dept. of Housing and Urban Development 2002 Difficult Development Areas.

Figures do not include outlying territories other than Puerto Rico.

Hot Zones are a subset of CDFI Program Investment Areas designated by the CDFI Fund as having greater economic distress and community development needs. They are the "most distressed" of the Nation's distressed markets. Hot Zones have been identified based on census data and include, among other factors, areas with a poverty rate of at least 20 percent, income levels at or below 80 percent of the area median income, unemployment rates that are at least 1.5 times the national average, and housing costs that exceed 30 percent of the gross monthly income of a low-income household.

States that have the highest percentage of non-metropolitan Hot Zones—such as Mississippi, Kentucky, Montana, and Arizona—also have significant non-metropolitan persistent poverty populations (see Figures 1 and 2, below).

Figure 1.

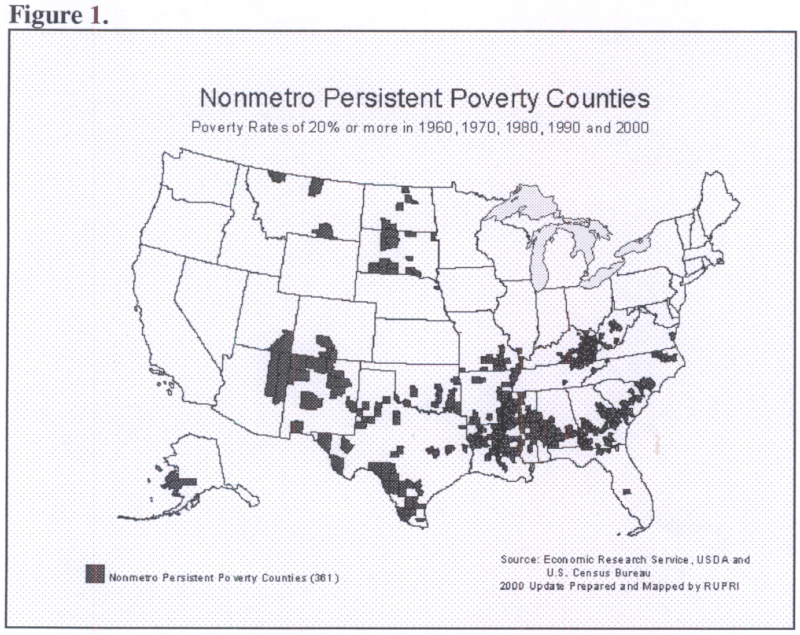
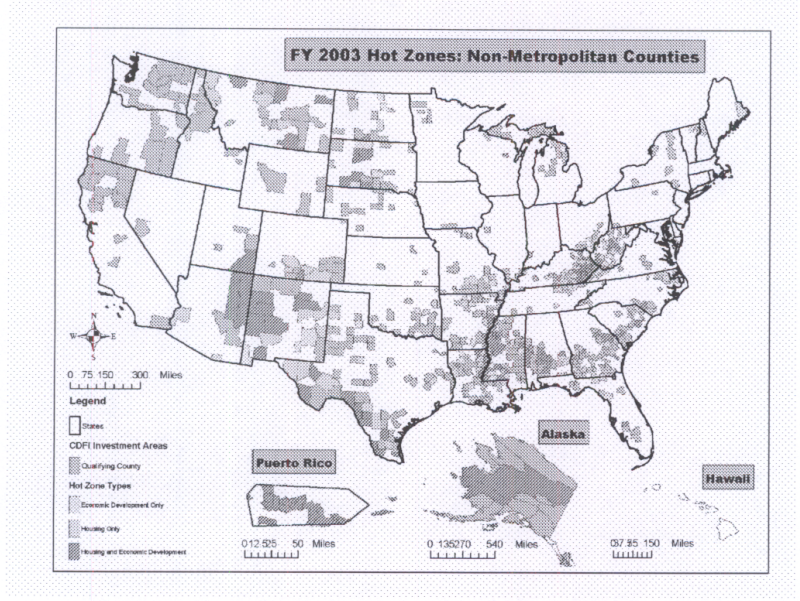


Figure 2.



In the fiscal year 2003 round of the Financial Assistance Component of the CDFI Program, the CDFI Fund will target its resources to CDFIs that will use the award proceeds to serve Hot Zones and/or achieve the programmatic priorities of increased homeownership opportunities that are affordable to low-income households and homeownership opportunities for other targeted populations lacking access to loans, investments and financial services.

In its evaluation of applications, the CDFI Fund will give the most points to those applicants that show that at least 75 percent of their activities will be directed toward Hot Zones. Applicants that are not principally serving Hot Zones may be scored to receive the most evaluation points if they demonstrate an effective track record and plan for promoting homeownership opportunities among low-income, very-low income and other targeted populations.

Eligible geographic areas under the BEA Program are called Distressed Communities and include communities that meet certain criteria of economic distress, including Indian Reservations. Specifically, a Distressed Community must have (1) a poverty rate of at least 30 percent, provided no individual census tracts has a poverty rate of less than 20 percent (according to the most recent census); and (2) an unemployment rate that is at least 1.5 times the national average (according to the most recent Bureau of Labor Statistics data).[1]

The NMTC Program requires that substantially all of the investments made by a CDE using NMTC-related investment proceeds be invested in low-income communities, geographic areas meeting certain economic distress criteria. Investments must be made in census tracts where the area median income is 80 percent or less than the statewide area median income (or, in the case of metropolitan areas, metropolitan area median family income, if greater), or where the poverty rate is 20 percent or greater. Applicants to the first round of the NMTC Program were reviewed on a competitive basis. Applicants that indicated that they intend to target their activities to communities with higher levels of economic distress than required by statute generally scored more favorably.

Certified CDFIs and CDEs.—CDFIs are building a financial services network that is focused on our most economically deprived communities and citizenry. CDFI Fund estimates show that certified CDFIs' Target Markets cover 100 percent of non-metropolitan Hot Zones and 77 percent of metropolitan Hot Zones.[2] There is at least one CDFI headquartered in each State, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

CDFIs are specialized financial institutions that operate in markets, increasingly in partnership with traditional lenders. The organizations we support are often able to lend in ways that are more flexible or not available to traditionally regulated financial institutions. As of February 1, 2003, we have certified 633 financial institutions as CDFIs:

CERTIFIED CDFIs

	Fiscal Year 2002 (As of 2/1/02)	Fiscal Year 2003 (As of Date 2/1/03)	Fiscal Year 2004 (Projected)
Total CDFIs	513	633	706.
Banks, Thrifts, Holding Cos.	58 (11 percent)	72 (11 percent)	85 (12 percent).
Credit Unions	94 (18 percent)	117 (18 percent)	120 (17 percent).
Loan Funds	344 (67 percent)	424 (67 percent)	475 (67 percent).
Venture Funds	17 (3 percent)	20 (4 percent)	26 (4 percent).

Through the NMTC Program, the CDFI Fund designates entities as community development entities (CDEs). To qualify for CDE designation by the CDFI Fund, an entity must be a domestic corporation or partnership that: (1) has the primary mission of serving, or providing investment capital for low-income communities or low-income persons; and (2) maintains accountability to residents of low-income communities through representation on a governing or an advisory board. Entities may apply to become CDEs even if they do not plan to seek a NMTC allocation. Such

[1] Census tracts meeting these distress criteria are some of the most distressed in the Nation. Using 2000 Census and BLS data, there are some 2,326 census tracts that qualify for the BEA Program. These tracts represent 4 percent of all U.S. census tracts and less than 12 percent of the 20,433 tracts that are considered "Low and Moderate Income."

[2] Please note that CDFI Target Markets were originally geocoded using 1990 Census tracts and county boundaries and that CDFI Target Markets are subject to change due to post-award amendments. Consequently, the total estimates are subject to adjustment, due both to changes in tract and county boundaries between the 1990 and 2000 Census (which the CDFI Fund's Hot Zones are based on) and to amendments to individual CDFI Target Markets.

entities presumably have a strategy of selling loans to a CDE with an allocation, or seeking an investment or loan from a CDE with an allocation. As of February 11, 2003, the CDFI Fund has certified 821 organizations as CDEs.

CERTIFIED CDEs

	Fiscal Year 2003 (As of 2/11/03)	Fiscal Year 2004 (Projected)
Total CDEs	821	1,200.
CDFIs	335 (41 percent)	400 (33 percent).
SBA Designated SSBICs	9 (1 percent)	15 (1 percent).
Other Entities	477 (58 percent)	785 (66 percent).

New Markets Tax Credit (NMTC) Program Overview.—The intent of the Community Renewal Tax Relief Act of 2000 is to attract private sector investment in businesses located in low-income communities. Through the NMTC Program, taxpayers will be provided a credit against Federal income taxes for qualified equity investments made to acquire stock or other equity interests in designated CDEs. In turn, substantially all of the proceeds of qualified equity investments must be used by the CDE to make qualified investments in low-income communities. These qualified low-income community investments include loans to or equity investments in, businesses or CDEs operating in low-income communities.

The NMTC Program creates a capitalization mechanism that many of the larger, more established CDFIs could advantage. In addition, other non-CDFIs may participate as well—thereby widening the pool of entities and capital sources involved in building the economies of our low-income communities. In this regard, the NMTC Program helps to supplement the CDFI Program; however, the NMTC Program is limited to areas that qualify as low-income communities and, to attract investors, the underlying business activity of the CDE must be able to deliver a return on investor's capital at risk. Those CDFI activities that are outside of the NMTC Program's eligible low-income communities and are of such risk that investment motivated capital is inappropriate will not be able to generally benefit from the NMTC Program.

By offering a tax credit, the NMTC Program encourages private investment in low-income communities. If investors embrace the program, it will be a significant source of new capital that could help to stimulate new industries and entrepreneurs, diversify the local economy, and generate new jobs in low-income communities.

The tax credit provided to the investor will cover a 7-year period. In each of the first 3 years, the investor will receive a credit totaling 5 percent of the total value of the stock or equity interest at the time of purchase. For the final 4 years, the value of the credit is 6 percent annually.

The $15 billion of equity investments for which tax credits can be claimed through the NMTC Program may be allocated between 2001–2007. Because the CDFI Fund was launching the program in 2001, the first 2 years' allocations were combined, and $2.5 billion was available for allocation in the just completed first round.

In fiscal year 2003, the CDFI Fund evaluated 345 applications to the NMTC Program; these applications together requested the authority to issue $25.8 billion in equity for which NMTCs may be claimed.

On March 14, 2003, the Treasury Department, through the CDFI Fund, announced the allocation of NMTC authority to certain community development entities (CDEs), thus supporting $2.5 billion in private sector equity investments that will result in economic stimulus in low-income communities throughout the country.

The allocatees represent a broad cross section of community development entities. There are both large and small CDEs, affiliates of nonprofits as well as for-profit entities, CDEs that will focus locally as well as nationally, and CDEs that will focus on both rural and urban locations. The majority of allocatees will focus on business investments and loans and real estate investments and loans, with a lesser number making investments in other CDEs or purchasing loans from CDEs.

The allocatees in the first round of the NMTC Program show a broad geographical mix and focus for investment activity:

—Twenty-nine (43 percent) of the allocatees report a local focus within 15 States and will be allocated the authority to issue an aggregate of $732 million in equity for which NMTCs may be claimed.

—Twelve (18 percent) of the allocatees will focus investment activities within an entire State. These CDEs will be allocated the authority to issue an aggregate of $311 million in equity for which NMTCs may be claimed.

—Twenty-five allocatees (39 percent) will invest nationally or target multiple States. These CDEs will be allocated the authority to issue an aggregate of $1.5 billion in equity for which NMTCs may be claimed.
—The allocatees in the calendar year 2002 round anticipate investing $1.7 billion in urban areas, over $508 million in rural communities, and $231 million in suburban areas.
—The primary service areas of the 2002 allocatees (and the national market allocatees who were required to list seven States they intend to serve) will encompass 40 States and the District of Columbia. There are only ten States and all U.S. territories not served primarily by the inaugural round of the 2002 NMTCs (Iowa, Idaho, Kansas, Montana, North Dakota, Nebraska, New Mexico, Rhode Island, South Dakota and Wyoming).

To achieve the administration's goals of demonstrably improving the life of residents in impacted low-income communities, Treasury attempted to set a high bar for applicants and strove to make the selections based on a rigorous merit-based selection process. This review was conducted in the following manner:

Step One

—All policy decisions regarding the selection process were made by officials separate and apart from those who reviewed and rated applications. No identifying information for any application was provided to policy officials until after the selection process was concluded.
—In scoring each application, the reviewers rated each of four evaluation sections: Business Strategy, Capitalization Strategy, Management Capacity and Community Impact, awarding up to 25 points per section. In addition, reviewers rated applicants with respect to two statutory priorities: (i) up to five points for a track record of serving disadvantaged businesses or communities, and (ii) five points for committing to invest substantially all of the proceeds from its qualified equity investments in unrelated entities.
—For consistency, the process required three reviewers to independently review and evaluate each application. The reviewers included CDFI Fund staff, other Federal agency staff working in other community development finance programs, and independent private sector members of the community development finance community.
—In addition to evaluating and scoring each application, reviewers recommended an allocation amount that was supported by the information in the application.

Step Two

—Advancing applications were deemed to be those with an aggregate base score (without including priority points) that was in the "good" range based on a scoring scale of weak, limited, average, good and excellent. In addition, each advancing application had to achieve an aggregate base score in the "good" range in each of the four application evaluation criteria.
—For each application, panelists reviewed the scores, comments and recommended allocation amounts provided by each of the first phase reviewers. A statistical review was conducted to identify anomalous scores. In cases where there was an anomalous first phase reviewer score, the comments and recommendations of a fourth independent reviewer were used to determine whether the anomalous score should be replaced.
—The review panel also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were (i) checks to determine whether any applicants that have been awarded funds through other Fund programs were compliant with the award requirements, (ii) verification that the applicants' investor letters were consistent with the capitalization information provided in their applications, and (iii) consultation with the IRS regarding whether proposed business strategies of applicants comply with the NMTC Program regulations.

Step Three

—After the second stage of the review process, the rank order list of applicants and the recommended allocation amounts were forwarded to the Selecting Official (the NMTC Program Manager). The Selecting Official reviewed the rank order list and the recommendations, and decided whether to accept or modify the panel's recommendations. In the event the Selecting Official's decision varied from the panel's recommendation by more than a prescribed amount, then concurrence is required by the Reviewing Official (Deputy Director). This process ensures that adequate documentation and oversight is maintained to protect the integrity of the allocation decisions.

—Per the Fund's allocation application evaluation policies and procedures, the Selecting Official's (and, as the case may be, the Reviewing Official's) allocation decisions are final.

The CDFI Fund's objectives for 2003 and 2004 are to evaluate the first round of the NMTC Program, make changes as necessary to enhance the program, publish the NMTC allocation application for the next round of allocations, and complete the awards allocation process for a combined 2003/2004 allocation round of up to $3.5 billion in NMTC allocation authority. The CDFI Fund will review applications from CDEs under a competitive review process, with the goal of finalizing award decisions in early 2004. In this manner, investors making equity investments into eligible CDEs will be able to claim tax credits early in calendar year 2004.

The CDFI Fund is developing, with the Internal Revenue Service, a compliance system for the NMTC Program to ensure that each entity that receives a NMTC allocation will continue to fulfill its CDE certification requirements and the terms of its allocation agreements with the CDFI Fund, and that the IRS has appropriate information to determine that allocatees are operating within the legislation and regulations promulgated by the IRS. The compliance system will be based in part on input provided at a meeting co-sponsored by the CDFI Fund and the General Accounting Office in March of 2002. At that meeting, academics and other community development financing experts discussed the advantages and disadvantages to various approaches to both compliance issues as well as approaches to evaluating the impact of the investments made under the NMTC Program on low-income communities.

CDFI Program Overview.—Through the CDFI Program, the CDFI Fund promotes access to capital and local economic growth in distressed communities by directly investing in and supporting CDFIs. The CDFI Program provides financial assistance in the form of grants, loans, equity investments or deposits to CDFIs. Since its inception, the CDFI Fund has made over 900 CDFI Program awards, totaling $405 million.

For fiscal year 2003, the CDFI Fund has refocused the CDFI Program to meet more effectively the Fund's objectives in three key ways: promoting a "continuum of growth" that encourages the largest and most established CDFIs to leverage non-governmental sources of capital; giving highest priority on investments that serve the most distressed geographic areas; and giving priority to initiatives that promote homeownership among low-income and other underserved populations.

The Financial Assistance Component.—Replaces the Core, Intermediary, and part of the Small and Emerging CDFI Assistance Components offered in past years. The Financial Assistance Component consolidates the CDFI Program's components that provide financial assistance (requiring matching funds) into one competitive funding round. The following table depicts asset-size of CDFI Program awardees and illustrates the continuum of growth strategies:

	All CDFI Program Applicants 2000–2002	Financial Assistance Awards (Formerly Core & SECA)			Technical Assistance Awards		
		2002	2003 (Projected)	2004 (Budget)	2002	2003 (Projected)	2004 (Budget)
Total CDFIs/Awardees	842	91	40	30	61	40	30
Asset-Size CDFIs/Awardees: [1]							
≦$5 million	71	65	63	60	82	85	85
>$5–≦25 million	19	18	27	30	14	15	15
>$25–≦50 million	6	14	8	9	0	0	0
>$50–≦500 million	4	3	2	1	4	0	0
>$500 million	0	0	0	0	0	0	0

[1] Amounts in percent.

The CDFI Fund recognizes that there are two broad categories of CDFIs: larger CDFIs that have greater ability to leverage private-sector resources, have greater self-sufficiency and generate higher volume of activity and corresponding community development impact, and smaller CDFIs that serve smaller, more underserved markets, are less efficient and produce lower volumes of activity, but serve critical market needs.

The Technical Assistance/Native American Technical Assistance (TA/NATA) Component.—Allows applicants to apply for limited technical assistance funds on a rolling first-in, first-reviewed basis. This program replaces the Small and Emerging CDFI Assistance (SECA) Component and part of the Native American CDFI Technical Assistance (NACTA) Program offered in fiscal year 2002. The main purpose of the new TA/NATA Component is to allow new and growing CDFIs to access need-

ed technical assistance when they need it, in order to help them enhance their capacity to serve their target markets.

Entities applying to this program are on the beginning end of the "growth continuum," either as start-up or small entities. The purpose of the technical assistance provided (including staff training, technology, and outside expertise), is to push entities more quickly and effectively up the growth continuum than they would without the technical assistance. Some typical uses of TA grants include: computer system upgrades and software acquisition; developing loan underwriting policies and procedures; evaluating current loan products and developing new ones; and training staff.

Native American Strategic Plan; the NACD Program; the Native American CDFI Training Program.—The CDFI Fund is preparing a Native American Strategic Plan. It will address the issues of CDFI reach and service to Native American, Alaska Native and Native Hawaiian communities; increasing capacity within these communities to respond to credit, investment and financial services needs; and attracting other existing resources to these underserved communities.

The CDFI Fund is making great strides in its efforts to increase the capacity of CDFIs to respond to credit, investment and financial services needs within Native American, Alaska Native and Native Hawaiian communities.

In fiscal year 2002, the CDFI Fund made its first set of awards under the NACTA Program. A total of 38 organizations were selected to receive a total of $2.7 million in technical assistance grants. Eleven awards were made to CDFIs or entities planning to become CDFIs, and 27 awards were made to entities, such as Tribes and Tribal housing authorities, proposing to create separate CDFIs. NACTA-funded organizations are based in 18 States. The successful outcome of the launch of the NACTA Program has greatly increased the CDFI Fund's reach in support of Native American, Alaska Native, and Native Hawaiian communities, and is building an emerging network of CDFIs focused on these communities. The CDFI Fund also has presented information on its programs to existing CDFIs and those interested in starting CDFIs at several premier Native American, Alaska Native, or Native Hawaiian conferences. Senior staff also has met with Federal agencies and other key organizations to explore partnership possibilities.

Already in fiscal year 2003, the CDFI Fund:

—Modified the fiscal year 2002 NACTA Program by separating it into two parts: (i) the NATA Component (of the CDFI Program's Technical Assistance Component) and (ii) the NACD Program. Entities such as Tribes or non-profit organizations serving Native American, Alaska Native, and Native Hawaiian communities that want to create CDFIs can apply for technical assistance funds to develop plans to create CDFIs over a 3-year period. Applications for both programs are currently available. The CDFI Fund anticipates making funding decisions by the end of July 2003; and

—Awarded a contract to the National Community Capital Association and its subcontractor, First Nations Oweesta Corporation, to provide technical support services to design, develop, conduct, and administer an action-oriented training curriculum to facilitate the development of CDFIs for the purpose of providing access to debt or equity capital in Native American, Alaska Native, or Native Hawaiian communities.

Through the end of fiscal year 2003, the Fund will solicit contractors to:

—Conduct financial literacy training in Native American, Alaska Native, or Native Hawaiian communities through out the country; and

—Provide direct, on-site technical assistance to Tribes or non-profit organizations serving Native American, Alaska Native, and Native Hawaiian communities. Such technical assistance would include help in creating or strengthening a CDFI or addressing specific barriers to small business or home financing (including those identified in the CDFI Fund's 2002 Native American Lending Study), on reservations.

In fiscal year 2004, the CDFI Fund will:

—Using fiscal year 2003 appropriated dollars, the CDFI Fund will implement a program targeted to Native American, Alaska Native, and Native Hawaiian organizations that will provide financial assistance for use as loans or investment capital. Recognizing that not all Tribes will have the capacity to create a CDFI, eligibility for this program would include partnerships between Native American, Alaska Native, or Native Hawaiian organizations partnered with traditional depository institutions as well as Native-focused CDFIs.

—Design a demonstration program to support the development of partnerships, innovative products, and delivery mechanisms to meet the financing needs of Native American, Alaska Native, and Native Hawaiian communities. The CDFI Fund will work with other Federal agencies to develop and implement this pilot to enhance rather than duplicate their activities.

Training Program.—The Training Program is aimed at supporting the CDFI Fund's strategic goal of strengthening the organizational capacity and expertise of CDFIs and other Financial Service Organizations. The Training Program, which was started in fiscal year 1999, provides funds that support the development and delivery of training products to CDFIs and other entities engaged in community development finance. Training is addressed via classroom instruction, web-based distance learning, and other electronic formats. The CDFI Fund is particularly excited about providing the support to help build the electronic teaching capacity of the CDFI industry. Through distance learning, the cost of accessing training is reduced for the CDFIs (elimination of the time and cost of travel) and the ability of CDFIs that are either of limited resources or of remote locations to access training is enhanced.

By the end of calendar 2002, two of the training providers completed their efforts under the training contract with the CDFI Fund. The remaining two will continue to provide training through this fiscal year. Training provided in fiscal year 2003 is largely through distance learning technology.

Bank Enterprise Award (BEA) Program Overview.—The BEA Program is aimed at expanding financial service organizations' community development lending and investments through regulated institutions.

The BEA Program provides monetary incentives for banks and thrifts to expand investments in CDFIs and/or to increase lending, investment and service activities in distressed communities. BEA Program awards have varied in size from less than $1,000 to almost $3 million, depending upon the type and amount of assistance provided by the bank and the activities being funded through the bank's investments. In general, banks that provide equity investments to CDFIs are likely to receive the largest awards relative to the size of their investments.

The administration recently completed a comprehensive evaluation of the BEA Program to ensure that it is as effective and efficient as possible.

The CDFI Fund concluded that the BEA Program regulations should be revised to target awards to "personal wealth" and "community asset" building activities, and to those CDFIs with a greater need for the incentive provided by the award to facilitate their bank partnerships. Thus, the CDFI Fund initiated regulatory changes to the BEA Program to take effect with the fiscal year 2003 funding round.

The CDFI Fund is currently considering how to better distinguish the BEA Program from the mandates of the Community Reinvestment Act, and to ensure that awardees use BEA Program awards for community development activities.

The administration supports continuation of a reconstituted BEA Program. An effective BEA Program provides the Treasury Department with an effective strategy to engage traditional banks and thrifts in helping us achieve our goal of improving the economic conditions of underserved areas through insured depository institutions. The role that banks and thrifts play is critical to capital access. We need to encourage them to target these underserved communities in ways that do not impede safe and sound banking practices in a sustainable manner.

Rural Community Assistance.—The fiscal year 2002 appropriations for the CDFI Fund contained report language requesting an update on rural lending practices as part of the fiscal year 2003 budget submission. CDFI Program and BEA Program awardees are indeed reaching rural areas. In 2002, 60 percent of awardees receiving financial assistance, and 50 percent of technical assistance awardees, indicated that they served rural areas as all or part of their markets.

Of 156 surveyed awardee CDFIs, 20 (13 percent) estimated that 100 percent of their activities served rural areas and an additional 23 (15 percent) estimated that 51 to 99 percent of their activities served rural areas. Considering that 20 percent of U.S. households reside in non-metropolitan areas (Census 2000), the percentage of CDFI Fund awardees that target more than half their activities to rural areas (28 percent) compares favorably.

Secondary Market Study.—The CDFI Fund is conducting a study to explore the possibility of expanding the secondary market for CDFI loans. Selling loans on the secondary market while common among traditional lenders is not a general practice among CDFIs. In fact, very few CDFIs have engaged in loan sales to date. If CDFI loans can be made attractive to potential investors and investors are willing to pay a reasonable price, the CDFI industry will gain a major source of private sector capital that is likely to grow with the industry's needs and will limit the CDFIs need for additional capitalization.

The CDFI Fund's study will examine the current and future capital needs of CDFIs, and will make recommendations. The study will involve consultations with CDFIs, potential loan purchasers and others with an interest in the secondary market. A draft report is expected in the summer of 2003.

As you can see, the CDFI Fund has made substantial progress over the last year. The CDFI Fund's programs represent a continuum of capital, investment and incentive opportunities aimed at developing affordable housing, promoting homeownership, starting and expanding businesses, meeting unmet market needs, and stimulating economic growth in our Nation's low-income and distressed areas. In short, the goal of the CDFI Fund is to help bring mainstream capital to those people and communities that have been overlooked. The CDFI Fund has made significant strides in the integration of its performance measures in the budget process.

Again, I thank you for the opportunity to present my testimony in support of the President's fiscal year 2004 budget request and look forward to answering any questions you may have for me.

Senator BOND. Thank you very much, Mr. Brown.

You know, back when I was Governor I used to give two messages to the General Assembly. I would give the State of the State, and I would have all these great, lofty concepts. That was my first one, and everybody said, well, what do you really want to get done? I said, forget the State of the State message. Look at my budget message. That is coming a week later.

You find out what you want to do in government by where you put the money, and as I look at this it appears that the administration is saying that the New Markets is really going to replace CDFI, and the emphasis seems to be going away from CDFI with the cuts. Are you saying that New Markets can do the job that CDFI is doing? Are we seeing through the budget numbers a change in the administration's view with respect to CDFI versus New Markets?

Mr. BROWN. No, sir. We are saying that the New Markets Tax Credit program is an important complement to the CDFI Fund Program. It will allow us to attract billions of dollars into low-income communities through private sector funding. It is an important new program to the fund, and the administration supports the BEA Program as well as the traditional programs of the CDFI Fund.

As we shared when we submitted our budget to you in 2002, the concern of the administration regarding the CDFI Fund was not what community development financial institutions do, it was how the fund reported its impact, its performance measures related to its support of CDFIs.

The administration supported a baseline budget until we were able to work out the operational efficiencies for the CDFI Fund as well as to integrate our program regulations and reforms to meet the President's expectation for how we managed the taxpayers' money.

Senator BOND. It would seem to me that the skills for the New Market program might be different from the skills needed for the staff of the CDFI program. Are there different skills, and what kind of skills are needed, and what are the differences between staffing the two programs?

Mr. BROWN. Again, for the New Markets Tax Credit program, and the skill set that the fund has developed over the years of managing the CDFI Fund Program are essentially the same and complementary. The CDFI Fund staff did a marvelous job in introducing and administering the New Markets Tax Credit program. We were able to introduce this year's program with no addition to staff to the 2001 levels.

Many of the regulatory changes we made to our CDFI program allowed us to work through the programmatic efficiencies so that

we could effectively administer the New Markets Tax Credit program, so sir, I would share with you that we have a very talented staff, a committed staff, and one that is very capable of administering——

Senator BOND. So you are saying they are essentially doing the same things. Are you using the same measures of success? Will you be able to give us a comparison of how effective the two programs are in achieving their goals based on the amount of Federal resources available?

Mr. BROWN. Yes, sir.

Senator BOND. Will you have measurements that show that?

Mr. BROWN. The measurements are essentially the same, as I mentioned, loans and investments to businesses, loans and investments in real estate, and the measures that we have put forth for the CDFI Fund Program are essentially the same for the New Markets Tax Credit program.

Senator BOND. Okay. How do you think that the CDFI needs will be funded under this budget? Is there carryover funding? Have you got a problem with the lag, that previously appropriated funds are not being used? I am concerned that there is going to be a tremendous shortfall in the ability to fund the CDFI program. Can you justify the cuts?

Mr. BROWN. Yes, sir, I can. As I said, the enhancements that we have made to the CDFI Fund Program dealt with the whole continuum of financing activities. The fund in its years has done a wonderful job of building the program and obligating previous years' appropriations.

What the OIG noted in its post-award administration is that the disbursement of those dollars took nearly 30 months. Largely a reason for that, a big reason for that is that as we were building the program we obligated funds contingent upon the CDFI and the local market getting matched. We have made program changes because the statute does require that before we disburse, that the organization must match dollar for dollar, so many—so a number of the changes we have made will more efficiently allow us to operate and obligate and disburse our funding within the same year's appropriation and allow us to be better stewards of taxpayers' dollars.

The other significant change that you see in the budget does affect the BEA Program and, as I said in my opening remarks and the concern that was shared there was that as a result of the OMB's evaluation through their PART was a timing difference. They looked at the previous program and not the significant changes we made in the 2003 round, and the administration feels very strongly that the BEA Program that we are putting forth for 2003 focuses on community and personal wealth-building activities in a way that provides the right and proper incentives for financial institutions to be engaged in community development lending.

Senator BOND. Thank you, Mr. Brown. I will have more questions on BEA after Senator Mikulski.

Senator MIKULSKI. Well, Mr. Chairman, I just want to validate and echo your questions related to management and the utility of the program, so I am not going to repeat them. Just know Mr. Brown, that the chairman's questions are my questions.

I would like to go, though, to the issue of predatory lending, and this chairman has been a great friend and a wonderful ally in dealing with the scurrilous practice of predatory lending. What appears is that a lot of the predatory lending, the gouging of the poor, has occurred at the so-called subprimes. As I understand it, the CDFI has been a welcome and refreshing alternative for poor people who wanted to get that first rung on the American Dream, home ownership, without being gouged.

Could you tell me how many CDFIs that you fund for home ownership loans, and of that, what is your percentage that end up in default?

Mr. BROWN. Okay. Those are very good questions, and that represents many of the new performance measures that we have put in place for 2003. We do share your optimism and your enthusiasm for the role that CDFIs play in providing mortgage loans to low-income people and in low-income communities.

Many of our CDFIs provide credit repair loans. Several of our CDFIs provide loans that specifically refinance borrowers out of predatory credits. Self-Help Credit Union we consider to be one of the leading CDFIs in the Nation in providing alternatives to high-cost mortgage lending, and its founder led the charge in North Carolina to having caps on both rates and fees in subprime lending.

Senator MIKULSKI. But you have data in addition to anecdotal stories——

Mr. BROWN. We have retooled our application and coding process so that in coming years I will be able to specifically——

Senator MIKULSKI. But you cannot tell me that now?

Mr. BROWN. I cannot tell you that now.

Senator MIKULSKI. I appreciate that.

Mr. BROWN. Okay.

Senator MIKULSKI. But I appreciate your at least putting in the data and tracking and monitoring mechanisms for that, because we want to be able to show that it can be done. When there is such a high rate of default in subprime the poor are blamed, but sometimes the scurrilous hidden fees and balloon payments and all of that are of scurrilous subprimes.

Now, let us go to the issue of education on predatory lending. We know that one of the major agendas in the communities of color is about wealth, wealth-building, asset accumulation, et cetera, but often there, for a variety of reasons, has been not a lot of education, and they are therefore vulnerable to scum and scheme.

What does CDFI do in working with your local—I will call them affiliates, but your local institutions, to make sure that people know what they are getting into, or also know how to get out of what they are in without getting into it worse? You know, the whole thing about buy a blouse and lose a house through the home equity schemes and so on. What are you doing in the area of vigor in education?

Mr. BROWN. Senator, my response to that is really a very short one and a very important one. You cannot be certified by the fund as a CDFI without providing community development services. One of the unique elements of being a certified community development

financial institution is that you must provide to your borrowers development services.

That comes in the way of technical assistance, homebuyer counseling, et cetera, so depending on the unique product offering that a CDFI provides, it must provide—it must provide—development services, so CDFIs play a very important role. They are able to offer credit in a flexible and innovative way largely because they are committed to homebuyer education, technical assistance providers. They either do it directly, or they work with local universities and other third party providers to make sure that our borrowers are properly educated on the role and the responsibility of credit.

Senator MIKULSKI. You know, that is a really big job, and first of all I think it is very laudatory. It is exactly what we hoped would go on through CDFIs. This is why I am puzzled by the big cut that you have, because this is big, and what you are asking your local affiliates to do is very labor-intensive, and it is a lot of handholding and reviewing, and it should be. This is prevention for future financial problems, and it is like being immunized against being taken advantage of.

If I could, Mr. Chairman, let us go to this New Market Tax Credit. Again, I share the same concerns. Have you established a system for data collection on this, and how will you monitor the results of these tax credits?

Mr. BROWN. Yes. We will establish and have established some very extensive data collection, and just by way of background and to bring you current, last year we had a joint conference with GAO that talked about the performance measures for the New Markets Tax Credit program, and we are going to take a couple of approaches, that the primary purpose of the New Markets Tax Credit program is to see an increased flow of capital into low-income communities.

So one of the first performance measures that we think we will be able to report at least next year is how effectively were community development entities able to take the tax credits and use that to attract private capital investments into their community development entities.

The other measures, probably beginning in 2004 or 2005, will allow us to look at how the proceeds from those investments were used in a community, to what extent were jobs created, what types of services, commercial real estate services, were provided in low-income communities, things like charter schools, medical centers, loans to small businesses.

The New Markets Tax Credit program allows for a variety of activities. The only activity that is excluded under the New Markets Tax Credit program is rental housing and, as you know, we have a separate tax credit for that, the low-income tax credit.

Senator MIKULSKI. Well, thank you very much, Mr. Brown, and we look forward to working with you.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Mikulski.

I am going to go back to the BEA and the unfunded awards. In 2002, the Bank Enterprise Award Program received 35 funding applications totaling $24 million from banks who had successfully

carried out $167 million in increased lending and financial services activities in very distressed neighborhoods, yet the CDFI Fund only funded five applicants before it ran out of money. As a result, 30 banks that successfully completed nearly $140 million in increased activities received nothing for their hard work and effort.

Now, one of these banks was the Central Bank of Kansas City, as I have mentioned, serving the needy areas in Kansas City. The BEA appears to be working as an incentive to get banks to do more in very low-income communities, and demand is higher than resources available, as last year's $20.9 million funding fell short, so would you please explain to us why the administration proposes to cut this successful program until Congress makes statutory changes to it?

Mr. BROWN. Sir, as I said in my opening remarks, the changes that we made to the BEA Program, which were quite substantial, occurred after OMB did its evaluation of the BEA Program, and we concurred with OMB's evaluation that the previous administration of the BEA Program did not effectively allow us to target our awards for distressed community activities. The popularity of the BEA Program for—let me also give you a little bit more background.

The statutory requirements of the BEA Program requires that the first two priorities, or the primary priority, allow us to provide an incentive to financial institutions for its support and investments in other CDFIs. The third priority allowed us to provide an incentive to banks for increasing their lending in targeted low-income areas.

In the past year, we exhausted our budget as we provided incentive awards in response to the first two priorities in the statute. In looking at the program formula, in looking at the types of awards that banks were receiving under the first two programs, we felt that there needed to be substantial revisions.

The revisions we have made to the BEA Program now allow us to achieve more increased targeted funding. We have put caps on the amount of a BEA award to our largest CDFI partners. For instance, we had provided an award to a major financial institution that provided a $10 million credit facility to one of our largest CDFIs. That credit facility was typically priced at prime, and that $10 million credit facility required us to pay that bank a $1 million BEA award.

When we looked at that, we felt that the program was successful, that we had grown that CDFI to a size and scale that that strategic partnership was in place, and that we did not necessarily need the BEA award to incent that type of activity, so the changes we have made allow us to target awards to CDFI partners that are small and emerging and allow us to target BEA awards not for all lending that a bank does, but for lending, for mortgage lending, small business lending, not automobile lending and credit card lending, which was part of the previous award.

The other problem we had is that when we looked at the network of regulated institutions that were receiving a BEA award, it was possible that a regulated institution could make a million dollar deposit or ten $100,000 deposits in the network of other regulated CDFI banks and for that receive a $330,000 BEA award. We felt

that was not the intent of the program, and so in the 2003 round we have prohibited that activity.

I share those with you to say that in fixing what we think is the proper incentive for providing support and investments into other CDFIs, that it now gives us greater budget latitude to provide a financial award to our network of CDFI banks who are committed to providing loans, mortgage loans, small business loans in low-income communities so that now, with the appropriate budget appropriation, we will have sufficient dollars to not leave meritorious applications on the table as a result of a lack of funding.

Senator BOND. The bottom line is, will the 30 banks that came up sucking wind last time be able to be funded?

Mr. BROWN. That will depend on the level of applications and the demand we get in the first two priorities.

Senator BOND. Native American technical assistance. We clearly saw a need for capital access and financial lending on Native American lands. The Treasury Department's 2001 study recommends creating more financial institutions, including CDFIs, on Indian lands and opening branches there. One of the greatest needs, of course, is access to credit and capital and, as you know, we included some $5 million for financial and technical assistance for Native Americans in 2003, whereas the fiscal year 2004 budget calls for $3 million. Why the reduction in funding?

Mr. BROWN. We see that as an integral part of our technical assistance program, in that we feel that if we are successful in the appropriations that you have given us in the 2002 and 2003 round of taking nearly $10 million to help create and support the capacity of CDFIs in Native American communities, that we think that we will have positioned them to more effectively—to more effectively—compete for other financial assistance funding.

We are extremely committed to our Native American program. Our strategic plan offers a great deal of innovation. We have talked with members of the Fund's, other Government agencies that serve on the Fund's Community Development Advisory Board, and we feel that our Native American strategic plan will not only include the resources of the Fund but we will work in close partnership with HUD, USDA, and others to put forth what we think will be a very quality demonstration program to help overcome the perception that lending in reservations is risky, so we are quite excited about the potential of our Native American program.

Senator BOND. The New Markets Tax Credit program, as I said, covers 32 percent of the U.S. population. It is supposed to help economically distressed communities. What is to keep a community development entity from deciding a particular project in a very risky area was not as good an investment as one in an eligible but substantially less risky neighborhood, and what oversight and accountability protections does the Fund have to ensure that the CDE meets the requirements of the approved application?

Mr. BROWN. A very good question, Senator. Our allocation agreement is our enforcement tool that will hold a community development entity accountable to its application.

Our review of the application and the highly rigorous process that we establish in the application will help us to ensure that the allocatees that receive a new markets tax credit allocation are com-

mitted to providing business strategies that we consider to be unique, flexible, and innovative, and that the other sections of the application review process will look at the impact that the organization has committed to make, and the market areas that they are committed to serve, that those elements are key components and conditions in the allocation agreement.

So we are extremely committed to ensure that what the organization said in its application will be measured in its actual results and performance, and our allocation agreement is the tool that we will have to ensure enforcement.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Well, Mr. Brown, thank you. You may find it hard to believe, but I still have a number of questions that I will submit for the record, things about accountability, and one of the things that continues to come up is how we know the programs are effective, and again, I am very much concerned about making sure that needy rural areas are served, because I see the action going in the needy areas of our larger metropolitan areas, but there are a lot of the small, very small isolated rural communities with disadvantaged minority populations who just seem to be out there by themselves, so I will submit those questions for the record.

[The following questions were not asked at the hearing, but were submitted to the Department for response subsequent to the hearing:]

QUESTION SUBMITTED BY SENATOR TOM HARKIN

Question. In the fiscal year 2002 appropriations, the committee urged CDFI to increase its activities in rural areas, especially in light of the abundance of Federal programs already dedicated to urban areas. I was pleased to see a number of awards made to rural entities since then. Unfortunately, it has come to my attention that a housing agency in Iowa was supposed to receive a grant and a zero-interest loan from CDFI but has been having considerable difficulty getting those funds released due to what I see as excessive administrative difficulties. A meeting occurred in my office on March 12 with your staff on this matter and still, little movement has occurred. I am told that this is not an isolated case for smaller entities trying to participate in CDFI programs.

What are you doing to assure that rural and smaller community entities that have been certified are receiving reasonable treatment that will allow the purposes of CDFI to be fulfilled?

Answer. The CDFI Fund's programs are equally accessible to organizations operating in both rural and urban settings. Community Development Financial Institutions Program and Bank Enterprise Award Program awardees are indeed reaching rural areas. In 2002, 60 percent of awardees receiving financial assistance and 50 percent of technical assistance awardees indicated that they served rural areas as all or part of their markets. On March 14, 2003, the Department of Treasury, through the CDFI Fund, announced the allocation of New Markets Tax Credit (NMTC) authority to 66 "community development entities", thus supporting $2.5 billion in private sector equity investments that will result in economic stimulus in low-income communities throughout the country. More than 30 percent of the NMTC allocation recipients will target investments predominantly to rural communities.

The CDFI Fund had been working with Homeward, Inc. of Iowa to resolve a number of issues related to receiving its funding. At the March 2003 meeting with the Senator's office, Homeward, Inc. requested a "severe constraints waiver" to reduce its matching funds requirement. Because the CDFI Fund had never received such a request subsequent to an award decision, it is in the process of developing a policy regarding what information will be needed in order to evaluate such a request. The CDFI Fund will promulgate this policy as soon as it is finalized.

QUESTIONS SUBMITTED BY SENATOR TIM JOHNSON

Question. What specific initiatives are being pursued at CDFI to enhance the Fund's effectiveness in Rural Areas?

Answer. The CDFI Fund has focused its outreach resources in fiscal year 2003 on those organizations that have small and rural entities as their memberships, including credit unions and microloan funds. The CDFI Fund is exploring a partnership with the Department of Agriculture so that we can better communicate information about the CDFI Fund's programs more broadly, using that agency's network of offices around the country. This will enable the CDFI Fund to reach a much larger audience. The CDFI Fund seeks similar partnerships with other agencies and with foundations serving rural communities, so that information about the CDFI Fund's programs can be better disseminated to rural communities.

Further, for fiscal year 2004, the CDFI Fund expects to modify its highly distressed market criteria called Hot Zones to increase the number of rural areas that can qualify. CDFIs serving Hot Zones are given highest priority for funding.

In addition, the CDFI Fund's Native American Lending Study (the "Lending Study") released in November 2001, noted that the often-rural nature of Indian Lands presented barriers to economic development and access to credit, capital, and affordable financial services. In response, the CDFI Fund is implementing a comprehensive Native American strategy that will: (1) increase the capacity of CDFIs to respond to credit, investment and financial services needs within often rural and remote Native American, Alaska Native, and Native Hawaiian communities; (2) attract other existing resources to these underserved communities; and (3) address market barriers to effective demand for credit, capital, and financial services.

Question. The CDFI Fund was established to provide flexible capital that strengthened CDFIs. By setting strategic goals that state that the Fund will achieve outcomes not related to assisting CDFIs, the Fund is seeking to diminish CDFIs to mere pass-through instruments for current Federal Government priorities. Specifically Congress intended the Fund to provide hard-to-raise equity capital that would allow CDFIs to leverage additional capital, reach deeper into communities and make capital available in areas not served by traditional lenders.

How does the CDFI Fund factor in data regarding out-migration and population loss when evaluating CDFI applications?

Answer. For Financial Assistance funding through the CDFI Program, the CDFI Fund considers five primary criteria (each of which have a number of sub-criteria). These are:

—Demonstrated need for capital for particular financial products;
—Market Need and Community Development Performance;
—Management and Underwriting Quality;
—Financial Health; and
—Financial Sustainability and Matching Funds.

Among these criteria, the Market Need and Community Development Performance criterion accounts for 40 percent of an applicant's total score. Thus, an applicant serving a highly distressed market that effectively describes the demand of that market for financial products and services and shows that it provides the services needed by that market, would receive the highest score.

The CDFI Fund's strategy of targeting Hot Zones—meaning, investment areas that are the most economically distressed based on several quantifiable measures—has been further refined by identifying particular types of Hot Zones. "Housing Hot Zones" are areas that have low median family incomes, high homeowner or rental cost burdens for low-income families, and high poverty, and are the areas that are the hardest hit by out-migration and population loss. In the fiscal year 2003 funding round, CDFIs serving Hot Zones, including these Housing Hot Zones, will be given funding priority for awards.

Question. What efforts have been undertaken to ensure that outcome-based measurements do not constrain CDFIs from pursing their intended mission?

Answer. The CDFI Fund's outcome-based measures (jobs, affordable housing units, commercial real estate, and financial service provision) should not constrain CDFIs from pursuing their intended mission because the outcomes were designed to capture the vast majority of activities CDFIs engage in.

The CDFI Fund does not specify the types of activities that CDFIs must engage in; rather, the CDFI Fund's rigorous underwriting criteria place heavy emphasis on leverage, targeting, and market need, all of which are consistent with CDFIs' missions of reaching underserved markets and achieving long-term sustainability. CDFIs that score well must be able to leverage the CDFI Fund's award dollars, target the most economically distressed areas of the country (Hot Zones), and provide products and services that meet the needs of those not served by traditional lenders.

Finally, the CDFI Fund's strategic goal is to "improve the economic conditions of underserved communities by providing capital and technical assistance to community development financial institutions (CDFIs), capital to insured depository institutions, and tax credit allocations to community development entities (CDEs), which provide credit, capital, financial services, and development services to these markets [emphasis added]." One of the CDFI Fund's four objectives is to "Build the self-sufficiency and capacity of CDFI Fund awardees and certified CDFIs." The performance measures for this objective include dollars leveraged and number of CDFIs receiving technical assistance awards and CDFI Fund-sponsored training. These outcomes measure the institutional growth of CDFIs and directly relate to the statutory purpose of the CDFI Fund.

SUBCOMMITTEE RECESS

Senator BOND. Thank you for the testimony, and the subcommittee stands in recess.

Mr. BROWN. Thank you.

[Whereupon, at 11:55 a.m., Thursday, April 10, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

THURSDAY, MAY 1, 2003

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

The subcommittee met at 10:03 a.m., in room SD–124, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Stevens, Shelby, Craig, DeWine, Hutchison, and Mikulski.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

STATEMENT OF SEAN O'KEEFE, ADMINISTRATOR

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Welcome. The Senate VA–HUD Appropriations Subcommittee will come to order. Today we welcome NASA Administrator Sean O'Keefe and our other guests from NASA joining us today to testify on the President's fiscal year 2004 budget request for the National Aeronautics and Space Administration, NASA.

At the beginning of the year, I expected the NASA budget hearing to be a hearing of hope and optimism, of a renewed commitment to the International Space Station, as well as a continued emphasis on the importance of space and earth sciences. In some ways, I have not been disappointed. Mr. Administrator, since you took the helm of NASA, I have been impressed consistently with your efforts and commitment to ensuring the fiscal integrity of NASA's programs and activities while also refocusing the priorities on the International Space Station to ensure the station can meet its goal of its primary application as a working on-orbit science lab.

Unfortunately, with the tragic loss of the Columbia orbiter on February 1, NASA is again at a crossroads where the Nation's manned space flight program must be re-examined so that we understand fully the risk of life that is part of every mission. We also must acknowledge the bravery and heroism of every astronaut in the space shuttle program since manned space fight is inherently risky and will remain inherently risky for the foreseeable future.

I have been very much impressed with the Columbia Accident Investigation Board (CAIB) with Admiral Gehman at its helm. Be-

cause of the Board's fine work, I believe that we are beginning to gain the needed insight that will allow us to move past the Columbia tragedy and take the necessary steps to minimize the risk of a recurrent tragedy. It's only been 3 months since the Columbia tragedy and I applaud the Board for its substantial progress made already on the very complex and serious issues that underlie this disaster.

Without regard to the Columbia tragedy, NASA is requesting some $15.5 billion for fiscal year 2004, an increase of some $130 million over the 2003 funding level. The proposed 2004 budget for NASA was submitted prior to the Columbia tragedy and the ripple effect of this tragedy inevitably will impact the future funding of manned space programs as well as other missions in the space and earth sciences programs. For example, we provided a down payment of $50 million for NASA to respond to the Columbia tragedy and we expect these costs to rise. We also have a very tight allocation this year for fiscal year 2004, which regrettably could result in some significant reductions to a number of VA–HUD funded programs, including NASA programs, especially new starts. Unless we can get some relief, we are in for a very difficult time. However, I assure you that we will continue to explore avenues of getting some relief.

The future of the space shuttle is a key issue for NASA as well as this subcommittee. I support the shuttle program and manned space flight, but NASA and the Columbia Accident Investigation Board will need to identify the key safety issues that must be addressed to support continued manned space flight. In particular, what are the key causes of the Columbia tragedy? What's the useful life of the remaining orbiters? And what alternative or successor programs to the shuttle program are under review by NASA? And of course, what's the timeline and as we must address here, the estimated cost to meet all these concerns?

In addition, what's the impact of the Columbia tragedy on the International Space Station? I'm gratified that our partners in the international community have responded to the immediate needs of the International Space Station since the Columbia tragedy. This commitment by our international partners was most evident this past Monday when a Russian Progress delivered a new crew of two to the International Space Station with the intent of relieving the current crew of three who have been on station since November 25 of last year. This international cooperation bodes well for the future of the station and for our relationship with our partners to the International Space Station. Nevertheless, the subcommittee needs to understand the future expectations and potential cost issues facing the Space Station under this international partnership.

Finally, what's the impact of the shuttle program on other missions, including those which are part of the earth and space science program? What missions have been delayed and what additional costs can be expected will be incurred?

We have a number of questions on these issues and other concerns that I will either raise today or issue as questions for the record.

We are supposed to have a vote beginning at 10:15, which is going to cause us an interruption. Hopefully we will see how far

we can get and then we will recess the hearing, and whoever gets back here first will restart the hearing.

But now I turn to Senator Mikulski for her comments.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman and welcome back. We're glad to see you on your feet again. Senator Bond had hip replacement surgery.

I think we're all clear that on February 1 our Nation suffered this tragic loss when the Space Shuttle Columbia exploded and seven astronauts lost their lives, and Israel also shared in our grief. We all agree that the best way to honor those astronauts is to get back in flight again.

But Senator Hutchison, before I talk about Columbia, I also would like to thank and acknowledge the wonderful work that the people of Texas did, working so faithfully, assiduously, and swiftly to recover the debris that is such an important part of the investigation. So for all those people in Texas and Louisiana, and the people coming forth with their video film, I think it has been a heroic and extraordinary effort, and a special salute to the people of Texas. It was a hard job but again, Texas, the Lone Star State is going to help us get back to the stars.

But when we look at where we are now, I think we're all in agreement that there needs to be a thorough and rigorous and candid investigation of what went wrong. The Columbia Accident Investigation Board is conducting their analysis and they report to the Congress and the American people, and from what we can see, it has been with candor.

But what I'm concerned about is as we get that report, will we have a direction and will we have the resources to proceed? My No. 1 priority, both as when I chaired this subcommittee and then as the ranking member, has been shuttle safety. It has been a shared bipartisan commitment that we would have shuttle safety, and this is what we need to be sure that we have focused on, that safety must come first no matter who is the chair and who is the ranking member.

For the last 2 years we've included report language stating that the safety of the shuttle and its astronauts must be a priority and we, I think, included funds to do this. And so, my questions today will focus on shuttle safety.

Also, though, there are the long-range issues at NASA that must be addressed. The future of the shuttle, whether the shuttle is whither thou goest, will it be able to go. It also points out an aging workforce and an aging infrastructure, and I am deeply concerned about these challenges.

And then of course, the work that we continue to need to do in the area of space science and aeronautics that is so important to us. The President's budget is $15.5 billion. This is just a little above the 2003 level. It is a status quo budget. So I'm not sure, where is the money to make sure that the shuttle can fly again, where are we going to go in space science, and also, how will we pursue some very interesting new initiatives?

For 2004, the budget proposes close to $4 billion for the shuttle. That's one-third of NASA's entire budget. This includes $281 mil-

lion to upgrade the shuttle and its infrastructure. We have to see what this means and we have to know what your plans are.

We have a big question mark about the Space Station budget. What's going to be the impact of the Columbia on the station, what are our international partners doing, and the whole issue of the astronauts currently there. Is the Soyuz or Progress reliable enough to get us through this difficult phase?

There are of course the science issues. Where are we on the Hubble, how would we be able to service the Hubble, what will be able to service the Hubble? The Hubble is very special to those of us in Maryland because so much of the analysis is done over on the Johns Hopkins campus, and Goddard is its catcher's mitt. Hubble needs to be addressed, what we do about that, and where are we in the next generation.

Then of course there is this issue of an aging workforce and aging systems. I understand 20 percent of NASA's scientists and engineers are eligible to retire within 5 years. The Apollo generation is retiring and again, most of the NASA centers are 40 years old. What are we doing to get ready for the future, what are we going to do about those issues?

Those are a quick thumbnail of what we want to talk about, the broad policy issues, and then focusing on the appropriations necessary to do that. And Mr. Chairman, I will pursue other amplified remarks as we go to the questions.

Senator BOND. Thank you very much, Senator Mikulski. I share, as well, in your congratulations and thanks to the people of Texas, New Mexico, Louisiana and others. Your comments about shuttle safety are right on. We have pursued that. And we have been discussing the problem of the aging personnel at NASA, and this is a huge bow wave question coming down the pike that we need to review.

I'm going to turn now to the others for their introductory comments. If the buzzer rings for the vote, I will turn the gavel over to Senator Mikulski or to anybody else who will stay here so we can continue with the opening statements. It takes me a long time to get there and to get back, so I'm going to start whenever it does ring.

But with that, I believe the first one to join us was Senator Hutchison.

STATEMENT OF SENATOR KAY BAILEY HUTCHISON

Senator HUTCHISON. Thank you, Mr. Chairman, and I do appreciate the comments of both the Chairman and the Ranking Member regarding the people of Texas. I have been to the area since the Columbia tragedy and they just were so happy to be able to be helpful, not happy about the situation, but they felt such a part of finding the answer, and the people there felt that it was a very important mission they had, they took it that way and wanted to make the contribution that I do believe they have made.

I want to talk just for a minute about certainly the future of the shuttle, because I think it is just absolutely essential that we renew our commitment to the shuttle and to the manned shuttle, because NASA has done so much space exploration, they have done in the field of research and technology growth. It is one of the rea-

sons that the United States has maintained its superiority in economic growth in the world.

And all of the jobs that have been created from this, even the Columbia, have made huge contributions in scientific research because they were able to feed back every day, every hour, every minute the results of their tests. They actually did do some research that might one day lead to advances in the elimination of prostate cancer, and there were many other scientific experiments that we were able to retrieve even from the Columbia.

I think there is no substitute for having people involved in the research that we are conducting. So the idea of sending up unmanned shuttles, which can be effective in some ways and for some purposes, but not as a substitute for having people there to do the experiments and to correct things and to adjust.

Secondly, I do want to say in the budget request that I'm pleased to see the support for the base budget for the National Space Biomedical Research Institute for $30 million. I think this is one of the great success stories of our ongoing efforts with space exploration, and I think there is so much more that we can do in this area and we need to make sure that we have the capability to bring back the data that we have, and also have a place then to dissect and use the information. So, I am very pleased about that.

In fact, I have to say that I believe NASA is getting its budget priorities straight. I was one of the harshest questioners of you, Mr. O'Keefe, because I was worried very much that NASA was drifting from their core experimental and technological advance mission. And when you came on board, you wanted to take a look and see what the priorities should be, you had your scientific mission and you said yes, in fact we should continue with scientific research, and you are taking that ball now and I think running with it as this budget shows. So I want to say, I am pleased with that.

The other thing I just want to mention regarding manned spacecraft and shuttles is that I believe the investigation has been open and candid, which is very important, and certainly something that we learned was not the case for the Challenger, and it took a longer time.

But I do hope that as things are beginning to come out, as this is beginning to come to closure, that you are going to come back to us with a system of communications from the bottom to the top, so that we will know that even maybe some irrelevant observations will be brought forward, because it's worth it to separate the wheat from the chaff in this instance. I don't know and I assume you don't know if something could have been done after the takeoff that would have made a difference, but there clearly were concerns at the bottom, and I think that having a communication system to assess those concerns and determine if in fact there is something that could be done is essential for manned spacecraft.

PREPARED STATEMENT

So, I will say with that, that I do think we're getting on track, you have taken the time and I just, I have never seen a sadder face on any person than I saw on you following the Columbia accident, and I know you have taken to heart all of the issues that have been brought forward, and I think you are doing the right thing by keep-

ing it open. And I want you to continue to do the right thing by keeping our priorities, keeping our focus, and making sure we have communications systems in place to implement that vision. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR KAY BAILEY HUTCHISON

Mr. Chairman, I am pleased to return to the VA–HUD/NASA Subcommittee, and I am more encouraged by this year's NASA budget than I have been in years past.

I want to start by commending the thousands of people who have been involved in the recovery efforts for the Space Shuttle Columbia since the tragic accident on February 1, 2003. I appreciate NASA Administrator O'Keefe being here today to update us on the Columbia recovery and NASA's overall mission.

With recovery efforts headquartered in Lufkin, Texas, significant progress has been made as over 5,000 workers and dozens of aircraft have been searching for Columbia pieces every day. The main search areas in Texas span along the Columbia's flight path which is 10 miles wide and 240 miles long. Altogether over 80,000 pieces of debris have been found—this amount of debris represents 38 percent of the Space Shuttle Columbia.

The Space Shuttle Columbia was an important mission for scientific research, with more than 80 experiments aboard. With a satellite downlink between the Columbia and Johnson Space Center in Houston, scientists were able to retrieve a tremendous amount of data in real-time. On the Columbia, a large amount of the science was aimed at saving lives. With the astronauts working in 12-hour shifts so that experiments could continue around the clock, the crew was able to provide a large body of knowledge. One study involved the growth of prostate cancer tissue, which may potentially lead to advances in treatment.

Altogether the Columbia carried four tons of scientific gear, and many of the experiments were designed to keep scientific studies underway until the International Space Station is complete. We can be proud of the Columbia crew for their efforts, and their ultimate sacrifice, to save lives here on Earth.

On a related scientific research point, I want to say I am pleased to see support in the NASA Fiscal Year 2004 Budget request setting a base budget for the National Space Biomedical Research Institute (NSBRI) of $30 million. The NSBRI is one of the great success stories that has drawn many outstanding biomedical scientists into space life sciences research to solve problems and risks associated with long duration human space flight.

In my view, NASA is getting its budget priorities back on track. As we discover the cause of the Space Shuttle Columbia tragedy, we must next ensure that we continue to develop a vision for the future of human space flight.

Thank you.

Senator MIKULSKI [presiding]. Senator Shelby.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you. Mr. O'Keefe, I want to welcome you here. I have a number of questions for later on. We appreciate what you're doing, the leadership that you brought in difficult times with NASA. All of us who sit on this committee and have funded NASA for many years, most of us, if not all, believe that NASA is still vastly underfunded, considering the potential there, the missions and so forth, and I want to work with you and the administration to try to get more funding for vital programs that come under your jurisdiction at NASA.

I am just pleased that we have profited so much from the basic research and the technology that has been brought forth from your NASA's endeavors. So with that, I'm going to try to vote and I will be back later to get your questions. Thank you.

Mr. O'KEEFE. Thank you, sir.

Senator MIKULSKI. Thank you, Senator Shelby. Senator DeWine.

STATEMENT OF SENATOR MIKE DEWINE

Senator DEWINE. Mr. O'Keefe, thank you for joining us, and I just want to congratulate you for the excellent job that you have done as administrator and really the great job that you have done in light of this horrible tragedy that has hit NASA. I think everyone is very proud of the job that you have done and we appreciate that very much.

I want to join my colleague from Alabama and also say that I believe that NASA is underfunded and we're going to try to over time to work on that issue as well. I look forward to hearing your testimony and I appreciate you being here. Thank you, sir.

Mr. O'KEEFE. Thank you, sir.

Senator MIKULSKI. The committee will now stand in recess subject to the return of the chair, and at that time we will take the testimony of Sean O'Keefe, the Administrator.

Senator BOND [presiding]. All right, we will reconvene the hearing and now we are ready for the testimony of Administrator O'Keefe. Sean, please go ahead.

STATEMENT OF SEAN O'KEEFE

Mr. O'KEEFE. Thank you, Mr. Chairman. I appreciate the opportunity to be here. With your permission, I will summarize the statement and ask that the full statement be inserted in the record.

Senator BOND. Without objection.

FISCAL YEAR 2004 BUDGET REQUEST

Mr. O'KEEFE. This is an opportunity to appear before the committee to discuss the President's Fiscal Year 2004 Budget proposal for $15.5 billion for NASA. This is a $500 million increase over last year's proposal in the 2 or 3 months after the submission of this one, for 2003.

That request demonstrates the administration's continued confidence in NASA's ability to advance the Nation's science and technology agenda. It's also an opportunity, I must say from a personal standpoint, with the committee staff along, to appear here before the committee. You always treat me, Mr. Chairman and Senator Mikulski, as the equivalent of an amicus brief or friend of the court in that regard, and I thank you for that courtesy.

The budget, we believe, is responsive and funds our highest priorities. It's credible. It builds and reserves for technically challenging programs, fully accounts for program costs, and we hope and like to think that it's a compelling effort which enables new initiatives tied to our strategic objectives. It advances our mission goals through a stepping stone approach for exploration objectives, and provides transformation of technology and capabilities for all programs we have open.

The proposals embody a new strategic direction for NASA and how we plan to shift resources towards longer-term goals outlined by our mission, and it's summarized in the 2003 strategic plan which is on the website, and there are a couple remarkable features to it.

The first one is, it's short, it's readable, it's written in English, and it's on a website in time for submission of the President's budget proposal submitted in September, as it typically is in most Federal agencies and departments, so hopefully that would get some currency across the board.

Before describing some of the objectives, sir, I would appreciate during my opening statement to describe a brief update on the Shuttle Columbia recovery efforts.

COLUMBIA RECOVERY EFFORT UPDATE

The ground, air and water search for Columbia is complete. The base camps at Nacogdoches, Palestine, Corsicana and Hemphill are either closed or in the process in the next few days of closing. The main consolidation and operations point at Lufkin will close by the 9th of May, and all the effort has been timed not around a calendar, but based on completion of the recovery itself.

The charts that we've brought along here, which I got when I was out there a few weeks ago reviewing the current progress, each of those were an attempt to give you sort of a sample of it, because it goes on forever. But each of these grids that they approach here, they would designate in a green color once they have completed that, that is, the U.S. Forest Service, EPA and NASA, and other folks that are actually searching the area. At this point, they are all covered. They have covered every single acre of the 550,000 acres that stretch along that blue strip there from south of Dallas-Fort Worth to the Texas-Louisiana border across Toledo Bend, which represents about a 250-mile range, about 10 miles wide, and every acre of that, which accounts roughly to the equivalent size of the State of Rhode Island.

Senator BOND. Sean, let me interrupt. Is there any pattern where there was significant debris, is there some kind of submission you can give us to show where it was found and does the location have importance in the assessment of the causes?

Mr. O'KEEFE. It did indeed. As a matter of fact, the pattern is, you can see the blue line intensifying there in that area. If you saw it up close, it would just be an area south of Dallas-Forth Worth to the far left, and the Texas-Louisiana border is right there at the point where it's light green shifting to the kind of brownish. That blue line is the intensity, the primary areas where it was picked up. The wreckage field, again, is about 10 miles wide, but that's where it was intensely focused.

You're exactly right, there were certain parts and certain pieces which were picked in certain areas, that did after time start to unfold a pattern of exactly how this occurred. The left wing, which much has been written about, the wreckage is much further downstream and closer towards the Corsicana-Nacogdoches area which is on the left side of the debris field. The right wing, which stands to reason, stayed in place for a longer period of time and was among the last things to break up, as well as the crew compartment, et cetera, and these were closer towards the Hemphill area, which is right near the Louisiana border.

So from that, we piece together a much more comprehensive understanding of precisely how this happened, and the Columbia Accident Investigation Board is coming to a conclusion on hypotheses

and theories based on exactly that sequence, not only what you find but also where you find it and exactly what condition it's in as we move along.

During the course of this last 90 days, all these teams have collected 85,000 pounds of debris, and that represents about 40 percent of the Columbia's weight. Of more than 80,000 specific items that were picked up, approximately 76,000 have actually been tagged and identified. I was just down at Kennedy Space Center Monday evening, and they have identified the better part of them, and of the 76,000 they have actually arrayed out about 10 percent of it. That demonstrates exactly what the pattern of the wreckage will tell us occurred on that terrible morning.

Of that grouping, about a thousand pieces came from the left wing. They have now been able to piece that together and to reassemble significant portions of the left wing. It will be nice to examine the intensity of the heat, as well as the heat flow demonstrated on that particular event.

On the 29th, I met with the search teams in Lufkin, Texas. Again, we have essentially closed all of the four primary base camps, and NASA has formally acknowledged and appreciates very much the efforts that the folks in East Texas and West Louisiana have contributed in this particular effort. It is indescribable, the activities that all of the 120 agencies from the Federal, State and local activities have contributed, as well as that of the communities, which has been just overwhelming, inviting volunteers as well as Federal public servants into their homes during the course of this very, very arduous effort.

The initial prediction was that we might find and recover on the order of 10 percent, maybe. We have exceeded that by a factor of 4, and that is largely due to the extraordinary efforts on the part of an awful lot of folks who live in the east Texas area who have been just incredible partners and assistance in all this.

So Senator Mikulski, you are exactly right. I believe the folks in the Lone Star State have helped us return this particular case.

The independent Columbia Accident Investigation Board, as you mentioned, Mr. Chairman, under the leadership of Hal Gehman, has made significant progress in organizing the work and again, looking at not only the facts and evidence that came back from the mission control information, but also a lot of the OEX recorder that was recovered a few weeks back. To your question again, Mr. Chairman, that was located in the area very much towards the southeast portion of this stream, right near the Louisiana border.

It was found on the second pass over that same acreage. There has really been an incredible case of not only a lot of human effort of literally walking over every single acre, of examining the debris field itself, but also using that analysis to inform where other parts may be.

To your observation, Mr. Chairman, the OEX recorder was in a specific compartment that we found several different pieces of in a very specified grid near Hemphill. Having returned after covering it the first time and not having found the recorder, and having seen the analysis that indicated here were all the other parts we did find, a lot of our folks asked the U.S. Forest Service, the EPA and our people, to go back and look over that acreage one more

time, it covered about 5 acres, because if it was going to be found, it was going to be found in that one spot.

On that second pass, they found it. It was really using the technology and analysis of what we found, where we found it, how it was recovered, what condition it was in that really led us to a lot of the efforts that have gone on here. So it has been an enormous effort to inform the nature of the investigation, and this board has really valued that contribution.

We have kept the pledge, and I appreciate your comments, all the opening comments from members of the committee, that we have indeed handled this is an open manner. We are candid with the Accident Investigation Board even if that means that some of the earlier findings or theories prove to be opposite of that, that's fine. We're hoping that the findings and facts will speak for what occurred here and we continue to work with them to determine the nature of how this event occurred.

I concur with you, sir, that Admiral Gehman has been incredibly diligent in working through this effort, and they have been very forthcoming in all the public hearings and press conferences describing exactly the direction they are moving. They are narrowing in on a set of theories that will be released in the weeks ahead.

HUBBLE SPACE TELESCOPE ANNIVERSARY

I would also like to point out that the past week, on April 24 we celebrated the 13th anniversary of the launching of the Hubble Space Telescope. In honor of that anniversary we released the Hubble image that was passed around before you, which we have characterized as the perfect storm of turbulent gases shot. It has a more formal title, the Omega Nebula, but it was one that was just released this past week. The image captures a small region within a very specific area known as the Omega or Swan Nebula, located about 5,500 light years away from the constellation Sagittarius.

There is another one we're going to release next week, and as a preview of coming attractions, we have passed that around as well, which is the Helix Nebula. It is also just a stunning piece. It will be released early next week from the Hubble Institute as well.

FISCAL YEAR 2004 BUDGET REQUEST

The Fiscal Year 2004 Budget contains 9 specific initiatives, 5 initial goals that again, are built on a plan that I like to think is very short, easily readable and specific.

PROJECT PROMETHEUS

They include first and foremost, an effort to really address the power generation or power limitations and propulsion limitations that we currently wrestle with on every mission we are engaged with. We are looking for a new power generation and propulsion capability in the time ahead to accomplish not only speed, but on orbit kind of examination of any of the outer planetary missions we may engage in.

Project Prometheus is our effort to do that, an ambitious effort to develop and to build nuclear reactors for the purpose of pro-

viding propulsion and power generation capabilities. We tend to enlist the experience of better than 40 years of our friends in the naval reactors community to design reactors that are significantly smaller than that but generate about a factor of 100 greater power than we currently deal with today on every single space probe mission.

HUMAN RESEARCH INITIATIVE

The second major area I think is of particular focus as well, and it's also a limitation that we have dealt with for a long time and need to wrestle and understand better how to conquer. We developed a human research measure, the expanded biomedical research and technology development to enable long-duration missions on the International Space Station or any other vehicle as potential means of missions beyond low orbit.

Benefits that come from this are again, just this past June, less than a year ago we set the longest duration U.S. space flight record of 196 days, Dan Bursch and Carl Walz accomplished that task. That was about the time it takes to get from here to Mars, and that's it. That's the longest we've ever had anyone.

So the idea of experiencing that particular effort is a real challenge, because the physiological consequence of that is just downright profound. During the course of any stay on the International Space Station, every astronaut and cosmonaut receives the equivalent radiation of 8 chest x-rays a day.

During the course of the missions, as we see in the case of Expedition 4, that Dan Bursch and Carl Walz worked through, as well as those who returned, Ken Bowersox, Don Pettit and Nikolai Budarin, they are coming back this weekend after 5½ months up there. They will likely experience what we typically find of about a 30 percent muscle mass and about a 10 percent bone mass degeneration.

If we can figure out ways to arrest this in this human research initiative that we have budgeted for and specifically provided a very aggressive effort to understand, better arrest that degeneration as well as provide for the appropriate shielding from exposure, that will have applications not only for long duration space flight and the opportunities for future space exploration, but it has direct applications for all of us here on earth.

If we can determine how to arrest that, just the bone mass deterioration issue, that in turn may make you one of the few folks who will have to go through hip replacement in the future, Mr. Chairman, and hopefully accomplish that so that those who follow won't have to suffer the challenges that you're wrestling with right now.

Senator BOND. It might be simpler if they didn't play rugby, but go ahead.

Mr. O'KEEFE. We'll have to look at some life habit kind of changes as well, I guess, but it nonetheless is an opportunity to apply all kinds of different applications and approaches to these sets of challenges here on Earth.

OPTICAL COMMUNICATIONS INITIATIVES

The third area that we emphasize, the optical communications initiative is an investment in revolutionary laser communications

technology that we intend to demonstrate on a mission to Mars later this decade, by transmitting large volumes of information that right now take us a ferocious amount of time.

The effort that currently is underway takes us the better of about 2 years, these last 2, to map about 20 percent roughly of the planet Mars. With this particular initiative, you can do that in about 4 months for the entire planet. That's the difference in speed of communications as well as capabilities.

BEYOND EINSTEIN INITIATIVE

The fourth area that you will see emphasized here is a beyond Einstein effort, to look at a couple of specific observation observatories: A deep-space gravity wave detector, LISA; as well as Constellation-X, a mission probing to look at the edge of black holes, both of which are to look at those theories and specifically capitalize on those efforts and understand what's involved.

CLIMATE CHANGE RESEARCH INITIATIVE

The fifth is the climate change research initiative. The President has directed all of us within 11 different agencies to engage in and be involved with, to collect the information, to accelerate the research, and to key scientific uncertainties that inform the kind of changes that are occurring within our own climate here and the environment that is affected by the way we conduct our habits as human beings, and to collect that data and then inform what the appropriate protocols would be to alter that set of habits.

AVIATION SECURITY INITIATIVE

The sixth is the aviation security initiative to expand research to develop technologies that will in turn, we believe, reduce vulnerabilities of aviation to terrorist and criminal attacks. The proposition that anyone could use a commercial airliner for the purpose of terrorizing us again ought to be eliminated by simply the use of technology, which would eliminate their capability to take over aircraft in those circumstances.

NATIONAL AIRSPACE SYSTEM TRANSFORMATION AUGMENTATION

Seventh is the national aerospace system transformation augmentation, which translates as trying to do better airspace management. It's one thing to encounter as we do nowadays, since September 11, a very real change in the way we conduct our activities for commercial transportation, and the amount of time we wait to go through security efforts. But it's another thing to have to have aircraft stacked up waiting for departure and landing opportunities. There's a way, I think, of improving that efficiency through airspace management.

QUIET AIRCRAFT TECHNOLOGY ACCELERATION

Quiet aircraft technology certainly is a persistent issue of trying to deal with urban noise pollution and this is one of the things we specifically could improve.

EDUCATION INITIATIVE

Finally and maybe most important in terms of our effort to inspire the next generation of explorers as part of our mission objective, we have pursued the Educator Astronaut Program which was announced in late January and since that time, there have been over 1,600 applications from educators around the country who seek to be astronauts as part of that effort. Better than 8,600 people were nominated during the course of that time. The applications do close tomorrow, and in the course of that effort of that 1,600 applications, we will review in order to select 3 to 6.

So the interest in the wide range of activities in the astronaut corps certainly is unabated as a consequence of the tragedy of February 1. Indeed, it may have even heightened since that time.

Within the next few weeks, NASA will make 50 awards for NASA Explorer Schools, involving unique partnerships within NASA and the school teams at the middle school grade levels across the country to join educators, administrators, students and families, to sustain involvement with NASA research discoveries and missions.

The budget also builds on the work of this committee and the Congress in the February omnibus appropriations bill containing many needed elements to help address key power, propulsion, transportation and human capability restraints.

The budget specifically funds the International Space Station as you said, Mr. Chairman, in your opening statement. There is no difference to speak of between three different estimates of what it will cost, we know what that's going to be, and we can now develop a plan which will complete the International Space Station as soon as we can return to safe flight. It accommodates our international partner elements, maintains progress on research priorities, as Senator Hutchison alluded to in her opening statement, and continues to build out the International Space Station in order to then organize all research through a nongovernmental organization like the Hubble Institute to specifically organize up with the International Space Station the research we will do in the years ahead.

INTEGRATED SPACE TRANSPORTATION PLAN

The Integrated Space Transportation Plan, which again, we appreciate the endorsement and support of this committee as you did in the Fiscal Year 2003 Budget, to specifically make investments in not only the service operational life efforts for upgrades and modernization, but the Orbital Space Plane, to get that started as a crew transfer vehicle between here and the International Space Station. And the next generation launch technology efforts in propulsion, structures and operations, to provide that future replacement for shuttle in time.

BUDGET RESTRUCTURING

Along with the strategic plan that I mentioned, we're also submitting an integrated budget performance document and performance accountability report, all earlier than is typically required by law, in order to give some meaning to the context of the budget that we had planned, developed and released on February 3.

The documents reflect agency improvement in specific areas dealing with budget restructuring in accordance with the committee's instruction in that regard; full-cost accounting and management, in order to reflect the total cost of what it takes to do something as opposed to having it spread throughout the budget and trying to find what the pieces or parts are. You can now look at the Fiscal Year 2004 Budget and see what the total expense is in order to actually carry out some task.

INTEGRATED BUDGET PERFORMANCE

The third area is an integrated budget performance effort to try to demonstrate the linkages between performance and what the budget request is that we have pending before you, to inform the Congress of promised cost, of the schedule, of technical parameters to improve projects, merging the budget with performance plans specifically.

INTEGRATED FINANCIAL MANAGEMENT SYSTEM

Then the integrated financial management system, which again, the endorsement of this committee has been invaluable to proceed with. It is our third attempt doing this and I want to advise you now, this one is successful, it's being implemented now. The last three centers, Goddard, Dryden Flight Center out in California, and the final one is—I'm sorry, the third one escapes my memory for the moment, but the other three, they will be implemented by June. The rest are already on this system and that core financial system is operating today. So by July, there will be one financial system at the National Aeronautics and Space Administration.

AUDITED FINANCIAL STATEMENTS

Finally, on this vein, we have completed and have extended dialogue last year, if you recall before this committee, on the audited financial statements. We have received a clean opinion this year, unqualified, our books are in order. We have a lot of work to do to maintain that, and a lot of what's been involved in implementing the Integrated Financial Management Program into that one core financial system is going to help us achieve that year after year. I don't anticipate a repeat of last year's disqualified opinion.

HUMAN RESOURCE CHALLENGES

And in conclusion, let me just offer a thought that Senator Mikulski introduced in her opening statement as it pertains to the human resource challenges we have. Indeed, that is a matter that we are really deeply concerned about, but can get ahead of now if we do some things today and in the future, very near future, in order to look to recruit, retain, as well as professional development of those who are within the Agency today.

PREPARED STATEMENT

The President submitted legislation back in June of last year that would provide those specific tools. There are two pieces of legislation introduced, with Senator Voinovich here in the Senate, as well as over in the House, have introduced legislation that specifi-

cally moves those initiatives forward, and we seek enactment of those as soon as is possible in order to develop those tools, use them, and get ahead of this particular bow wave of retirements that we see looming here in the very, very near future. So it's an opportunity today to deal with that, as opposed to dealing with it in a crisis condition just a couple years from now.

Mr. Chairman, again, thank you very much for your indulgence. I appreciate the opportunity to be here.

[The statement follows:]

PREPARED STATEMENT OF SEAN O'KEEFE

Mr. Chairman and Members of the Subcommittee, I appreciate the opportunity to appear before the Subcommittee today to discuss the President's fiscal year 2004 budget proposal of $15.47 billion for NASA. The President's request demonstrates the Administration's continued confidence in NASA's ability to advance the Nation's science and technology agenda.

We come together to discuss NASA's space research and exploration agenda, and our efforts to advance aviation safety and efficiency in this Centennial of Flight year, still mourning the tragic loss of the courageous crew of the Space Shuttle Columbia. Before I discuss the details of the budget, I would like to provide the Subcommittee an update about the on-going investigation.

Since the tragic loss of Columbia, our work continues to honor the solemn pledge we've made to the families of the astronauts and to the American people that we will determine what caused the loss of Columbia and its crew, correct what problems we find, and safely continue with the important work in space that motivated the Columbia astronauts and inspires millions throughout the world. A grateful Nation has laid to rest with full honors, six American heroes: Rick Husband, William McCool, Mike Anderson, Dave Brown, Kalpana Chawla and Laurel Clark. The people of the state of Israel also paid their final respects to Israel's first astronaut, Ilan Ramon. At all these ceremonies, NASA was represented by myself and/or other appropriate Agency officials. We continue to be sensitive to, and supportive of, the needs of the astronauts' families and will be at their side as long as our support is desired by them.

I am pleased to note that the Columbia Orbiter Memorial Act was part of the "Emergency Wartime Supplemental Appropriations Act, 2003," signed by the President on April 16, 2003. I want to personally thank Senator Stevens for introducing the legislation on March 18, and Senators Bond and Mikulski for co-sponsoring this legislation that honors the fallen heroes of STS 107. NASA is grateful for your leadership and support. The legislation authorizes construction of a memorial at Arlington National Cemetery near the memorial to the crew of the Space Shuttle Challenger. The legislation also authorizes NASA to collect gifts and donations, over the next five years, for the Columbia Memorial. It also permits NASA to erect other appropriate memorials or monuments with private donations. The law allows NASA to transfer collected money or property for the fund to the Secretary of the Army to defray expenses. Memorial fund procedures will be established and announced in the near future.

Columbia Recovery operations, which began as soon as it became clear that Columbia was lost, have continued on the ground, in places along the Shuttle's reentry path, stretching from San Francisco, California to Lafayette, Louisiana. We continue to send everything we find to the Kennedy Space Center in Florida for assembly and analysis as part of the Columbia Accident Investigation Board's comprehensive accident investigation. In addition, we are appreciative of the fact that the fiscal year 2003 Omnibus Appropriations Act included $50 million in funding to help pay for the costs of the recovery operation and accident investigation by the Columbia Accident Investigation Board. We have established a new accounting code in the NASA financial system to capture the agency's costs associated with Columbia recovery and investigation, titled Columbia Recovery and Investigations. We are monitoring very closely the costs associated with this effort and we will ensure that the Congress is kept apprised of this effort. The Federal Emergency Management Agency is shouldering the resources required by other public agencies at the Federal, state, and local levels.

The ground, air, and water search for Columbia debris is essentially complete. This search has been extremely helpful to the investigation. NASA is deeply grateful for the support we have received during recovery operations from the more than 6,000 men and women from the Department of Homeland Security, Federal Emer-

gency Management Agency, Environmental Protection Agency, Federal Bureau of Investigation, Department of Defense, Department of Transportation, U.S. Forest Service, U.S. Park Service, Texas and Louisiana National Guard, state and local authorities, and private citizen volunteers who have helped us locate, document, and collect debris.

I am saddened to note that one of the helicopters searching for debris from the Space Shuttle Columbia crashed in the Angelina National Forest in east Texas on March 27. The pilot and a Forest Service Ranger were killed in the crash, and three other crewmembers were injured. Our thoughts and prayers go out to the families of the helicopter crew members killed in the accident. We deeply empathize with their loss at such a trying time. We also pray for the speedy recovery of the injured crew members.

I returned to Palestine, Lufkin and Hemphill, Texas on April 16, where I met with many of the volunteers in the surrounding area who are involved in the Columbia recovery effort. I saw firsthand their dedication and I can report to the Subcommittee that morale is high and the continued commitment is strong to recover as much of Columbia as we can. The NASA family is grateful for their assistance. On April 29, I met again with the search teams as NASA formally celebrated and acknowledged all of their outstanding contributions since February 1. As of that time, all ground, air and water search operations were on track for completion in early May and the search base camps will be closed by May 10.

At the peak of the Columbia debris recovery efforts nearly 6,000 personnel working in Texas and Louisiana were involved in Shuttle recovery operations. The field operations involve three main components—ground, air, and water search efforts—to search an area of 250 miles long by 10 miles wide. In each of these operations the searchers, NASA engineers, and EPA technicians are working side-by-side.

The ground search depends on fire crews from 42 States, operating out of four base camps, supported by two local logistics centers. So far, they have searched over 525,000 acres. The air search depended on 35 helicopters operating out of two air bases, each staffed by forest service pilots and NASA engineers. They have searched nearly 2 million acres.

The search of Lake Nacogdoches and the Toledo Bend Reservoir depended on the collaborative efforts of 66 United States Navy and state Police divers and a team of side-scan and multi-beam sonar analysts. In total, 3,100 targets were cleared in Toledo Bend, 365 in Lake Nacogdoches and many targets in a dozen small ponds throughout East Texas. The total water area searched was nearly 18 square nautical miles. No Columbia debris was recovered.

The meticulous search for evidence is resulting in important clues that will assist the work of the Columbia Accident Investigation Board. As of April 28, nearly 85,000 pounds of debris have been recovered, representing approximately 38 percent of Columbia's dry weight. Of the more than 80,000 specific items recovered from the accident, more than nearly 76,000 have been identified, with 702 of these coming from the left wing of the Orbiter.

Through the assistance of research institutions and helpful citizens, we have received video tapes that document Columbia's final moments as it streaked across the southwestern United States. The videos pick up Columbia as it approached the coast of California and cover most of its flight path toward the skies over East Texas, with the exception of some gaps in video coverage of Columbia's flight path over sparsely populated areas of eastern New Mexico and northwestern Texas. The video imagery is being used along with radar and telemetry data to help engineers determine the potential location of debris that was shed from Columbia.

The Independent Columbia Accident Investigation Board under Admiral Gehman has made significant progress in organizing its work to determine the cause of the accident. NASA has kept its pledge to fully cooperate with the work of the Board, and has taken the necessary steps to ensure the Board's complete independence.

IMPLICATIONS OF SUSPENSION OF SHUTTLE FLIGHTS

The ISS Expedition 6 crew—Commander Ken Bowersox, Science Officer Donald Pettit and Cosmonaut Flight Engineer Nikolai Budarin—have been performing science while performing routine ISS maintenance on orbit. The Expedition 7 crew—Edward Lu and Yuri Malenchenko—arrived at the ISS early Monday, April 28, and received turnover briefings from the Expedition 6 crew who returned to Earth on Saturday, May 3 in Soyuz 5S. There are no threats to the ISS or its crew in the near-term, and we are working options to be able to sustain both over the long-term. All remaining U.S. manufactured ISS hardware for the Core Complete configuration has been delivered to KSC and element ground processing is on schedule. Delivery of Node 2, built for NASA by the European Space Agency, is on schedule for ship-

ment to the Kennedy Space Center later this month. Ground processing will continue until ready for Shuttle integration. Only one ISS mission, STS–118, in the critical path to U.S. Core Complete was manifested on Columbia. The primary mission objective of STS–118 is the transfer and installation of the S5 Integrated Truss assembly to the S4 Truss. While the manifest for the remaining three Orbiters will need to be adjusted to accommodate this flight, all other previously scheduled ISS assembly missions will be flown in their original order. A revised U.S. Core Complete assembly schedule will be confirmed when the Shuttle is ready to return to flight status.

In the absence of Space Shuttle support, NASA is addressing contingency requirements for the ISS for the near- and long-term. As I said earlier, there is no immediate danger to the Expedition 6 or 7 crew. In order to keep the crew safe, however, we must ensure that they have sufficient consumables, that the ISS can support the crew, and that there is a method for crew return available. Working closely with our international partners, we have confirmed that there is sufficient propellant onboard the ISS to maintain nominal operations through the end of this year. With the docking of the Progress re-supply spacecraft on February 4 (ISS Flight 10P), the crew has sufficient supplies to remain on the ISS through June without additional re-supply. As we move beyond June, however, potable water availability becomes the constraining commodity. We are currently working closely with our Russian partner, Rosaviakosmos, to explore how best to address this issue on future near-term ISS re-supply missions. A Soyuz spacecraft (ISS Flight 6S) that brought the Expedition 7 crew to the ISS will remain docked and serves as a rescue vehicle for crew return in the event of a contingency. These Soyuz spacecraft have an on-orbit lifetime limitation of approximately 200–210 days, and must be replaced periodically.

The ISS, now in its third year of human occupancy, represents an important milestone in history. Due to this capability, humans are now able to permanently occupy the realm outside of Earth and are actively conducting ambitious research spanning such scientific disciplines as human physiology, genetics, materials science, Earth observation, physics, and biotechnology.

Columbia was the orbiter that was to have been used for the 4th servicing mission of the Hubble Space Telescope (HST) planned for November 2004. NASA can continue to service the HST, and any Orbiter is capable of supporting HST servicing missions. Furthermore, the HST is performing well, and is a robust observatory in no immediate need of servicing. Should a delay in the planned servicing mission occur that impacts the Telescope's ability to perform its science mission, HST can be placed in safe mode until a servicing mission can be arranged.

ANTICIPATING A RETURN TO FLIGHT

We have begun prudent and preliminary planning efforts to prepare for "return to flight" in order to be ready to implement the findings of the Columbia Accident Investigation Board. NASA's "Return to Flight" analysis will look across the entire Space Shuttle Program and evaluate possible improvements for safety and flight operations that we were considering prior to the Columbia accident. I have selected Dr. Michael A. Greenfield, Associate Deputy Administrator for Technical Programs, to lead our Return to Flight team along with William Readdy, Associate Administrator for Space Flight. This team will be composed of a number of key officials and safety professionals from within the space flight community. Their experience in shuttle operations and the investigation to date will provide a sound foundation for this critical activity.

FISCAL YEAR 2004 BUDGET REQUEST

On that sunny Saturday morning, February 1st, as I awaited the landing of the Columbia, I was contemplating my return to Washington, D.C., to prepare for the release of NASA's fiscal year 2004 budget. We had worked aggressively over the past year to develop a new Strategic Plan and fashion a budget to make it a reality. I was excited about announcing these plans with the release of the President's fiscal year 2004 Budget in two days. I had no idea how that tragic morning would change my focus over these ensuing weeks. During the days that followed, I was asked whether the Columbia accident would force us to toss aside our budget and long-range plans. Mr. Chairman, I will tell you as I told them, I think not. A test of any long-term plan is whether it can accept the inevitable setbacks and still achieve its goals. That is my hope for our plan.

Mr. Chairman, in light of the recent tragic loss of Columbia, we must recognize that all exploration entails risks. In this, the Centennial Year of Flight, I am reminded of an accident that occurred just across the river at Ft. Myer in 1908 on-

board the Wright flyer. The Wright brothers were demonstrating their flying machine to the U.S. Army, and a young lieutenant was riding as an observer. The flyer crashed, and Lt. Thomas Selfridge died of head injuries, thus becoming the first fatality of powered flight. From that accident in 1908 came the use of the crash helmet. So too from Columbia we will learn and make human space flight safer.

Although the budget proposal was prepared prior to the loss of Columbia and its crew, I am convinced that NASA's fiscal year 2004 budget proposal is responsible, credible, and compelling. It is responsible by making sure that our highest priorities are funded; it is credible by ensuring that adequate budget is built into the most technically challenging programs, and that we will fully account for the costs of all our programs; and, it is compelling by allowing NASA to pursue exciting new initiatives that are aligned with our strategic objectives. As I mentioned previously, the President's fiscal year 2004 budget request for NASA is $15.47 billion. While I will not rule out potential adjustments to this proposal that may be appropriate upon completion of the independent Gehman Board investigation, I look forward to discussing the fiscal year 2004 budget request and how it advances our mission goals of understanding and protecting the home planet, exploring the Universe and searching for life, and inspiring the next generation of explorers, and, in so doing, honoring the legacy of the Columbia astronauts.

ESTABLISHING OUR BLUEPRINT

Today's discussion is about more than changes in the budget—which is usually just a discussion over how one might change a few percent of one's budget from the year to year—but instead it is about a new strategic direction for NASA and how we are planning to shift our resources toward our longer-term goals. In April 2002, I gave a speech at the Syracuse University that espoused a new Vision and Mission for NASA. There are only 13 words in NASA's Vision and 26 words in NASA's Mission, but every word is the product of extensive senior leadership debate within NASA. And what you see in our new Strategic Plan is the product of those discussions, and the product that the entire NASA team is committed to delivering for the American people. Indeed, we did not need to release this Strategic Plan with our budget—after all, the law stipulates September 2003—but we felt that if we are serious about our Vision and Mission, we must have it during our budget deliberations and release it simultaneous with our budget.

NASA's strategy for the future represents a new paradigm. In the past, we achieved the marvel of the moon landing, an incredible achievement that has shaped much of NASA today, driven by a great external event—the Cold War—that allowed our Nation's treasury to be aggressively spent on such a goal. Today, and in the decades since Apollo, NASA has had no comparable great external imperative. This, however, does not mean that we cannot lift our eyes toward lofty goals and move up the ladder—using the stepping stones we have identified. We believe that we can make great strides in our exploration goals—not on some fixed timescale and fixed location—but throughout our solar system with ever more capable robotic spacecraft and humans to enable scientific discovery. Hence, we will not be driven by timeline, but by science, exploration, and discovery. We will pursue building blocks that provide the transformational technologies and capabilities that will open new pathways. We can do this within our means. And if someday there is an imperative or new discovery that pushes us further, we will be ready and well along the way.

To be successful, we will transform ourselves as follows:

—All investments will contribute to our goals and traceable to the Vision and Mission. Every NASA program and project must be relevant to one or more of the goals, and perform successfully against measures.

—Human space flight capabilities will be enhanced to enable research and discovery. We will continue to expand human presence in space—not as an end in itself, but as a means to further the goals of exploration, research, and discovery.

—Technology developments will be crosscutting. We will emphasize technologies with broad applications, such as propulsion, power, computation, communications, and information technologies.

—Education and inspiration will be an integral part of all our programs. We will track performance of our education programs like that of any other NASA activity.

—We will operate as One NASA in pursuit of our Vision and Mission. We will reinforce the shared commitment of all NASA employees to our common goals.

—As Only NASA Can: We will pursue activities unique to our Mission—if NASA does not do them, they will not get done—if others are doing them, we should question why NASA is involved.

STRENGTHENING OUR FOUNDATION

This building block and stepping stone approach already has one important brick in place: the fiscal year 2003 Omnibus Appropriations Act, signed by the President on February 20. The fiscal year 2003 appropriation contains many of the needed elements that will help NASA address important constraints in power, transportation, and human capabilities. The fiscal year 2003 budget contains funding for NASA's:

—Nuclear Systems Initiative to develop new power and propulsion technologies that will enable solar system exploration missions that are inconceivable with current conventional chemical propulsion systems. This initiative has been incorporated in Project Prometheus as part of our fiscal year 2004 Budget request.

—International Space Station (ISS), including full funding to assure we can successfully reach the milestone of U.S. Core Complete—which will enable accommodation of International Partner elements—maintain progress on long-lead items for enhanced research, and continue to build out this research laboratory platform for overcoming human limitations in space. It also includes authority to proceed with establishment of a Non-Governmental Organization (NGO) for ISS research. This funding and authority builds on our major achievements over the past year. We have received endorsements by two independent cost teams that deemed the program's cost estimates as "credible" and the ISS Management and Cost Evaluation (IMCE) independent task force, chaired by Tom Young, that commended our progress against their recommended management reforms. We have revamped our science program towards the highest priority research as identified by the Research Maximization and Prioritization (ReMAP) independent task force. We have put in place a new management team to control program content, ensure science requirements are met, and refocus program from development to operations. Finally, we are implementing new financial management tools to better manage our resources.

—Integrated Space Transportation Plan (ISTP) that will address our Nation's near and mid-term requirements in human space flight by making investments to extend the Shuttle's operational life for continued safe operations; developing a new Orbital Space Plane to provide a crew transfer capability as early as possible to assure access to and from the International Space Station; and, funding next-generation launch vehicle technology in such areas as propulsion, structures, and operations. Since providing our ISTP as part of the fiscal year 2003 budget amendment in November 2002, we have moved out aggressively on this roadmap. We are refining the Shuttle's Service Life Extension Program to better identify priorities and long-term investments. We also have completed top-level requirements for the Orbital Space Plane Program and awarded contracts to address priority technologies and areas of risk. Finally, we are refining our investments in long-term launch technologies as part of our recently initiated space architecture activities. We believe the ISTP is a good plan, but we are committed to re-examining it if necessary in light of future investigation findings on Columbia.

We must ensure that we have a sound foundation—our people, processes, and tools—from which to build our programs. It is only from such a sound foundation that we can go forward to more ambitious plans. We have placed the highest priority on achieving the goals of the President's Management Agenda, which contain five Government-wide initiatives that promise to significantly improve our management foundation:

—*Human Capital.*—We have begun to implement our strategic human capital plan, including a tracking system to identify workforce deficiencies across the Agency. I will address this very important issue at the conclusion of my remarks.

—*Competitive Sourcing.*—We have achieved the government-wide, 15 percent competitive sourcing goal, and are pursuing, wherever feasible, new opportunities for competition, including the renewal of contracts.

—*Financial Performance.*—We have addressed all issues contained in the disclaimer opinion on NASA's 2001 audit and been given a clean opinion for 2002.

—*E-Government.*—We are addressing information technology security issues and reviewing and enhancing other IT capabilities.

—*Budget & Performance Integration.*—We are budgeting for the full cost of NASA's programs and have integrated our budget and performance plan starting with fiscal year 2004 Budget.

Mr. Chairman, I would like to specifically highlight NASA's newest Enterprise, Education. The Education Enterprise was established in 2002, to inspire more students to pursue the study of science, technology, engineering and mathematics, and ultimately to choose careers in those disciplines or other aeronautics and space-related fields. The new Enterprise will unify the educational programs in NASA's other five enterprises and at NASA's 10 field Centers under a One NASA Education vision. NASA's Education vision will permeate and be embedded within all the Agency's activities.

LINKING INVESTMENTS TO STRATEGIC PLAN

Simultaneously with the submission of the President's fiscal year 2004 budget request, we submitted to the Congress the Agency's new Strategic Plan, our Integrated Budget and Performance Document, and our Performance and Accountability Report. I believe the sweeping changes we are proposing in our fiscal year 2004 Budget represent the most ambitious in our history and will enable us to vastly improve our ability to align our investments with our goals, assess progress, and make sound economic and technical decisions based on accurate and timely information. These improvements include:

—*Budget Restructure.*—In response to our new Strategic Plan, we have restructured our budget. NASA's new Strategic Plan recognizes that we are organized by those Mission-driven activities that deliver our end products—Space Science, Earth Science, Biological and Physical Research, Aeronautics, and Education—and by those activities—International Space Station, Space Shuttle, Space Flight Support, and Crosscutting Technology—that enable our Mission-driven activities to succeed. To mirror the organization of activities in our Strategic Plan into mission-driven efforts and supporting capabilities, and to recognize the reality that there is no arbitrary separation between human and science activities, the fiscal year 2004 budget replaces the previous structure with two new appropriation accounts: Science, Aeronautics and Exploration; and, Space Flight Capabilities. For fiscal year 2004, the request includes $7.661 billion for Science, Aeronautics and Exploration and $7.782 billion for Space Flight Capabilities.

Furthermore, the budget is structured in 18 goal-oriented Themes, which aggregate programs to be managed as a business portfolio in pursuit of common goals and performance measures.

—*Full Cost Accounting and Management.*—In a landmark event, we have allocated all our costs by program areas. Throughout our history, NASA has treated the cost of institutional activities (personnel, facilities, and support) separate from the programs they benefit. This has made economic trades difficult to analyze. In this budget, we have placed all costs against programs so that, for the first time, we can readily determine the true total costs of programs and allow managers to make more efficient and effective choices.

—*Integrated Budget and Performance Document.*—We have revamped our Congressional justification with a new document that merges our restructured budget with our performance plan. The document highlights the 18 themes and associated performance measures. Moreover, it clearly identifies projects approved for full scale development, including promised cost, schedule, and technical parameters.

—*Integrated Financial Management System.*—After a decade of trying, we are successfully bringing online a new integrated financial management system. For the first time in the agency's history, we will have one financial system for all our Field Centers, a major step in our One NASA goal. The core financial module will replace the legacy systems at all our Centers by this summer. This new system implementation is critical for enabling successful management of the budget, cost, performance, and the accounting changes mentioned above. Moreover, this new system will significantly enhance our ability to maintain a clean financial audit opinion.

PURSUING CRITICAL NEW OPPORTUNITIES

At NASA, we are developing building blocks that open new pathways of exploration and discovery. Today, our telescopes peer billions of years into the past to witness the beauty and unlock the mysteries of the early universe. Our satellites view the entire planet from space, allowing us to study global change and its consequences for life on Earth. Our spacecraft travel throughout the solar system and into the uncharted territories beyond, exploring the processes that have led to the incredible diversity of the planets and the emergence of life. Our aeronautics research has given people the routine ability to travel safely and reliably all around

the world. Our astronauts are living and working in space, and from them, we are learning how to expand our sphere of exploration far beyond the bounds of Earth.

But, our ability to fully achieve our Mission is constrained by the need for new technologies that can overcome our current limitations. We must provide ample power for our spacecraft as well as reliable and affordable transportation into space and throughout the solar system. We must deploy innovative sensors to probe Earth, other planets, and other solar systems. We must be able to communicate large volumes of data across vast distances, so that we can get the most from our robotic explorers. And we must learn to mitigate the physiological and psychological limitations of humans to withstand the harsh environment of space.

To address these and other challenges, we must build upon the strategic investments we are making in the fiscal year 2003 Budget and pursue critical new opportunities. Consequently, our fiscal year 2004 Budget request includes nine new initiatives:

—Project Prometheus will use breakthrough nuclear propulsion and power systems to fuel an ambitious mission to Jupiter's icy moons, which astrobiologists believe could harbor organic material, and lay the groundwork for even more ambitious exploration missions in the coming decades. The fiscal year 2004 budget request includes $93 million for this initiative, and $2.07 billion over five years.

—Human Research Initiative will conduct biomedical research and develop technologies to enable safe and efficient long-duration space missions, including potential future missions beyond low-Earth orbit. This initiative will provide knowledge and technology for efficient life support on the ISS, and has potential medical benefits for millions here on Earth. The fiscal year 2004 budget request includes $39 million for this initiative, and $347 million over five years.

—Optical Communications Initiative will invest in revolutionary laser communications technologies that will allow planetary spacecraft to transmit large volumes of scientific information, and will be demonstrated on a Mars mission in 2009. The fiscal year 2004 budget request includes $31 million for this initiative, and $233 million over five years.

—Beyond Einstein Initiative will launch two Einstein Observatories: LISA (Laser Interferometer Space Antenna), a deep-space-based gravity wave detector that will open our eyes to the as-yet-unseen cosmic gravitational radiations; and Constellation-X, a mission that will tell us what happens to matter at the edge of a black hole. In addition, the fiscal year 2004 budget request provides funding to initiate Einstein Probes, three spacecraft that will answer: "What powered the Big Bang?" (the Inflation Probe); "How did black holes form and grow?" (the Black Hole Finder Probe); and, "What is the mysterious energy pulling the Universe apart?" (the Dark Energy Probe). The fiscal year 2004 budget request includes $59 million for this initiative, and $765 million over five years.

—Climate Change Research Initiative is an interagency effort to accelerate research targeted at reducing key scientific uncertainties to help the Nation chart the best course forward on climate change issues. The fiscal year 2004 budget request includes $26 million for this initiative, and $72 million over five years.

—Aviation Security Initiative will develop technologies to help reduce the vulnerability of aviation to terrorist and criminal attacks. The fiscal year 2004 budget request includes $21 million for this initiative, and $225 million over five years.

—National Airspace System Transformation Augmentation will accelerate the development of technology to help address efficiency, capacity and security needs. The fiscal year 2004 budget request includes $27 million for this initiative, and $100 million over five years.

—Quiet Aircraft Technology Acceleration will develop technology to help significantly reduce community noise impact and achieve significant savings in amelioration programs. The fiscal year 2004 budget request includes $15 million for this initiative, and $100 million over five years.

—Education Initiative includes funding for NASA's Educator Astronaut Program (EAP), NASA Explorer Schools, NASA Explorer Institutes, and Scholarship for Service. As NASA's EAP approaches the April 30, application deadline, NASA has received more than 1245 EAP applications. The fiscal year 2004 budget request includes $26 million for this initiative, and $130 million over five years.

While there has been additional funding provided to NASA's previous five-year budget runout to provide for these new initiatives, the balance of the funds for the initiatives has resulted from reprioritization of future funding to more appropriately pursue the Agency's Vision/Mission and goals. These initiatives will plant the seeds to enable future achievements. From them, we will continually advance the boundaries of exploration and our knowledge of our home planet and our place in the universe. We seek answers along many paths, multiplying the possibilities for major

discoveries. The capabilities we develop may eventually enable humans to construct and service science platforms at waypoints in space between Earth and the Sun. Someday, we may use those same waypoints to begin our own journeys into the solar system to search for evidence of life on Mars and beyond.

Mr. Chairman, as I indicated above, there is one additional point that I wish to make. I would like to briefly discuss the state of our workforce, the lifeblood of this Agency. Last year, NASA submitted to the Congress a series of legislative proposals to help the Agency reconstitute and reconfigure our workforce. These provisions, for the most part, mirrored tools contained in the President's proposed Managerial Flexibility Act, and three of them have since been enacted on a Government-wide basis in the Homeland Security Act. NASA's workforce is an aging workforce. At the time of Apollo 17, the average age of the young men and women in Mission Control was 26 years; today, we have three times as many personnel over 60 years of age as under 30 years of age. Within five years, nearly 25 percent of NASA's current workforce will be eligible to retire. Since 1999, there have been at least 18 studies and reports concerning the workforce challenges facing NASA. The potential loss of this intellectual capital is particularly significant for this cutting-edge Agency that has skills imbalances.

Chairman Boehlert introduced H.R. 1085, the NASA Flexibility Act, which provides many of the human capital provisions that we feel are critical in our ability to reconstitute and reconfigure the NASA workforce. We support those provisions that are identical to the NASA human capital legislation submitted by the Administration in the last Congress; I am hopeful that these provisions will be enacted expeditiously this year, and ask for the Subcommittee's support of these important proposals.

In addition, the Senate Subcommittee on Oversight of Government, Management, Restructuring and the District of Columbia of the Committee on Government Affairs held a hearing on March 6 on NASA's workforce challenges, and the Committee is moving forward with S. 610, which is critical to NASA's ability to reconstitute and reconfigure our workforce. We support those provisions that are identical to the NASA human capital legislation submitted by the Administration in the last Congress; I am hopeful that these provisions will be enacted expeditiously this year, and ask for the Subcommittee's support for these important proposals.

Mr. Chairman, appended to my testimony, as Enclosure 1, is a chart displaying NASA's fiscal year 2004 five-year budget request. Also appended, as Enclosure 2, is a summary of the significant progress that NASA has made in the past year on a number of important research and exploration objectives, and a detailed summary of NASA's fiscal year 2004 budget request.

The Columbia accident has reminded me that we cannot stop dreaming. We cannot stop pursuing our ambitious goals. We cannot disappoint future generations when we stand at the threshold of great advances. Mr. Chairman, I believe that NASA's fiscal year 2004 budget request is well conceived and worthy of the favorable consideration by the Subcommittee. I am prepared to respond to your questions.

ENCLOSURE 1.—NATIONAL AERONAUTICS AND SPACE ADMINISTRATION PRESIDENT'S FISCAL YEAR 2004 BUDGET REQUEST

(Budget authority, dollars in millions)

By Appropriation Account/By Enterprise/By Theme	Business as Usual Pres. Bud. Fiscal Year 2003	Full Cost						Chapter Number
		Est. Pres. Bud. Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	
Science, Aeronautics & Exploration	7,015	7,101	7,661	8,269	8,746	9,201	9,527	SAE SUM 1
Space Science	3,414	3,468	4,007	4,601	4,952	5,279	5,573	SAE 1
Solar System Exploration	976	1,046	1,359	1,648	1,843	1,952	2,054	SAE 2
Mars Exploration	496	551	570	607	550	662	685	SAE 3
Astronomical Search for Origins	698	799	877	968	1,020	1,022	1,061	SAE 4
Structure & Evolution of the Univ.	331	398	432	418	428	475	557	SAE 5
Sun-Earth Connections	544	674	770	959	1,111	1,169	1,216	SAE 6
Institutional	370	.....	.....	.....	.....	.....	.....	
Earth Science	1,628	1,610	1,552	1,525	1,598	1,700	1,725	SAE 7
Earth System Science	1,249	1,529	1,477	1,440	1,511	1,606	1,629	SAE 8
Earth Science Applications	62	81	75	85	87	94	96	SAE 9
Institutional	318	.....	.....	.....	.....	.....	.....	
Biological & Physical Research	842	913	973	1,042	1,087	1,118	1,143	SAE 10
Biological Sciences Research	245	304	359	399	453	456	481	SAE 11
Physical Sciences Research	247	351	353	392	380	409	401	SAE 12
Commercial Research & Support	170	254	261	251	254	253	262	SAE 13
Institutional + AM + SAGE	181	3	.....	.....	.....	.....	.....	
Aeronautics [1]	986	949	959	932	939	934	916	SAE 14
Aeronautics Technology	541	949	959	932	939	934	916	SAE 15
Institutional	445	.....	.....	.....	.....	.....	.....	
Education	144	160	170	169	169	170	170	SAE 16
Education	144	160	170	169	169	170	170	SAE 17
Space Flight Capabilities	7,960	7,875	7,782	7,746	7,881	8,066	8,247	SFC SUM 1
Space Flight	6,131	6,107	6,110	6,027	6,053	6,198	6,401	SFC 1
Space Station	1,492	1,851	1,707	1,587	1,586	1,606	1,603	SFC 2
Space Shuttle	3,208	3,786	3,968	4,020	4,065	4,186	4,369	SFC 3
Space Flight Support	239	471	434	419	402	407	429	SFC 4
Institutional	1,192	.....	.....	.....	.....	.....	.....	
Crosscutting Technologies [1]	1,829	1,768	1,673	1,720	1,828	1,868	1,846	SFC 5

ENCLOSURE 1.—NATIONAL AERONAUTICS AND SPACE ADMINISTRATION PRESIDENT'S FISCAL YEAR 2004 BUDGET REQUEST—Continued

(Budget authority, dollars in millions)

By Appropriation Account/By Enterprise/By Theme	Business as Usual Pres. Bud. Fiscal Year 2003	Full Cost						Chapter Number
		Est. Pres. Bud. Fiscal Year 2003	Fiscal Year 2004	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	
Space Launch Initiative	879	1,150	1,065	1,124	1,221	1,257	1,224	SFC 6
Mission & Sci. Measurement Tech.	275	434	438	435	439	439	444	SFC 7
Innovative Tech Trans. Partnerships	147	183	169	161	168	172	179	SFC 8
Institutional	528	.....	.....	.....	.....	.....	.....	
Inspector General	25	25	26	28	29	30	31	IG
TOTAL	15,000	15,000	15,469	16,043	16,656	17,297	17,806	
Year to Year Increase (in percent)	.....	.....	3.1	3.7	3.8	3.8	2.9	

[1] Aerospace Technology Enterprise includes both Aeronautics and Crosscutting Technologies.

NOTE: May not add due to rounding.

ENCLOSURE 2

SUMMARY—NASA ACCOMPLISHMENTS DURING 2002 AND FISCAL YEAR 2004 BUDGET REQUEST

NASA has made significant progress during 2002 on a number of important research and exploration objectives. During the past year, NASA:

—Captured a dramatic new portrait of the infant universe in sharp focus. NASA's Wilkinson Microwave Anistropy Probe revealed the first generation of stars that began shining only 200 million years after the big bang and forecasted the age of the universe at 13.7 billion years old. Most striking though was the probe's discovery that the universe will probably expand forever.

—Upgraded the Hubble Space Telescope on Columbia's mission (STS–109) in March 2002. Columbia's astronauts installed new solar panels, a better central power unit and a new camera that increased Hubble's "vision" tenfold, and revived a disabled infrared camera using an experimental cooling system.

—Celebrated Riccardo Giacconi's 2002 Nobel Prize in Physics for his pioneering NASA sponsored work in the field of X-Ray astronomy. This work has led to important discoveries about the nature of black holes, the formation of galaxies, and the life cycles of stars.

—Demonstrated a prototype device that automatically and continuously monitors the air for the presence of bacterial spores that may be used to detect biohazards, such as anthrax.

—Made progress on the development of a radar system for aircraft that detects atmospheric turbulence, thus improving prospects for commercial airliners to avoid the kind of bumpy weather most airline passengers find uncomfortable.

—Advanced technology to reduce airliner fuel tank fires or explosions, in our effort to make air travel safer and more secure.

—Began tests on a technology effort to develop lighter-weight flexible-wing aircraft.

—Measured through the Mars Odyssey spacecraft enough water ice buried deep under the poles of the red planet, that if thawed, could fill Lake Michigan twice over.

—Discovered for the first time, a planetary system, circling the nearby star 55 Cancri, with a Jupiter-sized planet at about the same distance for its parent star as our own Jupiter is from our sun. This discovery enhances the possibility that Earth-like planets could exist in such systems throughout the galaxy.

—Conducted Earth Science research that may one day allow public health officials to better track and predict the spread of West Nile Virus or similar diseases.

—Worked to develop cutting-edge technologies that will increase our weather forecasting capability from the current three-to-five-day accuracy level up to a seven-to-ten-day level within this decade.

—Observed the disintegration of the Antarctic Larsen Ice Shelf and the seasonal acceleration of the Greenland ice sheet.

—Encouraged thousands of students to learn more about space exploration through a nationwide contest to "Name the Rovers" that will launch toward Mars this year.

—Published, "Touch the Universe: A NASA Braille Book of Astronomy," a book that for the first time presents for visually impaired readers color images of planets, nebulae, stars, and galaxies. Each image is embossed with lines, bumps, and other textures. The raised patterns translate colors, shapes, and other intricate details of the cosmic objects, allowing visually impaired people to feel what they cannot see.

—Celebrated a second year of continuous human habitation on the International Space Station, the largest and most sophisticated spacecraft ever built, and continued assembly with four Space Shuttle missions.

—Reflecting the Agency's increased ISS research tempo, conducted approximately 48 research and technology development experiments aboard Station, including the first materials science research aboard Station, testing medical procedures for controlling the negative effects of space flight and increasing understanding of changes to bone and the central nervous system that occur in space. Astronauts conducted advanced cell culturing research, broke new ground in the study of dynamic systems, made up of tiny particles mixed in a liquid (colloids), and installed three new Station experiment equipment racks.

Space Science Enterprise

The Space Science Enterprise seeks to answer fundamental questions about life in the universe, including how it arose, its mechanisms, where in the solar system it may have originated or exist today, and whether there are similar planetary environments around other stars where the signature of life can be found. The Enterprise also seeks to understand how the universe began and evolved, how stars and galaxies formed, and how matter and energy are entwined on the grandest scale. The proposed fiscal year 2004 budget for the Space Science is $4.007 billion. The five theme areas in the Space Science Enterprise are:

Solar System Exploration

We are blessed to live in a fascinating neighborhood, one that we are getting to know better every day. This theme seeks to understand how our own Solar System formed and evolved and to determine if life exists beyond Earth.

The Administration's fiscal year 2004 budget request is $1,359 million. The budget request will support: the launch of the Deep Impact mission to probe below the surface of comet Temple-1 in January 2004; the Stardust spacecraft's January 2004 encounter with the comet Wild-2, and Stardust's return to Earth with dust samples from the comet in 2006; the March 2004 launch of the MESSENGER mission to explore Mercury, our least explored terrestrial planet; the arrival at Saturn of the Cassini spacecraft in July 2004, following a seven-year journey; and the return to Earth in September 2004 of the Genesis spacecraft with its samples of the solar wind following its two-year "sunbath". The budget also contains funding for the New Frontiers program to explore the outer planets in the Solar System and for Astrobiology research to improve our ability to find and identify potential life harboring planets.

We are very excited about two new Solar System Exploration initiatives that the budget will support. Building on the work of our Nuclear Systems Initiative, Project Prometheus is a new start to develop breakthrough power and propulsion technology that will lead to nuclear-powered spacecraft that will search early in the next decade for evidence of global subsurface oceans and possible organic material on Jupiter's three icy Galilean moons: Europa, Ganymede, and Callisto. Such advances in nuclear power and propulsion have set the stage for the next phase of outer solar system exploration.

Following in the same progress that led from Pony Express to Telegraph to Telephone, our Optical Communications initiative will use laser light instead of radio waves to revolutionize the way our spacecraft gather and report back information as they continue to scout the Solar System. Today, using conventional radio frequency communications, the Mars Reconnaissance Orbiter will take 21 months to map 20 percent of the red planet's surface. By contrast, optical communications would allow the entire surface to be mapped in four months. The budget will support a demonstration of the technology in 2009 using a Mars orbiting satellite that will relay data to high-altitude Earth balloons. If successful, this technology promises to achieve dramatic reductions in the cost per byte of data returned and could ultimately replace the Deep Space Network.

Mars Exploration

The Mars Odyssey spacecraft's discovery of large quantities of water frozen beneath the Mars' polar areas provides additional tantalizing evidence that our neighboring planet had a wet and warmer past. This water and hints of relatively recent liquid water flows make Mars the most likely place to seek evidence of ancient or present extraterrestrial life. Mars is also worth studying because much can be learned comparatively between the current and past geology, atmospheres, and magnetic fields of Earth with Mars. We also hope to advance our understanding of Mars because some day in the not so distant future, human explorers may take humanity's next giant leap to the Red Planet.

The proposed Mars exploration budget is $570 million. This request will support our goal of 90 days of surface operations of the twin Mars Exploration Rovers, set to begin in January and February of 2004 at sites where ancient water once flowed.

The budget also supports the continued development of: the Mars Reconnaissance Orbiter, a spacecraft that will map Martian surface features as small as a basketball in 2005; the Mars Science Laboratory, a rover that will traverse tens of kilometers over Mars in 2009 and last over a year, digging and drilling for unique samples to study in its onboard laboratory; and the telecommunications satellite that will demonstrate our laser light optical communications technology in 2009.

Astronomical Search for Origins

The astounding portrait of the infant universe captured by NASA's Wilkinson Microwave Anistropy Probe provides one more demonstration of the human capacity to probe more deeply into the mysteries of creation. This theme strives to answer two profound questions: Where did we come from? Are we alone? It does so by observing the birth of the earliest galaxies and the formation of stars, by finding planetary systems in our galactic neighborhood, including those capable of harboring life, and by learning whether life exists beyond our Solar System. One year may seem inconsequential in a Universe that is 13.7 billion years old, but as we learned during the last year, a great deal of knowledge and understanding can be obtained in the period it takes the Earth to orbit the Sun.

The Administration's proposed fiscal year 2004 budget request for the Astronomical Search for Origins is $877 million. The budget will provide funding for: continued operations of the Hubble Space Telescope; the development of the next-generation James Webb Space Telescope and the Space Interferometry Mission, a device scheduled for launch in 2009 that will increase our ability to detect planets around nearby stars; and initial science operations of the Space Infrared Telescope Facility, the final mission of NASA's Great Observatory Program. The budget was also designed to support the final Space Shuttle servicing mission to the Hubble Space Telescope, a mission that is now on hold pending the report of the Columbia Accident Investigation Board.

Structure and Evolution of the Universe

This theme seeks to understand the nature and phenomena of the Universe. It seeks to understand the fundamental laws of space, time and energy and to trace the cycles that have created the conditions for our own existence. This is accomplished in part by observing signals from the Big Bang, mapping the extreme distortions of space-time about black holes, investigating galaxies, and understanding the most energetic events in the universe. The theme also attempts to understand the mysterious dark energy that pervades the Universe and determines its ultimate destiny.

The proposed budget for this theme is $432 million, which will support development of the Gamma-ray Large Area Space Telescope, a mission to study high-energy objects like black holes.

The budget will also support a new initiative that will honor the continuing legacy of Albert Einstein, some 99 years after Einstein developed his theory of Special Relativity. The Beyond Einstein initiative will attempt to answer three questions left unanswered by Einstein's theories: What powered the Big Bang? What happens to space, time, and matter at the edge of a black hole? What is the mysterious dark energy expanding the Universe? Under the initiative, a Laser Interferometer Space Antenna will use three spacecraft "formation flying" five million kilometers apart in a triangle to observe the distortion of space due to gravity waves. Also, Constellation-X, an X-ray telescope 100 times more powerful than all existing X-ray telescopes, will use a team of powerful X-ray telescopes working in unison to observe black holes, investigate "recycled" stellar material, and search for the "missing matter" in the universe. Finally, the initiative will support Einstein Probes, a program that will begin later this decade, consisting of fully and openly competed missions (in the manner of the Discovery, Explorers, and New Frontiers programs) to conduct investigations that benefit science objectives within the theme.

Sun-Earth Connections

We should never take our life-sustaining Sun for granted. NASA's Sun-Earth Connections theme investigates our Sun and how its structure and behavior affect Earth. NASA seeks to understand how the variability of solar radiation affects Earth's climate, and how we can better predict solar flares that affect the upper atmosphere and can damage satellites and disable the power distribution grid on the ground. NASA also uses the Sun as an ideal laboratory for researching basic physics and learning how other stars function.

The proposed budget for NASA's Sun-Earth Connections theme is $770 million. The budget will support the development of the STEREO, the Solar Dynamics Observatory and future flight missions. Scheduled for a 2005 launch, STEREO will use two identically equipped spacecraft to provide revolutionary 3-D imaging of coronal mass ejections. The Solar Dynamics Observatory, which will study the Sun's magnetic field and the dynamic processes that influence space weather, will enter implementation of development in January 2004.

Earth Science Enterprise

In the near-half century that we have lived in the "space age" the most interesting planet that NASA spacecraft have explored is our own home in the universe. Spacecraft observations combined with atmospheric, ground-based and oceanic measurements have enabled a systematic study of Earth processes, leading to important scientific advances and tangible benefits to the American public. NASA's vision of "improving life here" starts with the Earth Science Enterprise's study of planet Earth from space. The Enterprise seeks to understand and protect our home planet by advancing Earth system science and applying the results to improve prediction of climate, weather, and natural hazards. The proposed fiscal year 2004 budget for Earth Science is $1,552 million. The two theme areas for Earth Science are:

Earth System Science

Within this theme, NASA is deploying and operating the first comprehensive constellation of Earth-observing research satellites designed to reveal interactions among Earth's continents, atmosphere, oceans, ice, and life. These interactions produce the conditions that sustain life on Earth. Data and information from NASA satellites enable researchers to understand the causes and consequences of global change and inform the decisions made by governments, businesses, and citizens to improve our quality of life.

The $1.477 million fiscal year 2004 budget request for Earth System Science will support the launches in 2004 of three complementary formation-flying polar orbiting satellites, which in effect will become a super-satellite. They are: AURA, which will study Earth's ozone, air quality and climate; Cloudsat, which will measure the structure of clouds to better quantify their key role in the Earth's water cycle and climate system; and CALIPSO, the NASA-French project to determine how the climate, aerosols and clouds interact. Calipso, coupled with Aura and an advanced polarimeter slated for launch in 2007 under an initiative to accelerate evaluation of non-carbon dioxide (CO_2) impacts on climate change as part of the Administration's Global Climate Change Research Initiative, will help determine the role of aerosols in climate, reducing one of the largest uncertainties in climate models.

Significantly, the Earth System Science budget will also provide $524 million, in conjunction with the administration's Global Climate Change Research Initiative, for research and modeling that will help answer critical scientific questions on climate change to aid policy and economic decision makers.

Other major Earth Science work in 2004 that the budget will support include: Using satellite observations to provide daily and seasonal global atmospheric water vapor, rainfall, snowfall, sea-ice and ice-sheet maps to improve the scientific understanding and modeling of water cycles throughout the Earth system; Improving the predictive capabilities of regional weather models through satellite-derived localized temperature and moisture profiles; and assimilating satellite and in situ observations into a variety of ocean, atmospheric, and ice models for the purpose of estimating the state of Earth's seasonal and decadal climate.

The budget will also support the National Polar-orbiting Operational Environmental Satellite System (NPOESS) Preparatory Project under development in partnership with the National Oceanic and Atmospheric Administration and the Department of Defense. This project, slated for launch in 2006, will maintain the continuity of certain environmental data sets that were initiated with NASA's Terra and Aqua satellites, prior to the launch of the operational NPOESS system in 2009. Also supported with be the Landsat data continuity mission, an innovative program to seek partnerships with industry that use critical land remote sensing data.

Earth Science Applications

NASA recognizes that by working in partnership with other Federal agencies, we can leverage our research results and Earth observation information products to provide significant benefits to the American public. Within our Earth Science Applications theme we have identified applications where we can improve decision support systems, such as weather prediction models and near-airport terrain databases operated by our partner agencies. For each application, joint research and demonstration projects are under way or being developed. We are also developing crosscutting solutions that advance the use of NASA information and technology across a range of potential new applications.

The $75 million fiscal year 2004 budget request for Earth Science Applications will support a focus on 12 specific applications of national priority where other agencies' decision support systems can be markedly improved based on NASA-provided data and information. In 2004, NASA intends to benchmark improvements to air quality and agricultural productivity and competitively select projects for the Re-

search, Education, Applications Solutions Network (REASON) program to serve national priorities.

Biological and Physical Research Enterprise

On their 16-day mission of exploration and discovery the seven Columbia astronauts conducted medical investigations related to cancer, osteoporosis and kidney stones, all with the goal of advancing our understanding of nature and the world we live in. The research operations were smooth and productive, with new phenomena being observed in combustion science and in cell science. As Commander Rick Husband said, "I think one of the legacies of NASA is that you always push forward. And STS–107 is doing that on the science side—pushing human science knowledge forward."

Our Biological and Physical Research Enterprise exists to push the frontiers of science forward. The Enterprise uses the rich opportunities provided by space flight to pursue answers to a broad set of scientific questions, including those about the human health risks of space flight. The space environment offers a laboratory, unique in the history of science, that allows the study of biological and physical processes. Experiments that take advantage of this environment extend from basic biology to quantum mechanics and from fundamental research to research with near-term applications in medicine and industry.

The proposed fiscal year 2004 budget for Biological and Physical Research is $973 million. The three theme areas in Biological and Physical Research are:

Biological Sciences Research

Within this theme, NASA determines ways to support a safe human presence in space. We are conducting research to define and control the physiological and psychological risks posed to human health by exposure in space to radiation, reduced gravity, and isolation. This theme also conducts research and development to improve the performance of life support systems. It includes a basic biology research component that seeks both to pursue fundamental biological research questions from cell to tissues to whole organisms which produce results that can support advanced methods for enabling the continued human exploration of space.

The proposed $359 million fiscal year 2004 budget for Biological Sciences Research will fund expanded ground research into how humans can adapt to the hazards of space flight for unprecedented periods of time under a new Human Research Initiative. A flight program in high priority areas of advanced human support technology to reduce mass to orbit and beyond for life support equipment by a factor of three is also funded by this Initiative.

Physical Sciences Research

This theme supports research that takes advantage of the unique environment of Space to expand our understanding of the fundamental laws of nature. We also support applied physical science research to improve safety and performance for human exploration and research that has applications for American industry.

Activities in this theme are structured to respond to the Research Maximization and Prioritization Task Force process, undertaken last year to prioritize BPR research activities. The budget request of $353 million will support major space flight hardware development for physical sciences research on the International Space Station, while reducing funding for lower priority areas such as biomolecular technology, and structural biology future facility class space flight hardware, and level II program management support. The budget will increase funding for research of strategic importance to NASA's long range-goals, including radiation protection and basic research enabling knowledge for power and propulsion technologies. The budget also contains funding for our new Human Research Initiative, with funds targeted for spacecraft system innovations such as less massive fluid and thermal control methods and fire safety improvements.

In 2004, the budget supports the preparation of the first major Physical Sciences Research facility rack to the International Space Station, and the beginning of prime research facility operations on the Space Station.

Research Partnerships and Flight Support

The Research Partnership element of this theme establishes policies and allocates space resources to encourage and develop research partnerships in the pursuit of NASA missions and Enterprise scientific objectives. This research supports product development on Earth and leverages industry resources to accelerate progress in our strategic research areas. Ultimately, Research Partnerships may support development of an infrastructure that can be applied to human exploration.

A majority of the proposed $261 million budget in fiscal year 2004 for Research Partnerships and Flight Support will apply to the Flight Support element of this

theme. The Flight Support element will be augmented by two activities: (1) the transfer of the Alpha Magnetic spectrometer program management and budget from Physical Sciences Research; and, (2) the consolidation of the Enterprise Support program content and budget, previously diffused across various programmatic components. The Flight Support activity includes multi-user hardware development, payload integration and training, and payload operations support.

The budget also provides for the restructuring of NASA's Space Product Development program by aligning industrial partnerships with NASA mission needs and Enterprise scientific objectives. We intend to review our existing Research Partnership Centers to determine which of these will be retained.

Aerospace Technology Enterprise

The Aerospace Technology Enterprise contributes to the NASA Vision by pioneering and developing advanced technologies. These technologies, in turn, improve the air transportation system, access to space, and science missions. This Enterprise also develops technology partnerships with industry and academia outside traditional aerospace fields. The Aerospace Technology Enterprise is comprised of four themes:

Aeronautics Technology

NASA's Aeronautics Program develops technologies that can help create a safer, more secure, environmentally friendly and efficient air transportation system, increase performance of military aircraft, and develop new uses for science or commercial missions. This theme also enhances the Nation's security through its partnerships with the Department of Defense (DOD) and Federal Aviation Administration (FAA) and the Department of Homeland Security. Research areas include advanced propulsion technologies, lightweight high-strength adaptable structures, adaptive controls, advanced vehicle designed, and new collaborative design and development tools. In collaboration with the FAA, research is conducted in air traffic management technologies for new automation tools and concepts of operations. Major funding allocation includes three technology initiatives in aviation security, airspace systems, and quiet aircraft.

The fiscal year 2004 budget request for Aeronautics is $959 million. It includes $169 million for Aviation Safety and Security projects, $217 million for Airspace Systems, and $574 for Vehicle Systems. The budget request includes funding for three new initiatives:

—*Aviation Security.*—The budget includes $21 million for this new initiative ($225 million over five years); it will develop technology for commercial aircraft and airspace protection, including development of damage-tolerant structures and autonomous and reconfigurable flight controls technology to prevent aircraft from being used as weapons and to protect against catastrophic loss of the aircraft in the event of damage from sabotage or explosives.

—*National Airspace System Transition.*—The budget includes $27 million for this new initiative ($100 million over five years); it will enable technology, in cooperation with the FAA, to transition to a next-generation National Airspace System that would increase the capacity, efficiency, and security of the system to meet the mobility and economic-growth needs of the Nation, reducing delays and increasing air transportation efficiency.

—*Quiet Aircraft Technology.*—The budget includes $15 million for this new initiative ($100 million over five years); it will accelerate development and transfer of technologies that will reduce perceived noise in half by 2007 compared to the 1997 state-of-the-art.

Space Launch Initiative

The objective of the Space Launch Initiative is to ensure safe, affordable, and reliable access to space. Funding is focused on a new Orbital Space Plane for crew rescue and transfer capability, and on the Next Generation Launch Technology program for advanced kerosene engine development and hypersonic propulsion research and testing. The fiscal year 2004 budget request is fully consistent with the fiscal year 2003 Budget Amendment submitted to Congress in November 2002.

The fiscal year 2004 budget request includes $1.065 billion for SLI, including $550 million for the OSP to develop a crew return capability from Space Station by 2010 and crew transfer capability atop an expendable launch vehicle by 2012. Funding will support technology demonstrators such as X–37 and advanced design studies. The budget request also includes $515 million for the Next Generation Launch Technology Program to meet NASA's future space launch needs. Funding includes advanced kerosene engine development and hypersonic propulsion research and testing.

The budget envisions several key events in 2004:

—Test flight of DART vehicle to demonstrate autonomous rendezvous technology between a chase vehicle and an on-orbit satellite;
—Drop test of X–37 vehicle from carrier aircraft to demonstrate autonomous landing capability as a precursor to a possible orbital demonstration; and,
—Preliminary design review of OSP to support a full-scale development decision.

Mission and Scientific Measurement Technologies

This Theme develops crosscutting technology for a variety of aviation and space applications. Funding is focused on communications, power and propulsion systems, micro-devices and instruments, information technology, nanotechnology, and biotechnology. These technology advances will have the potential to open a new era in aviation and allow space missions to expand our knowledge of Earth and the universe.

The fiscal year 2004 budget request is $438 million, which includes $233 million for Computing, Information, and Communications Technologies, $44 million for Engineering for Complex Systems, and $161 million for Enabling Concepts and Technologies.

Innovative Technology Transfer Partnerships

This theme develops partnerships with industry and academia to develop new technology that supports NASA programs and transfers NASA technology to U.S. industry. The fiscal year 2004 budget request introduces a creative partnership program to sponsor dual use technologies, called Enterprise Engine, and is discontinuing the existing centralized commercial technology promotion efforts and, instead, recompeting and refocusing our technology transfer programs across the Enterprises to maximize benefits to NASA and the taxpayer.

The fiscal year 2004 budget request is $169 million, which includes $5 million for the Enterprise Engine, $33 million for recompeting and refocusing technology transfer efforts to maximize benefits, and $131 million for the SBIR/STTR programs.

Education Enterprise

Education is NASA's newest Enterprise, established in 2002, to inspire more students to pursue the study of science, technology, engineering and mathematics, and ultimately to choose careers in those disciplines or other aeronautics and space-related fields. The new Enterprise will unify the educational programs in NASA's other five enterprises and at NASA's 10 field Centers under a One NASA Education vision. NASA's Education will permeate and be embedded within all the Agency's activities.

NASA's Education Program will provide unique teaching and learning experiences, as only NASA can, through the Agency's research and flight capabilities. Students and educators will be able to work with NASA and university scientists to use real data to study the Earth, explore Mars, and conduct other scientific investigations. They will work with NASA's engineers to learn what it takes to develop the new technology required to reach the farthest regions of the solar system and to live and work in space. It is important that the next generation of explorers represents the full spectrum of the U.S. population, including minority students and those from low-income families. To ensure the diversity of NASA's workforce, our educational programs pay particular attention to under-represented groups. NASA Education will support our Nation's universities to educate more students in science and engineering by providing meaningful research and internship opportunities for qualified students, plus a roadmap for students to seek NASA careers.

The fiscal year 2004 budget request of $170 million includes $78 million for education programs including the continuation of pipeline development programs for students at all educational levels with the continuation of Space Grant/EPSCOR programs and $92 million for Minority University Research and Education. It also includes $26 million for an Education Initiative that encompasses the Educator Astronaut Program, NASA Explorer Schools Program, Scholarship for Service, and Explorer Institutes.

Space Flight Enterprise

International Space Station

This theme supports activities for continuing a permanent human presence in Earth orbit—the International Space Station. The Space Station provides a long-duration habitable laboratory for science and research activities to investigate the limits of human performance, expand human experience in living and working in space, better understand fundamental biological and physical processes using the unique environment of space, and enable private sector research in space. The Space Station allows unique, long-duration, space-based research in cell and development biol-

ogy, plant biology, human physiology, fluid physics, combustion science, materials science, and fundamental physics. It also provides a unique platform for observing the Earth's surface and atmosphere, the Sun, and other astronomical objects.

The Space Station program is well on its way to completing work on the U.S. Core Complete configuration, which will enable accommodation of International Partner elements. Flight elements undergoing ground integration and test are proceeding on schedule, and the last U.S. flight element is scheduled for delivery to NASA by the spring of 2003. Fiscal year 2004 funding drops as planned, as development activities near an end, and on-orbit operations and research becomes the focus of the program. The budget maintains proposals reflected in the fiscal year 2003 Budget Amendment, including additional funds for reserves and funding for Node 3 and the Regenerative Environmental Control and Life Support System (ECLSS). The budget continues significant progress toward resolving the Space Station management and cost control issues that confronted the program at the end of 2001. Many changes based on recommendations of the ISS Management and Cost Evaluation (IMCE) task force have increased NASA's confidence in achieving success with the U.S. Core Complete station. Management changes have been made to ensure that ISS capabilities are driven by science requirements, and to make appropriate decisions as the program moves from development into operations.

Space Shuttle

The Shuttle, first launched in 1981, provides the only capability in the United States for human access to space. In addition to transporting people, materials, and equipment, the Space Shuttle allows astronauts to service and repair satellites and build the Space Station. The Space Shuttle can be configured to carry different types of equipment, spacecraft, and scientific experiments that help scientists understand and protect our home planet, explore the universe, and inspire the imagination of the American people.

Fiscal year 2004 budget request of $3.968 billion supports the planned steady state flight rate of 5 launches per year beginning in fiscal year 2006. It provides $379 million (and $1.7 billion over five years) for the Space Shuttle Service Life Extension Program, which will improve safety and infrastructure needs to allow flying of the Space Shuttle well into the next decade.

Space and Flight Support

The fiscal year 2004 budget request of $434 million supports space communications, launch services, rocket propulsion testing, and advanced systems. Funding is provided for cleanup of the Plumbrook facility and tracking and data relay satellite follow-on studies. The overall funding level reflects the planned transfer of certain space operations responsibilities to other Enterprises.

Senator BOND. Thank you very much, Mr. Administrator. I'm going to yield my time to the Chairman of the full committee, Senator Stevens.

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. Thank you very much, Mr. Chairman. I'm delighted to have an opportunity to be here with the Administrator. I do have a couple of comments and we look forward to working with you, my good friend.

I note the reduction in aeronautics allocation and the reduction in the educational allocation as compared to 2003. This is the 100th anniversary of manned flight. We are, I think, in a position where we ought to demonstrate to the world that we recognize the great impact of that flight, and I hope that we're not going to be eliminating some of the research that from my point of view is extremely vital to the future of aeronautics.

For instance, there was a research project going on trying to find out a way to deal with the sonic boom. I haven't heard about that for several years. Currently we cannot fly across the land mass with commercial aviation beyond the speed of sound because of the impact of the sonic booms.

We also have in terms of the education program a series of initiatives that have inspired young people to consider a career in space, and your agency. I'm one that firmly believes that the dreams and desires that you form as a child, even at the 5th, 6th or 7th year, are the ones you want to pursue for the rest of your life, and I think it's highly important that we continue that stimulus through the education programs. I will be interested to see how you are going to allocate the decrease within your department, because I do hope that we maintain the concepts that we need for that.

My only question to you, though, if I may ask a question right now is, what are you going to do about the Wright brothers celebration in December?

Mr. O'KEEFE. Thank you, Mr. Chairman, I appreciate it. We are always guided by your superior wisdom in these respects, no doubt about it.

Senator STEVENS. Not wisdom, inquiry.

Mr. O'KEEFE. As it pertains to aeronautics, again, in the coming year there is a 5 percent increase. What is really the question is the out-year projections. In working with Marion Blakey at the FAA, I think we will see some change in that. So our out-year projections will be fine here when we go back and take a look at it. But we really kind of held that as a baseline in order to develop this effort in concert with the FAA to specifically look at aeronautics improvements on a variety of different issues. For 2004 it's an increase up and we will continue on.

DOD/FAA/NASA TASK FORCE

Senator STEVENS. Some time ago I suggested that there be sort of a task force between DOD, FAA and NASA, to insure that there would not be a redundancy, that there would be a sharing of effort in the future aspects of aeronautics research. I hope that continues.

Mr. O'KEEFE. Yes, sir, absolutely. As a matter of fact, that's precisely where we're going. Marion Blakey will be leading that, I will be participating, along with Dr. Ron Sega from Defense, and the three agencies and departments involved in this are hitting the ground exactly the way you talked about it. That's why I think the out-year numbers at best are a place holder baseline that I anticipate we will adjust as a consequence of the efforts that come out of this effort that Marion is putting together now.

On the education front, I need to get some numbers for the record, because our intent was to increase and increase dramatically in terms of the education focus, and the activities we're involved in. We have a lot of outreach programs as well as support for a range of the other eight nonprofit or nongovernment organizations that are really dedicated to a research and education focus. The educator astronaut issue, so forth, have all been designed to specifically stimulate that kind of interest for precisely the age group you're talking about. If you don't catch folks in that middle school, junior high kind of focus area, they are likely not to want to pursue math, science, engineering, technology-related activities. So we spend a lot of time really focusing our energies on that age group more than any other, because in many respects that's where the formulative kind of ages are really based in terms of a pursuit of those kind of professional opportunities in the time ahead. So,

we're concentrating on that an awful lot, and we will provide some better information for you. I think we will have an opportunity later this afternoon to get together on this issue, and I will make sure I bring that with me.

Senator STEVENS. Good. I would like to see something in the record on that.

Mr. O'KEEFE. Yes, sir, absolutely.

[The information follows:]

ACADEMIC PROGRAMS

NASA requested $153.7 million in fiscal year 2002 for Academic programs. However, during the appropriations process, Congress added a one-time increase of $73.6 million for 20 separate Congressional interest projects for that year. The fiscal year 2004 request of $169.8 million is in full cost, and includes a $10 million increase in education funding for the new initiatives described in the agency request.

Senator STEVENS. Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Stevens.

Senator MIKULSKI. Senator Stevens, before you go, one thing you should know that Senator Bond and I did last year to increase graduate students going into the science field. Working with Senator Bond through the National Science Foundation, we provided graduate student stipends in the basic science, physics, chemistry, for $18,000 a year. This year we raised it to $22,000 and Dr. Colwell said there was a 30 percent increase in the number of American graduate students interested in going to graduate school in these fields. So we're working on this and we want to talk with you about it.

Senator STEVENS. Good, thank you.

Senator BOND. We need a bigger allocation.

Senator MIKULSKI. We need a bigger allocation, right.

Senator BOND. Senator Mikulski.

Senator MIKULSKI. Senator Bond, why don't you go right ahead? We afforded the courtesy to the chair of the committee, but why don't you lead it off?

Senator BOND. Thank you, Senator. Shuttle costs.

Senator MIKULSKI. Senator Stevens is emeritus. I mean, he goes first no matter what. He is A and you're A–1.

Senator BOND. No, we're all equal but he's just a little more equal.

SHUTTLE COSTS

Potential shuttle costs, what funding requirements do you anticipate in 2003 and 2004 to respond to the Columbia accident for repairing the space shuttle, slips in the space station, shuttle, changes in the research? I know we don't have a final, but do you have a ballpark guess or an estimate of what that might be?

Mr. O'KEEFE. As it stands right now, the recovery effort has largely been covered by the Federal Emergency Management Agency as a consequence of their disaster relief allotment or allocation that the Congress provides each year. That's going to total something on the order of about $235 million is the current estimate, that FEMA is using to reimburse the U.S. Forest Service, the EPA, other Federal agencies, and the State and local government activities. Our costs at NASA are well within the $50 million incre-

mental cost differences that the Congress provided funding for in the fiscal year 2003 appropriation made in February.

Our efforts primarily are in support of, again, the Columbia Accident Investigation Board, and within that allocation, that will cover the incremental differences as we move to current. In total cost for all activities, if we added everything we did in this, it would probably——

Senator BOND. Just NASA.

Mr. O'KEEFE. Yes, sir. Again, within that $50 million you provided, I think we're going to cover that as an incremental cost difference and that's going to work. To the extent there is any incremental costs above that, we will be back to testify on what that will take, but it's really not, at this juncture we think it's going to be well within it on an incremental marginal cost basis.

The differences in shuttle and Station, right now we're not incurring any costs, because the fleet is grounded. So the expense to continue in a ready status, the ability to return to flight as expeditiously as we can, is well within the allocations that have been made for shuttle launches, as well as International Space Station, where we are processing the modules as we have been in order to ready for that return flight as soon as we can get there.

ISS'S RESUPPLY MISSIONS

Senator BOND. The International Space Station's resupply missions, I understand the partners have yet to come up with a final agreement on how to provide $100 million for additional Russian vehicles. I would like to know what the status is of discussion with the other partners regarding how to fund the Russian production and will they be able to provide the needed funding or are we going to have to ask for a waiver from or amendment to the Iran Nonproliferation Act so that NASA can provide some of the funding?

Mr. O'KEEFE. Well, as you mentioned in your opening statement, sir, the actions are speaking louder than anything else. The Russians launched the Soyuz rocket, and Ed Lu and Yuri Malenchenko not only launched successfully, they are there on International Space Station today. Ken Bowersox, Don Pettit, Nikolai Budarin will come back on the Soyuz. The Progress flights that were planned, the unmanned logistics resupply flights that are planned, there's one going up in June, there is another we're seeking to accelerate into November. All those are going exactly according to the plan and the Russians have stepped up in a very substantial way.

I'm leaving tomorrow to go welcome home Don, Ken and Nikolai, and I will spend a little time with Yuri Koptev, who is the head of the Russian Space Agency. I do not anticipate any requirements to waive or consider the Iran Nonproliferation Act. The partners are acting like partners.

ORBITAL SPACE PLANE

Senator BOND. Good. Well, given the fact that we are so dependent on the Russians, the orbital space plane would provide an alternate mode to the Russian vehicle and to the shuttle for taking crews and a limited amount of cargo to the Space Station. To what extent can development of the orbital space plane be accelerated so

the capability is available as soon as possible, and what's your current estimate for the cost of the orbital space plane?

Mr. O'KEEFE. Currently, I just went through an exercise here in the last couple of weeks to try to look at all the acceleration options that may be possible. It turns on two things. The first one is, there are competing designs, there are at least three major contractors who have different approaches on how to deal with what is a very short list of requirements. We have kept this very minimal. You can list all the requirements for the orbital space plane on a single page. There isn't any ambiguity about what it is we're looking for in terms of its requirements and capabilities we seek it to perform at.

Now depending on what kind of approach those various contract proposals may come back with here in the next 9 months, that will tell us a lot more about how fast or how slow it's going to be in terms of delivery. In terms of overall cost, I wouldn't want to compromise their ingenuity, imagination or creativity one dime until we see what they come up with.

Senator BOND. Okay, I got that answer. Senator Mikulski.

RETURN TO FLIGHT

Senator MIKULSKI. Thank you, Mr. Chairman.

Mr. O'Keefe, when do you think the shuttle will fly again? I understand that NASA announced it was taking interim steps to prepare a return to flight before the Gehman Commission had finished its final report.

Mr. O'KEEFE. What we announced is we are making preparations now to return to flight as early as the end of this calendar year, so we can be in a position if all the findings and recommendations come forward, and do not impede that opportunity, we will not be in a position when the report comes out to say well, I guess now we ought to start thinking about returning to flight. We are trying to do all the preparation work in order to do that, and we are implementing their findings and recommendations.

Senator MIKULSKI. Well, here's my question, because I don't think the Gehman report is going to be done until July, and I don't want to go rushing back into flight. I think when we go, we have to be sure in the most meticulous, arduous way that we are ready to go and therefore, turn to the lessons learned from the Gehman Commission not only to what went wrong, but the other issues addressed.

But to go back to the question now with respect to preparing for launching, first, how are you preparing, and second, not only from the technical and engineering and safety aspects, but are you preparing in terms of money? In this President's budget request, NASA only gets $55 million more. That's just slightly above 2003.

Here is my worst fear from a financial standpoint. We have the Gehman report in July and we've already marked up and we're already meeting down on our flight plan. There is a substantial price tag to being ready to return to flight. How do we get it in the appropriations bill and if we don't, then we cannot have that whole issue of NASA going to other important programs to get the money like they did when the station was running such horrific cost over-

runs. And congratulations to you for bringing about that discipline there.

So you see what I'm worried about, one, that we really know how to go back to flight and that we are able to correct the mistakes. And at the same time, where is the money going to come from and when will it come? Because we have to be talking about it now. Do you have estimates, could you elaborate?

Mr. O'KEEFE. Thank you, Senator. Well, first and foremost, 110 percent, we will not fly again until we can satisfy ourselves that we can do so safely. We are not rushing to that objective. What we are doing is preparing ourselves to assure that we implement the findings and recommendations which are starting to come out now from the Gehman board, as expeditiously and as thoroughly as we possibly can, to make absolutely certain we tack down every prospect of what's necessary and what they're observing as changes necessary to return to safe flight.

So, if we're diligent about that and if there are no hardware process showstoppers in this, we anticipate we could be looking at the early part of next fiscal year of flying again. Between now and then, we'd planned six flights for this fiscal year. We only conducted two, STS–113 and STS–107.

Senator MIKULSKI. So you have money in the pipeline?

Mr. O'KEEFE. Yes, ma'am.

Senator MIKULSKI. Because I have other questions.

Mr. O'KEEFE. Absolutely. So that is there, we're not expending the cost of launch services as a result of that.

Senator MIKULSKI. So you anticipate that you are not going to need additional funds?

Mr. O'KEEFE. No, I didn't suggest that. But you will find right now, in order to prepare for flight as soon as we get the full report and understand all the finding of what's going on, and we will be receiving those over the course of the next 2 months, we may be in a position to better estimate what that will take, and advise the Congress.

Senator MIKULSKI. Do you have any concept now, or are you reluctant to say?

Mr. O'KEEFE. I have not even a parameter of what the cost difference will be relative to how much we have in the budget today. Until we really get the findings and recommendations from the board, it really does not lend itself to that. The only things we have right now are an estimate, for example, on differing options and——

PRESIDENT'S BUDGET REQUEST

Senator MIKULSKI. I understand. Let me just say this. I am very troubled by the President's budget request. I think it is status quo, and I think we needed another $500 million more, one, to catch up with a tattered infrastructure, the things that got worn well before you came, and two, a banking of what we might need for the shuttle based on the recommendations.

So to only have $55 million and not in the President's budget request, we are really going to be shackled in terms of how to proceed here. And we don't want you to short change these other items that you listed, very worthwhile projects, some exciting, some crucial to

saving lives of not only astronauts but here on Earth. We like where you're heading, but I'm afraid we are going to be heading for a real fiscal issue on the appropriations process.

And then also, thanks to the Russians, having their Soyuz that's worked as a lifeboat in space, but Russia is a financially-strapped country. That's why Senator Bond asked how we can reimburse them so that the money goes to the space agency and is not scattered through the other Russian financial problems.

So I'm very concerned that we support what you need to do, and have the wherewithal, that we help the Russians meet their responsibilities and the spirit in which they pay for it. And I know my time is up, but you see where I'm going.

I also have a lot of questions about Hubble, staffing, and the infrastructure.

Mr. O'KEEFE. If I could, Mr. Chairman, just kind of real quick, the budget we submitted on February 3 is empirically about $460 million more than what the President requested the year before. Congress acted on that request weeks later. So what you have observed here is absolutely accurate, relative to the appropriation that the Congress enacted weeks after this budget was submitted to you at the time, it was again, $450-odd million difference, versus the difference of $100 million now, as a consequence of what the Congress did enact during the course of the subsequent enactment as part of the omnibus appropriations bill. We will continue to look at this. I assure you, our intent is not to rob other programs in order to pay for shuttle costs. That will not be in the mix. Not the intent, won't do it.

Senator BOND. Thank you very much, Sean. Senator Craig.

STATEMENT OF SENATOR LARRY E. CRAIG

Senator CRAIG. Mr. Chairman, thank you. I will be brief, I have to run to another committee, but I did want to stop by and say hello to Mr. O'Keefe. Again, thank you, I appreciate the visit we had at NASA earlier this year.

I know you have all been tragically busy since that time, and of course I think all of us are very anxious for the report to be completed and to get our shuttles flying again under all of the conditions that are safe and appropriate. Because clearly, I think the combination of the advancement in the space agenda and our science agenda, it plays such a key role and is critical.

And slowly but surely, this Congress is shifting a little bit toward the physical sciences again, and I'm very pleased about that. We have expended a great deal in the biological sciences and we're proud of that, but we also recognize that we need to push the other envelope a bit more than we have.

I would suggest you take a look at a bill that just came out of the Energy Committee, Director O'Keefe, as it relates to your nuclear systems initiative. We hope this Congress and certainly this administration, is moving in a new direction again as it relates to nuclear reactors and new passive safe reactors, and of course coupling with the Navy is appropriate for where you want to go and I think most appropriate, the efficiencies that we have achieved there are exciting. But GEN–4 reactors and new advance fuel cell technology may well couple with what we want to do, what you

want to do out there in space with that kind of power plant that should be able to be done effectively and in a miniature or small way that we're looking at.

So hopefully we can move this agenda with the cooperation of our colleagues. It is a bold one and this administration appears to want to be bold in that area, and I am confident that a good many of us now do.

Recognizing the importance of that, we're going to couple that particular project with hydrogen electrolysis creation, and so we hope to get this Congress looking forward to new energy instead of standing still.

Of course, your mention of radiation as I was coming in is important to all of us. As you know, the University of Idaho has played a great role and our colleagues there and their association with you in radiation, hardening electronics. So I'm excited that we advance that. We learned something about the ability to protect our tools, now we ought to be able to learn something about the ability to protect our people a little more in the appropriate way.

And lastly when we get the shuttle flying again, your educator in space program flies with it, and that is exciting. Our friend Barbara Morgan from Idaho plays a key role in that, and thank you again for allowing her what she does so well. Those are all important to us.

But I'm hoping this committee and this administration will stay high on what we're doing because it is important to the future of our country. And if we don't think what we do has application across the board for the pushing of the sciences and technology, it just got demonstrated so effectively in another part of the world that sets us apart as a unique country. But our willingness to use those technologies for mankind's betterment is also demonstrated largely. So, thank you for your work and I will be here encouraging and working with our Chairman and our Ranking Member to make sure the resources are available. Thank you.

Mr. O'KEEFE. Thank you, Senator. I appreciate your support.

Senator BOND. Thank you very much, Senator Craig. Senator Shelby.

INTEGRATED SPACE TRANSPORTATION PROGRAM

Senator SHELBY. Thank you, Mr. Chairman.

I believe NASA's integrated space transportation plan contains three important and critical elements for our Nation's future in space, the shuttle life extension, the orbital space plane, and the Next Generation Launch Technology Program.

Given that the Next Generation Launch Technology Program, NGLT, is largely a technology development program, is it at risk for becoming a real player for any cost overruns associated with the shuttle life extension program or the orbital space plane?

Mr. O'KEEFE. I don't believe so.

Senator SHELBY. You don't?

Mr. O'KEEFE. I think in the time not too far ahead, we will be seeing greater definition for the next generation launch technology. We're working very, very closely with the Defense Department in order to get a partnered and joint program kind of effort that's compatible to assure access to space and launch access, which is

their concern as well, that I think we will really put some definition on that. Our intent will certainly be to have that be a program that stands on its own. We're looking at that to be the mantra that we intend to live by.

LAUNCH TECHNOLOGIES—NASA/DOD

Senator SHELBY. What about NASA's unique needs and DOD's requirements? What kind of challenges do you have there and how do you address those challenges?

Mr. O'KEEFE. The efforts that really are very common between Defense and NASA are for launch technologies. The various approaches, whether they be horizontal or vertical in terms of the efforts that can be carried out, one of the ways is we're working to identify where those common technologies really have greatest application is through the national aerospace initiative that Dr. Ron Sega is championing, to really emphasize our partnering arrangements with them on hypersonics, and a range of very specific structures and propulsion initiatives they have pursued that we're doing jointly with them. That becomes the areas where I think our greatest leverage of each other's capability can really be expanded in order to see some specific yield for both NASA and DOD.

EXPLORER PROGRAM

Senator SHELBY. On February 3 of this year, NASA released an announcement of opportunity for the explorer program focused on small explorers and missions of opportunity. I have been told that despite Marshall's experience in development and management of science spacecraft, that this announcement of opportunity prevents Marshall from having a project management or end-to-end systems engineering role. If that's true, this announcement of opportunity doesn't track with what I understand to be NASA's philosophy and your philosophy of one NASA.

Mr. O'KEEFE. Yes, sir.

Senator SHELBY. Are you familiar with that announcement?

Mr. O'KEEFE. No, sir, I'm not. Let me look into it and get back to you.

Senator SHELBY. Will you check on that and get back to us?

Mr. O'KEEFE. Yes, sir.

[The information follows:]

SMALL EXPLORER MISSION (SMEX)/MISSION OF OPPORTUNITY

NASA's Announcement of Opportunity (AO) released on February 3, 2003, for a Small Explorers Mission (SMEX)/Mission of Opportunity included the following language:

"For free-flyer SMEX missions, if project management and end-to-end systems engineering are to be implemented from a NASA center, then these functions must be performed by one of the centers designated by the Office of Space Science: either the Jet Propulsion Laboratory (JPL) or the Goddard Space Flight Center (GSFC) . . .".

The language included in this Announcement of Opportunity was consistent with a July 2002 Agency policy decision to limit project management and end-to-end systems engineering implementation for Space Science and Earth Science missions by a NASA Center to the Goddard Space Flight Center (GSFC) and the Jet Propulsion Laboratory (JPL). The July 2002 policy decision was based on a 1996 Zero Base Review recommendation to consolidate aerospace operations to fewer Centers, with the objective of consolidating engineering and test facilities, consolidating and aligning

functional management expertise, and strengthening science programs, consistent with the NASA Procedure and Guideline (NPG) 1000.3 concerning the NASA Organization.

GSFC and JPL are recognized by both the Space Science and Earth Science Enterprises as mission-implementing Centers for management and system design and implementation of space missions. GSFC and JPL have strong foundations in this area, and have made substantial and distinct investments to provide such expertise and services in the future. The Marshall Space Flight Center (MSFC) is the Agency's Center for space transportation systems development, microgravity research, and optics manufacturing technology. MSFC provides leadership in the areas of management and implementation of research, technology maturation, design, development, and integration of space transportation and propulsion systems, including Space Shuttle propulsion element improvements, reusable launch vehicles, vehicles for orbital transfer and deep space missions, and qualification verification of new expendable launch vehicles.

The July 2002 Agency policy decision was not intended to prevent Centers other than GSFC and JPL from proposing as Principal Investigators, or proposing hardware, software, etc., in response to NASA Announcement of Opportunities; in fact, those Centers are encouraged to do so.

Nevertheless, the Agency is currently in the process of re-examining and re-validating the policy. We will apprise the Committee of the results of this effort upon its conclusion.

PROPULSION RESEARCH

Senator SHELBY. We appreciate that very much.

We know that you're developing a portfolio of propulsion research in both earth-to-orbit applications and in space applications. Can you describe the balance that you're trying to strike between the two investments here and what challenges you see on the horizon for each one of these activities?

Mr. O'KEEFE. Yes, sir. The first, I think, as we discussed a moment ago in terms of launch technologies, primarily the next generation launch technologies is a focused part of the space integration plan, so much of what you see there is not commingled or in competition with the in-space propulsion effort which is almost, well, largely focused on the Project Prometheus effort. It is both power generation and propulsion capabilities. There's an awful lot of effort and energy on both fronts, but they are not again, they're being looked at as separate propositions. One is, how do you accomplish the rate of 8½ minutes into low-earth orbit, which is our launch technology, as well as then once there, how do you find any in-space propulsion capability, of which we have none right now?

The only capability we have, however limited, I shouldn't say none, is we use gravity assist, we really hope to get into the right orbit pattern in order to head anywhere in this solar system is about the best we can do, that uses a very, very limited kind of solar electric generated power source.

The capabilities, just to give you a context of that, that must be utilized on any mission for a spacecraft, unmanned particularly, has to have a maximum power generation yield of no more than two 60-watt light bulbs. So this room would be max energy they have never had anywhere. With the nuclear systems effort and the power Project Prometheus would provide, is about 100 times this kind of power generation capability in order to, incidentally, provide for propulsion of any variety——

Senator SHELBY. That's a big leap, isn't it?

Mr. O'KEEFE [continuing]. Of power generation, but also the ability to sustain the science and research force. These are two very

distinct approaches that we're taking to this. They are not in competition with each other at all.

Senator SHELBY. Mr. Chairman, I have some other questions but I will wait my next turn.

PROJECT PROMETHEUS

Senator BOND. Thank you, Senator Shelby.

Mr. Administrator, speaking of Prometheus, I have some questions about it. You have shown in your request about $3 billion needed for the first 5 years, 2004 to 2008. But I understand the head of NASA's Space Science Office, Dr. Wyler was quoted in Science Magazine recently as saying the cost of Prometheus through 2012 would be $8 to $9 billion. And of course unfortunately, we know the preliminary cost increases are never overblown.

I am concerned about whether this project is going to consume such a large amount of the space science funding that other initiatives are funded, or are not going to be funded. What percentage of the funding is for building spacecraft and what for building nuclear power and propulsion systems, and could the costs be lowered by building less ambitious spacecraft since you know, since this is the first shot and if something goes awry, we don't want to lose it. Give me a little idea of your cost containment on this.

Mr. O'KEEFE. Yes, sir. The budget before you are the numbers I stand by and they are through the next, at that 5-year span, a little over $3 billion for the development effort for nuclear propulsion and power generation capabilities. It also begins the first demonstrator, if you will, of that capability, which will provide around Jupiter's moons a mission in the early part of the next decade, a multiple on-orbit pass.

For example, if you look at the number of on-orbit passes we can go, it would probably take you the better end of 10 to 20 missions. If each one of them costs some number of hundreds of million dollars, multiply it by that number and that's how much it would take in order to pursue this. So this is going to be significantly less expensive to pursue as multiple on-orbit efforts at various planetary objects than anything we could do elsewhere. We get one fly-by on every other spacecraft, one, and if the cameras don't work, the instrumentation isn't right, whatever, it's a lost mission entirely.

So this is an approach to really enhance the capability to do many, many fly-bys, get there a lot faster, do it in a more expeditious period of time, and the development cost in this next 5 years is that much. Then from there on, each of the individual missions are going to be stand-alone costs. In the case of the Jupiter moons project which will be the first demo of that capability, which is due to launch towards the end of the decade, beginning of next, that will be an estimate we will refine over the course of the next year or so, when we will be able to provide a much more authoritative number of what that's going to cost. In terms of development expenses, it's $3.5 billion.

ORBITAL SPACE PLANE

Senator BOND. And then you've got the orbital space plane, that could be another $3 billion, so you have some big ticket items. Are

you sure you aren't going to be squeezing something? OMB is going to have to start smiling on you and us a lot more kindly if you're going to get all these done.

Mr. O'KEEFE. Well, the 5-year plan that's projected as part of this request has the Agency submission rising to nearly $18 billion by the end of fiscal year 2008, I believe it is. This is fully funded, that's the total estimate we believe it's going to take to do everything in there. This is the President's budget request, so everybody is in agreement with what those numbers say. So as a consequence, if he stands by them, I sure can stand by them because he's put his imprimatur on it.

RECRUITING AND RETENTION

Senator BOND. I have been very much concerned, as Senator Mikulski is, about the staffing of NASA and making sure that we have the right people. I know we are facing a significant shortage. We need a home-grown new generation of engineers and scientists. There's a retirement crisis coming, and there is not an adequate pool now in the United States to meet the needs. So we are, as the Senator has said, working with NSF.

But I question whether NASA needs incentives to retain staff. To NASA's credit, the employees see themselves as part of the family and they don't seem to be leaving. But I am particularly concerned about buy-outs. Do we need additional buy-out authority if 25 percent of the current NASA work force is eligible for retirement within 5 years and there are not enough scientists and engineers to replace them? And so I ask, why do we need to hire them?

And I'm also concerned about buy-out authority because I understand that sometimes we buy out these employees, they leave and then go to work for a contractor at a higher salary, and we get to pay that salary after we've bought them out, we get to pay for a very wonderful high class scientist at a significantly increased rate. How are you going to protect against that problem? I kind of have a different view of solutions for solving your staffing needs.

Mr. O'KEEFE. Thank you, Mr. Chairman. Indeed, the personnel management approaches that can be taken, the full range of those tools was requested in the President's legislation he submitted last June to follow through with that. It is recruitment, it's retention, and it's also professional development. All the authority we need on buy-outs and so forth, I concur with you. I think we need to be very targeted on how we do that, and use it under very limited circumstances. Right now, retention is a better approach. The catch is, we're faced with an actuarial reality which is, I represent the average age of the agency. I am 47. There are three times as many scientists and engineers who are over 60 as we have under 30. So no matter how long I try to retain folks under any set of circumstances, an actuarial reality is going to set in here and in some specific core competence fields like again, nuclear engineers for example, we know we're going to need more of them in the time ahead.

We have a current retirement rate that is hovering around the 50 percent range that will be eligible in the next 3 years. So not only do you need more folks in certain competencies, you also need folks who are going to replace the seasoned veterans that are there

before they actually depart. So the approach we're really looking to is heavy on the recruitment side, heavy on the professional development end of the folks that are there now, mid-level entry of some of the people who have a decade of experience with an engineering firm of comparable nature to come in and be part of that pool, and then some selected targeted kind of retention efforts in order to keep that talent base around.

But again, as an actuary, there are a lot of folks who simply aren't going to stay beyond a certain level. We're not really as anxious to look at moving people out as bringing folks in in a timely enough manner to make that effective. So any combination of the President's proposal, the Voinovich bill, the House bill, whichever ones you like, please vote early and often for any of those. We could use any of those tools. We are right now strapped to the position we are limited to at present.

Senator BOND. Thank you very much, Mr. Administrator. I have reached the end of my useful life cycle today and I am going to turn the hearing over to Senator Mikulski and then to Senator Shelby to continue as long as they wish. I look forward to reading at some later date the rest of your testimony and I thank you for your testimony today.

Senator Mikulski.

Mr. O'KEEFE. Thank you, Mr. Chairman. I appreciate your courtesy, as always.

HUBBLE SPACE TELESCOPE

Senator MIKULSKI [presiding]. Mr. Administrator, my questions are going to be specific because the time is moving along.

I want to go to the Hubble and the consequences of what's happened because of Columbia to the Hubble. Columbia was supposed to service the Hubble telescope in 2004. The question is will it be able to do that? Will we be able to accommodate Hubble servicing missions; will we be able to extend the life of Hubble because it needs servicing? Can you describe to me the consequences to the Hubble because of the Columbia accident?

And second, what then would be the consequences to the appropriations request?

Mr. O'KEEFE. Thank you, Senator. The budget for fiscal year 2005 will cover the November 2004 launch of the servicing mission that was planned. As soon as we get back to safe flight operations, we will assess that timing to determine if that date or other, we won't just shift it to the right, but we will continue that servicing mission as soon as we need to in order to make sure Hubble stays viable.

You're exactly right. It's an unbelievable instrument. Here it is 13 years later, considered to be something 13 years ago that would be just a big pile of space junk has turned into the miracle that it is today in the astronomy community. So, there is no question we want to sustain that, and we will look at a servicing mission as soon as we return to safe flight.

The pacing item is, there are four gyros that are aboard Hubble right now, they're all operational. We need at least three to operate in the pattern that it's in. So if we see a failure at any point in the near future, we may have to look at how fast that servicing

mission has to be conducted. The next mission in November 2004 had been planned to take six gyros up, replace them all out, and so that becomes the big pacing item, in addition to a number of other things we do on Hubble as well, but we will do that as soon as possible, independent of the International Space Station flight schedule.

Senator MIKULSKI. We need to be kept posted on that.

Mr. O'KEEFE. Yes, Senator.

ASSOCIATED UNIVERSITIES RESEARCH ASSOCIATES (AURA)

Senator MIKULSKI. My other question is, the Hubble, in terms of the information captured by Hubble to Goddard, to a group called AURA, the Associated Universities Research Associates, which is an NGO operating on the Hopkins campus in very modest circumstances. I understand that they had a contract to run this work for about 10 years, but NASA has told them that they might want to recompute the last 2 years of the contract. I'm puzzled by that.

I'm not against competition and certainly you know that, from our other conversations, but could you tell me why NASA would want to do that, because it places uncertainty for their ability to retain really brilliant astrophysicists, et cetera, and also even to negotiate proper leases, and so on.

Mr. O'KEEFE. Let me look at the very specific case here as soon as I get back to the shop to figure out what the focus on this one, or the AURA competition effort is all about.

But as a general matter, I think exactly as you mentioned, it is very much part of our persistent view of saying let's always look at competitive alternatives, just if for no other reason than to satisfy ourselves that the way we're doing it today is a good way of doing it, let's retain that, but let's look at alternative sources.

Senator MIKULSKI. Well, I understand that, and I know that you're also looking at an NGO for the International Space Station methodology. I think the genius of what has kept NASA so fresh and spectacular has been we have a core group of civil servants, we've discussed that in terms of the aging workforce, but it's combined with private contractors, again, who delivered, they brought freshness and best practices, and what a private sector brings. Then they work with universities, but also these groups.

Now AURA is not part of Hopkins, though it's on the campus, but again, you have the retention of 300 people at stake. If you don't pick them up, they're cosmologists, astrophysicists, so many separate fields of physics that I couldn't even describe. And at the same time, they provide a very robust education program because Hubble, other than our human side, is the attraction to young people in space, what it provides to science centers and the like. So what they do in education with what the Genius Club finds, is stunning.

So therefore, you could bust that wide open and at least 300 people that know what to do with Hubble information and also what to do about education, the magnet that we want it to be, and then how they can also get best value in terms of what they need to procure. So, could you get back to me on that?

Mr. O'KEEFE. Yes, ma'am, absolutely.

Senator MIKULSKI. Again, I don't want to take a position because I don't know all the facts, but do think you ought to look at it, because we don't want to create uncertainty just for saying we want to compete, because there is importance to competition.

Mr. O'KEEFE. Very good. I will take a look at it.

Senator MIKULSKI. Senator Shelby.

MICROGRAVITY RESEARCH PROGRAM

Senator SHELBY. Thank you. I will try to be brief, Mr. O'Keefe, and I appreciate your patience.

Would you describe the state of the microgravity research program within NASA? In particular, how would you describe the state of materials and biotech programs?

Mr. O'KEEFE. Yes, sir. The human research initiative that is part of our budget request is an effort to, again, aggressively look at what consequences microgravity poses, in both physiological as well as physical sciences kinds of applications. The two areas that are really pretty staggering, and I'm not a scientist so I'm easily staggered on these kinds of things, and then maybe I'm not easily surprised, is you see growth in acceleration as well as dramatic deceleration or degradation of physiological conditions. You can grow certain cells in microgravity conditions faster, yet at the same time it degrades other aspects of physiologic condition.

We don't understand that. I haven't found a scientist yet who really can say gee, we can tell you exactly why this phenomenon occurs in both directions, some acceleration in one area and the degradation in others.

Senator SHELBY. It has great potential in one area and negative aspects in others, is that what you're saying?

Mr. O'KEEFE. Big time.

Senator SHELBY. But there has to be an answer.

Mr. O'KEEFE. Exactly. And so trying to crack that code is a big piece of what, you know, as a plebeian in this one by comparison, understanding exactly that is a long pole in a tent for any human space flight objective. We've got to understand what it takes in order to endure and persist in those kinds of conditions.

From a physical sciences side, we've made some remarkable efforts, even to include on STS–107, on the Columbia flight, on physical sciences and exactly how materials research can be conducted better in microgravity conditions.

But the focus as previously alluded, I think Senator Craig mentioned, is on International Space Station more dominant on the biological and physiology side of the equation, but there's an awful lot of physical materials research efforts that we are now looking to enhance once we get back to completing that laboratory condition that is really quite illuminating, it opens a whole range of doors if we can figure out just alone what that phenomenon is of both degradation as well as acceleration of cell growth, that would open up a lot of things that would have tremendous application.

Senator SHELBY. Microgravity research overall has great promise for some unanswered questions too, is that what you're saying?

Mr. O'KEEFE. Indeed. The other side of it too, I think is really critical to understand, microgravity research conducted in an earthbound laboratory, the best we have been able to do is sustain a

microgravity condition that even vaguely assimilates to what you see on orbit for about a month, and that's it, can't sustain anything longer than that. Whereas of course, it's a permanent condition on International Space Station as well as on shuttles. It has a phenomenon and a physiological consequence that is very different than any laboratory simulation we've created, bioreactors or something else.

Senator SHELBY. It's unique.

Mr. O'KEEFE. Very.

SPACE STATION RESEARCH PRIORITIES

Senator SHELBY. Recent language that was included in the 2003 omnibus appropriations bill directed NASA, and we know this is just a few months ago, to re-examine the space station research priorities on a regular basis instead of using the re-map recommendations as a one-time fix. Do you agree with the committee's direction there? Have you had time to evaluate that?

Mr. O'KEEFE. No, sir. We agree and concur entirely. There's no question. The efforts last summer was a start. It was the first time, I am very pleased to say, that we got all the scientists from all these different communities to sit down and agree to a priority. Until they met, everything was number one, everything was a top priority, and so as a consequence, nothing was a priority. We now have at least a baseline from which to make that determination. That means there are some elements of the scientific community that aren't as happy with their placement in that priority rank as others, but at least it's a beginning. So it needs to be reassessed and we fully, wholeheartedly agree with the committee's recommendations and instructions on a regular effort to constantly update that and make it contemporary for what we see in the development of International Space Station.

Senator SHELBY. Plus you have flexibility that way.

Mr. O'KEEFE. Yes, sir, absolutely.

NUCLEAR POWER PROPULSION

Senator SHELBY. You talked a minute ago regarding the development of nuclear-powered propulsion capability. I understand that the Jet Propulsion Lab, Glenn Research Center, and the Marshall Space Flight Center will play key roles in this program.

Mr. O'KEEFE. Indeed.

Senator SHELBY. And the field centers would contribute to the overall program?

Mr. O'KEEFE. Yes, sir. The start-off focus here is, the Jet Propulsion Laboratory (JPL), will primarily be a design house because of the nature of—they have handled all of the, essentially the batteries that are nuclear powered, the RTGs that we have used with the Department of Energy over the last 20-odd years, so they have done a lot of design work on that side. The Glenn Research Center will look at a lot of power generation capacities that we will need in order to harness that ability that nuclear reactors can produce to then generate power for the science and research activities. And Marshall is going to have a very strong lead in looking at a lot of the propulsion systems, as will Glenn, so the combination of both of them to perform the power generation and propulsion capabili-

ties will be very closely interrelated, so that you have something that generates power and uses it for different purposes. So the prowess of both of those centers is going to be essential, an understanding and cooperation effort between the two in order to ensure we have a power generation capability that's going to be at least a factor of 3 better than what it is today.

ADDITIONAL COMMITTEE QUESTIONS

Senator SHELBY [presiding]. Mr. Administrator, I think they've all abandoned us now, so I'm through with my questions. There might be some questions for the record by other members. We appreciate your appearance today, we appreciate your candor, and we apologize for the interruptions, but you know about interruptions since you worked here.

[The following questions were not asked at the hearing, but were submitted to the Agency for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

ULTRA-LOW POWER ELECTRONICS TECHNOLOGY

Question. In order to perform greater science as projected in the next generation programs planned by NASA, more computation, high data rates, and high data volumes are required which must be processed on-board a spacecraft, especially those in near-earth orbits. In deep space programs, including the Nuclear Initiative, mass is an important concern.

NASA has developed a Radiation Tolerant Ultra Low Power electronic technology, currently at a relatively low Technology Readiness Level (TRL), that appears to have significant promise in terms of performance and cost, according to engineers at the Goddard Space Flight Center and the NASA Institute of Advanced Microelectronics at the University of Idaho.

What plans does NASA have to bring this technology to maturity where it can be deployed into NASA programs?

Answer. NASA is continuing to fund a grant with the University of Idaho (valued at $0.6 million) in fiscal year 2003 for development of ultra-low power electronics technology. In July 2003, the Office of Aerospace Technology plans to issue an openly-competed $3 million NASA Research Announcement (NRA) to solicit proposals for development of radiation tolerant ultra-low power electronics. This NRA will fund approximately 10–15 research activities for 3 years. The technology development activities funded through the NRA are intended to advance the maturity of ultra-low power electronics to Technology Readiness Level (TRL) 5, which is laboratory demonstration of device operation in simulated space radiation environments. A variety of radiation-tolerant, ultra-low power components will be developed, including microprocessors, analog-to-digital converters, and application specific integrated circuits.

Many times NASA, and other Government agencies, create a program where a number of related technology developments are funded, but in the end they fail to meet the final objective to create technology that can be deployed into flight programs. In other words, a set of technology developments is created that is not integrated to produce a useful product.

Question. What steps is NASA taking to insure the development of the Radiation Tolerant Ultra Low Power electronics program is integrated to produce viable high TRL level technology for deployment within a few years?

Answer. Ultra-low power electronics components that have been matured in research activities funded by the NRA will be transitioned to the NASA Science and Space Flight Enterprises for integration into prototype flight systems and insertion into future missions. The strategy for accomplishing this transition is to identify potential mission applications, and to obtain agreements from the Enterprises to co-fund further development and system integration. A portion of Aerospace Technology program funding will be allocated for co-funding the transition of ultra-low power electronics technology to the Enterprises. The strategy of requiring co-funding from the Enterprise customers in combination with Aerospace Technology co-funding insures that the Enterprises are committed to using the technology in their missions. In addition, the investigators selected via the NRA will be teamed with a

NASA field Center (Goddard Space Flight Center or Jet Propulsion Laboratory) to insure that the development of electronic devices is focused on practical and near-term mission applications. The NASA Center will act as the bridge between the investigator and the Enterprise customer by integrating the electronic devices into prototype instruments and data systems. Validation of ultra-low power electronics technology in flight experiments such as those sponsored by the New Millennium Program will also be activity pursued.

QUESTIONS SUBMITTED BY SENATOR MIKE DEWINE

NEXT GENERATION TURBINE ENGINES

Question. NASA's plan is to reduce funding for aeronautics nearly 5 percent over the next 5 years. This is of significant concern to me. Further, there are key advancements in technology, such as intelligent propulsion systems, which are critical to fuel efficient and environmentally benign turbine engines. This engine technology needs to be demonstrated at an appropriate level so that industry can incorporate the technology into future engines. What are NASA's plans for advancement and demonstration of intelligent propulsion systems for next generation turbine engines?

Answer. The Vehicle Systems Program, and in particular, the Ultra Efficient Engine Technology (UEET) and Quiet Aircraft Technology (QAT) projects are developing the enabling turbine engine technologies that will allow U.S. industry to design and bring to market next generation commercial engines which will have unsurpassed levels of performance with significantly reduced levels of environmental impact (emissions and noise). In order to adequately reduce the risk of U.S. industry incorporating these technologies in future designs, plans are being developed to partner with industry and the Department of Defense (DOD) to conduct ground demonstrations of the highest priority (i.e. highest pay off) technologies. These tests will be conducted under cost sharing arrangements between NASA and the industrial/DOD partners. In addition, the UEET project is currently developing a limited portfolio of technologies, which will contribute to future intelligent propulsion systems. As these intelligent engine technologies are matured they will also be demonstrated in appropriate ground test demonstrations utilizing cost sharing arrangements. These intelligent engine technologies are being developed through partnerships with universities, industry, and DOD working with NASA research personnel.

PROJECT PROMETHEUS

Question. I strongly support NASA's Nuclear Systems Program to enable new science discoveries by using advanced power and electric propulsion systems. This includes the initiative started in fiscal year 2003 as well as the proposed acceleration called Project Prometheus.

Answer. The objectives of the Nuclear Systems Initiative proposed and approved in the fiscal year 2003 budget remain essentially the same, but the initiative has been renamed Project Prometheus. The only significant proposed programmatic change to the initiative for fiscal year 2004 is the commencement of the first mission to use Project Prometheus technology: the Jupiter Icy Moons Orbiter (JIMO).

Question. What are NASA's plans to insure that these critical power and electric propulsion technologies continue to be advanced and demonstrated?

Answer. Recognizing the enormous potential of this initiative, NASA has placed a high priority on advancing and demonstrating Project Prometheus power and propulsion technologies. We are committed to advancing these technologies by competitively tapping the talents, experience, and innovative minds within industry, academia, and other agencies of the U.S. government, such as the Department of Energy (DOE). We will also fully utilize the expertise and technical capabilities of several NASA centers in the areas of: electric thrusters; power conversion and power management; mission design, development and operations; large spacecraft structures and systems; engine and propulsion system design; and systems engineering and integration for complex programs.

Last year's budget included only a nuclear technology research program, with the first demonstration mission deferred until additional analysis indicated that such a mission was both highly desirable and likely to be technically feasible. That analysis has been undertaken and suggests that a revolutionary new science mission may well be feasible. The end result, JIMO, will allow NASA to demonstrate the technologies formulated within Project Prometheus. Future mission concepts will depend on developments in the years to come.

Question. What will be the role of NASA's Glenn Research Center in advancing, demonstrating and developing these systems?

Answer. NASA's Glenn Research Center will be involved in several aspects of management and technology development in Project Prometheus. The exact role over time will be based on the technologies identified as the most promising propulsion and power candidates as well as Glenn's focus within Project Prometheus, which is in the areas of power generation, power conversion, and electric propulsion technologies.

Glenn is already playing a key role in the research and development of advanced radioisotope power conversion. A major activity is the development of the Stirling Radioisotope Generator (SRG), a candidate power source for a 2009 Mars mission. Drawing on the expertise at Glenn, DOE, and the industry development team, the SRG will likely achieve a four-fold improvement in the power conversion efficiency over current radioisotope power sources. The SRG and other power conversion and propulsion technologies being developed will have application across a broad range of potential missions.

BIOLOGICAL AND PHYSICAL RESEARCH PROGRAMS

Question. NASA's programs in biological and physical research are crucial not only to accomplishing NASA's mission, but also to the health and well being of our citizens here on earth. Interdisciplinary research between the biological and physical sciences is particularly beneficial. Further, key collaborations between NASA, universities and research hospitals, such as the John Glenn Biomedical Engineering Consortium, can contribute immeasurably to NASA and the Nation. What are NASA's plans for continuing and enhancing these consortia?

Answer. The John Glenn Biomedical Engineering Consortium (BEC) was established in 2002, and currently carries out 10 research projects—each funded for 3 years—to address medical risk issues associated with human space flight that have been identified in the NASA Bioastronautics Critical Path Roadmap. The BEC is part of the Glenn Research Center's (GRC) new interdisciplinary program in Bioscience and Engineering that has been created to effectively leverage recent scientific and technological advances in the physical sciences and microgravity engineering disciplines. The consortium was designed to enhance NASA's progress in overcoming challenges in space biomedical research and to optimize the productivity of the space biotechnology program. Other components of the Bioscience and Engineering activity include interagency collaborations (National Eye Institute, National Cancer Institute, National Institute of Child Health and Development), Space Act agreements with the private sector in biomedical and biotechnology research, peer-reviewed research carried out by academic, private, and government institutions, and the NASA Bioscience and Engineering Institute (NBEI), which was recently selected through independent peer-review.

NASA's long range plan for the John Glenn BEC is to enable it to significantly contribute to the NASA's goals in Biomedical and Biotechnology research by establishing strong links to the extramural and intramural NASA research programs; by collaborations with other Federal agencies; and by partnering with the private sector. John Glenn BEC has pledged to achieve a self-sustaining status through funding from the above three sources.

It is the intention of NASA to continue supporting consortia such as the John Glenn BEC in the future. The agreements governing our relationships with such consortia contain sunset clauses that allow for competitive selection that motivate these entities to become self-supporting. NASA will continue to aggressively pursue commercial and academic entities as participants in technological collaborations that are compatible with NASA's Mission and Vision.

INNOVATIVE TECHNOLOGY TRANSFER PARTNERSHIPS (ITTP)

Question. Economic development is a national and regional priority. NASA's technology has been a strong contributor to the Nation's economic growth, and I believe will continue to be in the future. While the President's proposal changes NASA's Commercial Technology Program into Innovative Technology Transfer Partnerships, I am still concerned as to how the goal of getting NASA's technology into the marketplace will occur.

Answer. As described in the President's Fiscal Year 2004 Budget proposal for NASA, our primary emphasis would shift toward partnerships that engage the development of technologies directly beneficial to NASA missions. Under the proposed plan for Innovative Technology Transfer Partnerships (ITTP), NASA would continue to support the necessary efforts to document and license NASA technologies and make them available for use by the private sector. While the Agency would reduce the amount of active outreach activities to industry, we would conduct a reformulated technology transfer program that relies on the use of the eCommerce and web-

based systems to present information on technology that might be applicable for use by the private sector. The National Technology Transfer Center will continue to be one of the resources we use to transfer technology to the private sector.

COMMUNICATIONS, NAVIGATION AND SURVEILLANCE (CNS) SYSTEM

Question. A key concern is the National Airspace System and the need to incorporate advanced technology into that system through a cooperative effort between NASA and the FAA. In particular a transformed Communications, Navigation and Surveillance (CNS) system using advanced space communications technology is critical. What are NASA's plans for support of this CNS technology?

Answer. NASA has developed a research plan in communication, navigation, and surveillance (CNS) technologies, which focuses on space-based solutions to support the transformation of the National Airspace System (NAS) to meet future demands. The objective of this effort is to develop and evaluate critical CNS technologies, which will allow an integrated space-based digital airspace. In its fiscal year 2004 budget request, NASA has proposed to initiate this effort with the first objective being definition of CNS requirements and associated technologies for the future NAS.

NEXT GENERATION LAUNCH TECHNOLOGY PROGRAM

Question. I believe it is imperative for its future that NASA continue to develop advanced technology for future reusable launch vehicles to make them safer, more reliable and more cost effective. The Next Generation Launch Technology program is making significant progress in advancing critical technologies for NASA and other national needs in collaboration with the DOD. What are NASA's plans for this program?

Answer. The NGLT Program is a critical element of NASA's Integrated Space Transportation Plan (ISTP), which is comprised of the Shuttle Life Extension Program, the OSP Program and the NGLT Program. As NASA's advanced launch technology development program, NGLT will advance the state-of-the-art in critical and high-payoff technologies to enable low-cost, reliable, and safe future generations of fully and partially reusable launch vehicle systems. NGLT is oriented to support an Agency decision in 2004 on whether to proceed with a risk-reduction phase for a future NASA launch system that would be operational in the 2014–15 timeframe. All elements within NGLT seek to advance technologies that enable missions that are currently not technically or economically feasible. These missions include the exploration and development of space, enabling new commercial space markets, and enhancing the Nation's security. NGLT investments are not only enabling future launch systems, but also support potential upgrades to existing systems such as EELV and the Space Shuttle.

In cooperation with DOD, the NGLT program is a major contributor to two of three "pillars." The three pillars, High-Speed/Hypersonics, Space Access, and Space Technology, represent the building blocks in the integrated effort between NASA and DOD, the National Aerospace Initiative (NAI). In leading the Space Access pillar of the NAI, the NGLT will co-execute an integrated long-term national technology plan for Space Access Technology with the DOD. It is a priority to integrate the objectives of NASA and the USAF. The NLG's participation in this effort will serve to strengthen cross-agency relationships by addressing common needs and showing interdependencies with the High-speed Hypersonics Pillar, and identifying and mapping technologies to potential development programs.

QUESTION SUBMITTED BY SENATOR HERB KOHL

COMMERCIAL TECHNOLOGY AND COMMERCIAL SPACE PRODUCT DEVELOPMENT PROGRAMS

Question. I am concerned about NASA's decision to terminate funding for Commercial Technology and Commercial Space Product Development programs. The Commercial Technology Program has led to the creation of vital technology partnerships between government, industry, and the academic world and has promoted the commercialization of NASA research and development. The Commercial Space Centers (CSCs) have played a critical role in NASA's biotechnology research. The Wisconsin Center for Space Automation and Robotics, located at the University of Wisconsin-Madison, has spun-off three commercial companies and set up partnerships with many established businesses. Thanks to these programs, the first seed-to-seed plant growth experiment was successfully conducted during a recent International

Space Station mission with funding from a company located in Green Bay, Wisconsin.

If the American public is to reap the benefits of NASA innovation and expertise, successful technology transfer programs must continue. Given the clear benefits of CSCs, why have you decided to eliminate Commercial Technology and Commercial Space Product Development programs? How do you plan to maintain the exchange of biotechnology innovation among universities, private businesses, and government?

Answer. The fiscal year 2004 budget request for the Office of Biological and Physical Research (BPR) responds to the recommendations for research areas identified as high priority in the report by the Research Maximization and Prioritization (ReMAP) task force in 2002. As the ISS evolves from construction to continuous on-orbit research capability, the task force recommended that NASA prioritize the use of its unique, space-based research capability. To fully support the NASA vision, and in-line with these recommendations, BPR's new research strategy focuses on undertaking activities necessary to extend the human exploration of space. The NASA Advisory Council (NAC) and the Biological and Physical Research Advisory Committee (BPRAC) endorse this general strategy, as do the Research Partnership Center (RPC) Directors. In a limited budget environment, to accommodate funding increases in these programmatic areas, funding must be reduced elsewhere.

Just as the BPR fundamental and applied research programs are realigning with the BPR research strategy and the Agency's mission, the SPD program and the associated RPCs will also strategically reorient their goals to maximize the benefits of ISS research. Again, the RPC Directors support this realignment.

The current 15 RPCs are engaged in areas such as biotechnology, biomedicine, advanced materials processing, agribusiness, spacecraft technology and communications development. Where these also support the priority research in our Enterprise (and other Enterprises), the RPCs will continue to be supported. Some of the ongoing work is not aligned, so the fiscal year 2004 budget request proposes a reduction in the annual budget in RPCs from fiscal year 2003 levels, with the full reduction to be realized by fiscal year 2006. The proposed budget reductions will be completed only after a comprehensive and objective assessment of the present commercial research program, including feedback from an ongoing independent review of the RPC program, to be completed in fiscal year 2004. The RPC Center Directors are fully engaged in this process and will actively participate in the program restructuring. A recommendation regarding the refocused program, including updated budget projections, will be submitted with NASA's fiscal year 2005 budget proposal.

NASA will continue to facilitate the commercialization of space, and will focus on ensuring that commercial researchers have efficient access to space. NASA is seeking to provide more efficient means of access to the International Space Station (ISS) for all users. NASA's Integrated Space Transportation Plan (ISTP) is also being updated to address, among other things, assured cargo access.

CONCLUSION OF HEARINGS

Mr. O'KEEFE. Yes, sir, thank you, Senator.

Senator SHELBY. Thank you. The subcommittee is recessed.

[Whereupon, at 12:03 p.m., Thursday, May 1, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR FORMAL HEARINGS

[CLERK'S NOTE.—The following agencies of the Subcommittee on VA, HUD and Independent Agencies did not appear before the subcommittee this year. Chairman Bond requested these agencies to submit testimony in support of their fiscal year 2004 budget request. Those statements submitted by the chairman follow:]

NATIONAL CREDIT UNION ADMINISTRATION

PREPARED STATEMENT OF THE HONORABLE DENNIS DOLLAR, CHAIRMAN

Mr. Chairman, Ranking Member Mikulski, and Members of the Subcommittee. As Chairman of the National Credit Union Administration (NCUA), I am pleased to submit testimony that presents NCUA's request for fiscal year 2004 funding of the Community Development Revolving Loan Fund and to request $1.5 billion in fiscal year 2004 borrowing authority for our Central Liquidity Facility (CLF), and slightly increased CLF operational expenses for the year.

I will begin by discussing the Central Liquidity Facility.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

Introduction

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Administration Central Liquidity Facility Act (Public Law 95–630, Title XVIII, 12 U.S.C. 1795, et seq.). The CLF is a mixed ownership Government corporation managed by the National Credit Union Administration Board. It is owned by its member credit unions who contribute all of the capital by the purchase of stock. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions and thereby encourage savings, support consumer and mortgage lending, and provide basic financial resources to all segments of the economy. To accomplish this purpose, member credit unions invest in the CLF through the purchase of stock, which is used for investment purposes and the funding of some lending activity. The proceeds of borrowed funds from the Federal Financing Bank are used to match fund significant loan requests from member credit unions.

In addition to serving its direct members, the CLF complements the organizational structure of the U.S. credit union financial system by working with its agent members that are corporate credit unions acting as agents of the CLF on behalf of their natural person credit union membership. This agent framework consists of a private financial network of 33 state and federally chartered corporate credit unions with approximately $67.1 billion in assets. The corporate credit union network provides operational and correspondent services, investment products and advice, and

short-term loans to approximately 9,782 natural person credit unions members. The CLF provides this network with assurance that if temporary liquidity shortages or public confidence issues arise due to external events or internal problems, funds are available to meet abnormal savings outflow. By being a specialized lender housed within the NCUA, the CLF has the ability to draw upon the supervisory and insurance resources of the Agency. However, CLF assistance is generally a secondary source of funds after the corporate system or other sources of credit have been utilized. Often the CLF is used when other credit sources have been unable to provide the appropriate terms and conditions required in a specific situation.

The borrowings of the CLF have the "full faith and credit" of the United States government. The Federal Financing Bank of the U.S. Treasury is available as a source for the CLF to fund its lending programs. The CLF is financially self-supporting and does not use government funds to support any of its administrative and operational expenses.

Lending Activities

Loans are available to credit unions directly from the CLF or through its agent (corporate credit union) members. Credit unions rely on market sources to meet their demands for funds. The CLF normally is not an active participant in the ongoing daily operations of this system. Rather its role is to be available when unexpected, unusual, or extreme events cause temporary shortages of funds. If not handled immediately, these shortages could lead to a larger confidence crisis in individual credit unions or even the system as a whole. Because of its knowledge of credit unions and its immediate access to the supervisory information of NCUA, the CLF exercises a vital role in maintaining member and public confidence in the health of the U.S. credit union financial system.

Factors Influencing Credit Union Borrowing Demand

Under the Federal Credit Union Act, the Central Liquidity Facility is intended to address unusual or unpredictable events that may impact the liquidity needs of credit unions. Since these events are not generally foreseen, it is extremely difficult to forecast potential loan demand. Throughout the history of the Central Liquidity Facility, loan demand has widely fluctuated in both volume and dollar amount.

The CLF is authorized by statute to borrow from any source up to twelve times its subscribed capital stock and surplus. Prior to fiscal year 2001, with the exception of the Y2K-transition period, Congress restricted the CLF's borrowing limit to $600 million through the annual appropriations process. For fiscal year 2001, the traditional $600 million cap was increased to $1.5 billion. The $1.5 billion borrowing limit was again approved for fiscal years 2002 and 2003. The continuation of the $1.5 cap for fiscal year 2004 will further assure that the CLF continues as a reliable, efficient backup liquidity source in times of need.

It is important to note that Central Liquidity Facility loans are not used to increase loan or investment volumes, because by statute, the proceeds from Central Liquidity Facility loans cannot be used to expand credit union portfolios. Rather, the funds are advanced strictly to support the purpose stated in the Federal Credit Union Act—credit union liquidity needs—and in response to circumstances dictated by market events.

Administrative Expenses

Total operating expenses for fiscal year 2002 were $208,000, below the budget limitation of $309,000. Expenses were under budget in 2002 due to two factors; (1) a brief vacancy in the NCUA Board in the first quarter (2) travel expenses were not incurred as anticipated.

Total operating expenses for fiscal year 2003 are projected to be within our budget limitation of $309,000. In fiscal year 2003, pay and related benefits are higher than 2002 due to pay comparability and unknown contingencies.

For fiscal year 2004, the Central Liquidity Facility is requesting an administrative expense limitation of $310,000. This figure is slightly higher than the previous year due to a change in pay and benefits and unknown contingencies. Expenses for fiscal year 2003 are not formulated or approved by the NCUA Board until November 2003. Accordingly, fiscal year 2004 expenses are estimated with inflationary pressures, known pay adjustments, and unknown contingencies.

Additional Background

Credit unions manage liquidity through a dynamic asset and liability management process. When on-hand liquidity is low, credit unions must increasingly utilize borrowed funds from third-party providers to maintain an appropriate balance between liquidity and sound asset/liability positions. The CLF provides a measure of stability in times of limited liquidity by ensuring a back-up source of funds for insti-

tutions that experience a sudden or unexpected shortage that cannot adequately be met by advances from primary funding sources. Two ratios that provide information about relative liquidity are the loan to share ratio and the liquid asset ratio. Liquid assets are defined as all investments less than one year plus all cash on hand. Managing liquidity risk is a major priority for credit unions and has become an increasingly important risk issue in the past decade as the charts below indicate.

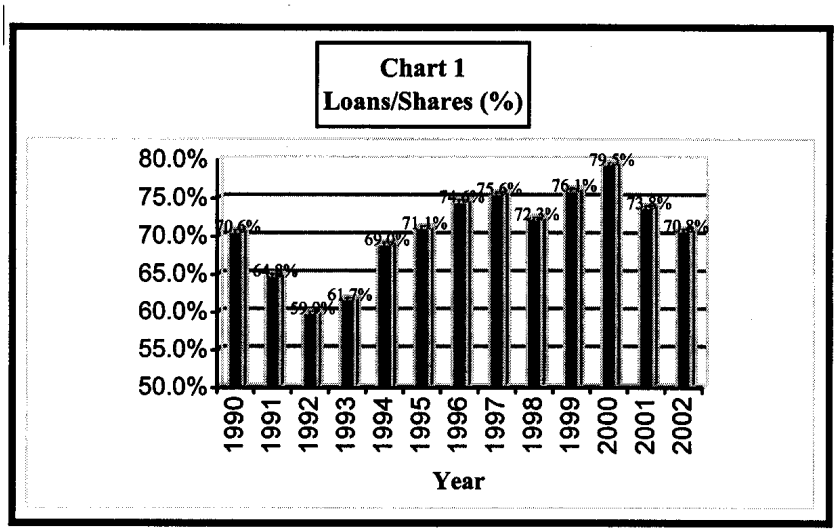


Chart 1 shows the ratio of loans to shares in all federally insured credit unions. As the ratio of loans to shares increases, the amount of funds maintained in short-term liquid investments declines. Liquidity risk has increased on average in the past decade as on-hand liquidity in federally insured credit unions gradually declined due to increased lending. A substantial inflow of shares during 2002 reduced the ratio from the Yearend 2001 high of 73.8 percent down to a Yearend 2002 level of 70.8 percent. Liquidity risk management remains a significant obligation for credit unions.

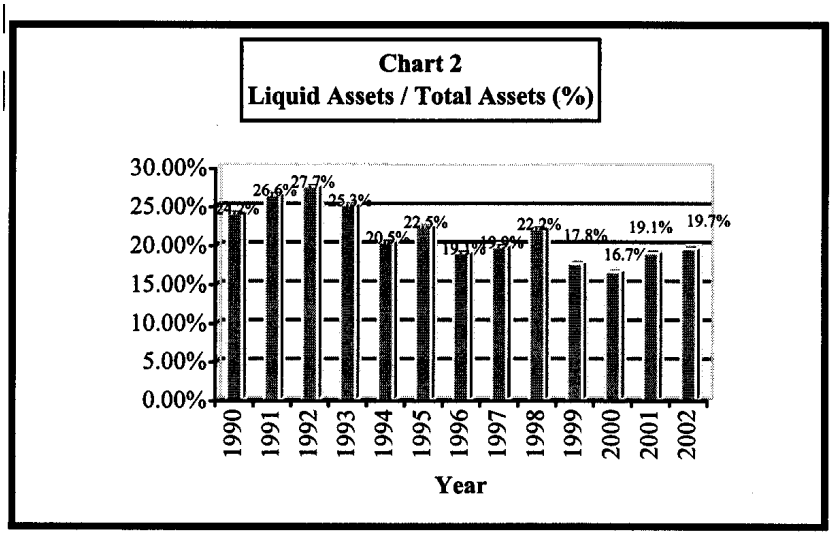


Chart 2 shows the ratio of liquid assets to total assets in all federally insured credit unions. As this ratio decreases, liquidity risk and the potential need for borrowed funds conversely increases. Credit unions utilize various market sources for funding needs including the repurchase market, correspondent relationships with corporate credit unions and other financial institutions, and, to a growing extent, membership in the Federal Home Loan Bank system. CLF serves as a back-up source of liquidity when an unexpected need for funds arises and primary sources are not available.

Explanation of Obligations by Object Class

—Personnel Compensation represents the estimated salary cost of 1.5 permanent full-time employees on duty during fiscal year 2004.
—Employees Benefits includes health benefits, government life insurance, miscellaneous cash awards, and change of station real estate differential.
—Travel and Transportation represents travel expenses for CLF staff.
—Communications, Utilities, and Other Rent represents estimated rent paid to the agency for office space, as well as telephone and postage expenses.
—Printing and Reproduction represents costs primarily associated with the Annual Report. This expense category will also include minor costs associated with basic forms, statements, and notices sent to members.
—Other Services represents payroll processing fees, training, and reimbursement to the agency for Board and staff payroll.
—Supplies and Materials represents computer paper, visual aids, educational supplies, and miscellaneous supplies for the CLF, its Agents, and sponsors of training seminars.
—Investments are purchases of new investments during the fiscal year.
—Dividends are the cost of dividends paid to members of the Facility.

The CLF continues to experience infrequent demand for liquidity loans from its member credit unions. This is due, in no small part, to the strong financial position of credit unions and the ample levels of on-hand liquidity maintained during the 1990s. This is not to say, however, that credit unions are not in need of a special purpose liquidity lender. The CLF is a very important resource for credit unions that experience an unexpected need for liquidity, especially when primary funding sources are inadequate or unavailable.

We cannot foresee the exact circumstances that might necessitate a broad-based need for CLF lending but we are dedicated to the principle that we must be ready and able to fulfill that purpose; a purpose established by Congress when it created the Facility. Liquidity remains an important priority. Like all depository institutions, credit unions are forced to borrow if their on-hand supply of liquidity is depleted beyond the level of current funding obligations. Credit unions do plan for such borrowing but there are times when contingency funding arrangements are potentially inadequate. Such times call for a responsive CLF.

Whether it lends on an isolated basis or whether it is called upon to address a more widespread or even systemic demand for loans, the CLF is an efficient, effective, and low cost facility that is well adapted to meet the unique needs of its member credit unions.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

Turning to another subject, I would like to thank the Subcommittee for continuing its support of NCUA's Community Development Revolving Loan Fund (CDRLF).

Congress established the CDRLF in 1979, through an initial $6 million appropriation to assist officially designated "low-income" credit unions in their efforts to provide basic financial service and products to underserved communities. The credit unions participating in the CDRLF programs provide underserved communities with access to a variety of financial services and products which include basic savings and share draft accounts, home and car loans, and start-up entrepreneurial capital for small businesses.

Over the years, Congress has increased the number of dollars available for CDRLF loans to $13 million. For more than 13 years, NCUA has successfully administered the revolving loan program, providing more than 217 loans totaling $32.8 million. And, in 1992, the NCUA Board began funding technical assistance grants by using the interest generated from the CDRLF loans. In fiscal year 2001, Congress recognized the success of the grants by reserving certain funds specifically for this part of the CDRLF program. To date, the CDRLF technical assistance grant program has provided more than 1,000 grants totaling $2.4 million.

NCUA remains committed in our efforts to promote and facilitate the extension of affordable financial services to individuals and communities throughout America

as demonstrated by the implementation of the agency's successful Access Across America initiative. The CDRLF plays a vital role in the success of Access Across America, which is designed to reach out to underserved communities and create economic empowerment for people from all walks of life. Low-income designated credit unions use the loans to further community development by providing funding for member loan demand, additional member services, and increased credit union capacity to serve members that has resulted in the overall improvement of the financial condition of low-income credit union members. The grants are used for verifiable and need-based technical assistance purposes by low-income designated credit unions.

In 2002, Access Across America proved to be a very successful initiative with over 23.5 million Americans living in CDFI designated underserved areas becoming eligible for credit union service. In many instances, residents of these underserved areas often find themselves at the mercy of higher-cost outlets such as pawnshops, check-cashing stores, and rent-to-own companies in the absence of an affordable financial alternative.

In 2002, NCUA received requests for loans in the amount of $7,007,000 and were able to approve $2,329,000. In addition, NCUA distributed $664,314 in technical assistance grants after receiving requests for $1,618,843. Unfortunately, due to limited resources, NCUA was forced to decline requests for more than $950,000 in technical assistance grants that could have been used to further the availability of much needed services and products through enhanced technology by these low-income designated credit unions, the overwhelming majority of which are smaller and challenged by the costs of advancing technology in the delivery of financial services.

As stated earlier, the technical assistance grant program had been funded primarily through its history by the earnings generated from the interest charged for the CDRLF loans. Because CDRLF loans are low interest—the current interest rate is 1 percent—the earnings generated are insufficient to meet all the technical assistance requests. NCUA accepts applications for loans and grants continuously through the year, and we expect a steady pace for requests for the remainder of 2003.

The NCUA Board constantly struggles with the need to keep loan interest rates low and the need to generate interest income in order to be able to provide additional technical assistance. The funds allocated specifically for technical assistance grants over the past two years have greatly enhanced our efforts to provide technical assistance to low-income credit unions. A survey completed in May 2001 found that low-income designated credit unions that receive CDRLF assistance demonstrated the following results:

—Used the program to make additional funds available to meet community loan demands and improve financial services to members,
—Experienced significant growth,
—Stimulated economic activities in their communities, and
—Increased funding for these institutions from other sources.

NCUA firmly believes that, based upon the amount of loan and technical assistance grant applications where the needs were unable to be met last year, an increase of an additional $1 million over last year's funding level could provide the CDRLF program even greater ability to further the growth and long-term viability of credit unions in low-income and underserved areas. Access to affordable financial services and products can provide these communities with a much needed and viable alternative to check cashers, pawn shops, and title loan companies which often charge exorbitant rates and fees for credit in many low-income areas. By providing an alternative to higher-cost lenders, credit unions play a significant and meaningful role in helping residents keep more of their money in their communities and households. The CDRLF program furthers this worthwhile public policy goal, and NCUA values the strong support this Subcommittee has provided to this program over the years. We look forward to working with you again this year to continue the CDRLF program and further enhance its effectiveness.

Finally, I would like to briefly summarize the current condition of credit unions and the National Credit Union Share Insurance Fund (NCUSIF). The U.S. credit union system continues to be in excellent health. Credit union share growth in 2002 was a significant 15.1 percent and assets increased 11.1 percent to $557 billion. Networth in federally insured credit unions at the end of 2002 stood at 10.7 percent and the number of problem credit unions remains at historical lows. These figures demonstrate the continued overall safety and soundness of the credit union system.

In summary, the credit union industry remains in excellent condition. NCUA greatly appreciates the Subcommittee's continued support of our efforts to keep credit unions safe and sound, enhance credit union liquidity, and provide needed assistance through loans and grants to low-income credit unions with verifiable needs.

U.S. CHEMICAL SAFETY AND HAZARD INVESTIGATION BOARD

PREPARED STATEMENT OF CAROLYN W. MERRITT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Chairman, Senator Mikulski, and members of the Subcommittee, thank you for the opportunity to present the U.S. Chemical Safety Board's budget proposal for 2004.

In the last six months, the Board has completed four major investigations and we plan to finish five more by the end of the fiscal year. We have more staff deployed than ever before and now have ten investigations underway, from Houston to New York City, from North Carolina to St. Louis.

Next year, with your continued support, we plan to complete 12 investigations—that's three to four times what the agency could do only a couple of years ago.

The CSB is a small agency just 37 people, mostly scientists, engineers, and other investigators. But we do what no other organization does: when a major chemical accident occurs, we immediately send a team of experts to conduct an independent, scientific investigation of the root causes of that accident. We don't just determine what happened, we determine why.

Our purpose is to prevent future accidents, not to issue fines or citations. Once we have established the root causes of accidents, we report our findings directly to the communities affected and the nation, and we issue recommendations to industry and government to improve safety. We then press for full implementation of these recommended safety actions.

No other organization has our unique mission to inform the public and industry about chemical accident hazards. Tragically, at no time in recent years has there been a greater need for an agency like ours. This winter has seen a rash of serious chemical accidents. Among our ten active cases, the Board is investigating major plant explosions in Kinston, North Carolina; Corbin, Kentucky; and Rosharon, Texas. These explosions have inflicted many deaths and injuries, imperiled hundreds of American jobs, and disrupted regional economies.

By bringing to light all the causes of chemical accidents—including hazards that are unknown, forgotten, or underestimated—CSB is in the forefront of building a safer industry. Let me add that chemical accidents are not just a problem of the chemical industry—many companies that simply use or handle chemicals experience these accidents as well. For example, we are currently investigating accidents at a medical device company, an acoustic insulation manufacturer, and an architectural sign company—just to name a few.

We are here asking for a modest increase of $1 million over our 2003 base budget. The Committee gave us adequate resources last year to hire seven new accident investigators, and I thank you for it. We now need additional funds to fully utilize our staff and maintain our increased productivity into next year.

UNPRECEDENTED LEVEL OF MISSION ACCOMPLISHMENT

Since last year, the Board has completed five major accident investigations. We have ten more investigations currently underway. A summary of the recently completed investigations follows.

COMPLETED INVESTIGATIONS

BP Amoco (Augusta, GA)

On March 13, 2001, three workers were killed as they opened a process vessel containing hot plastic at the BP Amoco (now Solvay Advanced Polymers LLC) plant in Augusta, Georgia. The workers were killed when the partially unbolted cover blew off the vessel, expelling molten plastic. The Board report, issued in May 2002, found that the accident could have been avoided if the firm had instituted a program to better understand the chemical reaction that caused pressure accumulation within the process vessel. The Board issued eight specific recommendations to the company to prevent a similar incident in the future.

Motiva Enterprises (Delaware City, DE)

On July 17, 2001, one worker was killed and eight others were injured when a sulfuric acid storage tank exploded and collapsed at the Motiva Enterprises LLC Delaware City Refinery. The explosion caused a massive release of sulfuric acid to the environment. The Board found that a spark from welding equipment had ignited flammable vapors from the storage tank, which was inadequately maintained and had holes rusted through its roof.

The Board identified significant deficiencies in Motiva's mechanical integrity program—the program responsible for monitoring and preventing corrosion of the storage tank. Among the recommendations from this accident, the Board urged OSHA to regulate the safety of atmospheric storage tanks when they are connected to hazardous manufacturing processes.

The Board got strong support for its investigation and its recommendations from the entire Delaware Congressional delegation. Rep. Michael Castle and Sen. Joseph Biden both spoke forcefully at our public meeting in Wilmington on August 28, 2002, and they joined with Sen. Tom Carper in requesting action "as swiftly as possible" from OSHA Assistant Secretary John Henshaw. "Expanding coverage to include aboveground storage tanks will go a long way in reaching our common goal of reducing catastrophic events," they wrote in a letter to Secretary Henshaw dated February 25, 2003.

Reactive Hazards (NJ, TX, and nationwide)

Following the final CSB report in August 2000 on an incident at the Morton International plant in Paterson, New Jersey, the Board began an intensive study of 167 serious reactive chemical incidents from 1980 to 2001. On May 30, 2002, the Board held a hearing in Paterson to review the findings of the nationwide study. The Board found serious gaps in both industry practice and government regulations to control reactive hazards. Senator Corzine and Senator Lautenberg both spoke at the meeting and supported our investigative findings on this subject.

On September 17, 2002, in Houston, Texas, the Board issued its final report from the reactive hazards investigation. The Board recommended that OSHA amend its Process Safety Management standard to achieve more comprehensive control of reactive hazards. The Board also called on EPA to revise its chemical accident prevention program for the same purpose. A further recommendation requested the National Institute of Standards and Technology to develop a publicly available database of reactive hazard test information. There were also recommendations directed to several trade associations, unions, and other organizations.

Meanwhile, serious reactive incidents continue to occur around the country. CSB is conducting full investigations of two such incidents, in Pascagoula, MS, and Cranston, RI, and preparing a case study of a third recent incident in Ohio. All three processes where these accidents occurred were exempt from coverage under the OSHA and EPA process safety rules.

Georgia Pacific (Pennington, AL)

On January 11, 2002, a hydrogen sulfide gas leak at the Georgia Pacific Naheola paper mill killed two workers and injured a dozen others. On November 20, 2002, the Board held a public meeting and issued its final report. The Board completed this investigation and issued its recommendations in less than a year.

The Board concluded that plant management had not followed good engineering and process safety practices when they earlier connected a drain from a truck unloading area into an acidic process sewer. On the day of the incident, sodium hydrosulfide, a process chemical that had spilled in the unloading area, reacted to release deadly hydrogen sulfide gas when it contacted acidic material in the sewer. The toxic gas vented from the sewer through a nearby fiberglass manhole cover and engulfed the workers. The Board recommended that Georgia-Pacific Corporation review sewer system safety to prevent the inadvertent mixing of potentially reactive chemicals and also identify plant areas that may be at risk for hydrogen sulfide release.

Third Coast Industries (Pearland, TX)

A massive fire, which broke out in the early morning hours of May 1, 2002, destroyed the Third Coast Industries blending facility south of Houston, in a blaze that consumed 1.2 million gallons of combustible and flammable liquids and lasted for more than 24 hours. Approximately 100 nearby residents were evacuated from their homes while the fire was allowed to burn itself out. The plant had no supply of fire water to aid emergency responders. On March 6, 2003, the Board issued its final report on the accident at a public meeting in Houston. The Board found that better fire control systems could have spared the plant from total destruction and minimized the impact on nearby residents and businesses. Most widely used fire codes have provisions that could have greatly mitigated the spread of the fire at Third Coast, but where the plant is located in unincorporated Brazoria County there is no mandatory fire code. The Board recommended that the County adopt such a fire code, and the County did so a week after of the Board's recommendation.

CURRENT INVESTIGATIONS

Kaltech Industries (New York, NY)

The CSB is investigating a building explosion that injured dozens on April 26, 2002, in the Chelsea neighborhood of downtown New York. The explosion occurred at a company, Kaltech Industries, that manufactures architectural signs. A number of members of the public were among the injured. Preliminary findings indicate that the explosion occurred as a result of an uncontrolled chemical reaction during waste mixing operations. A public hearing on the issue was held April 16, 2003, in New York City, and a final report is expected in June 2003.

DPC Enterprises (Festus, MO)

On August 14, 2002, approximately 48,000 pounds of toxic chlorine gas were released from a stationary rail car being unloaded at the DPC Enterprises plant in Festus, south of St. Louis. The leak resulted from the rupture of an improperly constructed transfer hose and subsequent failure of several emergency shutdown devices. On December 4, the Board issued a safety advisory to chlorine users nationwide to verify the materials of construction of chlorine transfer hoses to prevent future gas leaks. The Board's final report on the DPC incident is expected in May 2003.

First Chemical (Pascagoula, MS)

A violent explosion blew apart a large distillation tower at the chemical producer on the morning of October 13, 2002. CSB staff noted that the incident was a "close call" in that falling metal from the explosion could have caused the release of deadly gases had it struck certain nearby storage tanks. Shrapnel did penetrate one nitrotoluene storage tank at the site, igniting a fire that burned for several hours. The CSB conducted a well-attended community meeting on the significance of this case at Pascagoula City Hall on January 15. A final report is expected later this year.

Catalyst Systems (Gnadenhutten, OH)

On January 2, 2003, a violent explosion destroyed part of Catalyst Systems, a manufacturer of curing agents for automotive body fillers, located south of Cleveland. The explosion originated in a dryer used to concentrate benzoyl peroxide, a reactive chemical of the organic peroxide family. The blast caused one injury but could have been far worse had not most workers been at lunch when it occurred. CSB investigators are preparing a case study on this serious reactive chemical incident.

BLSR Operating (Rosharon, TX)

This facility, located south of Houston, processes oil and gas field wastes, recovering petroleum and disposing of waste water. On January 13, 2003, two trucks were unloading gas field wastes into an open trench, when suddenly their diesel engines began to race (a sign of a flammable atmosphere). Moments later a flash fire occurred, engulfing the trucks, fatally burning three workers, and injuring several others. The Board is investigating this incident, looking at how potentially flammable gas field wastes are managed for safety. A final report will be issued this summer.

West Pharmaceuticals (Kinston, NC)

On January 29, 2003, a massive explosion destroyed much of the West Pharmaceuticals plant that produced molded rubber medical products. A total of six people have died as the result of the blast, including several who initially survived only to die later from critical burn injuries. Others remain hospitalized. The shockwave from the explosion shattered windows hundreds of feet away and hurled debris up to two miles from the blast site. Damage to the plant was estimated at $150 million, and hundreds of jobs were put in jeopardy. A large team of CSB investigators deployed immediately to the site, arriving the evening of the explosion. CSB investigators rapidly identified the likelihood of a chemical dust explosion and began a comprehensive investigation of the root causes. The Board is planning to hold a community briefing in Kinston this spring.

Technic Inc. (Cranston, RI)

A February 7 explosion at Technic Inc., a manufacturer of metal plating chemicals, sent a number of workers to the hospital. Fortunately, only one worker was seriously injured, but his injuries were life-threatening. A CSB investigative team was dispatched and identified the possibility of an uncontrolled chemical reaction within the waste vent piping system attached to several chemical reactors. The team continues to investigate the root causes of this accident, which is another ex-

ample of a serious reactive chemical accident that originated within a waste disposal system.

CTA Acoustics (Corbin, KY)

During a brief process shutdown on the morning of February 20, a powerful explosion ripped through the CTA Acoustics plant in southeastern Kentucky. Seven people have died from burns received during the explosion, which CSB investigators believe likely involved combustible chemical dust from the process used to make fiberglass automotive insulation. Two workers remain in critical condition. The blast badly damaged the plant, halting production at several North American Ford manufacturing sites, idling more than 10,000 workers. CSB staff are continuing to investigate at the CTA plant, conducting interviews, gathering samples, and mapping blast damage. The CSB will hold a community meeting in the Corbin area within the next several months.

Hazard Study—Toxic Gas Emissions (Cincinnati, OH, and nationwide)

Following its investigation of the fatal Georgia Pacific hydrogen sulfide incident, the CSB initiated a follow-up study to look more broadly at the problem of toxic gases evolving from waste disposal systems. On December 11, 2002, a few weeks after this study was announced, a serious incident occurred at Environmental Enterprises in Cincinnati, OH, where a worker was overcome by the same gas, hydrogen sulfide, from a waste water treatment system. CSB staff are now reviewing records from around the country to determine how prevalent these incidents are, and their report is expected later in 2003.

Hazard Study—Sodium Hydrosulfide Handling (nationwide)

As another outgrowth of its Georgia Pacific investigation, CSB staff are conducting a review of other incidents involving sodium hydrosulfide, the chemical which reacted in the Georgia Pacific sewer to produce the toxic hydrogen sulfide. Evidence indicates that other fatalities have occurred from the interaction of sodium hydrosulfide with acid; this study is examining the sufficiency of current safe handling practices for this substance.

RECOMMENDATIONS PROGRAM LAUNCHED

Recommendations are CSB's principal tool for promoting chemical safety. Each recommendation has one or more specific recipients, who are the parties best able to carry out the recommended action to improve safety. Once CSB has issued a recommendation, the CSB recommendations staff encourages implementation and tracks compliance. In fiscal year 2002, the CSB issued a total of 67 recommendations and successfully closed 38 recommendations from prior year investigations. The CSB also began posting status information on all recommendations on our website.

The Board aims for 80 percent acceptance of our recommendations over a period of time. In the fifth year of our existence, we are well on the way to achieving that goal. We have received excellent cooperation in virtually every case, and have received only two negative responses to the 141 recommendations that have been issued. On the other hand, we have received numerous responses indicating positive actions underway or planned.

Here are some recent examples of safety accomplishments made as a specific result of CSB recommendations:

—OSHA issued a Technical Information Bulletin on the hazards associated with temporary work enclosures (CSB Union Carbide investigation);

—The Institute of Makers of Explosives (IME) developed guidelines for the safe reclamation of explosive materials and the proper training of explosives workers (CSB Sierra Chemical investigation);

—The American Petroleum Institute developed its first recommended practices for the safe operation of onshore oil and gas production facilities, including worker training, process design, and work practices (CSB Sonat investigation);

—The Morton International Chemical Company has taken actions to improve reactive chemical safety at its plants, including re-evaluating hazards, adding safety alarms, revising operating procedures, and investigating near-miss events (CSB Morton investigation);

—The National Propane Gas Association and the Fire Service Institute of Iowa revised their fire fighting training materials to include appropriate precautionary measures for flammable gas explosions (CSB Herrig investigation);

—Brazoria County, Texas, adopted a county-wide fire code for the first time following the Board's Third Coast Packaging investigation.

OUTREACH AND DATA EFFORTS REFOCUSED

Responding to recommendations from the Committee and the Inspector General, the Board restructured the agency's outreach efforts to ensure they are cost-effective and help to advance the agency's statutory mission to prevent accidents. Plans for a freestanding outreach office with up to five FTEs were cancelled, with most positions reassigned to investigations. Instead the agency has focused on making sure that key safety information from its own investigations becomes widely known. In lieu of a freestanding outreach office, the agency has established a small coordinating committee of existing staff who ensure that outreach activities are directly related to getting CSB safety recommendations adopted.

The Board also withdrew a strategic goal to develop its own accident data system and instead convened a data roundtable discussion in November 2002, jointly with EPA and OSHA. The roundtable resulted in broad agreement on measures to improve EPA's data collection program—measures that will benefit CSB and other government agencies that need to look at accident rates. In addition, CSB continues to work with other agencies, such as the Agency for Toxic Substances and Disease Registry, to better utilize other federal incident data systems.

The agency has also begun a highly successful program of public and community meetings in connection with our accident investigations. We have held public meetings in Paterson, NJ; Wilmington, DE; Festus, MO; Houston, TX (twice); and Pascagoula, MS. These meetings are held in communities where accidents have occurred, and most are also broadcast over the Internet. The meetings have been well attended and have drawn sizeable audiences of Internet viewers, including safety professionals who work in similar industries. We use these public meetings to discuss and release our investigative findings and recommendations and also to hear specific community concerns about chemical accident hazards.

MANAGEMENT IMPROVEMENTS

We made a number of management improvements during the past year, in part as an outgrowth of work by the CSB Inspector General (IG). Ten recommendations from a March 2002 IG report were all successfully implemented by the agency by the end of the September. Among the changes, CSB developed new legal procedures for handling vacancies in the Chair; expanded delegation to the COO and the career staff; improved tracking of staff time and resources; and streamlined its strategic goals and office structure. CSB also successfully petitioned OPM for special hiring authority to fill numerous vacancies in its investigations and recommendations programs. Armed with this temporary authority we hired seven new investigators and specialists by the end of the fiscal year.

In June 2002, the agency recruited its first full-time COO in more than two years. This action relieved the General Counsel of collateral responsibilities and provided a single, full-time manager for day-to-day operations. CSB also accepted six additional IG recommendations related to personnel management and has recently hired a full-time human resources manager to oversee this important function.

With the swearing in of a new Chairman, a fifth Board member, and a full-time Chief Operating Officer, the agency's management has reached full operating strength for the first time in its history. As one senior industry safety official wrote the Board recently, "I think the CSB has made truly exceptional progress . . . to a group publishing excellent investigation reports, facilitating discussions on issues facing the chemical industry, etc. . . . You have arrived . . . [emphasis in original]"

FISCAL YEAR 2004 BUDGET REQUEST

This Committee has urged the Board to undertake more investigations and hazard studies, and we want to produce more work. We are requesting a budget increase of $1 million to provide adequate resources for our expanded investigative staff to do the work that Congress wants.

With almost 40 personnel—mostly engineers, scientists, and technical specialists—the CSB is poised to achieve its statutory mission of protecting lives and property by investigating and preventing chemical accidents, and we are already producing significant results. The agency has pledged to produce up to 12 investigation reports in fiscal year 2004, up from a rate of just three a year in fiscal year 2002.

The expansion of the investigations program and the hiring of additional investigators have had a significant budgetary impact. In addition, we now have major investigations underway in North Carolina and Kentucky, on a scale that is unprecedented for our agency. The public expects CSB to conduct prompt, thorough, authoritative investigations of both accidents. We have significant, unavoidable ex-

penses for contracting with outside experts to assist those investigations—such as dust explosion experts—expenses that could not possibly have been anticipated in our fiscal year 2003 budget.

During both fiscal year 2001 and 2002, CSB spent less than its full annual appropriation, resulting in unspent "carryover" balances at the end of each fiscal year. For example, at the end of fiscal year 2002, CSB had $1.4 million in unspent two-year funds, out of an appropriation of $7.85 million.

However, our expenses for fiscal year 2003 will total an estimated $8.6 million, including current year appropriations, carryover funds, and prepaid contract items. By comparison, the agency's fiscal year 2003 appropriation is only $7.85 million, of which $1.4 million must be drawn from previous carryover funds. Because we prefunded certain fiscal year 2003 expenses during last year, we can currently function despite the apparent imbalance between our current expenses and our fiscal year 2003 appropriation.

Because of the agency's financial condition in fiscal year 2003, however, the CSB will have no available carryover moneys entering fiscal year 2004. In addition, we lack the financial means to prefund fiscal year 2004 expenses to any significant extent. Thus at the beginning of fiscal year 2004, CSB will need to be funded entirely from new appropriations.

The Board plans to increase output to 12 investigations and studies per year, which will impose additional travel and contract costs next year. Likewise we also intend to continue our highly successful program of briefings and Board meetings conducted outside of Washington, in the field. Information included with the agency's budget request shows that if the CSB is funded at the $8 million level in fiscal year 2004, we will face an immediate shortfall on October 1, 2003, of almost $1 million per annum, which will have a serious adverse effect on our operations and our ability to retain needed staff.

In fiscal year 2004 the Board will have a full complement of Board members and an adequate staff to meet our objectives. We ask the Committee's support to let us continue to accomplish the mission Congress gave us—to protect workers, the public, and the environment from chemical accidents.

U.S. COURT OF APPEALS FOR VETERANS CLAIMS

PREPARED STATEMENT OF HONORABLE KENNETH B. KRAMER, CHIEF JUDGE

Mr. Chairman and Distinguished Members of the Committee: On behalf of the Court, I appreciate the opportunity to present for your consideration the fiscal year 2004 budget request of $16,220,000 for the United States Court of Appeals for Veterans Claims. With our nation at war, the Court is even more committed to ensuring that our veterans and dependents have a justice system that affords effective and timely review of the denial by the Department of Veterans Affairs (VA) of their claims for benefits based on and provided by a grateful nation because of their service and sacrifices.

The Court's fiscal year 2004 budget request includes $1,175,000 requested by the Veterans Consortium Pro Bono Program (Representation Program). In accordance with practice since fiscal year 1997, the Representation Program has provided its own budget request, which the Court has forwarded (without comment) along with the Court's budget request.

The appropriation to the Court for fiscal year 2003 was $14,326,000 (before the .65 percent rescission reduced it to $14,232,881), of which $1,045,000 was the amount requested by the Representation Program. Our fiscal year 2004 budget request reflects an increase over the budget authority for Court operations for fiscal year 2003. Three factors account for virtually the entire increase in addition to the $130,000 increase sought by the Representation Program. The first reflects a budgeted pay raise for all nonjudicial Court personnel consistent with that generally anticipated for all Washington, D.C., area government employees. The second factor is the statutory authorization for a temporary increase in the number of judges. The third is a request for earmarked funding for security measures, which the Court is now withdrawing. I will discuss each of these matters further.

The first significant increase in the Court's budget request for fiscal year 2004 is in personnel compensation and benefits. As in the past, in conformance with OMB economic assumptions, we have requested funding for a pay adjustment for staff (2.0 percent), with no differentiation between the Economic Cost Indicator and locality pay, including necessary funding for benefits.

The second important factor is the result of the enactment of Public Law No. 107–103 (Dec. 27, 2001), calling for the temporary addition of two judges. Since its incep-

tion, the Court has been composed of seven judges, one of whom serves as chief judge; however, Public Law No. 107–103, temporarily increased the number of judicial positions from seven to nine. This law was designed to smooth the transition period when the then five, now four, remaining original judges would be eligible to retire in a very short span of time; at the end of that period, in August 2005, the size of the Court will return to seven judges. We have attempted to budget as prudently as possible for this temporary judicial increase. Given the uncertainty of the timing associated with the nominations process, in our fiscal year 2003 budget request we requested funding for one additional chambers; we have included, as part of the fiscal year 2004 budget request, funding for a second additional chambers, that is, for $590,000 to provide for personnel and benefits, office buildout, furnishings, equipment, and supplies, as well as continuing costs for the operation of the first additional chambers. Nominations for the two additional judicial positions are now pending before the Senate Committee on Veterans' Affairs, along with two nominations to fill the vacancies created by former Chief Judge Nebeker's retirement in October 2000 and Judge Holdaway's retirement in November 2002. If both additional judgeships are filled during fiscal year 2003, we would request reprogramming of fiscal year 2003 funds to provide immediately for establishing the second additional chambers, and if necessary seek supplemental funding. We would then withdraw from our fiscal year 2004 budget request our funding request for comparable costs associated with establishing an additional chambers. In addition, the benefits portion continues to include a Court contribution to the Judicial Retirement System (JRS) Trust Fund that reflects all participating judges' opting into the JRS survivor annuity program and the statutory provision anticipating that all judges—including any appointed as part of the temporary judicial increase—will ultimately join the Court's JRS.

Not taking into account the new judgeships, the Court's request proposes no increase in staffing. The Court, as always, will monitor staffing to ensure that it is kept at the minimum level necessary to review in a timely fashion the cases brought before the Court. To provide further background on the workload before the Court, the Court's caseload history over the past twelve years is summarized in the following table, which also appears on page 4 of the Court's fiscal year 2004 Budget Request:

	Fiscal Year 1991	Fiscal Year 1992	Fiscal Year 1993	Fiscal Year 1994	Fiscal Year 1995	Fiscal Year 1996	Fiscal Year 1997	Fiscal Year 1998	Fiscal Year 1999	Fiscal Year 2000	Fiscal Year 2001	Fiscal Year 2002
BVA Total Denials	25,082	10,946	9,734	6,194	6,407	10,444	15,865	15,360	14,881	14,080	8,514	8,606
New Cases to USCAVC	2,223	1,742	1,265	1,142	1,279	1,620	2,229	2,371	2,397	2,442	2,296	2,150
New Cases as a Percent of BVA Denials	8.9	15.9	13.0	18.4	20.0	15.0	14.0	15.4	16.1	17.3	27.0	25.0

Appeals to the Court come from the pool of cases in which the Board of Veterans' Appeals (BVA or Board) has denied some or all benefits sought by claimants. The Court is also empowered to entertain petitions for extraordinary relief where the Court action sought would be in aid of its jurisdiction. As this table shows, the number of appeals and petitions filed with the Court has held relatively steady, even though the number of total denials by the Board (the BVA does not publish statistics on cases with partial denials) has dropped significantly since passage in November 2000 of the Veterans Claims Assistance Act of 2000 (Public Law No. 106–475) requiring VA to provide more comprehensive notice and development assistance to VA benefits claimants. There has been a substantial increase in new case filings over the last six months. Since September 2002, new case filings have averaged 242 per month. If this trend continues throughout fiscal year 2003, the Court will have the highest number of new cases in its history for a 12-month period.

Furthermore, since Congress extended the Equal Access to Justice Act (EAJA) to the Court in 1992, there has been a substantial number of EAJA applications. The case-filing figures provided in the table, above, however, do not reflect the number of EAJA applications filed and EAJA cases pending, even though these applications initiate a separate proceeding requiring Court action. In fiscal year 2002, the Court acted on 1,104 applications, up from 801 applications in 2001 and 776 applications in 2000. The potential availability of EAJA fees has encouraged a greater number of attorneys to develop expertise in veterans benefits law, and the professional assistance of the growing appellants' (benefits claimants) bar has proven very valuable in litigation before the Court. However, there is a tradeoff: Some EAJA applications can demand considerable time because they present very complex issues, and resolving these issues continues to require substantial judicial and staff resources. Consequently, processing and disposing of EAJA applications has become an important workload factor.

In addition to the factors addressed above, a third matter has contributed to the Court's fiscal year 2004 budget request. Included in the "communications, utilities, and miscellaneous charges" object category is $281,700 that the Court requested be earmarked for security enhancement. The Court is mindful, however, of the disfavor expressed, in H.R. Report No. 107–40 and the Statement of the Managers in the Conference Report accompanying H.J. Res. 2 (subsequently enacted as Public Law No. 108–7, hereinafter "the fiscal year 2003 Appropriations Act"), for our fiscal year 2003 request for earmarked funds for security enhancements. Accordingly, we withdraw the request for earmarked funds for use for security enhancement in fiscal year 2004. As instructed by the Committee, the Court is working through the General Services Administration (GSA) in an effort to make arrangements with the building's owner, from which GSA leases the Court's offices, for enhanced security to the building. Guards under contract to the Federal Protective Service (now part of the Department of Homeland Security) have, since March 5, 2003, been conducting magnetometer and x-ray screening at the lobby and loading dock and screening vehicles entering the public parking garage during regular business hours (with limited guard service in the lobby for extended hours). GSA and the Court continue to work toward additional security enhancements for the building. The Court is mindful of the Committee's view that costs for the garage be shared by those who use the facility.

The Court asks, however, that the Committee consider appropriating and earmarking $100,000 of these funds for use during fiscal year 2004 for the costs of working through GSA to locate a suitable site and examine design requirements and other specifications needed for a veterans justice center (feasibility study). VA, the veterans service organizations (VSOs), the Representation Program, and a number of other agencies and organizations involved in legal representation before the Court have expressed interest in relocating their appellate practitioners to a veterans justice center. The bar association continues to support an initiative to house the Court in a veterans justice center, rather than a commercial office building with non-federal tenants and without adequate federal control over security. The costs of establishing such a center could be comparable to current annual rental payments by the Court and other federal entities housed in it. In H.R. Report No. 107–740, incorporated by reference into the legislative history of the fiscal year 2003 Appropriations Act, the Committee "strongly urge[d] the Court" to continue to work through GSA to "come to an agreeable solution" concerning the security issues affecting the building where the Court is located. In the event that there could not be agreement among the GSA, the Court, the building's owners, and the other tenants, the Committee recommended that "the Court look for alternative Federal office space to meet its needs." The GSA Public Building Services has expressed a willingness to work with the Court on this matter, and the earmarked $100,000 would be used to pay GSA for expenses incurred and passed through to the Court. According to

GSA, that is the estimated cost for a feasibility study that would include seven major components: (1) Client-requirements assessment; (2) asset-needs assessment; (3) conceptual development of alternatives; (4) technical and financial analysis of alternatives; (5) selection and justification of the preferred alternative; (6) construction cost estimates of the preferred alternative, separated into shell and tenant improvement components per the GSA pricing guide; and (7) delivery schedule and procurement strategy. The GSA feasibility study would provide the narratives, charts, plans, sketches, diagrams, and other information needed for an informed decision.

Although not a major factor, a $39,000 increase is reflected in the request for funding for other services. These services include cross-servicing for payroll and finance and accounting support from the Bureau of Public Debt (BPD) and the Department of Agriculture's National Finance Center, and for court security officers provided through a contract with the U.S. Marshals Service. In addition, a $10,000 increase for travel reflects an increase in the cost of travel, additional judges, and programmed travel by judges to law schools to conduct oral argument and thereby promote education in veterans' law (as discussed further in the next paragraph), and for training associated with the new judicial appointments. Finally, there is an increase of $12,000 reflecting increased subscription costs and supplies associated with the anticipated new judges and their staff.

Last year, in my statement in support of the Court's budget request for fiscal year 2003, I updated you on two new Court initiatives: To promote study of veterans benefits law in the nation's law schools and to support practitioners in their effort to organize a voluntary bar association. The Court has now held oral argument at two area law schools (Catholic University and Georgetown University), and one of the schools offered an evening course in veterans benefits law during the Fall 2002 semester. Later this Spring, the Court will hold oral argument at another local law school (the University of Baltimore). The voluntary bar association continues to operate successfully and now has almost 250 dues-paying members drawn from the appellants' bar, VA, veterans service organizations, and the Court. As one of its activities, the bar association has established a law school education committee, with members from among the Court's practitioners, including members outside the Washington, D.C., geographic area. These practitioners are working with law professors and law schools throughout the country in exploring various means to expose future attorneys to veterans benefits law.

In conclusion, I appreciate this opportunity to submit this testimony on the Court's budget request for fiscal year 2004. On behalf of the judges and staff, I thank you for your past support and continued assistance. I will be happy to answer any questions that you might have.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY

PREPARED STATEMENT OF HENRY FALK, M.D., M.P.H., ASSISTANT ADMINISTRATOR

It is a special pleasure to discuss ATSDR's accomplishments and plans, as this month marks the 20th anniversary of ATSDR's creation. I am very proud of ATSDR's progress over the past 20 years in advancing our understanding of the public health impacts of exposure to hazardous substances and in undertaking activities to prevent and mitigate disease and other harmful impacts of toxic exposure.

Among the profound changes that have occurred in our country during those 20 years, I would like to note two in particular that have played a significant role in shaping ATSDR's development and activities.

First, it has been widely recognized that the problems posed by hazardous waste sites are more extensive than was understood in the early years of the Superfund program. The number of hazardous waste sites in this country is much larger than was once thought. Sites that present major public health consequences continue to be identified, most notably asbestos contamination from W.R. Grace's vermiculite mine in Libby, Montana, a site that was first addressed under Superfund in 1999.

Second, terrorist events and the threat of future terrorist events have resulted in growing demand for ATSDR's unique experience and expertise developed over the past 20 years in carrying out mandated Superfund programs.

Our experience and expertise in chemical toxicology, in emergency response, and in fostering coordination among public health, environmental, and emergency response agencies, as well as organizations at the local, state, and federal levels, is extensive. In addition, ATSDR has an important role in disseminating critical infor-

mation to agencies and organizations with a role in terrorism preparedness and response.

The President's fiscal year 2004 Budget includes $73 million for ATSDR. This funding will support the agency's ongoing activities.

Through ever-expanding partnerships with other federal, state, tribal and local agencies and with private and public interest organizations, we continue to provide the highest quality services to the public in both our traditional Superfund programs and in terrorism-related activities. Innovative partnerships with organizations whose programs complement those of ATSDR have enabled us to achieve our public health mission more efficiently and effectively, both through disseminating critical information and through drawing on the expertise of others.

During the past year, in addition to ongoing work with the Environmental Protection Agency (EPA), we have collaborated with a broad range of agencies and organizations, including the Centers for Disease Control and Prevention (CDC), the National Institute of Environmental Health Sciences (NIEHS), the Federal Bureau of Investigation, the Federal Emergency Management Agency (FEMA), the Chemical Safety and Hazard Investigation Board, the American Chemistry Council, colleges and universities, and dozens of state and local public health organizations.

We have cooperative agreements with 31 state health departments, under which they conduct health assessments and undertake other environmental health activities. In addition, we continue to benefit from ATSDR's longstanding partnerships and programs, such as with the Minority Health Professions Foundation and its research program, as well as with a number of universities and state health departments through ATSDR's Great Lakes Human Health Effects Research Program. These programs help ATSDR fill the gaps in knowledge about the effects of hazardous substances on human health.

We continue to leverage technology, including the use of sophisticated toxicologic, epidemiologic, and environmental data sets and analytic approaches, to enable us to carry out our mission most effectively. Geographic information system technology allows us to layer health, demographic, environmental, and other traditional data sources to be analyzed. Improved scientific capacity enables us to track the spread of environmental contamination throughout a community, to identify geographic areas and facilities of particular concern, and to identify susceptible populations and potential health effects.

In addition to meeting our mandated Superfund-related obligations, we also help communities address emergency preparedness and response to acts of terrorism, while at the same time strengthening preparedness within ATSDR. Finally, we are pursuing a closer and more collaborative relationship with CDC as a mechanism for achieving the kind of synergy that will make us even more responsive and capable as a public health agency.

This testimony addresses some of the activities that will be supported under the fiscal year 2004 budget. These activities are critical to fulfilling our mandates under Superfund and to enhancing terrorism preparedness.

TRADITIONAL ATSDR SUPERFUND ACTIVITIES

The critical core function of our Agency is to assess the public health implications of hazardous waste sites and events involving the emergency release of chemicals. Our public health assessments and health consultations, as well as many of our health studies and surveillance programs, are directed to determining whether a site poses a threat to the public's health and to taking needed actions to protect public health, working with EPA and states.

A good example of the wide range of site-specific activities undertaken by ATSDR is our ongoing work in addressing tremolite asbestos contamination in Libby, Montana.

ATSDR has been working with EPA and with other federal, state, and local public health agencies to address the health threats posed by asbestos contamination in Libby. We conducted a medical screening program that involved testing of over 7,300 residents who were exposed to asbestos in that community. That program revealed that 18 percent of those tested have asbestos-related lung abnormalities as shown on chest x-rays—a much greater rate than exists in the United States as a whole.

ATSDR is now providing funding and technical assistance to help the State of Montana implement a follow-up testing program for former workers, residents, household contacts, and other eligible persons. We expect the facility for this testing to be operational by the first of June of this year. A study to determine the rate of abnormalities by use of computed tomography (CT) scans is ongoing. We worked with the Health Resources and Services Administration and the Substance Abuse

and Mental Health Services Administration, both agencies of the Department of Health and Human Services, to establish a community health clinic in Libby and to provide mental health services to the Libby community. Such a clinic is especially critical for addressing the health care needs of the medically uninsured, the underinsured, and other persons who lack the resources for primary medical care.

We are creating a registry of former workers and their families, approximately 10,000–15,000 people, to help track health conditions of these exposed persons and to enable us to provide them any new information that becomes available as part of an effort to assist in obtaining optimum medical care and taking preventive actions.

Our work to assess and address the health problems associated with exposure to asbestos from Libby has expanded to include 244 sites in the United States that received vermiculite ore from the W.R. Grace mine in Libby. A map included with this testimony indicates the distribution of these sites within the United States. We are coordinating with EPA and other federal, state, and local environmental and public health agencies to evaluate potential public health impacts at these sites. At this point, we have focused our efforts on developing health consultations at 28 priority sites and on working with 11 state health agencies that are assisting in this effort. We will begin releasing the reports of these health consultations in the next couple of months. These 28 sites, which are indicated on a second map provided with this testimony, were chosen because the exposure of former workers, their household contacts, and other individuals was deemed significant enough to warrant further evaluation. The priority sites include facilities in Beltsville, Maryland; St. Louis, Missouri; Marysville, Ohio; and Dallas, Texas. As reports on these sites become available, we will address the need for further ATSDR health evaluations of former workers or other potentially exposed individuals at these sites. Additional health work at these sites may well be required in the future.

ATSDR has also provided funding to nine states to conduct health statistics reviews, which offer a way of identifying any heightened incidence of disease associated with asbestos exposure at vermiculite sites around the country, and we continue to recruit states to join this effort. ATSDR expects to release an interim report of results of the health statistics reviews by June 30, 2003.

Our Superfund-related work encompasses environmental problems and health threats that extend well beyond those posed by asbestos contamination. We have a mandate to produce toxicological profiles on the 275 substances thought to pose the greatest hazards and to ensure that needed research is done on those chemicals to fill key gaps in information.

Two key programs that contribute to that effort are the Great Lakes Human Health Effects Research Program and the Minority Health Professions Foundation programs.

—We support the Great Lakes Human Health Effects Research Program in its efforts to build on and amplify the results of past and ongoing fish-consumption research in the Great Lakes basin. One of the significant findings under this program is that serum polychlorinated biphenyl (PCB) levels and consumption of Great Lakes fish are significantly associated with lower levels of thyroxine, a hormone secreted by the thyroid, in both women and men. Researchers also found that consumption of fish meals was highest among African Americans, but awareness of the fish advisories was lowest in that group.

—Our cooperative agreement with the Minority Health Professions Foundation and its Environmental Health and Toxicology Research Program continues to help us close the information gap in available scientific data on the health impacts of exposure to hazardous wastes, particularly on the health of poor and minority populations. The agreement, which includes as participants such historically black educational institutions as the Morehouse School of Medicine, Charles R. Drew University, Texas Southern University, Florida A & M University, Meharry Medical College, Tuskegee University, and Xavier University of Louisiana, helps underwrite the training of students who will make a major contribution to public health practice. Moreover, the agreement results in filling some of ATSDR's major research areas.

To further assist communities and apply the benefits from increasing knowledge about the relationship between exposure to toxic substances and resulting disease, in the past year ATSDR has begun implementing an applied public health environmental research agenda. In developing this program ATSDR has been working closely with other federal agencies, including the National Institute of Environmental Health Sciences, to best leverage resources and develop collaborative approaches to address common research needs. As part of this extramural research initiative ATSDR will pursue new partnerships with state-based and academic institutions. This research agenda will enable us to answer with greater certainty the

questions and concerns raised by communities exposed to toxic substances and hazardous wastes, and to improve our ability to provide the best service to communities in the vicinity of Superfund sites.

Site specific health studies are another important tool in advancing our knowledge about the relationship between exposure to hazardous substances and any resulting disease. Recent examples of some of our ongoing work in this area include:

—In Anniston, Alabama, ATSDR has been working in collaboration with local, state, and federal agencies, as well as with community representatives, to address community concerns regarding the potential for exposure to PCBs. We have been working with the Alabama Department of Public Health to gather, analyze, and interpret vital statistics and existing data describing the incidence of cancer for residents of Anniston, and we will be funding multi-year epidemiologic investigations to study the health effects of exposure to PCBs in this community. We will work closely with the institution(s) selected to do that study, providing both technical and administrative support to the researchers. We will also work closely with EPA in further evaluating exposures.

—In Herculaneum, Missouri, we have invited a panel of experts to assist us in developing an appropriate health study design to address the lead exposures experienced in this community. We are particularly interested in studying the effects of exposure to lead among children, adolescents, and young adults. In a blood lead screening effort conducted in 2001, 30 of 67 children six years old or younger living closest to the Doe Run lead smelter had blood lead levels at or above the CDC action level for lead of 10 ug/dL. A preliminary review of available blood lead data from testing in 2002 of 58 children under 6 years old indicate elevated blood lead levels in 17 percent of those children. Further study is warranted in view of the fact that these levels are more than double the national prevalence rate of 7.6 percent and the Missouri rate of 8 percent. Factors contributing to the reduction may include community education regarding possible pathways of exposure, health effects of exposure and measures to reduce exposure.

—In Fallon, Nevada, ATSDR worked closely with CDC's National Center for Environmental Health (NCEH), the Nevada State Health Division (NSHD), and other agencies to investigate a broad range of possible environmental causes of an unusually high number of childhood leukemia cases there. ATSDR conducted a comprehensive public health assessment process, consulting with community members to identify their health and environmental concerns and then examining a variety of possible environmental pathways through which people might have been exposed to hazardous substances. Earlier this year, ATSDR, CDC/NCEH and NSHD issued reports on the findings of this investigation and held a number of public meetings with the Fallon community. Despite extensive investigation, the agencies have not found a relationship between environmental exposures to contaminants and the leukemia cases.

—In San Antonio, Texas, we evaluated potential releases of hazardous substances from Kelly Air Force Base, on-base drinking water, and current and past air emissions for associations with health concerns of communities surrounding the base. We are now assisting the Air Force in evaluating a case series of amyotrophic lateral sclerosis, a motor neuron disease, in this community.

—In Dakota City, Nebraska, we examined the association between hydrogen sulfide, total reduced sulfur levels, and neuro-behavioral activity, on the one hand, and the incidence of hospital visits by children for treatment of asthma and other respiratory illnesses, on the other. We are now involved in a follow-up study in Dakota City and South Sioux City.

—In Warren Township, Ohio, we have been involved in investigating hydrogen sulfide exposure in the surrounding air, creating a multi-agency committee to form and carry out a Public Health Action Plan to address recommendations made in a rapid response health consultation.

—In Elmore, Ohio, we investigated whether beryllium air emissions and possible worker take-home contamination from the Brush Wellman Elmore plant present a health hazard to the community. Working with the Ohio Environmental Protection Agency, Ohio Citizen Action, and Brush Wellman, we issued a health consultation and conducted several public meetings to address community concerns.

—In El Paso, Texas, we worked with the Texas Department of Health to address that city's concerns about heavy metal contamination near Sun Bowl stadium. The health department, which receives funding from ATSDR, conducted a series of health consultations looking at lead and arsenic levels in soil. Several residential yards and a daycare facility were found to have amounts of lead and arsenic that exceeded health based screening values. Exposure to lead and ar-

senic at some of these areas could pose an unacceptable public health hazard to children.

—In Tarpon Springs, Florida, we recently issued for public comment a public health assessment for the Stauffer Chemical Company site, where contaminants are present in the groundwater and the air. We have entered into an agreement with the University of South Florida to identify and locate former employees as well as students who attended the school nearby, and we are working with the Florida Department of Health to review information from the Florida cancer registry.

—In northeast Denver, Colorado, we have been working with the Colorado Department of Public Health & Environment and the University of Colorado to conduct a study of children potentially exposed to arsenic, also focusing specifically on soil pica behavior, a habit of ingesting soil, in children six months to six years of age. We have also provided comments to EPA on its proposed plan for cleaning up the so-called VB I–70 site.

Another key function of ATSDR's Superfund program is to educate both the health community and the general public about the hazards of specific chemicals and waste sites. Recent work in this area includes:

—In Marion, Illinois, we have worked with the Illinois Department of Health to educate teachers about and improve storage and handling of potentially dangerous chemicals, including mercury, in schools. Many of these stored chemicals were removed as a result of the project.

—In Jasper County, Missouri, we funded a study by the Missouri Department of Health to assess whether public health intervention efforts had been effective in reducing blood lead levels of the community's children. The intervention efforts were found to have reduced blood lead levels significantly.

Targeted efforts to improve the diagnosis and treatment of children exposed to toxic substances have been another priority for ATSDR. We have recently succeeded in helping establish Pediatric Environmental Health Specialty Units (PEHSUs) in all ten of the federal regions. In fiscal year 2002, pediatricians at these clinics who are especially cross-trained in environmental medicine evaluated more than 1,500 children and provided an additional 1,500 phone consultations to other pediatricians in their regions.

In July of 2002, the PEHSU clinic in Chicago was contacted by the Chicago Housing Authority, which was concerned about arsenic contamination in the soil of a local playground. The PEHSU, working with the Chicago Department of Public Health, helped screen local children and identified 14 with elevated levels of arsenic in their urine. The PEHSU provided follow-up medical care for affected children, and the Chicago Housing Authority began immediate clean-up of the playground. This is an excellent example of how a new-and much needed-resource can help us partner to protect children from the effects of toxic exposure.

POST 9/11 CHALLENGES IN PREPARING TO ADDRESS TERRORISM AND EMERGENCY PREPAREDNESS

During the past year, ATSDR has continued to help communities improve emergency preparedness and develop a capacity for rapid response to acts of terrorism. ATSDR's role in countering health impacts of terrorism, particularly in the areas of chemicals and the environment, is essential to national safety. We continue to participate actively with CDC, EPA, the Department of Homeland Security (DHS), and state and local health agencies in undertaking planning and preparedness in areas that focus on the unique capabilities of ATSDR.

For example, we have used partnerships to address emergency response capacity in our work with the FEMA/DHS Comprehensive HAZMAT Emergency Response-Capability Assessment Program, or CHER-CAP. ATSDR has worked with FEMA/DHS on two local emergency planning exercises (the so-called "Tri-town" exercise in Connecticut, and one in Boston, Massachusetts) to assist those communities in improving their response to a release of hazardous materials. ATSDR's contributions included bringing the medical community into the local planning process and assessing hospital emergency preparedness and response through:

—on-site evaluation, walk-through, and disaster plan review;

—applying lessons learned from the scientific literature to enhance emergency response;

—encouraging communication and collaboration among public health and medical officials and community-wide disaster planners regarding preparation for mass-casualty events;

—providing assistance and training to community responders as well as supporting preparation for use of technology such as geographic information systems and toxicologic data bases; and
—conducting exercises to assess the state of readiness to respond to mass-casualty events.

In addition, in June of this year ATSDR will participate in a large-scale regional emergency preparedness exercise in Louisville, Kentucky with EPA, FEMA/DHS, CDC, and state and local public health agencies as well as hospitals, physicians, and fire departments. In this simulation, we will provide answers to toxicological and medical questions and help maintain a "victim's registry".

We also partner with the private sector to expand the utilization of our products. In conjunction with the American Chemistry Council, we distributed the document Managing Hazardous Materials Incidents (including the medical management guidelines) on CD–ROMs to states and communities to educate first-responders to the adverse health effects of specific chemicals.

We provide communities with access to geographic information systems to map localities and to model the dispersion of chemicals in the event of an uncontrolled release.

Our Hazardous Substances Emergency Events Surveillance system (HSEES) is a major resource in our efforts to reduce and even prevent the injury and death that result from hazardous substances events. The system captures incident and facility data as well as data on health outcomes from hazardous material (HazMat) accidents and other uncontrolled releases. To date, fifteen states have cooperative agreements with ATSDR to participate in HSEES. State health departments enter data into a Web-based application to enable ATSDR to access data instantly for analysis. We are working to use HSEES as a key source of health information to enable us to respond to emergency events, including incidents of terrorism. The recent fire at a plastics factory in Kinston, North Carolina, for example, provided us with an opportunity to evaluate the use of HSEES as a means of assessing past experience and trends in fires in similar types of facilities. Data from HSEES has also provided us with information that has been used to help ensure that first responders know the appropriate personal protective gear to use in dealing with the clean-up of clandestine methamphetamine labs.

Since the events of 9/11/2001, ATSDR has initiated several activities designed to apply existing tools to aid preparedness in the event of a chemical attack. For example, ATSDR distributed a CD–ROM version of our toxicological profiles and medical management guidelines to state and local agencies and to first-responders. In addition, ATSDR toxicologists, in conjunction with scientists at CDC, have evaluated chemicals that are the most likely to be used in a terrorist attack. Although we have information on how to diagnose and treat people exposed to some of these chemicals, we are working to fill the gaps in information that still exist so that we can be even better prepared. At the same time, we are sharing the information that we do currently have with all relevant parties, including first-responders, hospital emergency rooms, poison control centers, clinicians, and the general public.

Other activities that demonstrate ATSDR's commitment to improving community emergency preparedness and to developing a rapid response capacity to terrorism include the following:

—Staff members worked with the Federal Bureau of Investigation to collect anthrax spore samples as evidence in the American Media Inc. office building in Boca Raton, Florida, where the index case of inhalation anthrax occurred in an employee. ATSDR scientists and FBI investigators worked together as members of building entry and medical monitoring teams throughout the field investigation. The field investigation team successfully applied a new combination of scientific techniques to locate, quantify, and collect concentrations of anthrax spores within the building.
—Working with funding from FEMA/DHS, we are helping the New York City Department of Health and Mental Hygiene develop a registry of 150,000–200,000 workers and residents to track the health of people exposed to contaminants from the World Trade Center site.
—ATSDR rapidly assembled toxicologic guidance for NASA, EPA, and local first responders on the potential for exposures to toxic substances in connection with the Columbia shuttle disaster.
—ATSDR has linked our emergency response staff with the new CDC Emergency Operations Center so that we have a rapid and seamless public health response to emergency events involving chemicals, including any terrorist attack.

ATSDR will continue to work closely with:

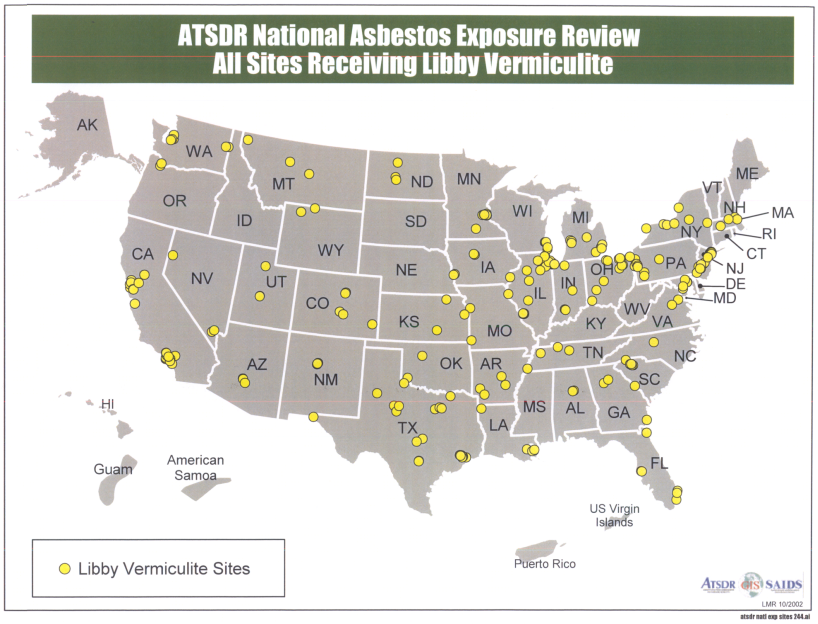
—EPA, to develop data and distribute information on chemicals and other hazards;

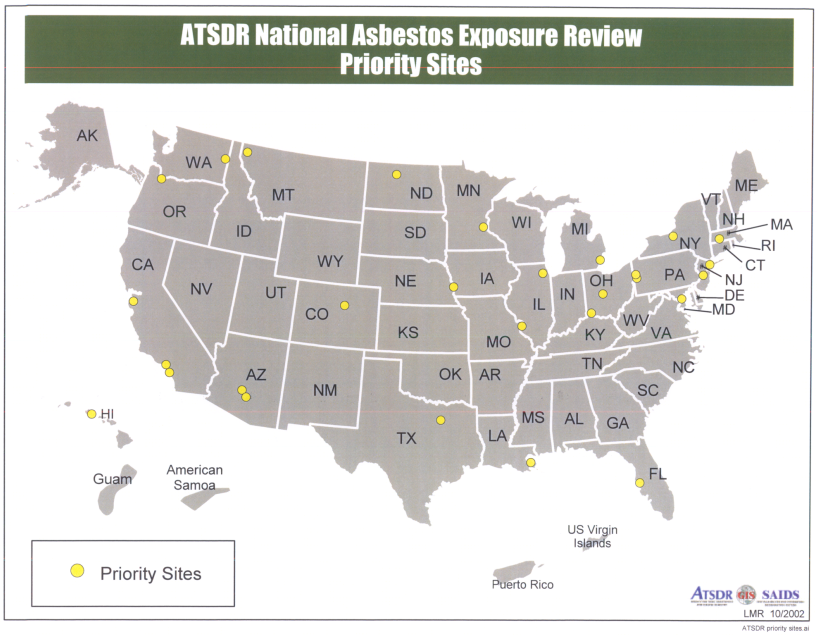
—our sister agency CDC, other agencies within the Department of Health and Human Services, and state and local agencies to help train health responders, to deal with chemical, radiologic, and environmental terrorist threats; and

—DHS, to assure that public health responders are integrated into local emergency planning.

Mr. Chairman and members of the Subcommittee, our 20th year of service to the American public has been the most productive of all, and I expect that productivity to continue. We have been good stewards of the public funds that Congress has entrusted to us. We continue to look for ways to maximize our contribution to the public's health through leveraging partnerships and technology. And, ATSDR has undertaken a major internal initiative in strategic planning for the next five years. We are tying our budget and staffing levels to specific performance planning goals and objectives, and striving to improve our program performance measures with more outcome and impact data, in an effort to provide Congress and the public a full accounting of our programs in terms of the difference we have made and the unique expertise and services we offer.

Thank you for the opportunity to provide this testimony.





DEPARTMENT OF THE ARMY—CIVIL

PREPARED STATEMENT OF HONORABLE LES BROWNLEE, UNDER SECRETARY OF THE ARMY AND ACTING ASSISTANT SECRETARY OF THE ARMY (CIVIL WORKS)

INTRODUCTION

Thank you for the opportunity to provide this statement in support of the President's budget for the Department of the Army's Cemeterial Expenses program for fiscal year 2004.

I am providing this statement on behalf of the Secretary of the Army, who is responsible for operating and maintaining Arlington and Soldiers' and Airmen's Home National Cemeteries, as well as making necessary capital improvements to ensure their long-term viability.

Arlington National Cemetery is the Nation's premier military cemetery. It is an honor to represent this cemetery and the Soldiers' and Airmen's Home National Cemetery. On behalf of these two cemeteries and the Department of the Army, I would like to express our appreciation for the support this subcommittee has provided over the years.

FISCAL YEAR 2004 BUDGET OVERVIEW

The fiscal year 2004 budget is $25,961,000, which is $6,484,000 less than the fiscal year 2003 appropriation of $32,445,000. The fiscal year 2004 budget will support Arlington National Cemetery's efforts to improve its infrastructure and continue working toward implementation of its Ten-year Capital Investment Plan. The funds requested are sufficient to support the work force, assure adequate maintenance of buildings and grounds, acquire necessary supplies and equipment, and provide the high standards of service expected at Arlington and Soldiers' and Airmen's Home National Cemeteries.

The budget also includes funds to pursue expansion efforts needed to ensure that Arlington National Cemetery remains an active burial place for service men and women well into the twenty-first century. The following table displays how long gravesites will remain available in both developed and undeveloped areas that are currently part of the Cemetery. It is presented to illustrate the importance of proceeding with expansion projects in a timely manner so that there will be no disrup-

tion in services for deceased veterans and to relieve significant crowding of funeral services.

Note that the gravesite capacity shown in the table for the undeveloped area is for currently owned land (i.e., Project 90 and utility relocations), but does not include the Millennium Project, which requires both land within the Cemetery's boundaries (i.e., the old warehouse area and Section 29 land) and land to be transferred to the Cemetery (i.e., Fort Myer picnic area). Nor does the table reflect future land expansion projects programmed in the Ten-year Capital Investment Plan beyond the Millennium Project, such as the Navy Annex and Fort Myer parking lot, all of which are currently authorized and are addressed in the Concept Land Utilization Plan.

ARLINGTON NATIONAL CEMETERY

[Gravesite Capacity as of September 30, 2002]

Gravesite capacity—developed areas	242,850
Total gravesites used	212,281
Gravesites currently available	30,569
Year available capacity exhausted	2012
Gravesite capacity—undeveloped area	36,000
Total gravesite capacity	278,850
Year total capacity exhausted	2025

I will elaborate further on the significance of the declining gravesite capacity later on in this statement.

BUDGET DETAILS

The budget is made up of three programs—Operation and Maintenance, Administration, and Construction. The principal items contained in each program are described below.

Operation and Maintenance Program

The budget for the Operation and Maintenance program is $15,793,000. It provides for the cost of operations necessary to conduct an average of 25 funeral services per day, accommodate four million visitors each year, and maintain 652 acres of land and associated infrastructure. This program supports 95 of the cemeteries' total of 101 full time equivalent (FTE) work-years. Contractual services comprise just over one-half of the Operation and Maintenance program at $8,560,000, as follows:

—$3,000,000 for tree and shrub maintenance.
—$2,300,000 for grounds maintenance.
—$1,400,000 for information guard services.
—$530,000 to develop an automated system for burial records, gravesite locations, financial management, supplies and equipment.
—$325,000 for custodial services.
—$1,005,000 for recurring maintenance of equipment, buildings, headstones, and other facility maintenance contracts.

The remaining funds in the Operation and Maintenance program support the Government workforce, which is primarily responsible for all activities associated with preparing gravesites and conducting burial services, as well as the cost of utilities, supplies and equipment.

Administration Program

The budget includes $1,299,000 for the Administration program, which provides for essential management and administrative functions, including staff supervision of Arlington and Soldiers' and Airmen's Home National Cemeteries. Budgeted funds will provide for personnel compensation, benefits, and reimbursable administrative support services provided by other government agencies. This program supports the balance of the cemeteries' workforce of six FTE work-years.

Construction Program

The Construction program's budget is $8,869,000, consisting of the following projects:

—$3,300,000 to design development of 36 acres of land known as the Millennium Project.
—$53,000 to update and refine the Ten-year Capital Investment Plan.

—$200,000 to continue developing property in and adjacent to Arlington National Cemetery, in accordance with the Concept Land Utilization Plan.
—$1,850,000 to repair roads and walkways.
—$400,000 to continue the grave liner program.
—$350,000 to demolish the remaining old warehouse buildings.
—$720,000 to repair storm and sanitary sewer lines.
—$520,000 to study, design and repair stone boundary walls.
—$535,000 to study and design Facility Maintenance Complex storage facilities.
—$205,000 to conduct utility surveys.
—$185,000 to install an irrigation system at the Kennedy gravesites.
—$140,000 to repair the fountain at Columbarium Court 2.
—$125,000 to study appearance standards for cemetery operations.
—$286,000 to perform a variety of minor projects such as painting and cleaning facilities.

Three of the above projects are particularly important to increase the capacity of Arlington National Cemetery, so that space is available for burials into the next century. They are described further in the following paragraphs.

Millennium Project.—As the table displayed earlier in this statement illustrates, capacity in the currently developed area of Arlington National Cemetery will be exhausted by 2025. In order to extend the Cemetery's useful life, the budget includes $3.3 million to design the Millennium Project, so that development can begin in fiscal year 2007. The Millennium Project involves the development of 36 acres of land into gravesite areas, roads, utilities, columbarium walls, and a boundary wall with niches for the placement of cremated remains. Approximately 26,000 additional gravesites and 15,000 niches will be provided when the development is complete. Actual yields could change significantly, depending upon final design. The Millennium Project would extend the useful life of the Cemetery beyond 2025 to somewhere between 2038 and 2047, depending upon final implementation.

The Millennium Project consists of three parcels of land. The first parcel (7 acres) is land already within the boundaries of Arlington National Cemetery made available by demolition of the old warehouse buildings. The second parcel (12 acres) was transferred to the Cemetery from the National Park Service on January 28, 2002, pursuant to the authority contained in Section 2863 of Public Law 107–107, the National Defense Authorization Act for Fiscal Year 2002. The final piece of the Millennium Project is a 17-acre parcel of adjacent land currently owned by Fort Myer (picnic area), which is to be transferred to the Cemetery in accordance with Section 2882 of the fiscal year 2000 Defense Authorization Act (Public Law 106–65). We are working with Fort Myer to implement this land transfer in the near future.

Ten-year Capital Investment Plan.—By our letter of February 5, 2002, we provided this subcommittee with a ten-year plan that identifies the Cemetery's new construction, major rehabilitation, major maintenance and study proposals for the next ten years. It addresses projects identified in the 1998 Master Plan and other projects needed to ensure that the cemetery remains open for burials into the twenty-second century. It also serves as a guide for annually recurring maintenance needs of the Cemetery.

The fiscal year 2004 budget includes $53,000 to continue developing and refining this multi-year plan for funding projects in a technically sound and financially efficient manner. This is a living document that will be periodically updated to reflect the latest information, identify new requirements and improve the quality of cost estimates. It is an essential tool in developing a credible long-term investment strategy and the budget recommendations that emanate from it.

Concept Land Utilization Plan.—By our letter of October 27, 2000, we provided this subcommittee with a plan that identifies the requirements for developing adjacent land for future expansion. The first site to be developed is the Millennium Project, as described above. The Concept Land Utilization Plan also includes the Navy Annex and Fort Myer parking lot, which would extend the Cemetery's life to somewhere between 2054 and 2068, again depending upon how these sites are ultimately developed. Increasing capacity beyond this time frame will require additional land expansion for gravesites or more columbarium niches.

The other items listed in the Construction program are needed to address aging and deteriorating infrastructure. These are primarily repairs and replacements that should be accomplished to avoid further cost increases and potentially disruptive emergency repairs.

FUNERALS

In fiscal year 2002, there were 4,022 interments and 2,283 inurnments. In fiscal year 2003, we estimate there will be 3,925 interments and 2,700 inurnments. Look-

ing ahead to fiscal year 2004, we estimate there will be 3,925 interments and 2,775 inurnments.

CEREMONIES AND VISITATION

Millions of visitors, both foreign and American, come to Arlington to view the Cemetery and participate in ceremonial events. During fiscal year 2002, about 3,100 ceremonies were conducted, with the President of the United States attending the ceremonies on Veterans Day and Memorial Day.

During fiscal year 2002, Arlington National Cemetery accommodated approximately 4 million visitors, making it one of the most visited historic sites in the National Capital Region. A recent study confirmed this estimate. A customer survey system will be designed and implemented in conjunction with the Cemetery's overall automation plan and will be used to collect, enter and analyze the survey data.

FISCAL YEAR 2003 APPROPRIATION

The additional $8,000,000 provided in the fiscal year 2003 appropriation will be used to repair the Memorial Amphitheater ($6,000,000), accelerate Phase II of Project 90 land development ($1,200,000), and replace the visitor center roof ($800,000). The roof replacement will be accomplished with reprogrammed funds as explained in my letter to this subcommittee dated October 30, 2002. The 0.65 percent rescission included in the fiscal year 2003 appropriation act (Public Law 108–7), amounts to $210,893 for Arlington National Cemetery, which has been applied to Project 90.

CONCLUSION

The funds included in the fiscal year 2004 budget are necessary to maintain the existing infrastructure at Arlington National Cemetery, provide quality services for its many visitors, make the capital investments needed to accommodate burials, and preserve the dignity, serenity and traditions of the cemetery. I respectfully ask the Subcommittee's favorable consideration of our budget.

FEDERAL DEPOSIT INSURANCE CORPORATION

PREPARED STATEMENT OF GASTON L. GIANNI, JR., INSPECTOR GENERAL, OFFICE OF INSPECTOR GENERAL

FISCAL YEAR 2004 BUDGET SUMMARY STATEMENT

The Office of Inspector General (OIG) at the Federal Deposit Insurance Corporation (FDIC) requests $30.1 million for fiscal year 2004 to fund 168 staff who conduct independent audits, investigations, and other reviews to assist and augment the FDIC's mission. OIG efforts promote the economy, efficiency, and effectiveness of the FDIC's programs and operations and protect against fraud, waste, and abuse.

The OIG's fiscal year 2002 achievements are impressive and include:

—$1.360 billion in actual and potential monetary benefits—a potential return of $42 for each $1 invested in the OIG.
—141 non-monetary recommendations to FDIC management
—29 referrals to the Department of Justice
—35 indictments
—28 convictions
—2 employee/disciplinary actions

The OIG recently assessed the most significant management and performance challenges facing the FDIC. The OIG's annual and strategic plans for fiscal years 2003 and 2004 are and will be focused on issues within these challenges:

—Adequacy of Corporate Governance in Insured Depository Institutions
—Protection of Consumer Interests
—Security of Critical Infrastructure
—Management and Analysis of Risks to the Insurance Funds
—Effectiveness of Resolution and Receivership Activities
—Management and Security of Information Technology Resources
—Assessment of Corporate Performance
—Transition to a New Financial Environment
—Organizational Leadership and Management of Human Capital
—Cost Containment and Procurement Integrity

The OIG's budget is about $1.3 million less than the fiscal year 2003 appropriation. After adjusting for inflation, fiscal year 2004 will be the eighth consecutive

year that the OIG's budget decreased. The OIG has significantly downsized its staff from an authorized level of 215 for fiscal year 2002 to 168 for fiscal year 2004. The budget and staffing reductions have been possible due to the shrinking size of the FDIC, completion of work related to the banking and thrift crises of the 1990s, prospects for continuing health of the banking industry, and buyout and early retirement initiatives of the FDIC.

Most of the OIG's budget would pay for salaries, benefits, travel, and training for its staff. The OIG is also budgeting for certain potential litigation expenses which, under Public Law 107–174, must now be paid with appropriated funds. Also, the OIG is budgeting to replace computers and continue efforts to establish an electronic crimes unit. The OIG's appropriation would be derived from the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. These funds are the ones used to pay for other FDIC operating expenses.

Mr. Chairman and Members of the Subcommittee, I am pleased to present the fiscal year 2004 budget request totaling $30.1 million for the Office of Inspector General (OIG) at the Federal Deposit Insurance Corporation (FDIC). As Inspector General, I am proud of the OIG's fiscal year 2002 performance and results and look forward to current and future challenges to support the Congress, the FDIC Chairman, and corporate management.

The FDIC was created by the Congress in 1933 to maintain stability and public confidence in the nation's banking system. The federal deposit insurance offered by the FDIC is designed to protect depositors from losses due to failures of insured commercial banks and thrifts. Individual deposits of up to $100,000 are covered for 9,354 institutions totaling $3.386 trillion in deposits as of December 31, 2002. The FDIC also promotes the safety and soundness of these institutions by identifying, monitoring, and addressing risks to which they are exposed.

The FDIC OIG was established in 1989 when the Congress amended the Inspector General Act to include the FDIC under the Act's provisions. The OIG's program of independent audits, investigations, and other reviews assists and augments the FDIC's mission. OIG efforts promote the economy, efficiency, and effectiveness of FDIC programs and operations and protect against fraud, waste, and abuse.

The past year has experienced great change in the composition of the OIG workforce through a major downsizing and reshaping initiative. Along with others in the Corporation, the OIG has worked to complete a downsizing effort that has been ongoing for several years following the FDIC staff buildup to handle the bank and thrift crisis in the early 1990s. For the OIG, the recent downsizing has meant decreasing from an authorized level of 215 staff for fiscal 2002 to 168 for fiscal 2004—about a 22 percent reduction. Since I became the FDIC Inspector General in 1996, our staff has decreased from 370 to the current level, or a total decrease of about 56 percent. This decrease is comparable to overall staff decreases throughout the FDIC.

Even with our downsizing, the OIG has continued to provide significant value to the management of the FDIC. In addition, we have carried out initiatives to work more strategically in areas of greatest challenge to the FDIC, improve our efficiency, enhance our communications with both the Corporation and the Congress, add to our staff expertise, and align our human capital with our strategic planning.

The funds we are requesting are essential to helping us remain prepared to meet the complex and multidimensional issues and challenges confronting the FDIC now and in the future. These funds will permit us to continue employing the highly capable staff who can meet our future challenges, invest in the technology needed to advance our capabilities, and cover other mandates. After adjusting for inflation, fiscal year 2004 will be the eighth consecutive year that the OIG's budget has decreased.

Before detailing our budget needs for fiscal year 2004, I would like to highlight some of the OIG's accomplishments in fiscal year 2002 and the major challenges confronting the FDIC and OIG.

A REVIEW OF THE FDIC OIG'S FISCAL YEAR 2002 ACCOMPLISHMENTS

The OIG's fiscal year 2002 achievements are impressive, and the results include:

—$1.360 billion in actual and potential monetary benefits—a potential return of $42 for each $1 invested in the OIG.
—141 non-monetary recommendations to FDIC management
—29 referrals to the Department of Justice
—35 indictments
—28 convictions
—2 employee/disciplinary actions

More specifically, our accomplishments included 48 completed investigations that led to the above indictments and convictions as well as fines, court-ordered restitu-

tion, and recoveries that constitute the bulk of the monetary benefits from our work. Also, we issued 36 audit reports, 5 evaluations, and 1 memorandum, which included about $607,000 in questioned costs and $3.1 million in recommendations that funds be put to better use. The recommendations in these reports aim to improve the internal controls and operational effectiveness in diverse aspects of the Corporation's operations, including automated systems, contracting, bank supervision, financial management, and asset disposition.

Further, the OIG accomplished many of its organizational goals during the fiscal year as outlined in our annual performance plan. Our 2002 Performance Report shows that we met or substantially met 23 of our 26 goals, or 88 percent. In a measurable way, these achieved goals show the progress we continue to make to add value to the Corporation with our audits, investigations, and evaluations in terms of impact, quality, productivity, timeliness, and client satisfaction. We also met or substantially met goals for providing professional advice to the Corporation and for communicating with clients and the public.

Audits, Investigations, and Evaluations

Examples of the OIG's audits, investigations, and evaluations work that contributed to these accomplishments follow.

Audits of Superior Bank Failure.—The OIG issued the results of four reviews, several based on a congressional request, related to the failure of Superior Bank, FSB, Hinsdale, Illinois. Loss estimates resulting from the failure total about $440 million, making this one of the costliest of all recent failures of FDIC-insured institutions. I testified about our work before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, commenting on areas where regulatory oversight could be strengthened; the regulatory capital treatment of residual assets; and the FDIC Board of Directors' authorization of an expanded delegation of authority for examiners to conduct examinations, visitations, or other activities of insured depository institutions.

Review of FDIC Special Examination Authority.—The OIG issued the results of its review of the FDIC's special examination authority and the Division of Supervision's effectiveness in monitoring risks posed by the nation's largest banks. Additionally, the OIG commented in advance on the draft interagency agreement signed on January 29, 2002 authorizing an expanded delegation of authority to grant the FDIC more autonomy in examining banks that pose a heightened risk to the insurance funds.

Investigation of Former Chairman of Bank of Honolulu.—In March 2002, the former chairman and owner of 76 percent of shares of the now-defunct Bank of Honolulu (Hawaii) was sentenced in the U.S. District Court in Honolulu to 36 months' incarceration to be followed by 5 years' supervised release. However, he will be subject to immediate deportation upon release from confinement. As a part of the sentencing, he was also ordered to pay restitution totaling $3,115,523. The defendant had previously pled guilty in October 2001 to violating the federal wire fraud statute as a part of a scheme whereby he and his brother fraudulently obtained the proceeds of two loans totaling $3 million made by the Bank of Honolulu. He also pled guilty to knowingly and fraudulently concealing property as a part of the bankruptcy proceeding he filed in 1998. The bankruptcy fraud violations involve two tax refund checks from the State of Hawaii totaling $757,249, which he received and failed to turn over to the Bankruptcy Trustee.

The defendant was initially indicted in August 2000 and was charged with additional violations in superseding indictments in October 2000 and May 2001. The latter superseding indictment also included charges against five other individuals who were alleged to have helped him hide money from the bankruptcy court and creditors. The additional defendants included two of his brothers, two of his business associates, and his girlfriend.

This case was jointly investigated by the FDIC OIG and the FBI and was prosecuted by the United States Attorney's Office for the District of Hawaii.

Investigation of the First National Bank of Keystone (West Virginia).—During the past year the investigations and prosecutions of the principal subjects in the case involving the failure of the First National Bank of Keystone (West Virginia) were completed. The investigation and prosecutions involving Keystone were conducted by a multi-agency task force comprised of special agents of the FDIC OIG, FBI, and IRS and prosecutors from the United States Attorney's Office for the Southern District of West Virginia and the U.S. Department of Justice. The FDIC Division of Resolutions and Receiverships also provided valuable assistance in support of the task force investigations. The investigation began after the Office of the Comptroller of the Currency conducted an examination in 1999 that uncovered information that ultimately resulted in the closure of the First National Bank of Keystone (Keystone)

on September 1, 1999. Based on the estimated losses to the insurance fund attributable to the Keystone failure, it is one of the ten costliest bank failures since 1933.

Since inception, this investigation and corresponding prosecutions have resulted in the conviction and sentencings of four of the former officers of the bank on charges of obstructing the examination of the bank. Two of those same officers along with three other officers were convicted on various other charges relating to illegal activity at the bank including bank fraud, money laundering, embezzlement, mail fraud, insider trading, and filing false income tax returns. Sentencings have totaled over 88 years' confinement, over 32 years' probation, fines of $124,500, and over $1.3 billion in restitution.

I am especially proud of the recognition given to four OIG Special Agents who received the Attorney General's Award for Distinguished Service on July 17, 2002 for their exemplary work in the investigation and prosecutions related to this case.

Review of Information Security Issues.—The OIG issued its mandated report on the FDIC's compliance with the Government Information Security Reform Act, concluding that the Corporation had established and implemented management controls that provided limited assurance of adequate assurance over its information resources. While progress had been made in addressing previously identified weaknesses, in 3 of 10 key management control areas evaluated (Contractor and Outside Agency Security, Capital Planning and Investment Control, and Performance Measurement), the FDIC had no assurance that adequate security had been achieved. Our report also highlighted opportunities for the Corporation to strengthen the accountability and authority for information security by (a) appointing a permanent Chief Information Officer (CIO), (b) ensuring that the individual serving as the CIO reports directly and solely to the Chairman, and (c) filling key vacancies within the Division of Information Resources Management that support information security initiatives and operations.

Investigations of Outstanding Restitution Orders and Other Debt.—Working with the Corporation's Division of Resolutions and Receiverships, the U.S. Attorneys' offices, and other federal agencies, the OIG continued to identify and pursue investigations of FDIC debtors who have concealed assets or committed other fraud in attempting to avoid repayment of their obligations to the FDIC. Our caseload includes a total of over $1 billion of estimated fraud related to court-ordered restitution and other types of debt.

Evaluation of Physical Security for FDIC Facilities.—Following the tragic events of September 11, 2001, the OIG focused its attention on the security of FDIC facilities. We reported that the FDIC generally addresses Department of Justice minimum security standards, but we saw a need to assign a risk level to each FDIC facility and develop appropriate plans based upon the risks. The Corporation has been responsive to our concerns.

Our semiannual reports to the Congress provide many other examples of OIG accomplishments. These reports can be found on our Web page at www.fdic.gov/oig/semi.html or by contacting our office.

Assistance to FDIC Management

In addition to 2002 audits, investigations, and evaluations, the OIG made valuable contributions to the FDIC in several other ways. We strive to work in partnership with Corporation management to share our expertise and perspective in certain areas where they are seeking to make improvements. Among these contributions were the following activities:

—Reviewed 40 proposed corporate policies and 2 draft regulations and offered comments and suggestions when appropriate.
—Commented on the FDIC's annual performance report.
—Provided advisory comments on the FDIC's 2002 Annual Performance Plan.
—Provided the Corporation with a risk analysis that identified an emerging risk, the quality of bank financial reporting and auditing.
—Participated in several division level conferences to communicate about our audit and investigation work and processes.
—Provided comments to the Chief Operating Officer on the Corporation's draft Emergency Response Plan.
—Provided technical assistance and advice to several FDIC groups working on information technology issues, business process redesign, information security reviews, and contracting policies.
—Conducted an annual review of the Corporation's internal control and risk management program.

OIG Management and Operational Initiatives

An important part of our stewardship over the funding we receive includes our continuous efforts to improve OIG operations. During the past year, we took several initiatives that have great significance on our work and operations.

As I mentioned in the beginning of our statement, the OIG participated in a significant downsizing and restructuring initiative with the Corporation. FDIC Chairman Donald Powell envisions a smaller FDIC and developed a program of voluntary employee separation incentives, including an employee buyout program and early retirements. I thoroughly reviewed all OIG functions and determined that we needed to downsize our staff significantly and, in some cases, hire staff with more relevant skills. Over 50 OIG staff accepted buyouts and/or early retirements. We closed our San Francisco office and are in the process of completing a small reduction-in-force involving remaining surplus staff.

The new organization, though smaller, is now more closely aligned with key FDIC mission areas. For example, our Office of Audits underwent a major reorganization around five operational directorates: Resolution, Receivership, and Legal Affairs; Insurance, Supervision, and Consumer Affairs; Information Assurance; and Resources Management. A fifth directorate, Corporate Evaluations, performs corporate-wide and other evaluations. Our audit function underwent a peer review by the U.S. Agency for International Development. The review concluded that the OIG's quality control system was designed in accordance with the standards of the President's Council on Integrity and Efficiency (PCIE) and provided reasonable assurance of conformance to professional standards in the conduct of audits.

Our Office of Investigations has also realigned its staff and field operations in response to the OIG's downsizing effort. In addition, I established the Office of Management and Congressional Relations by merging two offices.

While restructuring to a smaller workforce, the OIG continues to look to increasing the value of our people and the performance capacity of the OIG. During fiscal year 2002, we issued a Human Capital Strategic Plan, which will align and integrate our human resource policies and procedures with the OIG mission. The alignment of our human resources with our mission is a new strategic goal in revisions we have made to our Strategic Plan. The Human Capital Strategic Plan outlines four objectives to maximize the return on our human capital investments. The objectives relate to workforce analysis; competency investments; leadership development; and a result-oriented, high performance culture. We are in the process of implementing several key efforts in this multi-year plan, including identification of key staff competencies needed to perform our work and development of a business knowledge inventory system.

Our revised strategic goals are interrelated, as follows:

Value and Impact.—OIG products will add value by achieving significant impact related to addressing issues of importance to the Chairman, the Congress, and the public.

Communication and Outreach.—Communication between the OIG and the Chairman, the Congress, employees, and other stakeholders will be effective.

Human Capital.—The OIG will align its human resources to support the OIG mission.

Productivity.—The OIG will effectively manage its resources.

Other internal initiatives include our joint sponsorship of a 2-day Symposium on Emerging Issues with Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System, which provided approximately 95 auditors from bank regulatory agencies and other government organizations insight into emerging issues as identified by agency and congressional leadership. We also conducted our fourth external customer survey regarding satisfaction with OIG operations and processes. We also continued to incorporate new technology into our office with the use of an automated working paper software package designed to enhance the efficiency and effectiveness of our audits and evaluations. In addition, we implemented a software application that our office developed to approve training requests and keep accurate records on our staff's compliance with continuing professional education requirements in Government Auditing Standards. We also established an internal Information Technology Security Program.

Other Activities

I continued my role as Vice Chair of the President's Council on Integrity and Efficiency (PCIE) and have held this position since April 1999. The Council maintains six standing committees to initiate and manage audit, investigation, evaluation, legislation, professional development, and integrity issues and projects in the Inspector General community. The PCIE has been very active in helping the government

achieve better results and has concentrated many of its activities on areas that would facilitate agency efforts related to the President's Management Agenda. To enhance the community's ability to continue fulfilling its mission, the PCIE co-hosted its annual conference to highlight challenges and explore ways to address them. Further, the PCIE issued several documents during the fiscal year that contributed to good government. These documents addressed our nation's critical infrastructure protection, critical security, and government-wide management challenges. Several of these documents were requested by congressional oversight committees to augment their oversight abilities.

In addition to my leadership role with the PCIE, the FDIC OIG continued its participation in a Results Act interest group sponsored by the PCIE and the U.S. Office of Personnel Management to share ideas and best practices on the Results Act implementation. We also participated in a PCIE working group looking into the use of Social Security Numbers in the federal government and concerns related to identity theft. I also led a PCIE committee to update Quality Standards for Federal Offices of Inspector General (Brown Book).

MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE FDIC

The OIG recently assessed the most significant management and performance challenges facing the FDIC. We provided a description of these challenges to the Chief Financial Officer of the FDIC in the spirit of the Reports Consolidation Act of 2000. For our part, we will continue to pursue audits, evaluations, investigations, and other reviews that address the challenges, and we look forward to continuing to work with the Congress and corporate officials to address the challenges successfully. Our annual and strategic plans for fiscal years 2003 and 2004 are and will be focused on issues within these challenges. I will discuss each of the challenges listed below in detail.

—Adequacy of Corporate Governance in Insured Depository Institutions
—Protection of Consumer Interests
—Security of Critical Infrastructure
—Management and Analysis of Risks to the Insurance Funds
—Effectiveness of Resolution and Receivership Activities
—Management and Security of Information Technology Resources
—Assessment of Corporate Performance
—Transition to a New Financial Environment
—Organizational Leadership and Management of Human Capital
—Cost Containment and Procurement Integrity

Adequacy of Corporate Governance in Insured Depository Institutions

A number of well-publicized announcements of business failures, including financial institution failures, have raised questions about the credibility of accounting practices and oversight in the United States. These recent events have increased public concern regarding the adequacy of corporate governance and, in part, prompted passage of the Sarbanes-Oxley Act of 2002. The public's confidence in the nation's financial system can be shaken by deficiencies in the adequacy of corporate governance in insured depository institutions. For instance, the failure of senior management, boards of directors, and auditors to effectively conduct their duties has contributed to some recent financial institution failures. In certain instances, Board members and senior management engaged in high-risk activities without proper risk management processes, did not maintain adequate loan policies and procedures, and circumvented or disregarded various laws and banking regulations. In other instances, independent public accounting firms rendered unqualified opinions on the institutions' financial statements when, in fact, the statements were materially misstated. To the extent that financial reporting is not reliable, the regulatory processes and FDIC mission achievement, that is ensuring the safety and soundness of the nation's financial system, can be adversely affected. For example, essential research and analysis used to achieve the supervision and insurance missions of the Corporation can be complicated and potentially compromised by poor quality financial reports and audits. Potentially the insurance funds can be affected by financial institution and other business failures involving financial reporting problems. In the worst case, illegal and otherwise improper activity by management of financial institutions or their boards of directors can be concealed, resulting in significant potential losses to the FDIC insurance funds.

The Corporation has initiated various measures designed to mitigate the risk posed by these concerns, such as reviewing the bank's board activities and ethics policies and practices and reviewing auditor independence requirements. In addition, the FDIC reviews the financial disclosure and reporting obligations of publicly traded state nonmember institutions as well as their compliance with other Securi-

ties and Exchange Commission regulations and the Federal Financial Institutions Examination Council-approved and recommended policies to help ensure accurate and reliable financial reporting through an effective external auditing program. Nevertheless, the adequacy of corporate governance will continue to require the FDIC's vigilant attention.

Protection of Consumer Interests

The FDIC is legislatively mandated to enforce various statutes and regulations regarding consumer protection and civil rights with respect to state-chartered, nonmember banks and to encourage community investment initiatives by these institutions. Some of the more prominent laws and regulations in this area include the Truth in Lending Act, Fair Credit Reporting Act, Real Estate Settlement Procedures Act, Fair Housing Act, Home Mortgage Disclosure Act, Equal Credit Opportunity Act, Community Reinvestment Act of 1977, and Gramm-Leach-Bliley Act.

The Corporation accomplishes its mission related to fair lending and other consumer protection laws and regulations by conducting compliance examinations, taking enforcement actions to address unsafe or unsound banking practices and compliance violations, encouraging public involvement in the compliance process, assisting financial institutions with fair lending and consumer compliance through education and guidance, and providing assistance to various parties within and outside of the FDIC.

The FDIC's examination and evaluation programs must assess how well the institutions under its supervision manage compliance with consumer protection laws and regulations and meet the credit needs of their communities, including low- and moderate-income neighborhoods. The FDIC must also work to issue regulations that implement federal consumer protection statutes—both on its own initiative and together with the other federal financial institution regulatory agencies. One important focus will be the Gramm-Leach-Bliley Act, as the Corporation must ensure it has a quality program to examine institution compliance with the privacy and other provisions of the Act.

The Corporation's community affairs program provides technical assistance to help banks meet their responsibilities under the Community Reinvestment Act. The current emphasis is on financial literacy, aimed specifically at low- and moderate-income people who may not have had banking relationships. The Corporation's "Money Smart" initiative is a key outreach effort. The FDIC must also continue efforts to maintain a Consumer Affairs program by investigating consumer complaints about FDIC-supervised institutions and answering consumer inquiries regarding consumer protection laws and banking practices.

Security of Critical Infrastructure

The adequate security of our nation's critical infrastructures has been at the forefront of the Federal government's agenda for many years. Specifically, the President's Commission on Critical Infrastructure Protection (established in July 1996) was tasked to formulate a comprehensive national strategy for protecting the nation's critical infrastructure from physical and "cyber" threats. Included among the limited number of systems whose incapacity or destruction were deemed to have a debilitating impact on the defense or economic security of the nation was the banking and finance system. With the increased consolidation and connectivity of the banking industry in the years since 1996, and with the new awareness of the nation's vulnerabilities to terrorist attacks since September 11, 2001, the security of the critical infrastructure in the banking industry is even more important.

On May 22, 1998, the Presidential Decision Directive (PDD) 63 was signed, calling for a national effort to ensure the security of the nation's critical infrastructures. PDD 63 defined the critical infrastructure as the "physical and cyber-based systems essential to the minimum operations of the economy and government." President Bush declared that securing our critical infrastructure is essential to our economic and national security and issued two Executive Orders (EO 13228, The Office of Homeland Security and the Homeland Security Council and EO 23231, Critical Infrastructure Protection in the Information Age) to improve the federal government's critical infrastructure protection program in the context of PDD 63.

The intent of PDD 63 is to ensure that the federal government maintains the capability to deliver services essential to the nation's security, economy, and the health and safety of its citizens, in the event of a cyber or physical-based disruption. Much of the nation's critical infrastructure historically has been physically and logically separate systems that had little interdependence. However, as a result of technology, the infrastructure has increasingly become automated and interconnected. These same advances have created new vulnerabilities to equipment failures, human error, and natural disasters as well as terrorism and cyber attacks.

To effectively protect critical infrastructure, the FDIC's challenge in this area is to implement measures to mitigate risks, plan for and manage emergencies through effective contingency and continuity planning, coordinate protective measures with other agencies, determine resource and organization requirements, and engage in education and awareness activities. The FDIC will need to continue to work with the Department of Homeland Security and the Finance and Banking Information Infrastructure Committee created by Executive Order 23231 and chaired by the Department of the Treasury, on efforts to improve the security critical infrastructure of the nation's financial system.

Management and Analysis of Risks to the Insurance Funds

A primary goal of the FDIC under its insurance program is to ensure that its deposit insurance funds do not require resuscitation by the U.S. Treasury. Achieving this goal is a considerable challenge, given that the FDIC supervises only a portion of the insured depository institutions. The identification of risks to non-FDIC supervised institutions requires effective communication and coordination with the other federal banking agencies. The FDIC engages in an ongoing process of proactively identifying risks to the deposit insurance funds and adjusting the risk-based deposit insurance premiums charged to the institutions.

Recent trends and events continue to pose risks to the funds. Over the past year, 11 banks have failed and the potential exists for additional failures. While some failures may be attributable primarily or in part to economic factors, bank mismanagement and fraud have also been factors in most recent failures. The environment in which financial institutions operate is evolving rapidly, particularly with the acceleration of interstate banking; new banking products and complex asset structures; and electronic banking. The industry's growing reliance on technologies, particularly the Internet, has changed the risk profile of banking. The consolidations that may occur among banks and securities firms, insurance companies, and other financial services providers resulting from the Gramm-Leach-Bliley Act pose additional risks to the FDIC's insurance funds. The Corporation's risk-focused examination process must operate to identify and mitigate these risks and their real or potential impact on financial institutions to preclude adverse consequences to the insurance funds.

Another risk to the insurance funds results from bank mergers that have created "megabanks," or "large banks" (defined as institutions with assets of over $25 billion). For many of these institutions, the FDIC is the insurer but is not the primary federal regulator. Megabanks offering new or expanded services also present challenges to the FDIC. The failure of a megabank, for example, along with the potential closing of closely affiliated smaller institutions, could result in such losses to the deposit insurance funds as to require significant increases in premium assessments from an institution.

Further, because of bank mergers and acquisitions, many institutions hold both Bank Insurance Fund (BIF) and Savings Association Insurance Fund (SAIF) insured deposits, obscuring the difference between the funds. There is ongoing consideration of merging the two insurance funds, with the thought being that the merged fund would not only be stronger and better diversified but would also eliminate the concern about a premium disparity between the BIF and the SAIF. Assessments in the merged fund would be based on the risk that institutions pose to the single fund. The prospect of different prices for identical deposit insurance coverage would be eliminated. Also, insured institutions would no longer have to track their BIF and SAIF deposits separately, resulting in cost savings for the industry. The Corporation has worked hard to bring about deposit insurance reform and needs to continue to work with the banking community and the Congress in the interest of eventual passage of reform legislation.

Another risk to the insurance funds relates to the designated reserve ratio. As of March 31, 2002, the Bank Insurance Fund (BIF) reserve ratio was at 1.23 percent, the first time it had fallen below 1.25 percent since 1995. By December 31, 2002, the BIF reserve ratio was at 1.27, two basis points above the statutorily mandated designed reserve ratio for the deposit insurance funds. If the BIF ratio is below 1.25 percent, in accordance with the Federal Deposit Insurance Act, the FDIC Board of Directors must charge premiums to banks that are sufficient to restore the ratio to the designated reserve ratio within 1 year. The Corporation's challenge is to maintain or exceed the designated reserve ratio, as required by statute.

The process for setting deposit insurance premiums, which is closely related to the above discussion of the designated reserve ratio, represents yet another significant risk to the insurance funds. Insurance premiums are not generally assessed based on risk but rather the funding requirements of the insurance funds. This approach has the impact of assessing premiums during economic downturns when banks are failing and likely not in the best position to afford the premiums. Also, numerous

"free rider" institutions have benefited from being able to sharply increase insured deposits without contributions to the insurance funds commensurate with this increased risk. This can occur because the designated reserve ratio has not been breached thereby triggering across-the-board premiums. Current deposit insurance reform proposals include provisions for risk-based premiums to be assessed on a more regularly scheduled basis than would occur using the existing approach. Risk-based premiums can provide the ability to better match premiums charged to institutions with related risk to the insurance funds.

Effectiveness of Resolution and Receivership Activities

One of the FDIC's most important corporate responsibilities is planning and efficiently handling the franchise marketing of failing FDIC-insured institutions and providing prompt, responsive, and efficient resolution of failed financial institutions. These activities maintain confidence and stability in our financial system. The Division of Resolutions and Receiverships (DRR) has outlined primary goals for the following four business lines and each is accompanied by significant challenges.

(1) *Deposit Insurance.*—DRR must provide customers of failed financial institutions with timely access to their insured funds and financial services. A significant challenge in this area is to ensure that FDIC deposit insurance claims and payment processes are prepared to handle large institution failures.

(2) *Resolutions.*—As DRR seeks to resolve failed institutions in the least costly manner, its challenges include improving the efficiency of contingency planning for institution failures and improving internal FDIC communication and coordination as well as communication with the other primary federal regulators to ensure timely access to records and optimal resolution strategies.

(3) *Receivership Management, Accounting, Internal Review, and Customer Service.*—DRR's goal is to manage receiverships to maximize net return towards an orderly and timely termination and provide customers of failed institutions and the public with timely and responsive information. Related challenges include improving the efficiency of the receivership termination process, improving claims processing, continual assessment of recovery strategies, improving investigative activities, and charging receiverships for services performed under the Receivership Management Program (i.e., service costing).

(4) *Employees.*—DRR employees need to possess the resources, skills, and tools to perform the mission of the Division. One related challenge is to ensure that Division personnel have sufficient legal support for decision-making.

Management and Security of Information Technology Resources

Information technology (IT) continues to play an increasingly greater role in every aspect of the FDIC mission. As corporate employees carry out the FDIC's principal business lines of insuring deposits, examining and supervising financial institutions, and managing receiverships, they rely on information and corresponding technology as an essential resource. Information and analysis on banking, financial services, and the economy form the basis for the development of public policies and promote public understanding and confidence in the nation's financial system. IT is a critical resource that must be safeguarded.

Accomplishing IT goals efficiently and effectively requires sound IT planning and investment control processes. The Corporation's 2003 information management budget is approximately $171.9 million. The Corporation must constantly evaluate technological advances to ensure that its operations continue to be efficient and cost-effective and that it is properly positioned to carry out its mission. While doing so, the Corporation must continue to respond to the impact of laws and regulations on its operations. Management of IT resources and IT security have been the focus of several laws, such as the Paperwork Reduction Act, the Government Information Security Reform Act (GISRA), and most recently, the Federal Information Security Management Act of 2002 (FISMA). Similar to the requirements of GISRA, under FISMA, each agency is required to report on the adequacy and effectiveness of information security policies, procedures, and practices and compliance with information security requirements of FISMA.

The Corporation has worked to implement many sound information system security controls, but has not yet fully integrated these into an entity-wide program. Additionally, efforts to identify sensitive data, plan for and fund essential security measures, incorporate security requirements in FDIC contracts, enhance software configuration management, and measure the overall performance of the information security program need continued attention. Frequently, security improvements at the FDIC were the result of a reaction to specific audit and review findings, rather than the result of a comprehensive program that provided continuous and proactive identification, correction, and prevention of security problems. There is also a need

to appoint a permanent CIO (vacant since September 2001) to strengthen accountability and authority in the FDIC's information security program.

The FDIC's progress in addressing the security weaknesses identified in our 2001 Security Act evaluation report were offset by the emergence of new information security weaknesses identified during our 2002 evaluation, as well as the FDIC's internal evaluation completed on January 10, 2003. Thus, management and security of information technology resources continues to warrant management attention.

Assessment of Corporate Performance

The Government Performance and Results Act (Results Act) of 1993 was enacted to improve the efficiency, effectiveness, and accountability of federal programs by establishing a system for setting goals, measuring performance, and reporting on accomplishments. The Results Act requires most federal agencies, including the FDIC, to prepare a strategic plan that broadly defines each agency's mission, vision, and strategic goals and objectives; an annual performance plan that translates the vision and goals of the strategic plan into measurable annual goals; and an annual performance report that compares actual results against planned goals.

The Corporation's strategic plan and annual performance plan lay out the agency's mission and vision and articulate goals and objectives for the FDIC's three major program areas of Insurance, Supervision, and Receivership Management. The plans focus on four strategic goals that define desired outcomes identified for each program area: (1) Insured Depositors Are Protected from Loss Without Recourse to Taxpayer Funding, (2) FDIC-Supervised Institutions Are Safe and Sound, (3) Consumers' Rights Are Protected and FDIC-Supervised Institutions Invest in Their Communities, and (4) Recovery to Creditors of Receiverships Is Achieved. Through its annual performance report, the FDIC is accountable for reporting actual performance and achieving these strategic goals.

The Corporation has made significant progress in implementing the Results Act and needs to continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, implementing processes to verify and validate reported performance data, and addressing crosscutting issues and programs that affect other federal financial institution regulatory agencies.

Transition to a New Financial Environment

On September 30, 2002, the FDIC executed a multi-year contract to replace its core financial systems and applications with a commercial-off-the-shelf software package. The FDIC Board had previously approved contract expenditure authority for the New Financial Environment (NFE) project totaling approximately $28.8 million. At the time the Board case was approved, the FDIC estimated the total life cycle cost of NFE, including FDIC staff time, to be approximately $62.5 million over 8 years. NFE is a major corporate initiative to enhance the FDIC's ability to meet current and future financial management and information needs.

Although NFE offers the FDIC significant benefits, it also presents significant challenges. These challenges will test the Corporation's ability to (1) maintain unqualified opinions on the FDIC's annual financial statements through the system implementation and associated business process reengineering; (2) manage contractor resources, schedules, and costs; and (3) coordinate with planned and ongoing system development projects related to NFE. Preliminary results of an ongoing audit found that the FDIC had established key management controls for the NFE project, but that opportunities for improvement existed in the areas of project integration, communications, and risk response planning.

Overall, the FDIC needs to ensure that the NFE Project team successfully implements modern and reliable systems to improve financial business processes and support current and future financial management and information needs, while controlling costs for the new environment to the maximum extent possible.

Organizational Leadership and Management of Human Capital

The FDIC has been in a downsizing mode for the past 10 years as the workload from the banking and thrift crises of the late l980s and 1990s has been accomplished. Over the past months, a number of division mergers and reorganizations took place and the Corporation concluded its 2002 buyout/retirement incentive programs. These most recent incentive programs achieved a reduction of 699 staff and $80 million projected savings in future operating costs. In total, over the past 10+ years, the workforce (combined from the FDIC and the Resolution Trust Corporation) has fallen from approximately 23,000 in 1992 to 5,500 as of September 30, 2002.

By June 2003, the Corporation hopes to substantially complete required downsizing, identify an appropriate skills mix, and correct any existing skills imbal-

ances. To do so, the Corporation continues to carry out other features of its comprehensive program such as solicitations of interest, reassignments, retraining, outplacement assistance, and possible reductions-in-force. The Corporation has also predicted that almost 20 percent of FDIC employees will be eligible to retire within the next 5 years. As the Corporation adjusts to a smaller workforce, it must continue to ensure the readiness of its staff to carry out the corporate mission.

The Corporation must also work to fill key vacancies in a timely manner, engage in careful succession planning, and continue to conserve and replenish the institutional knowledge and expertise that has guided the organization over the past years. A need for additional outsourcing may arise and hiring and retaining new talent will be important. Hiring and retention policies that are fair and inclusive must remain a significant component of the corporate diversity plan. Designing, implementing, and maintaining effective human capital strategies are critical priorities and must be the focus of centralized, sustained corporate attention.

A significant element of this performance and management challenge relates to organizational leadership at the FDIC Board of Directors level, specifically with respect to the current make-up of the Board. The Board is a body whose strong leadership is vital to the success of the agency and to the banking and financial services industry. The Board is comprised of five directors, including the FDIC Chairman, two other FDIC directors, the Comptroller of the Currency, and the Director of the Office of Thrift Supervision. In order to ensure that the balance between various interests implicit in the Board's structure is preserved, the Board should operate at full strength. However, the Board has been operating with an FDIC Director vacancy since September 1998. Accordingly, we have urged that vacancies on the Board be filled as promptly as practicable in order to afford the FDIC the balanced governance and sustained leadership essential to the agency's continued success.

Cost Containment and Procurement Integrity

As steward for the Bank Insurance Fund and Savings Association Insurance Fund, the FDIC seeks ways to limit the use of those funds. As such, the Corporation must continue to identify and implement measures to contain and reduce costs, either through more careful spending or assessing and making changes in business processes to increase efficiency. Many of the efforts described above as part of other management and performance challenges (e.g., New Financial Environment, Service Costing, corporate downsizing) attest to the Corporation's ongoing efforts to do so.

A key challenge to containing costs relates to the contracting area. To assist the Corporation in accomplishing its mission, contractors provide services in such areas as information technology, legal matters, loan servicing, and asset management. To achieve success in this area, the FDIC must ensure that its acquisition framework—that is, its policies, procedures, and internal controls—is marked by sound planning; consistent use of competition; fairness; well-structured contracts designed to produce cost-effective, quality performance from contractors; and vigilant contract management and oversight.

The Corporation has taken a number of steps to strengthen internal control and effective oversight. However, our work in this area continues to show that further improvements are necessary to reduce risks such as the consideration of contractor security in acquisition planning, incorporation of information security requirements in FDIC contracts, and oversight of contractor security practices. Other risks include corporate receipt of billings for such items as unauthorized subcontractors, unallowable subcontractor markups, incorrect timesheets, unreasonable project management hours billed, conflicts of interest, and unauthorized labor categories. The combination of increased reliance on contractor support and continuing reductions in the FDIC workforce presents a considerable risk to the effectiveness of contractor oversight activities. Additionally, large-scale procurements, such as Virginia Square II (a $111 million construction project to house FDIC staff for the most part now working in leased space in the District of Columbia) and the New Financial Environment, necessitate continued emphasis on contractor oversight activities.

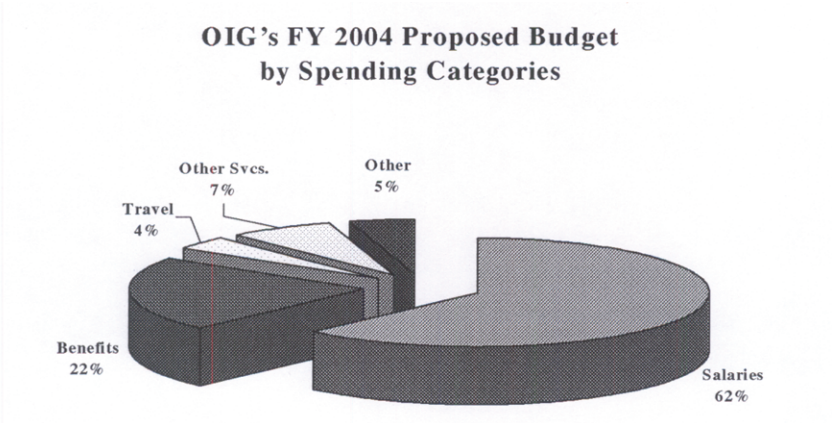
THE OIG'S FISCAL YEAR 2004 BUDGET REQUEST

The OIG is requesting a fiscal year 2004 appropriation of $30,125,000 and will fund 168 full-time equivalent staff. The OIG's operating budget for fiscal year 2004 totals about $27.8 million, exclusive of new capital expenditures for computers and a new government-wide funding mandate. This operating budget, which includes the salaries, benefit costs, travel, and training expenses for our employees, is 9 percent less than the fiscal year 2003 operating budget. We are budgeting for capital expenditures of about $1.3 million for replacing OIG docking station computers in accordance with the FDIC's computer replacement schedule and for our electronic crimes unit requirements. In addition, we are budgeting for certain potential litiga-

tion expenses which, under Public Law 107–174, must now be paid for with appropriated funds.

Our electronic crimes unit enables the OIG to conduct computer forensic examinations where possible illegal activities have occurred involving information technology. We have already employed the capability in several investigations of suspected fraud that may have occurred in banks prior to their closings due to insolvency. Additional hardware and software will enhance this capability and keep it current with changing technology.

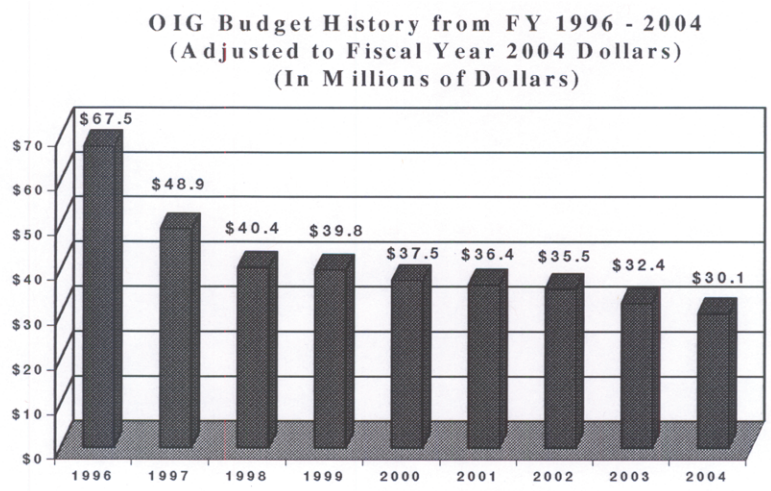
The chart below shows the distribution of the OIG's budget by major object classification. Mostly, the OIG budget is comprised of salaries, benefits, and the necessary funding for travel and training expenses.



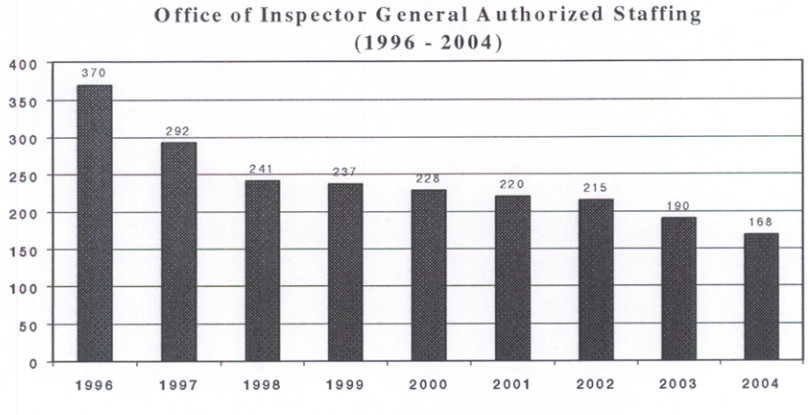
The FDIC OIG has been operating under an appropriated budget since fiscal year 1998 in accordance with Section 1105(a) of Title 31, United States Code, which provides for "a separate appropriation account for appropriations for each Office of Inspector General of an establishment defined under Section 11(2) of the Inspector General Act of 1978." This funding approach is part of the statutory protection of the OIG's independence. The FDIC OIG is the only appropriated entity in the FDIC. The OIG's appropriation would be derived from the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. These funds are the ones used to pay for other FDIC operating expenses.

The fiscal year 2004 budget is about $1.3 million less than the fiscal year 2003 appropriation. After adjusting for inflation, fiscal year 2004 will be the eighth consecutive year that the OIG's budget decreased.[1] The graph below shows the OIG's budget history since I became the Inspector General in 1996.

[1] Prior to fiscal year 1998, the OIG budget was part of the FDIC annual operating budget approved by the Board of Directors from deposit insurance funds and other funds under the Board's stewardship.



As I discussed earlier, the OIG has significantly downsized not only in the past year, but also since 1996. By statute, the FDIC and the Resolution Trust Corporation (RTC) and their Offices of Inspector General merged on January 1, 1996 and at that time, the combined OIG employed 370. The proposed staffing for fiscal year 2004 will be less than half of the 1996 staffing level. The OIG's budget and staffing reductions have been possible due to the shrinking size of the FDIC, completion of the carryover work from the RTC, prospects for continuing health of the banking industry, and the Corporation's own staff downsizing initiatives. Total FDIC employment has declined from a combined FDIC-RTC peak of about 23,000 staff in early 1992 to 5,457 as of December 31, 2002. The graph below shows the OIG authorized staffing since the merger of RTC in 1996.



CONCLUDING REMARKS

Mr. Chairman and Members of the Subcommittee, I appreciate the support and resources we have received from this subcommittee, the Congress, and the FDIC over the past several years. As a result, the OIG has been able to make a real difference in FDIC operations in terms of financial benefits and improvements, and in strengthening our own operations and efficiency. Our budget request for fiscal year 2004 is modest in view of the value we add. We seek your continued support so that we will be able to effectively and efficiently conduct our work on behalf of the FDIC Chairman, the Congress, and the American public.

In this 25th year since passage of the Inspector General Act, I take pride in my organization and the entire federal Inspector General community and its collective achievements. Building on this legacy, we inthe FDIC OIG look forward to new challenges and assisting the Congress and corporate officials in meeting them.

AMERICAN BATTLE MONUMENTS COMMISSION

PREPARED STATEMENT OF MAJOR GENERAL JOHN P. HERRLING, USA (RET), SECRETARY

Mr. Chairman and Members of the Committee: Thank you for the opportunity to testify on the American Battle Monuments Commission's fiscal year 2004 Appropriation Request. The special nature of the American Battle Monuments Commission places it in a unique and highly responsible position with the American people. The manner in which we care for our country's Honored War Dead is, and should remain, a reflection of the high regard in which we, as a nation, respect their service and sacrifice.

The American Battle Monuments Commission is responsible for commemorating the services of American Armed Forces where they have served since April 6, 1917 (the date of U.S. entry into World War I) through the establishment of suitable memorial shrines; and for designing, constructing, operating, and maintaining permanent American burial grounds in foreign countries. In performing these functions, we administer, operate, and maintain twenty-four permanent memorial cemeteries and twenty-five monuments, memorials, and markers in the United States and fifteen countries around the world.

We have eight World War I and 14 World War II cemeteries located in Europe, the Mediterranean, North Africa and the Philippines. All of these cemeteries are closed to burials except for the remains of the War Dead who may occasionally be discovered in World War I or World War II battlefield areas. In addition, we are responsible for the American cemeteries in Mexico City, established after the Mexican War, and in Panama.

Presently, 124,917 U.S. War Dead are interred in these cemeteries—30,922 of World War I, 93,245 of World War II and 750 of the Mexican War. Additionally, 6,010 American veterans and others are interred in the Mexico City and Corozal (Panama) American Cemeteries. Commemorated individually by name on stone tablets at the World War I and II cemeteries and three memorials on U.S. soil are the 94,132 U.S. servicemen and women who were Missing in Action, or lost or buried at sea during the World Wars and the Korean and Vietnam Wars.

We provide services and information to the public, friends, and relatives who visit our cemeteries and memorials. This includes information about grave and memorialization sites as well as location, suggested routes and modes of travel to the cemeteries or memorials. Immediate family members are provided letters authorizing fee-free passports for overseas travel to specifically visit a loved one's grave or memorial site. During fiscal year 2002, over 8 million people visited our cemeteries and monuments worldwide, half of whom were American. Photographs of individual headstones and sections of the Tablets of the Missing on which the service person's name is engraved are also available. These photographs are mounted on large color lithographs of the cemeteries or memorials. In addition, we assist those who wish to purchase floral decorations for placement at a grave or memorial site in our cemeteries. A photograph of the in-place floral arrangement is provided to the donor.

The care of these shrines to our War Dead requires a sizeable annual program of maintenance and repair of facilities, equipment, and grounds. This care includes upkeep of 131,000 graves and headstones; 73 memorial structures; 41 quarters, utilities, and maintenance facilities; 67 miles of roadways and walkways; 911 acres of flowering plants, fine lawns and meadows; nearly 69 acres of shrubs and hedges and over 11,000 ornamental trees. Care and maintenance of these resources are exceptionally labor intensive, therefore, personnel costs account for over 53 percent of our budget for fiscal year 2004. Some of this maintenance is performed by casual labor, in peak seasons, since permanent cemetery staffs are not sized to provide all the required maintenance during the peak-growing season. The remaining 47 percent of our budget funds our engineering, maintenance, utilities, equipment, and administrative costs.

As an organization responsible for permanent burial facilities, we do not have the option of closing or consolidating cemeteries. Within the context of the President's Management Agenda, we have continued our efforts to achieve greater efficiency and effectiveness in the areas where we do have alternatives.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

Such efforts demand the strategic management of human capital. We analyze our work force to maximize the efforts of employees who deliver our services.

In fiscal year 2000, ABMC and OMB conducted a joint productivity study to determine if equipment modernization, leasing, outsourcing, and automation improvements could increase the efficiency of our cemetery workers. Industry experts from two major turf and grounds-keeping equipment manufacturers participated in the study. They concluded that opportunities existed to reduce work-hours associated with labor-intensive operations, potentially offsetting the requirement for additional personnel. During fiscal year 2001, we continued our study and began procurement of modern, labor-efficient and safety-related equipment identified in fiscal year 2000. During fiscal year 2002 and 2003, we continue to replace outdated equipment, enhance our automation systems, and make improvements in our operations. In order to continue productivity program enhancements, we are requesting $3.0 million for fiscal year 2004.

Managing our human capital demands that we have the right person with the right skills in every position. In fiscal years 1998 and 1999, we undertook the first comprehensive survey of our overseas personnel, their position descriptions, and workloads since the early 1980's. This survey identified a variety of discrepancies in how we staffed our cemeteries. We took corrective action, and with the concurrence of OMB, ensured consistency in staffing. In fiscal year 2002, we began a worldwide manpower study which will further identify and comprehensively outline our manpower requirements, position descriptions, workloads and manpower distribution to ensure our work force is properly deployed.

A key element of recruiting and retaining a talented work force is fair compensation. To ensure equal pay for equal work we converted the European Region from our legacy Cemetery System for classifying and paying most of our foreign employees to the standard Foreign Service National (FSN) pay system. This FSN system is used by State Department and other federal departments employing foreign nationals overseas. This will ensure that we have a pool of well qualified personnel to fill our critical positions. Making this change resulted in an additional requirement of $900 thousand a year in personnel compensation. The investment will ensure our ability to recruit and retain a quality work force.

I would like to thank the Congress for their support of our personnel program by the inclusion of 20 FTE to compensate for the reduction of the French workweek to 35 hours. This increase will allow us to continue to maintain the finest Memorial Cemeteries in the world.

COMPETITIVE SOURCING

We have continued efforts to avoid using our work force to perform tasks that are not inherently governmental and are readily available in the commercial market place. In this area we are well advanced. When Congress directed us to establish a World War II Memorial, we outsourced the fund raising, design, construction, data management, fulfillment processing, customer servicing, and public relations.

The success of this effort has been astonishing. It will soon result in the first national memorial dedicated to the 16 million who served in uniform during the war, the more than 400,000 who gave their lives, and the millions who supported the war effort from the home front.

Our competitive sourcing initiatives did not stop there. Contributing to our efforts to improve financial management, in April 2000, we contracted with a software implementation consultant to assist in the selection and development of an automated, integrated accounting system that conforms to regulatory requirements. Our new commercial-off-the-shelf system became operational in October 2001. The use of a competitive source contractor allowed our government employees to focus on our daily mission while the contractor ironed out the normal wrinkles associated with implementing a new system. We are pleased with the overall results and will continue to upgrade our capabilities so that we will be among the leaders in financial management in the Federal Government.

In addition, our Infrastructure Modernization Program (IMP) has made extensive use of outsourcing to ensure that highly qualified firms and individuals were contracted to perform engineering analysis and reviews. Most construction and engineering projects at ABMC facilities are contracted out, since these projects are usually unique and beyond the capability of our limited staff.

Our cemeteries and their infrastructure range from 45 to 80 years old. We began IMP in fiscal year 2001 in order to examine in detail the infrastructure of our facilities and bring them up to today's standards. With this we can avoid future uncertainty, work in a programmed and efficient manner, and protect our investments

in facilities. The first phase of the IMP consisted of studies to identify deficiencies in the various aspects of our infrastructure. In the second phase, corrective actions are performed. So far studies of electrical systems, the structural integrity (safety) aspect of our facilities, and our water systems were completed by an Architectural & Engineering firm. Corrective actions on electrical systems and structural integrity began during late fiscal year 2001 and are continued in fiscal year 2002 and fiscal year 2003. Considerable electrical work was identified; fortunately, requirements for structural work were of a limited nature. With the study on water systems completed in fiscal year 2002, we are moving forward on corrective actions. During fiscal year 2003, we are dedicating $2 million to IMP, and are requesting $2 million for fiscal year 2004 to continue these essential projects in addition to the $2.1 million to continue normal engineering and maintenance operations.

IMPROVED FINANCIAL PERFORMANCE

Since 1998, ABMC has been required to produce full financial statements. In addition, these CFO Act financial statements are independently audited by the Comptroller General. Each year, ABMC has earned an unqualified opinion from GAO on our annual financial audits.

We recognize that improved financial performance is more than achieving an unqualified audit opinion. It is about putting useful and timely information in the hands of leaders with which they can make decisions. Our new accounting system moves us toward that goal. Looking to the future, we have included $552 thousand dollars in our fiscal year 2004 budget to move to a web-based system that will enhance our ability to make such information more readily available to our decision-makers.

Closely related to efforts to expand e-government, in partnership with the Department of the Treasury, we converted to full electronic funds transfer banking for all foreign currency disbursements. Prior to this, we maintained U.S. funds in separate overseas foreign currency bank accounts under delegated disbursing authority from the Treasury. Now disbursements flow electronically from our accounting system through the Treasury's Kansas City Financial Center to the overseas bank account of our vendors and employees. The initial conversion to this electronic capability was not as seamless as expected. However, the process is now stabilized and is allowing quicker payments for customers, elimination of funds held outside the Treasury in foreign bank accounts, and real automation of worldwide funds transfers.

Our new integrated accounting system and our successes on international electronic funds payment and full financial audits are moving ABMC toward new levels of financial excellence. We look forward to the challenges of fiscal year 2004.

EXPANDED E-GOVERNMENT

Our efforts in expanding e-government go beyond the use of electronic funds transfers overseas. They include how we deliver our services to our citizens—the very heart of what we do.

Over the last several years, ABMC has expanded access to valuable information through the use of on-line tools. We have a Web site which allows visitors to gather information on our organization, cemeteries, memorials, and their locations. Our European Region has an intranet web site which provides details on their operations. In addition, we have placed an interactive video system at the Korean War Veteran's Memorial which allows visitors to view or print biographies of those lost in that conflict.

We are also supporting the Administration's efforts to reduce the number of payroll providers within the federal government. We are working with OPM and GSA to transfer our internal, manual payroll operations to a web-based system provided by a service provider, in our case GSA. We fully support this effort as a way of saving money throughout the government. However, that conversion may bring additional conversion costs to us in fiscal year 2004. We are in the process of solidifying our cost estimates.

BUDGET AND PERFORMANCE INTEGRATION

We are pressing forward in the budget process to ensure that our funding requests support the objectives of the agency and the President's Management Agenda. Our budget clearly ties to our Strategic and Annual Performance Plans. In addition, these plans directly link to the Commission's Management Discussion and Analysis (MD&A) statements which are required as an integral part of the annual audit conducted by the Comptroller General.

OTHER IMPORTANT PROJECTS

Normandy Interpretive Center

Congress, through Public Law 107–73, provided $5.0 million to ABMC for fiscal year 2002, specifically for the partial cost of design and construction of a new interpretive and visitor center at the Normandy American Cemetery in France. In fiscal year 2003, Congress provided an additional $4.0 million to continue this project. We have developed a contract proposal and have begun the initial pre-design phase. Our intent is to achieve an appropriate and comprehensive design, determine and obtain total project funding, and begin construction during fiscal year 2004.

Vietnam Veterans Plaque

Public Law 106–214 directed ABMC to oversee the placement of a plaque "within the Vietnam Veterans Memorial containing an inscription intended to honor those Vietnam veterans who died after their service in the Vietnam War, but as a direct result of that service, and whose names are not otherwise eligible for placement on the Memorial Wall." The law clearly stated that federal funds may not be used to design, procure, or install the plaque. We are in the process of working this important project through the requirements of the Commemorative Works Act and anticipate completion within the next year.

WWII Memorial

Beyond our primary mission of operating and maintaining and improving the management of twenty-four memorial cemeteries and twenty-five monuments, memorials, and markers, our attention has also been focused on the design and construction of the World War II Memorial.

Congress provided legislative authority for siting the memorial in the prime area of the capital, which includes the National Mall. The total estimated cost of the memorial project is $170.5 million, which includes site selection and design, construction, a National Park Service maintenance fee required by the Commemorative Works Act, groundbreaking and dedication ceremonies, fund raising and administration of the project from its inception in 1993 through projected completion in 2004.

The Commission of Fine Arts (CFA), the National Capital Planning Commission (NCPC) and the Department of Interior approved selection of the Rainbow Poolsite, a 7.4-acre area at the east end of the Reflecting Pool between the Lincoln Memorial and the Washington Monument.

The public fund raising began in earnest in March 1997 when the ABMC announced that former Senator Bob Dole would serve as the National Chairman of the World War II Memorial Campaign. He was joined in this endeavor by National Co-Chairman Frederick W. Smith, founder and CEO of FedEx Corporation. The fundraising efforts continued to be positive during fiscal year 2002, building on the groundwork and success of previous fiscal years. The campaign received $11.6 million in contributions during the fiscal year 2002, bringing the total funds received from all sources, including the federal government, to $186 million. This total increased to about $189 million as of January 2003.

Congress also approved several legislative items that continue to support the memorial project. Public Law 106–117, signed November 30, 1999, granted ABMC permanent authority to solicit and receive funds and preserves any such funds in ABMC controlled interest bearing Treasury Accounts, including any funds remaining after completion of the memorial and increased ABMC's authority to accept volunteer services and to use intellectual property interests. In addition, Public Law 106–398, signed October 30, 2000, designated $6 million of the proceeds from the sale of titanium from the National Defense Stockpile for completion of the design, groundbreaking, construction, maintenance, and dedication of the memorial.

Our greatest challenge has been to ensure that construction is completed so that as many of the World War II generation as possible will live to see and be honored by the memorial. A construction permit was issued by the National Park Service in January 2001, but a small coalition of groups opposed to the site and design had filed a federal lawsuit to block the project. Construction, which could have begun in March 2001, was delayed by this legal action. Public Law 107–11, signed by President Bush on Memorial Day 2001, directed that the memorial be constructed expeditiously at the dedicated Rainbow Pool site. On the basis of this legislation, the federal lawsuit was dismissed, clearing the way for award of a construction contract in June 2001. Actual construction began in September 2001 and the memorial is expected to be completed in the spring of 2004 and will be dedicated on May 29, 2004.

Since 1923 the American Battle Monuments Commission's memorials and cemeteries have been held to a high standard in order to reflect America's continuing

commitment to its Honored War Dead, their families, and the U.S. national image. The Commission intends to continue to fulfill this sacred trust while ensuring the prudent expenditure of appropriated funds.

The American Battle Monuments Commission appropriation request for fiscal year 2004 is $32,400,000.

NEIGHBORHOOD REINVESTMENT CORPORATION

PREPARED STATEMENT OF ELLEN LAZAR, EXECUTIVE DIRECTOR

Neighborhood Reinvestment Corporation is pleased to submit its testimony for the record. This testimony is based on the experience and considerable successes of 226 community development organizations serving more than 2,300 urban, suburban, and rural communities. These nonprofit partnerships are collectively known as the NeighborWorks® network and operate in 49 states, the District of Columbia, and Puerto Rico.

The Neighborhood Reinvestment Corporation was created by Congress in 1978. Since that time, Neighborhood Reinvestment and its affiliated NeighborWorks® network have responded to communities in need, championed homeownership for Americans of modest means, and created a network of excellence in the housing and community development field. This could not have been accomplished without this Subcommittee's commitment of federal funds. In fiscal year 2002, the NeighborWorks® system generated nearly $1.7 billion in direct investment, helping nearly 70,000 families obtain and maintain safe and affordable rental and homeownership housing.

We thank the Subcommittee for supporting Neighborhood Reinvestment through the fiscal year 2003 budget appropriation of $105 million, and we look forward to briefing you on our outcomes next year. Neighborhood Reinvestment's fiscal year 2004 budget justification outlines proposed activities at a $115 million budget level, an increase of $10 million over the fiscal year 2003 budget justification. With this additional $10 million, the NeighborWorks® system will continue to increase our homeownership efforts, and meet rising personnel costs and health care expenditures to maintain the Corporation's committed professional staff.

This year Neighborhood Reinvestment celebrates its 25th anniversary. As the environment in which we work has changed dramatically, our mission has become even more relevant and our services are in high demand. Neighborhood Reinvestment is well respected in the housing and community development field, and the NeighborWorks® brand is seen as a sign of the highest quality. Since our founding, Congress and a long succession of administrations have consistently remained supportive of our activities. As we celebrate our past with immense pride, we want to look to the future and position the NeighborWorks® system to respond to the critical needs that our nation's communities face.

OVERVIEW OF THE NEIGHBORWORKS® SYSTEM

Created by an act of Congress in 1978 (Public Law 95–557), Neighborhood Reinvestment Corporation works with 226 local community development nonprofits, and Neighborhood Housing Services of America (NHSA) to accomplish its mission, as outlined by its authorizing statute. This coordinated effort is known as the NeighborWorks® system.

THE NEIGHBORHOOD REINVESTMENT CORPORATION

Neighborhood Reinvestment's partnership with local housing and community development organizations supports residents, businesses and local governments in their efforts to revitalize their communities. Neighborhood Reinvestment has five core activities:

—We assist existing NeighborWorks® organizations to expand their geographic and programmatic scope and help other organizations to become chartered members of the NeighborWorks® network. Currently, we work with 226 NeighborWorks® organizations nationwide in over 2,300 communities, and we expect to invite 12 additional organizations to join the network in fiscal year 2003.

—We fund NeighborWorks® organizations by supporting their capital projects and operations to enable them to create and develop their own community-revitalization initiatives from a solid asset base. In fiscal year 2002, this resulted in $1.7 billion of direct investment in America's communities, creating a powerful engine for revitalization.

—We provide sophisticated and specialized technical assistance to NeighborWorks® members to more effectively and efficiently reach underserved communities. In 2002, more than 35,000 lower income families and individuals were able to purchase, maintain or rehabilitate their home, over 72,000 families received pre- or post-purchase homebuyer education services, and more than 34,000 rental units for lower income households were owned or managed as a result of the work of the NeighborWorks® network.
—We conduct extensive review and oversight of NeighborWorks® organizations and NHSA, providing them with an objective appraisal of their strengths and weaknesses, which allows them to successfully manage their resources and programmatic risks. Using a rigorous and formalized organizational assessment process, each community development organization in our network is evaluated annually and given a report card covering performance in such areas as financial management, board governance, contract compliance, productivity, and resource development.
—We operate national Training Institutes open to anyone involved in affordable housing and community revitalization, particularly private- and public-sector practitioners and community leaders. In 2002, more than 11,000 housing and community development practitioners from every state received substantive training in key aspects of community and economic development activity, including real estate development, portfolio management, leadership development and financial management.

These activities individually and collectively build the productivity and strength of the NeighborWorks® network and the broader community development field.

THE NEIGHBORWORKS® NETWORK

Neighborhood Reinvestment is the founder of the NeighborWorks® network, a collaborative group of community-based nonprofits that has evolved to include 226 members active in more than 2,300 communities across the country today. Regardless of their target communities, NeighborWorks® organizations function as partnerships of local residents, lenders and other business leaders, and representatives from local government. To achieve the locally-identified goals, members of the NeighborWorks® network utilize the laboratory environment Congress intended to achieve creative strategies, collaborate on best practices, and develop flexible financing mechanisms.

Each organization is responsible for setting its own strategies, raising funds, and delivering services. Most NeighborWorks® organizations provide homebuyer counseling, rehabilitation monitoring, and targeted lending services that complement conventional lending activity. Most NeighborWorks® organizations also operate a revolving loan fund to meet community credit needs such as gap financing for home purchase loans, second mortgages for rehabilitation, small-business loans, and acquisition and development of residential and commercial real estate. The NeighborWorks® network is the only national community development nonprofit network with extensive expertise in designing, originating, and servicing small nonconventional loans to lower-income families. Clients often require individual counseling and personalized assistance; however, this concentrated effort pays off by creating new opportunities for first-time homebuyers and by permitting existing homeowners to make affordable improvements, all of which works to revitalize communities.

NEIGHBORHOOD HOUSING SERVICES OF AMERICA

NHSA works in partnership with the Neighborhood Reinvestment Corporation to meet special secondary market needs of NeighborWorks® organizations and their clients. The primary mission of NHSA is to operate a specialized secondary market created to replenish the revolving loan funds and capital pools of local NeighborWorks® organizations.

With administrative and capital support provided by Neighborhood Reinvestment, NHSA purchases community development loans at face value, thereby allowing NeighborWorks® organizations to originate loans with interest rates and terms based on the borrowers' ability to repay. NHSA's loan purchases provide a stream of capital into NeighborWorks® organizations' revolving loan funds, to meet additional needs within their target neighborhoods.

OUTCOMES OF FISCAL YEAR 2002

With your backing and confidence, fiscal year 2002 proved to be a groundbreaking year on many fronts. Congress provided Neighborhood Reinvestment with an appropriation of $105 million; of which, $10 million was set-aside to encourage partner-

ships and training in furtherance of the U.S. Department of Housing and Urban Development's Section 8 homeownership option, and $5 million was set-aside to promote the development of mixed-income rental properties that included families with incomes below 30 percent of area median income.

In fiscal year 2002, the NeighborWorks® network achieved new levels of production, including:

—Generated nearly $1.7 billion in direct investment to targeted communities;
—Made available affordable housing opportunities for nearly 70,000 families;
—Provided pre- and post-purchase homebuyer education and counseling services to over 68,000 families; and
—Leveraged $15.80 in other investments for each dollar Congress appropriated to Neighborhood Reinvestment.

Furthermore, the two set-asides allowed Neighborhood Reinvestment and the NeighborWorks® network to continue its role as laboratory for the community development field.

—Neighborhood Reinvestment partnered with 53 NeighborWorks® organizations and 70 Public Housing Authorities in implementing the Section 8 homeownership option. Over the past four years, the NeighborWorks® system has provided homebuyer education to 2,000 families, produced over 200 new homeowners, and educated 1,200 professionals on this new programmatic opportunity.
—The NeighborWorks® network developed 121 rental units affordable to families with incomes below 30 percent of area median income. These units were in 14 developments totaling over 1,300 units. Remarkably, many of these extremely low-income units will be affordable to families with incomes less than 30 percent of area median income without the need for a Section 8 voucher or certificate. Were it not for this special set-aside, these units would not have been developed.

Lastly, we continued to provide high quality services to NeighborWorks® organizations, aiding their continuing work of providing needed services in their communities. In fiscal year 2002, Neighborhood Reinvestment and NHSA:

—Conducted organizational assessments of each NeighborWorks® organization;
—Provided over 11,000 individuals with training, amounting to over 188,000 contact hours;
—Purchased over $60 million in loans from NeighborWorks® organizations; and
—Distributed 69 percent of Neighborhood Reinvestment's appropriation in the form of grants.

OUTCOMES FOR FISCAL YEAR 2004

For fiscal year 2004, we are requesting an appropriation of $115 million. At this funding level, Neighborhood Reinvestment will be able to expand its services in support of the White House's initiative on increasing minority homeownership and other homeownership activities, as well as continue to recruit and retain staff that will increase its service to the NeighborWorks® network.

A $115 million appropriation will assist the NeighborWorks® network to:

—Leverage nearly $2.2 billion in direct total investment in distressed communities;
—Use each dollar Congress appropriates to leverage $18 from other sources;
—Assist nearly 79,000 families obtain and maintain safe and affordable rental and homeownership housing; and
—Provide pre- and post-purchase homeownership counseling and financial literacy training to nearly 84,000 families.

To support and expand these significant accomplishments, the Neighborhood Reinvestment Corporation and NHSA will:

—Conduct 240 organizational assessments of member organizations;
—Provide 220,000 training contact hours to community development leaders and practitioners through the Neighborhood Reinvestment Training Institute and regional training venues;
—Disburse 69 percent of Neighborhood Reinvestment's congressional funding in the form of grants; and
—Purchase $65 million in loans from NeighborWorks® organizations.

The main purpose of the $10 million increase over the President's fiscal year 2003 budget will be used to help meet the aggressive goals Neighborhood Reinvestment has set in support of the White House's initiative to increase minority homeownership rates.

The added funding in fiscal year 2004 will also help Neighborhood Reinvestment address rising personnel and benefits costs. While Neighborhood Reinvestment staff has actually decreased since 1999, benefits costs for our staff have risen. The in-

crease in personnel and operating costs is attributed to higher gross salaries and costs of health care and other benefits. The increase in salaries includes a five percent merit pool and small bonuses; the Corporation does not provide a cost-of-living increase.

PRIORITIES FOR FISCAL YEAR 2004

In developing our fiscal year 2004 budget, we sought to continue our excellent work from prior years, while defining more aggressive expectations for the NeighborWorks® system. We have always worked to be good stewards of the funds that Congress has entrusted to us, and we continue to diligently work to maximize our efficiency and effectiveness. In order to meet these expectations, Neighborhood Reinvestment and the NeighborWorks® system will continue to respond to communities in need, champion homeownership for families of modest means, and create and sustain a network of excellence.

NETWORK OF EXCELLENCE

Regardless of their target communities, NeighborWorks® organizations function as partnerships of local residents, lenders and other business leaders, and local government representatives. They produce creative strategies, share best practices, and develop flexible financing mechanisms. In order to facilitate, encourage and promote this network of excellence, the Neighborhood Reinvestment Corporation provides guidance, assistance and oversight in the following areas:

Financial Support

Equity capital grants are a critically important financing vehicle that Neighborhood Reinvestment provides to NeighborWorks® organizations for capital and revolving loan funds. NeighborWorks® organizations use these grants to provide equity and gap financing necessary to make loans for home purchases, rehabilitation and small businesses, and provide financing for real estate development.

Neighborhood Reinvestment also provides expendable grants to NeighborWorks® organizations to strengthen and increase their organizational ability to develop and administer responsive products and services. Particular emphasis is placed on activities crucial to increasing production and efficiency, thereby generating sustained community impact and ensuring the long-term success of the organization.

Technical Assistance

In tandem with financial assistance, Neighborhood Reinvestment provides a wide range of technical assistance. NeighborWorks® organizations request practical, systems-based assistance in programmatic, organizational, administrative, financial or management areas of strategic importance to their organization. Neighborhood Reinvestment responds with a team of professionals familiar with each organization's local market, environmental challenges, structure and mission, and provides technical assistance in six key programmatic areas: organizational development; resource development and marketing; community revitalization, economic development and business planning; technology and financial management systems; single-family housing and lending; and real-estate development and management.

Organizational Assessment

As part of our responsibility to act as a good steward of federal funding, and to protect the investment of other partners as well as the high standards and the reputation of the NeighborWorks® network as a whole, Neighborhood Reinvestment Corporation is committed to promoting and maintaining a network of high-performing, well-managed, nonprofit housing and community development corporations that deliver high quality services responsive to local needs and have a measurable impact on their communities. One of the tools employed in doing this is a uniform program review and assessment system.

Through a system of continuous monitoring, each NeighborWorks® organization is subject to an annual risk assessment through either off-site or on-site program reviews. Off-site reviews involve the collection and analysis of data about the organization. These data are analyzed in eight risk areas on a quarterly basis. If a risk alert is identified, the degree to which the organization has the capacity to manage the risk is determined.

Training

A comprehensive, systematic program of training and informing powerfully augments on-site technical assistance. The Neighborhood Reinvestment Corporation is nationally recognized as the premier provider of training in the housing and community development field, having founded its Training Institute 15 years ago. Today,

the Neighborhood Reinvestment Training Institute offers more than 150 courses and reaches more than 5,000 people a year from more than 4,000 communities across America.

Neighborhood Reinvestment's Training Institutes are typically scheduled five times each year at various locations around the country. Approximately half of the attendees of the Institutes come from organizations within the NeighborWorks® network; the rest come from other communities and organizations around the country. This is one of the many ways that the support Congress provides Neighborhood Reinvestment Corporation reaches not only the 2,300 NeighborWorks®-assisted communities, but also the broader community development field.

Beginning in 2002, Neighborhood Reinvestment introduced a unique program for seasoned practitioners. The Advanced Practitioner Platform requires participants to shape and focus their efforts on challenges that can make a tangible difference for their organizations, and for the housing and community development field. Participants establish ambitious goals and hold themselves and each other accountable for achieving them. This self-motivated and disciplined approach is fully focused on ensuring the success of participants as they advance their own work in building strong community-based organizations.

Expansions, Organizational Mergers and New Affiliates

In today's community development industry, effective and efficient growth strategies do not necessarily mean creating or adding new organizations. In many underserved areas, the most sensible and cost-effective approach is to expand the reach or programmatic services of an existing network member, or to facilitate a merger of two organizations to create a more powerful organization with greater impact and efficiency. Neither of these approaches results in the addition of new organizations, yet both can result in productive outcomes, more efficient use of resources, and expanded coverage. Mergers are becoming an increasingly common practice. The combined efforts resulting from mergers can result in achieving greater impact at equal or less cost.

Neighborhood Reinvestment receives a far greater number of requests for new affiliations than it can hope to satisfy responsibly. To prioritize requests from new applicants, the Corporation seeks those environments where its resources and assistance are likely to add the greatest value to local efforts and produce the most pronounced impact. Through a careful affiliation process, Neighborhood Reinvestment works with interested existing community-based organizations to ensure that before any organization is chartered as a NeighborWorks® entity, it is: sound and productive; led by a responsible board of directors reflective of the community it serves; and, committed to a mission compatible with the focus and priorities of the NeighborWorks® network.

RESPONDING TO COMMUNITIES IN NEED

Twenty-five years ago, the Neighborhood Reinvestment Corporation was created because there was a noticeable void in the nation's lending system; namely, there were few opportunities for families of modest means to obtain mortgages and rehabilitation loans from the private lenders. Although the larger environment in which the NeighborWorks® system operates has changed dramatically over the years, the Corporation's role as a bridge between mainstream financial institutions and lower-income communities remains relevant and critical. Neighborhood Reinvestment and the NeighborWorks® network continue to operate in underserved communities that are home to people who lack access to decent affordable housing, financial products, services, and the kind of investments that sustain communities.

Revolving Loan Funds

Because of their flexibility and local control, revolving loan funds are central to the impact of the NeighborWorks® system. These loans are local pools of money administered by NeighborWorks® organizations to meet the lending needs of borrowers who do not qualify under conventional loan underwriting criteria and to serve as equity capital in support of major capital projects. Funding comes from private- and public-sector investors as well as from Neighborhood Reinvestment's equity capital grants. Most revolving loan fund capital comes from local sources—loans and grants made by banks, insurance companies, foundations, local governments and other local investors. In fiscal year 2002, nearly $95 million from NeighborWorks® revolving loan funds were invested in communities.

Loans are made at flexible rates and terms that fit the lower-income borrower's ability to repay, and are typically secured by a lien on the property, often a second or third lien to allow for investment by other public and private sector entities. Seventy-one percent of loans made through NeighborWorks® revolving loan funds are

made to very low- or low-income households, 53 percent to minority-headed households, and 45 percent to female-headed households. The liquidity of local revolving loan funds is maintained by selling loans to NHSA.

Supporting Rural Efforts

In 2002, 60 NeighborWorks® organizations identified their primary service areas as rural communities, which is 27 percent of the NeighborWorks® network and comprises the fastest growing segment of the network. Moreover, as our existing NeighborWorks® organizations expand their target areas, they begin to capture rural areas with their services. The network has proven its ability to address housing needs in rural communities, particularly through our partnership with Rural NeighborWorks® Alliance. With seed funding from Neighborhood Reinvestment and the Northwest Area Foundation, rural NeighborWorks® organizations have grown a shared revolving loan fund that provides bridge financing for local housing or economic development projects at below-market rates. With current loan assets of over $2.1 million, the Rural NeighborWorks® Alliance has made 40 loans totaling more than $4.5 million to 14 rural NeighborWorks® organizations. These loans have supported the production of 413 units of housing and 26 economic development projects, and leveraged $33 million in total project financing.

Using Multifamily Rental as an Asset

Understanding the importance of multifamily rental housing in a comprehensive neighborhood revitalization strategy, a group of NeighborWorks® organizations formed the NeighborWorks® Multifamily Initiative in 1999. Together, these organizations own more than 34,000 units of affordable and well-maintained rental housing. The members of the NeighborWorks® Multifamily Initiative make it their mission to provide sustainable multifamily homes, which are characterized over the long-term by:

—Affordability, as defined by local market conditions;
—Ongoing economic viability;
—High quality maintenance and management; and
—Access to on-site learning centers designed to advance the personal assets of residents—academic success of youth, employability of adults, financial savings, and homeownership.

With $5 million provided by Congress in fiscal year 2002, the Corporation embarked on an ambitious effort to create mixed-income multifamily properties serving families and individuals below 30 percent of area median income. With that funding, Neighborhood Reinvestment provided 14 grants, which funded the development of those units affordable to families with extremely low-incomes. The congressional funding produced 121 units affordable to extremely low-income families. These units accounted for nine percent of the total units in the properties in which they were located, while 79 percent of the units were affordable to families with incomes between 30 and 60 percent of area median income. The remaining 12 percent of the units were affordable to families with incomes greater than 60 percent of the area median. The $5 million congressional set-aside helped invest over $141 million in targeted communities. Further, these units were developed in a myriad of settings—urban, suburban, rural, large and small developments as well as scattered site. Most importantly, many of these units will be affordable to extremely low-income families without need for a Section 8 voucher or certificate or other form of on-going subsidy. The report summarizing preliminary findings of this effort can be found in the Corporations fiscal year 2004 Budget Justification.

CHAMPIONING HOMEOWNERSHIP FOR AMERICANS OF MODEST MEANS

Neighborhood Reinvestment and the NeighborWorks® network have been particularly active promoting homeownership. Over the past 10 years, the NeighborWorks® Campaign for Home Ownership has made significant headway. The combined efforts of the Campaign created more than 60,000 new homeowners and provided counseling to over 350,000 individuals. As a result, $5 billion was invested in many of America's distressed communities.

Supporting the President's Homeownership Goals

For years, the NeighborWorks® system has been a leader in bringing homeownership opportunities to all Americans. Among the families assisted by the NeighborWorks® Campaign for Home Ownership from 1998 through 2002, 54 percent are racial and/or ethnic minorities—compared to 19 percent minorities served by the conventional market (based on 2000 HMDA data).

In June 2002, President Bush announced a national goal of increasing the number of minority homeowners by at least 5.5 million by the end of this decade. The

NeighborWorks® system has been active partners in the development and unveiling of the White House's initiative on increasing minority homeownership. Rather than making changes in its basic strategies, the Corporation will expand the tools and efforts that have proven to be the most effective in addressing critical areas affecting homeownership opportunities, particularly for minorities and other underserved populations such as Spanish-speaking families who are not bilingual.

In support of the White House's initiative, over the next ten years the NeighborWorks® system will:

—Make available housing counseling assistance to more than 650,000 families, of which 59 percent will be minority households;

—Provide direct home-ownership assistance to more than 130,000 families, of which more than 59 percent are estimated to be minority families;

—Provide training, outreach, translation and other supports with an eye to increasing the minority homeownership rate; and

—Raise $750 million in private sector social investments for NHSA's secondary market activities.

NeighborWorks® Campaign for Home Ownership

The NeighborWorks® Campaign for Home Ownership is the largest initiative of its kind to bring families of modest means into the economic mainstream by helping them achieve homeownership. Neighborhood Reinvestment has coordinated this joint effort of banks, insurance companies, secondary markets, government, the real estate community and others, involving more than 140 local community-based NeighborWorks® organizations since the initial launch of the NeighborWorks® Campaign for Home Ownership in 1993.

Over the past 10 years, Neighborhood Reinvestment and the NeighborWorks® network have met challenging goals and accomplished significant outcomes through the NeighborWorks® Campaign for Home Ownership, including:

—Assisted more than 60,000 families to become homeowners, of which 54 percent are minority and 67 percent have incomes below 80 percent of area median income;

—Provided more than 350,000 individuals with pre-purchase homebuyer education and counseling services; and

—Invested more than $5 billion in America's distressed neighborhoods and communities.

The Campaign for Home Ownership, a partnership among Neighborhood Reinvestment and NeighborWorks® members, has focused on supporting NeighborWorks® organizations to help establish clear, aggressive goals, and define and abide by high quality standards. Innovative tools and ideas, such as Full Cycle Lending,℠ NeighborWorks HomeOwnership Centers,℠ Financial Fitness, and Section 8 homeownership, have also been developed and supported. More recently, Neighborhood Reinvestment and members of the NeighborWorks® network have begun to work with families even earlier in the process, through a financial education program called Financial Fitness. The Corporation has developed standards, adapted and created training materials, trained trainers through the Neighborhood Reinvestment Training Institute, and initiated a pilot Financial Fitness program at 39 NeighborWorks® sites nationwide. This program intends to give participants an understanding of basic finances and healthy financial relationships that benefit both the individual and the community.

By the end of calendar year 2002, NeighborWorks® organizations enrolled over 8,700 people in the training, and graduated more than 5,500 individuals. Of these, nearly 59 percent are minorities, 93 percent are renters, 65 percent are women, and 75 percent have incomes below 80 percent of the area median income.

The Campaign for Home Ownership has set new goals for the next five years, including

—Creating 50,000 new homeowners, including 30,000 minority homebuyers.

—Assisting 50,000 families to preserve homeownership and improve their homes through housing rehabilitation, maintenance, repairs, delinquency and foreclosure prevention, loss mitigation, and refinancing.

—Establishing a coordinated outreach, public information and counseling effort to reach 500,000 families through educational programs, such as Financial Fitness classes, anti-predatory lending efforts, pre- and post-purchase counseling, and expansion of NeighborWorks® HomeOwnership Centers.℠

—Working with up to 10 pilot NeighborWorks® organizations to establish geographically-targeted revitalization efforts, which will include homeownership promotion as well as single- and multi-family real estate development, resident leadership, and commercial and economic development.

—Promoting the growth of the homebuyer education industry through the development of up to 10 national alliances, establishing national standards for training and certifying homebuyer educators and counselors, and providing tools and best practices that can help the industry become more effective, efficient and sustainable.

Helping Section 8 Families Move to Homeownership

The NeighborWorks® system is dedicated to expanding homeownership opportunities across the country, particularly for families and individuals with low and moderate incomes. One of the most innovative programs used in this effort is the Section 8 homeownership option. Strong technical and financial support from the Neighborhood Reinvestment Corporation has enabled NeighborWorks® organizations to serve as a bridge between private lenders and public housing authorities to make homeownership a reality for qualified Section 8 voucher holders. Congress has propelled the NeighborWorks® network's efforts by providing funding specifically targeted to NeighborWorks® organizations partnering with Public Housing Authorities (PHAs).

In recognition of the early success of this effort, the Corporation's fiscal years 2001 and 2002 appropriation included a total of $15 million set-aside to develop capacity and effective partnerships. Most of the funds were used to capitalize NeighborWorks® organizations' revolving loan funds serving as a source for second mortgages, with a smaller portion being used for capacity-building grants. These grants helped some NeighborWorks® organizations tailor their pre- and post-purchase services to the specific needs of their Section 8 population, develop unique systems to work with a Section 8 voucher and the PHA, or defray a portion of the costs associated with hiring additional staff to implement the program. The appropriation set-asides also support a performance-monitoring component with assistance from a third-party consulting and research firm.

The set-asides helped fund 53 NeighborWorks® organizations develop partnerships with 70 PHAs, provide 2,000 families with pre-purchase homebuyer education, and resulted in over 200 new homeowners. The median income of these families was slightly over $24,000, compared to the median family income of the typical U.S. buyer of $48,991. These partnerships are built upon the NeighborWorks® network's solid experience in pre- and post-purchase counseling, innovative mortgage financing and in leveraging public resources and private investment.

Both the multifamily and Section 8 homeownership efforts of the NeighborWorks network exemplify Neighborhood Reinvestment's charter: to operate as a laboratory for the community development field in order to identify models and practices that keep America's communities strong and vital.

CONCLUSION

Let me close by thanking the Subcommittee for the wonderful opportunity you have given the NeighborWorks® system to serve America's communities, and to ask for your continued support. After 25 years, Neighborhood Reinvestment Corporation continues to strive for the maximum efficiency in the delivery of its services to America's communities. We are proud of the work that the NeighborWorks® system has accomplished over the last quarter century; we also know that more work is left to be done.

Our proposed priorities for fiscal year 2004 allow us to continue the balance between efficiency and creativity, between responsible stewardship and locally-controlled programmatic flexibility. This Subcommittee has been our most vocal supporter in productively maintaining this balance since 1978.

Neighborhood Reinvestment Corporation is committed to building healthy, strong and safe communities all across America. Your continued support is vital to us in accomplishing this goal.

SELECTIVE SERVICE SYSTEM

PREPARED STATEMENT OF LEWIS C. BRODSKY, ACTING DIRECTOR

PREFACE

For many years, I had the privilege of accompanying past Directors of the Selective Service System in their appearances before this Committee while serving in the capacity of the Agency's Director of Public and Congressional Affairs. Time and circumstances caused me to change roles early this year and today I am pleased to represent the Selective Service System as its Acting Director. Director Rascon re-

signed his position on January 2, 2003, because of health reasons; and I do not know how long it will take for the President to nominate and the Senate to confirm a new Director. But I can assure you that the Selective Service System continues to drive forward. We are improving registration compliance, shifting our focus in consonance with the most likely needs of the Department of Defense (DOD), and undergoing restructuring in line with the President's Management Agenda.

I welcome this opportunity to support the President's fiscal year 2004 appropriations request of $28,290,000 for the Selective Service System. This is a 6.8 percent increase over the current fiscal year. The proposed budget will cover the cost of current services, provide a small program increase for unavoidable information technology changes, and accommodate a 3.6 percent annual salary increase. By adjusting its operational priorities, reducing full-time military staffing, and employing state-of-the-art information technologies over time, the Agency has been able to accomplish its statutory responsibilities without interruption.

CAPABILITIES

The SSS stands ready to perform its mission. It can conduct a draft that is efficient, fair, equitable, and accepted by the public, should the President and the Congress authorize a return to a draft. It is also ready to administer a program of alternative community service for men who are classified as conscientiously opposed to military service. With its routine communication with all men in the U.S., 18 through 25 years old, and its ability to mobilize national manpower on a large scale, the Agency is also capable of performing additional human resource support missions related to national security or service, if so directed.

I am pleased to report that the men and women of Selective Service are making a good Agency even better. For example, the Agency continues its close partnership with the DOD by providing direct support to Armed Forces recruiting and accessions processing. Specifically, Selective Service provides the names of its registrants to the Secretary of Defense for recruiting purposes, in accordance with a provision in Military Selective Service Act. Additionally, we have taken this cooperation a step further since January 2000, by continuing an effective joint mailing program. As we reported previously to this Committee, information about Armed Forces opportunities and a business reply card are now enclosed with the registration acknowledgment that the SSS sends to each new registrant. Thus, the Defense Department benefits by "piggy-backing" on our routine mailings and it reimburses us for the additional costs.

Beyond these tangible services, Selective Service also promotes an intangible national benefit. For present and future generations of America's young men, it represents a very critical link between society-at-large and today's volunteer military. It is a reminder that, as Americans, every young man is personally responsible for "providing for the common defense" in the time-honored tradition of preceding generations.

PRIORITY AREAS

Since becoming Acting Director less than four months ago, I have focused Agency activities on complying with President Bush's Management Agenda. We are reexamining our processes and restructuring the SSS to meet the most likely manpower needs of the Department of Defense while finding improved ways of serving the public. Three initiatives are especially noteworthy because they are providing the largest return on investment while producing more effective and responsive customer service. Each satisfies the Administration and Congressional charges to Federal agencies to evolve into performance-based organizations.

1. Organizational Realignment.—Expanding upon our fiscal year 2002 Agency's Workforce Restructuring Plan, a complete "bottom-up review" is underway with contractor assistance. After several recent consultations with senior Defense manpower officials, it is apparent to me that the Agency's current organizational structure is not as responsive or relevant to the contemporary needs of the DOD as it might be. Consequently, we are shifting our programmatic emphasis from readiness to conscript of large numbers of untrained men within 193 days of activation to a draft of smaller numbers of critical skills personnel in shorter time frames. This necessary realignment can be accomplished within current resources and will probably result in less management overhead, merging of offices and programs, and increased potential for outsourcing some Agency functions. The benefits accrued from strategic management of human capital, competitive sourcing, improved financial performance, expanded e-Government, and better integration between budget and performance should substantially increase Agency efficiency. In this ongoing review, there are no "sacred cows." All functions and programs are on the table, and each struc-

tural change and staffing decision will be driven by practical, cost-conscious considerations.

2. Registration Compliance.—The SSS registration compliance rate for men 18 through 25 years old declined steadily from a high of over 98 percent in 1991 to a low point of 88 percent in 1999. This decrease was cause for serious concern because of our self-imposed "fairness" criteria. We believe a compliance rate of less than 90 percent would contribute to a lack of public confidence because the resulting draft would not be considered fair or equitable. The public would believe, rightly so, that not everyone who should be in the manpower pool is accounted for; and therefore those who are registered have an increased chance of being called for involuntary service. This is why SSS Directors since 1992 have placed a consistent priority on raising the registration rate. Our concentrated efforts to halt and reverse the downward spiral are achieving success. We held the line at 88 percent overall registration compliance in 2000 and, at the end of 2001, we had turned the corner and started an upward trend, achieving 89.1 percent compliance by 18- to 25-year old men. For 2002, Selective Service achieved 91 percent compliance. The other good news is that the statistics for fiscal year 2002 are indicating a 74 percent compliance rate for "on-time" registration of men turning 18. This is the highest compliance rate achieved for this year group since 1994. We will continue to use a combination of approaches and the attendant resources will be traded off among other programs, if necessary. To reinforce success, we:

—Are continuing to develop and distribute public service broadcast messages to low compliance markets, together with new printed materials. To support this effort, additional radio public service announcements (at no cost for air time) in English and Spanish are being distributed. These high-quality products have received laudatory comments from viewers around the country and are receiving no cost annual air play commercially valued at $7.2 million.

—Have just revamped the interactive Selective Service pages on the World Wide Web (http://www.sss.gov) where online registration, database verification, the ability to file changes of information, and a wealth of other Agency information are now available to anyone with access to the Internet. For fiscal year 2002, 69 percent of registrations reach the SSS through electronic means, or about 135,000 registrations per month, and we continue to expand our Website's capabilities. We are also placing links to our site with other Federal, state and local agencies and schools to enhance public education and facilitate customer responsiveness.

—Are benefitting from an increasing number of states which link obtaining a driver's license or state I.D. card to the Selective Service registration requirement. These state laws are currently providing the SSS with an average of 27,500 registrations per month. As of this month, 30 states, two territories, and the District of Columbia have legislation in place. They represent over 56 percent of the national 18-year-old male registrant population and we are working closely with additional states where such legislation is pending.

3. Information Technology (IT).—In concert with the President's Management Agenda, we are convinced that in an era of constrained resources, expanding workload, and performance-based organizations, one major strategy must be to continue to invest in IT. It has been the SSS' major approach to improving customer service and organizational productivity while conserving limited human and fiscal resources. We began modernization of the Agency's technology infrastructure fiscal year 1997 and plan to continue through fiscal year 2004 and beyond. Our Information Technology Architecture Plan focuses on adding new information technologies to the Agency's infrastructure. In fiscal year 2004 we must make additional refinements in hardware and software which are driven primarily by changing customer needs and revised government requirements. The goal of upgrading the Agency's IT platforms is based on re-engineering critical mainframe computer systems. Integrating the SSS mainframe computer systems into more user-friendly Web-based applications is our strategy over the next several years. By embracing change and applying technology, Agency activities are leading toward a paperless work environment and a more efficient means of doing business. These revamped systems are paying important dividends in end-user convenience and better service to our customers, as well as increasing the productivity of the Agency's workforce.

ADAPTABLE TO CHANGE

We are also ready to aid the Administration and the Congress with any future initiatives that could capitalize upon Selective Service's unique capabilities. There has been much dialogue among the public, private groups, academia, and the Administration concerning a draft, volunteerism, and national service. Selective Serv-

ice has a wealth of experience in managing volunteers (Board Members), and administering programs of alternative community-based service (for men classified as Conscientious Objectors) throughout its 63-years of existence. The Agency also has experience in conducting a fair and equitable classification procedure to determine who should serve when not all can serve. To ensure fairness and equity, each SSS Board is a melting pot of civic-minded men and women reflecting the racial, cultural and ethnic diversity of the young men within the communities it serves. Through these volunteers, a unique bond has been formed at the grass roots with young American men, society-at-large, and the U.S. Armed Forces. Through the Selective Service structure, every American community plays a positive role in providing for the common defense. In short, this Agency has extensive practical experience in identifying, contacting and classifying people to participate in a national security or service program. If called upon to support any new "service" initiatives of the Administration, Selective Service can lend its expertise and ample experience to the task.

CLOSING

Today, Mr. Chairman, thanks in very large measure to your personal interest in this Agency and the continuing support of the Subcommittee and its staff members, the Selective Service System stands prepared to perform its time-tested responsibilities, if so directed. The fiscal year 2004 appropriation request of $28,290,000 will be invested prudently in one of the Nation's important security assets. Its rationale for existence and its credentials are the same: to provide a compact, cost efficient structure capable of rapid expansion in a crisis; to provide manpower to our Armed Forces as required; and to do it fairly, equitably, and within the necessary time frames. The Selective Service System remains resolute in its organizational realignment and operational streamlining. It has improved service to its customers, reinforced its commitment to America, and stands ready to play a key role in our Nation's future.

Thank you, Mr. Chairman.

DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND INDEPENDENT AGENCIES APPROPRIATIONS FOR FISCAL YEAR 2004

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, DC.

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were recieved by the Subcommittee on VA, HUD and Independent Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2004 budget request.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule hearings for non-departmental witnesses.]

PREPARED STATEMENT OF THE LAC DU FLAMBEAU BAND OF LAKE SUPERIOR CHIPPEWA INDIANS

The Lac du Flambeau Reservation is in the "North Woods Area" of Wisconsin and our homeland is called Waswagoning. The Lac du Flambeau tribal members always want to remind Congress about the special and unique relationship the Federal government has with Indian tribes. The Federal government is obligated by Treaty and Executive Order to provide for critically needed social, education, health and governmental services to the Band and its members in exchange for the land, water, natural resources and peace our forefathers provided. As Congress and the President work on the fiscal year 2004 Budget, the obligations and commitments to provide for these services must not be forgotten and should be given the highest priority. The Lac du Flambeau Band submits the following issues and concerns to the Subcommittee concerning veteran's affairs, housing and the environment.

VETERANS' ADMINISTRATION

The Lac du Flambeau Band would like to address how the system is failing our American Indian veterans with regard to accessing veterans' benefits. American Indians across the country have the highest record of military service per capita when compared with other ethnic groups. These men and women have put their lives at risk to ensure the survival of future generations and the freedom of all Americans, yet they consistently have problems accessing basic benefits and services. It is difficult and frustrating for our veterans to get to the County Veterans Service Office ("CVSO") located almost 50 miles away. According to a resolution prepared by the Great Lakes Inter Tribal Council in Lac du Flambeau, there are approximately 40,000 American Indian veterans in Wisconsin. It is estimated that only 5 percent of these veterans are aware of the benefits programs for veterans.

We urge the Committee to establish Tribal Veterans Service Office ("TVSO") on Indian Reservation to render services locally to American Indian veterans and their families. Currently, the Band is not a recipient for Federal or State grants in regards to securing tribal veterans' benefits. By Congress appropriating $150,000 as

a proposed budget, we can finance and secure office space for a TVSO at Lac du Flambeau. We ask that this TVSO have autonomy and the same benefits and opportunities as the CVSO. We respectfully request that Congress honor our warriors and ensure that these American Indian veterans can access veterans' benefits with fewer barriers by placing a TVSO on the Lac du Flambeau Reservation.

HOUSING

There is a shortage of housing on the Lac du Flambeau Reservation. Additionally, the housing that is in place is substandard and lending to an ever-increasing black mold problem. Four hundred and twenty five (425) homes were tested for mold with 85 percent testing positive for mold. In March 2000, the Bureau of Indian Affairs released a Labor Force Survey that shows the Lac du Flambeau enrolled membership population is 3,056 with a projected population growth of 4 percent by the year 2005. The Tribal Housing Authority's NAHASDA Block Grant is $1,639,625.00. The Band's housing stock is 191 rental units and 68 Mutual Help units—a total of 249 units and over half the units are considered to have overcrowded living conditions. The rental units are 17 to 38 years old and are in substandard condition, most of which require major rehabilitation and modernization. There are currently 300 Lac du Flambeau members on the waiting list for housing. Band members continue to move back to the reservation only to find overcrowded living conditions and no housing.

Lac du Flambeau's Chippewa Housing Authority continues to face the housing shortage and inadequate funds to renovate existing units. Toxic mold has been found in 85 percent of our housing units. Because of the shortfalls in funding, it becomes a balancing act to determine if you use the funding for housing development, rehabilitation of older units or toxic mold re-mediation. Housing development, renovation and modernization needs must be addressed simultaneously. Unfortunately, lack of funding is an obstacle in providing safe, healthy and affordable housing for the tribal membership.

President Bush's budget proposal for fiscal year 2004 is $641 million for the Indian Housing Block Grant (IHBG), the major Native American housing program authorized by the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). This amount is identical to funding requested and enacted for the past three years. According to data from the National Association of Home Builders, the median cost of a new home has risen 34 percent over the past ten years and has increased almost 5 percent annually over the past four years. In order for the Committee to understand the funding shortfall, it is estimated that Lac du Flambeau's Housing Authority would require $2.5 million per year for maintenance and rehabilitation for existing NAHASDA units, $1.2 million annually for new housing development and $1.5 million for administrative costs. The Band urges Congress to increase the NAHASDA appropriations to a level that is responsive to the growing housing needs on the reservation.

It must be noted that the toxic mold is a very serious problem in Lac du Flambeau and we also urge Congress to hold hearing on this specific problem in Indian Country. The purpose of the hearing would be to determine the causes, extent of and cost to fix the problem. Toxic mold has been associated with numerous health related issues.

ENVIRONMENT

The Lac du Flambeau Reservation is rich with water bodies and forests with nearly 50 percent of the reservation is saturated with water. The total resource areas are as follows: Wetlands—24,000 acres (27.7 percent), Lakes & Rivers—17,897 (20.7 percent), Forested Uplands—41,733 (48.2 percent), and Other—3,000 (3.5 percent). Approximately 25 percent of the reservation area is owned by non-Band members and is considered fee land. The Band was blessed with a very diverse ecosystem and a huge responsibility to protect, enhance, and conserve the natural resources for present and future generations.

Based on the above the Lac du Flambeau Band is very concerned with the decrease in Section 106 funding in fiscal year 2004. It is estimate that Band, along with other Region V Tribes, will have their 106 funding reduced by $30,000–$32,000 in fiscal year 2004. The reasons for the funding shortfall are two-fold.

Starting this year EPA is using Census 2000 data. Through fiscal year 2002 EPA had used 1990 census data. Use of the Census 2000 data redistributes funds among the Regions. The updated numbers of eligible Tribes and the new census data caused Region 5's allocation of 106 funds to drop from approximately $4.14 million in fiscal year 2002 to $3.87 million in fiscal year 2003.

EPA is currently reworking their funding formula to address Oklahoma Tribes. The criteria being used to allocate 106 funds to date have not given credit to Region 6 for all of the land areas of these Tribes. When land areas and population data for the Oklahoma Tribes are built into the allocation formula, this has the effect of reducing the allocation to Region 5 (and other Regions, particularly Region 8). Although the numbers are still evolving, Region 5's allocation could go down to approximately $3.29 million in fiscal year 2004.

To off set the decrease in funding due to the combine factors mentioned above, the Band urges Congress to make additional funds available in EPA's 2004 budget for Section 106 grants to Tribes.

EPA has also helped the Band in developing underground storage tank, radon, and solid waste programs on the reservation. These programs have succeeded largely due to the General Assistance Program ("GAP"). The monies received since 1992 have allowed the Band to make significant progress, however $110,000 is not adequate to support the implementation of these federally mandated programs. Indian Tribes are required to comply with many environmental mandates. We need an increase to at least $135,000 for fiscal year 2004 to support additional staff, which is needed to assist the Band in protecting and conserving our natural resource.

In addition, the recently enacted Tribal Cooperative Agreement Authority, which allows the EPA to award cooperative agreements to Tribes to assist in implementing Federal environmental programs, should be renewed permanently or at least for an additional year. A specific tribal set aside for this new program would also be helpful to the Band in achieving necessary environmental goals. Currently this Cooperative Agreement Authority does not carry any additional funding allocation for Tribes. Tribes are precluded from obtaining any State dollars allocated for similar EPA/State Cooperative Agreement Authority.

WATERS OF THE UNITED STATES

The scope of federal jurisdiction under the Clean Water Act was severely limited by the U.S. Supreme Court decision in the case of the Solid Waste Association of North Cook County (SWANCC). Today many waters are treated as "jurisdictionally isolated waters" that are no longer subject to CWA regulation. Congress should redefine waters of the United States to cover these "jurisdictionally isolated waters" back within the scope of CWA jurisdiction. Many States are taking steps to close this loophole, which is resulting in a jurisdictional patchwork of water regulations, where there used to be uniformity. Wetlands are essential for clean water, flood control and fish and wildlife habitat.

PREPARED STATEMENT OF THE GREAT LAKES INDIAN FISH AND WILDLIFE COMMISSION (GLIFWC)

ENVIRONMENTAL PROTECTION AGENCY APPROPRIATIONS

GLIFWC seeks $311,000 from various EPA programs for its ceded territory treaty rights environmental protection program:

Lake Superior Bi-National Program and Lake Superior LaMP.—$80,000 for continued GLIFWC participation in the Bi-National Program, in the on-going work regarding the Lake Superior LaMP, and in IJC, SOLEC and other Great Lakes forums.

Ceded Territory Fish Consumption Mercury Advisory Program.—$141,000 to continue GLIFWC's long-standing program to collect and test fish for mercury content and to communicate up-to-date information to tribal communities and the public through health care providers and Geographic Information System (GIS) maps.

Lake Superior Habitat and Human Health Research.—$90,000 for research projects on contaminant levels in Lake Superior whitefish and on potentially contaminated whitefish and lake trout spawning grounds in Lake Superior.

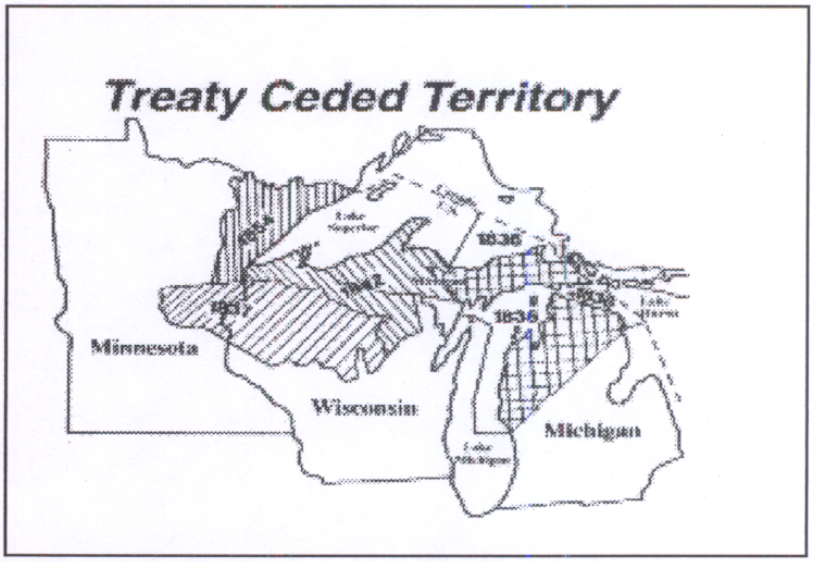
GLIFWC'S GOALS FOR EPA'S FISCAL YEAR 2004 BUDGET

GLIFWC asks Congress to provide adequate appropriations for EPA's programs that fund GLIFWC's work in these areas, and to instruct EPA to provide the funds to meet GLIFWC's needs. Over the past 8 years, Congress and EPA have funded GLIFWC's treaty rights environmental protection program under a variety of budget categories, including: wetlands (Section 104(b)(3) funds), coastal environmental management (CEM), the Great Lakes National Program Office (GLNPO), the Office

of Pollution Prevention and Toxics, and environmental justice grants.[1] The Clean Water Act (33 U.S.C. § 1268) requires the EPA and GLNPO to integrate tribal agencies in the development and implementation of action plans to carry out the United States' responsibilities under the Great Lakes Water Quality Agreement. In addition, GLIFWC and its member tribes are among the partners implementing the Great Lakes Strategy for 2002—A Plan for the New Millennium.

CEDED TERRITORY TREATY RIGHTS AND GLIFWC'S ROLE

Tribal members rely upon fish, wildlife, and plants for religious, cultural, medicinal, subsistence, and economic purposes. Their treaty rights mean little if contamination of these resources threatens the health, safety, and economy of tribal members, or if the habitats supporting these resources are degraded.



GLIFWC was established in 1984 as a "tribal organization" within the meaning of the Indian Self-Determination Act (Public Law 93–638). It exercises authority delegated by its member tribes to implement federal court orders and various interjurisdictional agreements related to their treaty rights. GLIFWC assists its member tribes in:

—securing and implementing treaty guaranteed rights to hunt, fish, and gather in Chippewa treaty ceded territories; and

—cooperatively managing and protecting ceded territory natural resources and their habitats.

The requested EPA funds would assist GLIFWC in achieving its broader conservation/habitat protection mission by maintaining partnerships with other resource managers and scientific/conservation organizations and by funding specific environmental research projects.

For the past 17 years, Congress and Administrations have funded GLIFWC through the BIA, EPA and other agencies to meet specific federal obligations under: a) a number of U.S./Chippewa treaties; b) the federal trust responsibility; c) the Indian Self-Determination Act, the Clean Water Act, and other legislation; and d) various court decisions, including a 1999 U.S. Supreme Court case, affirming the treaty rights of GLIFWC's member Tribes. GLIFWC serves as a cost efficient agency to conserve natural resources, to effectively regulate harvests of natural resources

[1] The Administration casts its proposed fiscal year 2004 budget in terms of the EPA strategic plan's goals. For GLIFWC's ceded territory purposes, the relevant goals and related funding categories appear to be: Goal 2: Clean and Safe Water; Goal 4: Preventing Pollution and Reducing Risk in Communities, Homes, Workplaces and Ecosystems; Goal 6: Reduction of Global and Cross-Border Environmental Risks; Goal 7: Quality Environmental Information; and Goal 8: Sound Science, Improved Understanding of Environmental Risk and Greater Innovation to Address Environmental Problems.

shared among treaty signatory tribes, to develop cooperative partnerships with other government agencies, educational institutions, and non-governmental organizations, and to work with its member tribes to protect and conserve ceded territory natural resources.

Under the direction of its member tribes, GLIFWC operates a ceded territory hunting, fishing, and gathering rights protection/implementation program through its staff of biologists, scientists, technicians, conservation enforcement officers, and public information specialists. Its activities include: natural resource population assessments and studies; harvest monitoring and reporting; enforcement of tribal conservation codes into tribal courts; funding for tribal courts and tribal registration/permit stations; development of natural resource management plans and tribal regulations; negotiation and implementation of agreements with state, federal and local agencies; invasive species eradication and control projects; biological and scientific research; and development and dissemination of public information materials.

GLIFWC PROGRAMS CURRENTLY FUNDED BY EPA

GLIFWC currently administers EPA funding for a variety of ceded territory environmental protection programs and studies.

1. Participation in the Lake Superior Bi-National Program.—Since fiscal year 1996, EPA has provided CEM funds for a 1 FTE equivalent to facilitate GLIFWC's participation in the Bi-National Program to Restore and Protect Lake Superior, including preparation of the Lake Superior LaMP and participation in various International Joint Commission (IJC) and State of the Lake Ecosystem Conference (SOLEC) forums. In fiscal year 2003, GLIFWC administered $77,000 in EPA CEM funds to facilitate participation in these forums as well as in the implementation of the Great Lakes Strategy for 2002—A Plan for the New Millennium.

2. Study of Proposed Crandon Mine in Wisconsin.—GLIFWC's work related to the proposed mine includes hydrological modeling, contaminant transport analysis, and baseline biomonitoring studies. In fiscal year 2002, GLIFWC administered $68,700 in EPA wetlands (Section 104(b)(3)) funds to continue its technical studies and assessments. In fiscal year 2003, Congress provided $144,000 for GLIFWC's review, analysis and GIS mapping related to the mine, particularly as to completion of an ongoing baseline biomonitoring project, participation as a "cooperating agency" in the preparation of the federal EIS, and maintenance of hydrological and contaminant transport expertise.

3. Research and Special Projects.—Since fiscal year 1997, EPA has provided a combination of CEM, GLNPO, and Environmental Justice funds for GLIFWC to conduct scientific research to produce data relevant to the Bi-National Program/Lake Superior LaMP and to human health. In fiscal year 2003, GLIFWC will continue to administer $82,000 from EPA's Pollution Prevention and Toxics program and Environmental Justice program to test several Lake Superior fish species for dioxin and persistent organic pollutants.

FISCAL YEAR 2004 FUNDING NEEDS/RATIONALE

GLIFWC would use fiscal year 2004 funds for:

1. Participation in the Lake Superior Bi-National Program.—$80,000 for continued funding of GLIFWC staff (1 FTE equivalent, and related travel and other expenses) who will participate in the Bi-National Program, in the on-going implementation of the Lake Superior LaMP, in IJC and SOLEC forums, and in the implementation of the Great Lakes Strategy for 2002—A Plan for the New Millennium.

Rationale.—GLIFWC has been actively involved in the Bi-National Program since 1993. However, it was not able to adequately participate until EPA first provided CEM funds for this purpose in fiscal year 1996. As a result, GLIFWC currently serves on the Bi-National Program's Task Force and Workgroup, and on the Workgroup's chemical, terrestrial and habitat committees. Its staff Co-Chairs the Workgroup's habitat committee and terrestrial committee. GLIFWC is participating in the on-going review and implementation of the Lake Superior LaMP. It also helps to liaison with other relevant Great Lakes institutions, such as the Great Lakes Fishery Commission, on issues of mutual concern between environmental and natural resource managers.

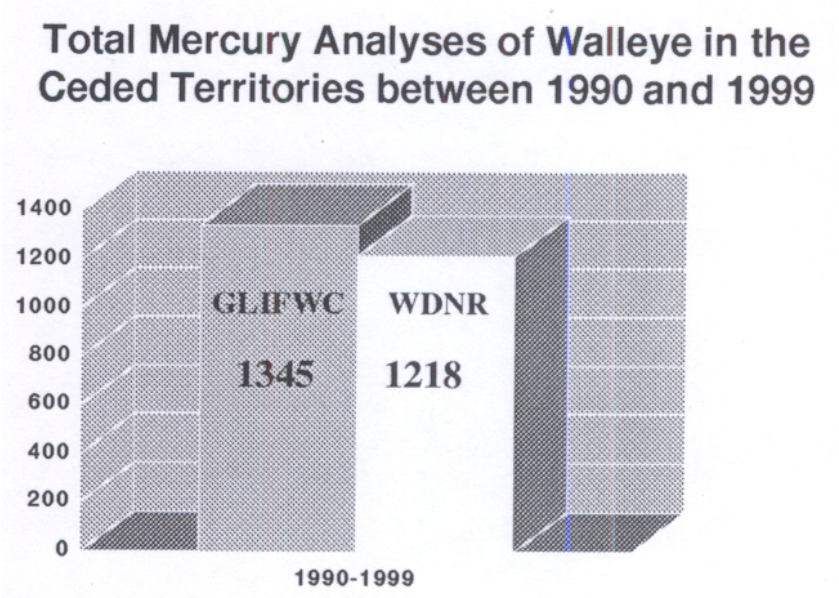
As for IJC forums, GLIFWC staff regularly attend the biennial IJC meetings and provide periodic comments when issues arise in the interim, such as on the matter of Great Lakes water diversions. As for SOLEC, GLIFWC staff has addressed plenary sessions on the topic of wild rice and has organized breakout sessions on wild rice.

This funding is necessary for GLIFWC to live up to its partnership responsibilities under the Great Lakes Strategy for 2002—A Plan for the New Millennium.

2. Ceded Territory Fish Consumption Mercury Advisory Program.—$141,000 to continue GLIFWC's long-standing program to collect and test fish for mercury content and to communicate testing results to tribal communities and the public through health care providers and Geographic Information System (GIS) maps.

Rationale.—Over the past seven years, GLIFWC has instituted an unprecedented lake-specific mercury advisory program to help tribal members and the general public consume fish as part of a healthy diet. The health benefits of eating fish are well known, but can be undermined if the fish are contaminated. GLIFWC has developed a system for sampling and testing walleye and muskellunge fillets, and then disseminating consumption advisories for specific lakes based upon the mercury contaminant data for that lake. This allows harvesters to make informed decisions about where they should fish and how much fish they should eat from a particular lake.

GLIFWC has sampled and analyzed 1,919 walleye fillets harvested from 137 previously un- or undersampled Wisconsin lakes. It has combined its data with that previously collected by the State, with a resulting mercury database of 4,951 walleye fillets. In addition, GLIFWC has collected 94 walleye samples from 7 Minnesota lakes and 181 walleye samples from 14 Michigan lakes.



Over the years, as of 1999, GLIFWC's mercury testing surpassed the State's in the Wisconsin ceded territories. Current state budget crunches will only exacerbate this trend. Moreover, GLIFWC's recent federal funding for its mercury testing program has subsided, most notably with the completion of the ATSDR-funded Ojibwe Health Study.

GLIFWC seeks EPA funding to continue this program for three more years, specifically for:

—*Collecting and testing walleye and musky for mercury content.*—GLIFWC will continue to test 22 long term study lakes on an alternating year basis. The goal is to provide a 10-year data set for researchers to assess mercury trends in northern Wisconsin waters. GLIFWC also will test an additional 42 lakes over a three year period. All samples will be tested at the University of Wisconsin-Superior's Environmental Health Laboratory, which was established cooperatively by the Tribes and University in 1990.

—*Communication of testing results through Geographic Information System (GIS) maps.*—GLIFWC will continue to produce lake-specific color-coded mercury advisory maps. Since 1995, these maps have been used by tribal members and the general public to identify lakes and sizes of ogaa (walleye) low in hazardous methyl mercury. They are distributed to tribal communities at registration sta-

tions, through GLIFWC's newspaper and other publications, and through GLIFWC's Website (www.glifwc.org).

—*Linkages with Health Care Networks.*—GLIFWC also will continue to provide this information to health care providers (Indian Health Service and others). Since 1999, GLIFWC has provided its maps and data to clinics, to tribal health care providers serving the WIC program, and at local and regional nursing conferences.

—*Support the Memorandum of Understanding with the Wisconsin Department of Natural Resources.*—GLIFWC will continue to meet its obligations under a 1996 agreement with the Wisconsin DNR to share fish contaminant testing results. The DNR integrates GLIFWC and state data to publish the State's annual fish advisory document.

3. Continuing Research and Special Projects.—$90,000 for Lake Superior habitat and human health research projects related to the Bi-National Program and the Great Lakes Strategy for 2002—A Plan for the New Millennium.

Rationale.—GLIFWC has undertaken a number of studies over the years related to the Lake Superior ecosystem. For example, with GLNPO and CEM funds, GLIFWC is preparing a report on the threat of wetland and terrestrial exotic plants to Lake Superior, has studied sturgeon in the Lake Superior basin, and has prepared GIS maps of fish spawning and nursery locations for both native and exotic species. In addition, as part of its ongoing natural resource contaminant/human health research, GLIFWC used Environmental Justice grants to update its fish consumption advisory database and to undertake wild rice contaminant research for heavy metals.

For fiscal year 2004, GLIFWC would explore EPA funding for two projects:

—*Keweenaw Peninsula Mining Waste Assessment.*—Assess impacts from mining waste (stamp sands) dumped into Lake Superior near Michigan's Keweenaw Peninsula during the late 1800s, map an important whitefish and lake trout spawning reef in Keweenaw Bay, and determine the distribution of stamp sands in relation to the spawning reef.

—*Lake Superior Whitefish Contaminant Assessment.*—Assess mercury, PCB and organochlorine levels in whitefish harvested by tribes in western Lake Superior waters, and evaluate the new data in relation to current fish consumption advisories.

PREPARED STATEMENT OF THE CITY OF ST. HELENA, CALIFORNIA

CITY OF ST. HELENA

The City of St. Helena is located in the center of the wine growing Napa Valley, 65 miles north of San Francisco. The area was settled in 1834 as part of General Vallejo's land grant. The City of St. Helena was incorporated as a City on March 24, 1876 and reincorporated on May 14, 1889.

The City from its inception has served as a rural agricultural center. Over the years, with the growth and development of the wine industry, the City has become an important business and banking center for the wine industry. The City also receives many tourists as a result of the wine industry. While, the main goal of the City is to maintain a small-town atmosphere and to provide quality services to its citizens, this is becoming increasingly difficult. Regulatory, administrative and resource requirements placed on the City through the listing of threatened and endangered species under the Endangered Species Act on the Napa River, as well as significant Clean Water Act requirements require the City with a small population base to face significant financial costs.

The City of St. Helena is a General Law City and operates under the Council-City Manager form of government. The City Council is the governing body and has the power to make and enforce all laws and set policy related to municipal affairs. The official population of the City of St. Helena as of January 1, 2002 is 6,019. St. Helena is a full service City and encompasses an area of 4 square miles. Because of its size and its rural nature, St. Helena has serious infrastructure, as well as, flood protection and environmental needs that far exceed its financial capabilities.

The Napa River flows along the north boundary of the City of St. Helena in northern Napa County. The overall Napa River Watershed historically supported a dense riparian forest and significant wetland habitat. Over the last 200 years, approximately 6,500 acres of valley floor wetlands have been filled in and 45,700 acres of overall watershed have been converted to urban and agricultural uses. This degradation of natural habitats has had a significant effect on water quality, vegetation and wildlife, and aquatic resources within the Napa River Watershed.

Surface water quality of the Napa River is dependent upon the time of year, runoff from York and Sulphur Creeks, and urban area discharges. During the winter months when streamflow is high, pollutants are diluted; however, sedimentation and turbidity is high as well. During the summer months when streamflow is low, pollutants are concentrated and oxygen levels are low, thereby decreasing water quality. Agricultural runoff adds pesticides, fertilizer residue, and sometimes sediment. Discharges from urban areas can include contaminated stormwater runoff and treated city wastewater. The Napa River has been placed on the Clean Water Act 303(d) List and TMDL Priority Schedule due to unacceptable levels of bacteria, sedimentation, and nutrients. It is against this backdrop that the City of St. Helena faces its biggest challenges.

PROJECT NEED

While much of the City's character is tied to its location along the Napa River, since 1853, it has been a continual battle defending St. Helena and its residents from the flooding Napa River. The City of Napa has suffered from 27 floods between 1862 and 1997, with the largest flood occurring on February 18, 1986. Between 1961 and 1997, Napa County residents suffered $542 million in property damage. In 1995 and 1997, the Napa River overflowed its banks, turning most towns along the Napa River into churning tributaries, and forcing people to abandon their homes and businesses (FEMA, 2001). In an effort to address not only its significant flood management issues, but to improve the land, habitat and water quality in the Napa River, the City has developed an integrated plan.

The St. Helena flood protection and corridor restoration project is a multi-objective project which will provide flood damage reduction through restoration and reestablishment of the natural floodplain along the project reach, setting back of levees and the re-creation and restoration of a natural floodway corridor providing over 22-acres of high value riparian forest. This forested area will improve both terrestrial and fish habitat on the Napa River, which is listed by the EPA as an impaired waterway. Steelhead and salmon recovery will be improved by the project and passive recreation will provide Napa River viewing and interpretive opportunities for local residents who now have no access to this reach of the Napa River. The project will also provide all-weather cross-Napa Valley access for the residents of the City to its nearest hospital, which is presently inaccessible during flood events greater than the 50-year probability storm.

The St. Helena Habitat Terraces, a portion of the overall St. Helena plan, are critically needed to address water quality, habitat and flood management issues. Given the Napa River's status by EPA as an impaired waterway, immediate measures are necessary to improve water quality. Storm water discharge from the City's urban area is a significant water quality problem. The filtering of non-point source storm water runoff provided by the habitat terraces is critical to meet the City's TMDL and NPDES needs. This is an innovative non-structural water pollution control approach which will have positive implications for other communities across the country.

In addition, the Napa River and its riparian corridor are considered Critical Habitat for Steelhead and Salmon Recovery, as well as a significant migratory corridor for a number of birds that use the Pacific Flyway. Without an integrated program to address the water quality and the Endangered Species Act (ESA) habitat issues, both water quality and key habitat issues will undermine the Napa River condition. Therefore, the St. Helena Habitat Terraces are necessary to address the key environmental issues for the Napa River.

PROJECT BENEFIT

The St. Helena Habitat Terraces would be developed to serve as low velocity runout zone in which sediments may be trapped during intermediate and lower river flows. Any contaminants found in the City's storm water system which will be discharged through the newly vegetated terraced area to the west of the Napa River, may be retained in the area during the first flush of the system each winter. The Adaptive Management Plan being formulated by the City will address the accumulation of these deposits and their impact on flood protection and enhancement benefits.

The Habitat Terraces are part of a multi-purpose plan St. Helena is developing to manage the flood and environmental issues along the Napa River by re-creating and restoring the natural floodplain corridor through the one mile project reach and re-connecting the Napa River to its historic floodplain. Creation of flood and habitat terraces on the east bank of the Napa River and flood terraces set at geomorphically

appropriate discharge elevations will be excavated and planted with native habitat allowing for restoration of the natural floodplain terraces.

Over 20 acres of rich floodplain riparian habitat will be re-established and restored through re-vegetation of native communities of willow/alder, vine/ash, Oak/Snowberry and Buckeye/Walnut in the newly created overflow channels. Aquatic habitat will be improved through the project reach through these plantings providing new Shaded Riverine Habitat as well as through installation of large logs and woody debris providing improved fish passage habitat. There is presently little varied down wood in the existing river corridor due to demands for regular river clearing to maximize floodwater conveyance. The St. Helena project will rectify this situation providing a resting placed for migrating salmonids.

Because of the critical storm water management and water quality issues within the Napa River and its riparian corridor, which are considered a critical habitat for the threatened steelhead, innovative efforts like the St. Helena Habitat Terraces are important to address the complexity of environmental issues facing St. Helena and are an innovative approach to addressing local issues stemming from federal statutes. This effort could be used as a model for other waterway and riparian corridors across the country.

The City of St. Helena, therefore, respectively requests the Committee's support of $2,000,000 in appropriations in fiscal year 2004 within the Environmental Protection Agency's Environmental Programs and Management account, so that St. Helena may proceed with this unique water quality and environmental restoration effort, the St. Helena Habitat Terraces.

PREPARED STATEMENT OF THE UPPER MISSISSIPPI RIVER BASIN ASSOCIATION

The Upper Mississippi River Basin Association (UMRBA) is the organization created in 1981 by the Governors of Illinois, Iowa, Minnesota, Missouri, and Wisconsin to serve as a forum for coordinating the five states' river-related programs and policies and for collaborating with federal agencies on regional water resource issues. As such, the UMRBA has an interest in the budget for the water programs of the U.S. Environmental Protection Agency (EPA).

STATE POLLUTION CONTROL GRANTS (SECTION 106)

UMRBA supports the Administration's proposed 4 percent increase in funding for Section 106 State Pollution Control Grants. Federal Section 106 funds, in combination with the states' matching dollars, support the core state water quality programs, including water quality assessment and monitoring, water quality planning and standard setting, total maximum daily load (TMDL) development, point source permitting, and training and public information. Adequate funds are particularly critical to supporting the states' development and implementation of total maximum daily loads. The tasks associated with developing TMDLs for impaired waters include watershed characterization, computer modeling and related analyses, allocation of permissible loads, development of TMDL reports and plans, and public outreach and stakeholder development. These responsibilities have the potential to overwhelm state agency resources that are in many cases already strained. Under the fiscal year 2004 budget proposal of $200 million, the five states in the Upper Mississippi River Basin would be allocated a total of $20 million in Section 106 funding. This funding is fundamentally important to the states' ability to carry out their responsibilities under the Clean Water Act.

TMDLS, WATER QUALITY CRITERIA & STANDARDS, AND WATER QUALITY MONITORING & ASSESSMENT

EPA's fiscal year 2004 proposed budget for Environmental Programs and Management (EPM) includes $25 million for TMDLs, $24 million for Water Quality Criteria and Standards, and $14 million for Water Quality Monitoring and Assessment. All of these amounts reflect modest, but important, increases over the Agency's fiscal year 2003 request. The TMDL funding will help support EPA's TMDL-related responsibilities, such as developing guidance and technical support for states and approving/disapproving TMDLs in a timely fashion. Funding for water quality criteria and standards will support EPA's standards-related efforts, such as development of criteria and helping states link standards to TMDLs. The funding for water quality monitoring and assessment will enable EPA to help states and local watershed groups enhance their monitoring programs, including increased use of a probabilistic approach to support water quality decision-making. UMRBA supports funding for

these three key EPM programs which, coupled with the Section 106 grants, will help states fulfill their basic Clean Water Act responsibilities.

CLEAN WATER STATE REVOLVING FUNDS

The UMRBA is deeply concerned about the lack of support in the Administration's fiscal year 2004 budget proposal for the Clean Water State Revolving Fund (CWSRF), which helps address wastewater infrastructure needs. The CWSRF has made tremendous contributions to improving the nation's water quality. In fiscal year 2002, the five Upper Mississippi River Basin states received a total of $177 million in CWSRF funding. However, the CWSRF is proposed to be cut by 63 percent in fiscal year 2004. This would mean $850 million for the CWSRF, rather than its authorized and historical level of $1.35 billion. Given the flexibility to redirect wastewater funds to the Drinking Water State Revolving Fund (DWSRF), even less than $850 million might well be available for the wastewater SRFs. While the flexibility to shift between these two programs can help the states address their most pressing needs, it is no substitute for adequate funding. Estimates of the nation's wastewater infrastructure needs certainly vary, as evidenced in the Congressional deliberations on new water infrastructure financing legislation. However, there is absolutely no doubt there are substantial unmet needs. The high demand for these funds underscores the need to reauthorize CWSRF funding and increase annual federal appropriations to $2 billion.

STATE NONPOINT SOURCE GRANTS (SECTION 319)

The Administration has requested $238.5 million for the Section 319 state nonpoint source grant program, slightly less than the $240 million provided in fiscal year 2003. Nonpoint sources are one of the major causes of water pollution in the Upper Mississippi River Basin, which drains the nation's agricultural heartland. For each of the past three years, the five states in the Upper Mississippi River Basin have been allocated a total of $34 million in nonpoint source grants. Adequate funding for Section 319 and complementary efforts, including the USDA's conservation programs, is essential to meeting the region's major water quality challenges. With the expansion of USDA conservation programs, it is especially important to fund the Section 319 program as well, given that it supports a variety of efforts unrelated to agriculture, such as Phase II stormwater work. Thus, at a minimum, UMRBA urges Congress to maintain funding for state nonpoint source grants at the fiscal year 2003 level of $240 million, recognizing that continued progress in addressing nonpoint pollution will require significantly increased resources.

ENVIRONMENTAL MONITORING AND ASSESSMENT

EPA's fiscal year 2004 budget includes $38.87 million for its Environmental Monitoring and Assessment Program (EMAP). EMAP is of particular interest to the UMRBA because it includes the Central Basin Integrated Assessment, as well as research related to environmental indicators. The Central Basin assessment focuses on large rivers in the Mississippi Basin, which are challenged by long term loadings of nutrients, sediments, and toxic chemicals, as well as extensive habitat alternatives. This Central Basin EMAP initiative is intended to fill the scientific gaps (e.g., indicators, sampling design, and sampling methodology) that currently limit our ability to assess baseline conditions and measure the performance of environmental protection activities. The resulting advancements in monitoring technology and approaches could be potentially useful in guiding the development of TMDLs on major rivers such as the Missouri and Mississippi Rivers. In addition, the states bordering the Upper Mississippi River are hopeful that EMAP will help in the development of "indicators of impairment." Such indicators are critically needed for large border rivers to improve the states' ability to meet their Clean Water Act responsibilities on these rivers. Fiscal year 2003 marked the beginning of the Central Basin EMAP. In fiscal year 2004, EPA will begin the first full year of monitoring to measure the conditions of these large rivers. UMRBA thus supports proposed funding for the Central Basin EMAP.

HYPOXIA ACTION PLAN AND WATERSHED GRANTS

The UMRBA is disappointed that the Administration's fiscal year 2004 budget proposal does not include additional new resources to address the recommendations in the Hypoxia Action Plan, submitted by the Mississippi River/Gulf of Mexico Watershed Nutrient Task Force in January 2001. The states in the Upper Mississippi River Basin have consistently said that reductions in nutrient inputs to the Gulf of Mexico and monitoring to evaluate the effectiveness of these efforts will only be pos-

sible if significant new budgetary resources are provided by the federal government. While the states continue to support the goals and strategies set forth in the Action Plan, little progress will be made to reduce the Gulf hypoxic zone and improve water quality conditions throughout the basin without a major federal financial commitment.

EPA's fiscal year 2004 budget documentation indicates that the agency intends to focus a portion of the Targeted Watershed Grants to support implementation of the Hypoxia Action Plan. Although UMRBA is pleased that the unique needs of the Mississippi River Basin are being recognized, the watershed grant program established just last year, does not, in fact, represent additional new funding. The $20 million recommended by the Administration for Targeted Watershed Grants in fiscal year 2004 comes at the expense of water quality cooperative agreements (Section 104(b)(3) grants), which are recommended to be reduced by $20 million in fiscal year 2004. Although UMRBA supports funding for watershed planning and management, it should not come at the expense of other well-established programs.

PREPARED STATEMENT OF THE SANTA CLARA VALLEY WATER DISTRICT, SAN JOSE, CALIFORNIA

PERCHLORATE CLEANUP PROJECT, SANTA CLARA COUNTY, CALIFORNIA—SUMMARY

This statement urges the Committee's support for an appropriation add-on of $1 million, for technical and logistical assistance to the San Martin Community and local and state agencies regarding the cleanup of a 7½ mile groundwater plume of perchlorate that has affected several hundred water supply wells.

STATEMENT OF SUPPORT

Background.—The Central Coast Regional Water Quality Control Board (Regional Board) is providing regulatory oversight of the Olin Corporation led investigation and cleanup for perchlorate contamination in the San Martin Area associated with their former highway flare manufacturing plant. The Regional Board currently does not have adequate resources to address the magnitude of the perchlorate contamination which has affected several hundred drinking water supply wells. Groundwater is currently the only source of drinking water in this area and over 1,500 families have been provided with bottled water. Significant concerns remain regarding this community's exposure to perchlorate in their drinking water and perchlorate accumulation in agricultural crops and livestock. To address these concerns and ensure that the groundwater basin in this area is aggressively restored and cleaned up the Santa Clara Valley Water District (District) is requesting Federal assistance. We respectfully request funding to facilitate a prompt and complete cleanup of groundwater resources in the San Martin area of Santa Clara County.

Demographics.—

—Established residential community to Silicon Valley.

—Important agricultural resource area.

—Community provides housing to Silicon Valley workers.

Perchlorate Investigation and Cleanup Status.—The source of the perchlorate is attributed to a former safety flare manufacturing plant owned by Olin Corporation that opened in 1955. Potassium perchlorate is a component of these flares. Perchlorate contamination in groundwater was initially detected at low concentrations in shallow groundwater samples collected at the site of the facility in August 2000, as part of due diligence investigation by a prospective purchaser of the site. The Regional Board directed an investigation of the site that led to sampling of nearby domestic wells in the fall of 2002. After the detection of perchlorate in domestic wells immediately downgradient of the site, the District became concerned that significant contamination could exist over a larger area. Additional sampling of domestic wells performed in December 2002 by the District confirmed that suspicion. San Martin does not have a municipal water system and the water supply comes from over 2,000 domestic and small water system wells in the area. Groundwater is the sole source of their water. Working with the Regional Board, the District acted swiftly to notify private well owners of the potential problem in the affected area and assured that their wells would be sampled. The District has also offered to provide free bottled water to those in the affected area while investigation of the contamination continues. To date the District has sampled over 1000 domestic wells in the San Martin Area. Results to date for 700 wells show 450 wells with no detectable concentrations (<4 ppb) and over 250 wells with detectable perchlorate above 4 ppb. In addition Olin Corporation is also sampling over 300 domestic wells. Bottled water is being delivered to over 1,865 families and businesses in the area. The District

is currently funding bottled water at 1,100 locations while Olin Corporation is providing bottled water to an estimated 765 locations.

The full extent of perchlorate contamination is not expected to be known until the end of 2003 at which time an interim cleanup plans may have been developed. There are currently no firm estimates to how long it will take to develop a long-term solution for cleanup of groundwater.

Fiscal Year 2004 Funding Recommendation.—It is requested that the Congressional Committee support an appropriation add-on of $1 million, to determine the best long-term solution and to initiate clean up efforts.

PREPARED STATEMENT OF THE METROPOLITAN WATER RECLAMATION DISTRICT OF GREATER CHICAGO

TUNNEL AND RESERVOIR PROJECT

I am Terrence J. O'Brien, President of the Metropolitan Water Reclamation District of Greater Chicago, and on behalf of the Water Reclamation District, I want to thank the Subcommittee for this opportunity to present our priority for fiscal year 2004, and express our appreciation for your support of our requests over the years. The Metropolitan Water Reclamation District (District) is the sponsor for the federally approved combined sewer overflow (CSO) project, the Tunnel and Reservoir Plan (TARP), in Chicago, Illinois. Specifically, we are asking that $5 million be included to continue construction of this project in the Subcommittee's VA, HUD and Independent Agencies Appropriations Bill for fiscal year 2004. The following outlines the project and the need for the requested funding.

INTRODUCTION

The District was established in 1889 and has the responsibility for sewage treatment, and is also the lead agency in providing sponsorship for flood control and stormwater management in Cook County, Illinois. In fact, the District was established in response to an epidemic of waterborne diseases caused by drinking polluted Lake Michigan water, which killed 90,000 people in 1885. By 1900, the District had reversed the flows of the Chicago and Calumet Rivers to carry combined sewage away from Lake Michigan, the area's main water supply. The District has been involved with major engineering feats since its inception.

In an effort to meet the water quality goals of the Clean Water Act, to prevent backflows into Lake Michigan, and to provide an outlet for floodwaters, the District designed the innovative TARP. The TARP tunnels, which were judged by the Environmental Protection Agency (EPA) on two occasions as the most cost-effective plan available to meet the enforceable provisions of the Clean Water Act, are a combined sewer overflow elimination system. The TARP reservoirs, also under construction, will provide flood control relief to hundreds of thousands of residents and businesses in the Chicagoland area.

TUNNEL AND RESERVOIR PLAN

The TARP is an intricate system of drop shafts, tunnels and pumping stations which will capture combined sewer overflows from a service area of 375 square miles. Chicago will remove three times the amount of CSO pollution as Boston's projected removal—for approximately the same cost. The remaining Calumet tunnel system will provide 4.1 million pounds of biological oxygen demand (BOD) removal versus Boston's one million pounds of BOD removal per year. In fact, Chicago's CSO pollution problems are worse than the combination of Boston, New York, and San Francisco's pollution problems. The Chicago Metropolitan Area's annual BOD loading from CSO pollution is 43 million pounds per year. This contrasts with the combination of Boston, New York and San Francisco's combined annual BOD loading of 35 million pounds.

A good portion of the remainder of the TARP system is to be built in the southeast side of Chicago and the southern suburbs (Calumet system), a low-income, highly neglected and highly polluted area. This community suffers from tremendous land, air and water pollution—literally a dumping ground for multi-media pollution ranging from chemical waste to serious water pollution.

Due to the enormous risk to the community, the District as the local sponsor cannot afford to leave the citizens vulnerable. Therefore, it is imperative that this work must continue. Because we have awarded construction contracts in the area, the climate is favorable for continuing with this work at this time, producing significant cost savings. What we are seeking, then, is funding to advance federal work.

We have a proven and cost-effective program. In fact, we have estimated that TARP's cost is about a quarter of the cost of separating the area's existing combined sewer systems into separate sewage and stormwater systems. Upon reanalysis, the EPA has consistently found the TARP program to be the most cost-effective solution that will reduce the impacts by the greatest degree to meet the enforceable requirements of the Clean Water Act, with the least amount of dollars. The project, while relating most specifically to the 52 tributary municipalities in northeastern Illinois, is also beneficial to our downstream communities such as Joliet and Peoria. These benefits occur because of the capture of wastewater in the tunnels during the storm periods and by treatment of the discharge before being released into the waterways.

Since its inception, TARP has not only abated flooding and pollution in the Chicagoland area, but has helped to preserve the integrity of Lake Michigan. In the years prior to TARP, a major storm in the area would cause local sewers and interceptors to surcharge resulting in CSO spills into the Chicagoland waterways and during major storms into Lake Michigan, the source of drinking water for the region. Since these waterways have a limited capacity, major storms have caused them to reach dangerously high levels resulting in massive sewer backups into basements and causing multi-million dollar damage to property.

Since implementation of TARP, 734 billion gallons of CSOs have been captured by TARP, that otherwise would have reached waterways. Area waterways are once again abundant with many species of aquatic life and the riverfront has been reclaimed as a natural resource for recreation and development. Closure of Lake Michigan beaches due to pollution has become a rarity. After the completion of both phases of TARP, 99 percent of the CSO pollution will be eliminated. The elimination of CSOs will reduce the quantity of discretionary dilution water needed for flushing of Chicago's waterway system, making it available as drinking water to communities in Cook, DuPage, Lake, and Will counties, which have been on a waiting list. Specifically, since 1977, these counties received an additional 162 million gallons of Lake Michigan water per day, partially as a result of the reduction in the District's discretionary diversion in 1980. Additional allotments of Lake Michigan water will be made to these communities, as more water becomes available from sources like discretionary diversion.

With new allocations of lake water, more than 20 communities that previously did not get to share lake water are in the process of building, or have already built, water mains to accommodate their new source of drinking water. The new source of drinking water will be a substitute for the poorer quality well water previously used by these communities. Partly due to TARP, it is estimated by IDOT that between 1981 and 2020, 283 million gallons per day of Lake Michigan water would be added to domestic consumption. This translates into approximately 2 million additional people that would be able to enjoy Lake Michigan water. This new source of water supply will not only benefit its immediate receivers but will also result in an economic stimulus to the entire Chicagoland area, by providing a reliable source of good quality water supply.

TARP was designed to give the Chicago metropolitan area the optimal environmental protection that could possibly be provided. More importantly, no other project was found to be as cost-effective. In addition, the beneficial use of the project is being enhanced by the addition of the flood control reservoirs now being designed and constructed by the Corps of Engineers, which will be connected to the tunnels for additional capture and storage of combined sewage during flood events. We believe TARP stands as a tribute to our nation's Clean Water goals and one that is being accomplished within the most economical constraints.

REQUESTED ACTION

The $5 million we are seeking in fiscal year 2004 funding in the Subcommittee's bill will help keep the local sponsor whole for the advance construction it plans to accomplish on the Little Calumet Leg for the Calumet System of the congressionally-authorized TARP project. While the TARP project was originally authorized at 75 percent federal funding, the District as local sponsor has been contributing at least 50 percent of the total project cost. We greatly appreciate the Subcommittee's endorsement of our request over the years to advance the construction of this work. This fiscal year 2004 work will go a long way to address serious water quality, stormwater and safety problems. It will have a tremendously beneficial impact on a community which suffers from water pollution and significant flooding problems. The EPA has approved the facilities plan for the overall TARP project and design has been completed. The EPA has identified this particular segment of work as the next critical section of the plan to be constructed based on significant water quality benefits.

Once on-line, the Little Calumet Leg of the Calumet System will capture 1.5 billion gallons of CSOs per year and will protect 14.9 square miles of the City of Chicago from raw sewage backup and flooding.

We urgently request that this funding be included in the Subcommittee's bill for the construction of the Calumet System of the TARP project. We thank you in advance for your consideration of our request.

PREPARED STATEMENT OF THE CALAVERAS COUNTY WATER DISTRICT

Calaveras County is located on the eastside of the Central Valley of California and encompasses approximately 1,028 square miles of land, stretching across more than 50 miles of valleys, foothills, and mountain peaks. The topography ranges from approximately 200 feet above mean sea level (ft–msl) in the northwestern region of the County, to a peak height of 8,170 ft–msl near Alpine County.

The communities of West Point, Wilseyville and Bummerville are located in the northeastern portion of the county in the sparsely populated higher foothills. The topography ranges from approximately 2,500 feet in Wilseyville to 3,200 feet in Bummerville. Mild summers and cold winters characterize the region, with temperatures ranging from the low 20's to the middle 80's. Snow accounts for a large percentage of the precipitation in the watersheds supplying the study area.

In the fall of 1946, the Calaveras County Water District (CCWD) was organized under the laws of the State of California as a public agency for the purpose of developing and administering the water resources in Calaveras County. Therefore, CCWD is a political subdivision of the State of California and is governed by the California Constitution and the California Government and Water Codes. CCWD is not a part of or under the control of the County of Calaveras. CCWD was formed to preserve and develop water resources and to provide water and sewer service to the citizens of Calaveras County.

Under state law, CCWD, through its Board of Directors, has general powers over the use of water within its boundaries. These powers include but are not limited to: the right of eminent domain, authority to acquire, control, distribute, store, spread, sink, treat, purify, reclaim, process and salvage any water for beneficial use, to provide sewer service, to sell treated or untreated water, to acquire or construct hydroelectric facilities and sell the power and energy produced to public agencies or public utilities engaged in the distribution of power, to contract with the United States, other political subdivisions, public utilities, or other persons, and subject to the California State Constitution, levy taxes and improvements.

CCWD provides water service to over 10,000 connections throughout Calaveras County. CCWD operates five independent treatment facilities with a combined treatment capacity of over 13 million gallons per day. The water facilities include approximately 290 total miles of transmission and distribution pipelines ranging from 4 to 20 inches in diameter and 31 storage tanks with capacity of over 14.5 million gallons. CCWD provides water and/or sewer service to 65 percent of the residents of Calaveras County.

WEST POINT, WILSEYVILLE AND BUMMERVILLE SYSTEM HISTORY

CCVD owns and operates the domestic water system in the rural communities of West Point, Wilseyville, Bummerville and part of Sandy Gulch. This water system is located in the District's West Point Service area, located in the Mokelumne River Watershed, Calaveras County, Central California, in the foothills of the Sierra Nevada Mountains. Population growth in the service area has generally averaged less than one percent annually over the last 15 years. This low growth rate may be attributed in part to the reduction in industry within the service area. Presently, the economic base of the community is principally related to retirement living with some of the population commuting to larger nearby communities for employment opportunities.

The communities of West Point and Wilseyville developed over the last 150 years, initially as mining companies and later as logging communities. Originally, these areas were served water through a series of mining ditches associated with these activities. The decline of these industries, which were critical to the area economy, brought about CCWD's purchase of the water and conveyance systems.

The West Point water system was purchased in 1954 by CCWD from the West Point Ditch Company. The predecessor to Sierra Pacific Logging Company owned and built the Wilseyville system and sold it to CCWD in 1964. The Bummerville system was connected to the West Point system in 1959. Between 1964 and 1974 the system was brought into compliance with state and federal regulations for operation by CCWD.

The existing water system serves 520 connections, a total population of 1,298, including a local Native American Reservation. The current facilities include two raw water reservoirs (Wilson Lake and the Regulating Reservoir); two raw water diversion facilities (Bear Creek gravity and Middle Fork Mokelumne pumped); one water treatment plant (West Point); two treated water pump stations (Bummerville and Upper Wilseyville); and the associated distribution and storage systems.

The two main sources for water supply for the West Point water treatment plant are the Bear Creek diversion, which is a gravity source, and the pumped source from the Mokelumne River. Both raw sources are generally of good quality and are very easily treated to potable standards. Water rights for the West Point/Wilseyville water system are derived from existing water rights agreements for diversion of flow from Bear Creek and from the Middle Fork of the Mokelumne River. These agreements provide for adequate water to serve the present water customers, as well as future full buildout of the adjacent areas. In the case of drought, the Bear Creek supply can be supplemented with water from the Middle Fork of the Mokelumne River. In addition, the District maintains the 50 acre-foot Regulating Reservoir (also referred to as the West Point Reservoir), which may be called upon to supplement and augment supply during dry periods.

The West Point/Wilseyville water system and related facilities were primarily constructed before 1960 and many system components are either inadequate or in need of replacement. Several changes have been made to the systems in response to more stringent regulations, which allowed the abandonment of the Wilseyville plant. In addition, the West Point water treatment plant and pump stations have been upgraded and an intertie has been installed between West Point and Wilseyville.

Distribution system deficiencies are evident when evaluated against current water industry standards for publicly owned and operated systems. The 1996 Master Plan was completed to address these deficiencies. Specific recommendations were presented to bring the system into compliance with current and anticipated water industry standards. In 1998, a Master Plan Supplement provided additional analysis for improvements to the West Point Wilseyville, and Bummerville systems.

West Point, Wilseyville and Bummerville have infrastructure requirements that far exceed their financial capabilities. However, the infrastructure is crucial to the health, safety, and existence of these small, rural communities. In addition, rising water and sewer rates have been necessary due to new regulatory requirements and these rising rates have been difficult for the community to face. The closing of lumber mills in Calaveras and neighboring Amador County (over the last ten years) has also made a difficult situation worse for those dependent on that industry for employment, especially in this current climate of high unemployment rates. In an effort to begin addressing these needs at the state and local level, a $500,000 feasibility study state grant and a $1.9 million Bear Creek state construction grant have recently been provided. In order to build on these state and local efforts and to meet the critical infrastructure needs and the needs of the community, we respectfully request assistance for the following project components:

WATER SUPPLY INFRASTRUCTURE REHABILITATION PROJECT REQUEST

The small rural communities of West Point, Wilseyville, and Bummerville are faced with unaffordable water system replacement costs for aging supply and distribution systems. Water pressure and fire flow are inadequate in much of the service area. The raw water storage and transmission facilities are in need of immediate repairs.

Seven projects have been identified to provide the West Point water system with a safer and more reliable level of service. These projects include:

—*West Point Clearwell Replacement.*—The upgraded West Point Water Treatment Plant is operational; however, the current clearwell will not provide sufficient contact time for compliance with disinfection regulations. This project will demolish and replace the old 500,000 gallon tank with a new 600,000 gallon steel tank.

—*Bummerville Treated Water Storage Tank Replacement.*—Replacement of small redwood tanks with a single 150,000 gallon steel tank.

—*Wilson Lake Embankment.*—Assessment and reconstruction of a primary storage reservoir that is no longer functional.

—*West Point-Wilseyville Distribution System.*—Replace the aging "backbone" transmission and distribution piping and provide a second intertie between West Point and Wilseyville service areas to improve fire flow and system reliability.

—*Bummerville Treated Water Distribution System*—Replacement of old, leaking, small-diameter piping to improve flow and fire protection.

—*Mokelumne River Intake and Pump Station.*—Relocation of the pump station out of the flood plain, replacement of the raw water line to the treatment plant, and modification of the existing river diversion structure.
—*Regulating Reservoir.*—Remediation projects to improve water quality problems at a primary storage reservoir.

This funding we are requesting here is necessary to assist in the upgrade, reconstruction, and repair of water system infrastructure critical for basic water pressure and fire flow. The District, therefore, respectfully requests the Committee's support for a $2,500,000 appropriation in fiscal year 2004 under the Environmental Protection Agency's State and Tribal Grant Assistance Program, so that efforts to initiate construction in the much-needed West Point Drinking Water System can proceed.

PREPARED STATEMENT OF THE WASHINGTON SUBURBAN SANITARY COMMISSION

The Washington Suburban Sanitary Commission (Commission or WSSC), established in 1918, is a public, bi-county agency providing water and wastewater services to Montgomery and Prince George's Counties in the Washington Capital region. WSSC is governed by six Commissioners with equal representation from each county and has developed its systems to the point where it is a national leader in the water and sewerage industry. The Commission is the among the ten largest water and wastewater utilities in the country, serving approximately 1.6 million people in a 1,000 square mile service area. In addition, the Commission provides services to 26 key federal installations and facilities in the Washington area, including such important military facilities as Andrews Air Force Base; the National Imagery and Mapping Agency; the National Naval Medical Center; the Naval Surface Warfare Center; the U.S. Army Research Center. Numerous other state and local security-related installations and offices also receive service from the Commission.

Water treatment and distribution facilities operated by the Commission include three water supply reservoirs; two water filtration plants; fourteen water pumping stations; 5,100 miles of water mains; and 54 treated-water storage facilities. Water production at Commission facilities is 166 million gallons per day. In terms of wastewater facilities, the Commission operates six wastewater treatment plants; 41 wastewater pumping stations; and approximately 4,900 miles of sewer mains.

WASTEWATER DISINFECTION SYSTEM UPGRADE

Since September 11, 2001, the Commission has worked with security consultants to aggressively assess the vulnerability of our key facilities to terrorist attack. As a result of that effort, the Commission has identified and implemented numerous enhancements to our security programs to prevent and/or provide early detection of physical, chemical or biological attack on our systems. Aspects of these improvements range from monitoring programs to detect chemical or biological irregularities to the physical "hardening" of several of our key facilities.

These vulnerability assessments revealed a particular concern regarding the storage and use of gaseous chlorine at WSSC wastewater treatment facilities. The high risk from using and storing chlorine can be eliminated by switching to a system using ultraviolet disinfection methods. In addition to eliminating the need to use and store a hazardous chemical, switching to ultraviolet disinfection also has other environmental benefits because it does not form other potentially harmful byproducts in effluent.

Due to the immediate and critical importance of reducing this high risk factor, WSSC has budgeted funds in its fiscal year 2004 budget to begin this switchover. In order to implement the switch from chlorine disinfection to UV disinfection, $2 million in federal EPA STAG funds is needed immediately so that this critical regional safety issue can be accomplished as quickly as possible. Three wastewater treatment plants: the Western Branch; Seneca; and Piscataway must all be switched over to UV disinfection systems. The total cost for this switchover is $13.5 million. WSSC is working closely with the Montgomery and Prince George's County governments and the Maryland Department of the Environment in order to carry out these projects.

PATUXENT WATER TREATMENT PLANT EXPANSION

The vulnerability assessments also indicated that the Potomac River watershed, due to its size, could be vulnerable to tampering and contamination. Thus, additional water supply capacity for the region is needed in the event that the Potomac River cannot be used as a source of water. Thus in order to ensure adequate water supply to the region, other sources of water must be secured or expanded. WSSC

believes that the Patuxent River can be used in emergency situations to help supply water to the region.

The Patuxent River Water Treatment Plant is unique from several perspectives. The Plant's watershed is rather small and is easier to protect than the Potomac River watershed. Its raw water is also of better general quality than the Potomac River. Finally, it is located at a higher elevation than the Potomac and needs far less energy to provide water to WSSC. As such, this plant is easily and cost-effectively amenable to reliability enhancements for both quantity and quality aspects. The Commission seeks to increase the capacity of the Patuxent River plant to nominal 72 million gallons per day (MGD)/120 MGD emergency capacity. This additional capacity will allow WSSC to continue services during any emergency that might adversely affect the operation of the Potomac Plant.

This project was previously identified and has been broken into two phases. Phase I will rehabilitate this plant to provide 40 MGD of capacity. Phase I will be completed shortly and is being implemented with local resources. Phase II would see the plant expanded to 72 MGD. Specifically, the updgrade and expansion will consist of the addition of a sixth treatment train (flocculators, sedimentation basins, disinfectant contact chamber, and filters); a new fourth raw water main from the T. Howard Duckett Dam and Rocky Gorge Pumping Station to the Plant; and the modification and expansion of the Rocky Gorge Raw Water Pumping Station.

The estimated cost of Phase II of this regional security measure is $33 million, and WSSC requests $2 million in fiscal year 2004 to begin implementing these needed improvements. In order to carry out this project, WSSC is working closely with the Montgomery County government; the Prince George's County government; the Maryland National Capital Park and Planning Commission, the Maryland Department of the Environment, and the Interstate Commission on the Potomac River Basin.

PREPARED STATEMENT OF THE AMERICAN ASTRONOMICAL SOCIETY

The astronomical research enterprise in the United States is supported in large part by the National Science Foundation (NSF) and the National Aeronautics and Space Administration (NASA). Federal support of astronomy research has been the foundation of our success in the last five decades, enabling fundamental discoveries about the nature of universe and its history, including the existence of dark matter and dark energy, and the discoveries of planets around other stars. The U.S. research community leads the world in astronomical discovery, and federal support of basic research is key to maintaining the preeminent role of American astronomical research.

Beyond the excitement of new discoveries in astronomy, basic research in the physical sciences in the United States contributes to the national economy and helps to maintain our robust economic competitiveness in the world market. Astronomy attracts students to careers science and engineering and motivates students to achieve a high level of competence in technical fields. Federal funding for missions and telescopes provides the infrastructure for astronomical research. The importance of federal funding extends beyond support for missions and facilities, however; it is federal support for research that allows us to produce our basic and most important products: new discoveries and scientifically literate and trained personnel.

Each decade, the astronomical community reaches consensus on the most important large, medium, and small research projects for the next ten years, ranked in a priority manner based on their scientific benefit. This consensus, called the Decadal Survey of Astronomy and Astrophysics, is created under the auspices of the National Research Council as a National Academy Report. The most recent report, "Astronomy and Astrophysics in the New Millennium" represents the fifth such decadal survey. During the subsequent decade, the NRC Committee on Astronomy and Astrophysics reviews the progress of the ranked projects and suggests any necessary augmentations or changes. Decadal Surveys are now also available for two related fields, Planetary Science and Solar Physics.

The value of the Decadal Surveys to policy makers is quite clear. Usually, the projects listed require federal support. With a list of projects, prioritized by the scientific community itself, appropriators may confidently allocate funds, knowing that they are supporting the best possible science.

The American Astronomical Society, which represents nearly 6,500 professional astronomers, almost all of whom live and work in the United States, has endorsed these reports and I have included the text of those endorsements below. The complete reports are available in print and online (for free) from the National Academy Press (www.nap.edu).

The Society thanks the members of the Senate VA–HUD–IA appropriations subcommittee for their support of basic science and urges the subcommittee to utilize the Decadal Survey Reports for Astronomy and Astrophysics, for Planetary Science, and for Solar Physics in making funding decisions this year and throughout the decade.

ENDORSEMENT OF THE DECADAL ASTRONOMY AND ASTROPHYSICS REPORT

Adopted 7 January 2001, San Diego, CA

Astronomy and Astrophysics in the New Millennium

A report of the Astronomy and Astrophysics Survey Committee, Board on Physics and Astronomy, Space Studies Board, Commission on Physical Sciences, Mathematics and Applications, and National Research Council

"Whereas, the National Research Council has recently completed and published the report Astronomy and Astrophysics in the New Millennium and,

Whereas, the report represents a consensus of the astronomy and astrophysics community as to the priorities for federal investment in astronomy and astrophysics research for the coming decade and,

Whereas, the process by which the report was produced was carried out in a fully open manner and included many opportunities for input from the astronomy and astrophysics community as well as open public sessions in several locations and at meetings of the American Astronomical Society and,

Whereas, the report will be presented to Congress as an important and useful document for establishing federal investment in astronomical and astrophysical research in the coming decade,

The American Astronomical Society hereby endorses the report as presenting a valid and balanced set of priorities for the coming decade for investment in astronomy and astrophysical research.

Further, the American Astronomical Society encourages its members, other astronomy, astrophysics and related researchers, astronomy and astrophysics enthusiasts, the public and especially members of Congress and the Administration to fully embrace the report and use it when making policy decisions regarding federal investment in astronomical and astrophysical research during the coming decade."

ENDORSEMENT OF THE NRC REPORT "NEW FRONTIERS IN THE SOLAR SYSTEM: AN INTEGRATED EXPLORATION STRATEGY"

Adopted 30 September 2002

The American Astronomical Society hereby endorses the National Research Council Report "New Frontiers in the Solar System: An Integrated Exploration Strategy" as a balanced set of priorities for Federal expenditure in solar system studies for the coming decade.

This report was completed by the National Research Council after substantial input from the planetary sciences community with the support of the Division for Planetary Sciences of the American Astronomical Society. The report represents a community consensus as to the priorities for federal investment in solar system exploration for the period 2003–2013.

The key overall recommendations include maintenance of NASA's Discovery program of low-cost missions, a Kuiper-Belt/Pluto medium class mission and the large-cost category Europa Geophysical Explorer. There are also a separate set of prioritized recommendations for the Mars Exploration Program.

The survey endorses several ground-based facilities recommended by the recent Astronomy and Astrophysics decadal survey, including the Giant Segmented Mirror Telescope and the Large-Aperture Synoptic Survey Telescope with operating modes supportive of solar system studies. It also points out the important role planetary astronomy plays in support of NASA missions.

The AAS encourages its members, other astronomy, astrophysics and related researchers, astronomy and astrophysics enthusiasts, the public and especially members of Congress and the Administration to fully embrace the report and use it when making policy decisions regarding federal investment in solar system exploration during the coming decade.

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

This statement focuses on three areas: Department of Housing and Urban Development, National Science Foundation, and National Aeronautics and Space Administration.

Mr. Chairman and Members of the Subcommittee, on behalf of this nation's 34 American Indian Tribal Colleges and Universities (TCUs), which comprise the American Indian Higher Education Consortium (AIHEC), thank you for the opportunity to express our views and requests for fiscal year 2004.

SUMMARY OF REQUESTS

Department of Housing and Urban Development (HUD)

Since fiscal year 2001, a modest TCU initiative has been funded within the Community Development Block Grant program. This competitive program supports efforts by the TCUs to assist their communities by addressing dire community-based facilities and infrastructure needs. We strongly urge the Subcommittee to support this program at a minimum $5 million, an increase of $2 million over the President's fiscal year 2004 budget request.

National Science Foundation (NSF) Programs

Tribal Colleges and Universities Program (TCUP).—Over the past few years, this program has provided important assistance to TCUs as they build their capacity to provide strong science, technology, engineering, and mathematics (STEM) teaching and learning programs for American Indians. In three years, 19 of the 32 eligible TCUs have begun participating in the program, along with seven Alaska Native and Native Hawaiian serving institutions. We request that Congress expand this vital program to $15 million, $5 million above the President's budget request, to help support funding of Alaska Native and Native Hawaiian serving institutions, which NSF includes in the TCU program and funds to a significant extent.

Tribal College Linkages with K–12 Schools

Rural Systemic Initiative (TC–RSI) and the Math Science Partnership Program (MSP).—In the mid-1990s, NSF established a program to assist TCUs and other rural higher education institutions in promoting systemic change in STEM education in rural K–12 schools. This program has proven to be remarkably successful, yet NSF plans to terminate the program as current grants expire. In fiscal year 2002, the President established a similar, but significantly expanded new program, the Math Science Partnership program. In the first year, none of the 24 programs funded included minority serving institutions (MSIs) or specifically targeted American Indian children. We strongly urge the Subcommittee to support the ESR division budget and to establish American Indian and Rural Schools programs within the MSP program or to include report language reaffirming Congressional support for the TC–RSI program beyond the current grant period.

Advanced Networking with Minority Serving Institutions.—In fiscal year 1999, NSF funded a project to help MSIs develop the campus infrastructure and national connections necessary to participate in the Internet-based Information Age. The project involves a historic and successful collaboration between three minority communities and mainstream institutions, which had little or no prior experience working together. AN–MSI has developed a successful model for providing support and technical assistance and is working with tribal colleges on collaborative education and research projects. AN–MSI's funding expires at the end of fiscal year 2003, and if new funding is not secured, the project's work will cease. We request that the Subcommittee include funding within NSF's CISE directorate to continue and expand the AN–MSI program at $3 million in fiscal year 2004.

National Aeronautics and Space Administration (NASA)

In fiscal year 2001, the tribal colleges established a formal cooperative agreement with NASA for a project designed to increase access, participation, and success of American Indians in high quality K–16 mathematics, science, engineering, and technology programs. The agreement includes a TCU liaison between AIHEC and NASA to oversee implementation of the project and provides modest program enrichment grants to the colleges. However, as NASA implements a major reorganization of its education programs, it is unclear whether and how it will support partnerships with the tribal colleges and universities. We urge Congress to include report language to encourage NASA to extend its successful cooperative agreement on behalf of TCUs; ensure that the modest existing initiatives for TCUs are not eliminated in the reorganization of NASA's education programs; and encourage NASA faculty exchange programs and IPA contracts with TCUs to provide needed on-site expertise and partnerships. Additionally, we ask for report language to encourage the development of new initiatives to address the technology infrastructure needs at the TCUs.

BACKGROUND

As a group, Tribal Colleges and Universities are this nation's youngest institutions of higher education. The first tribal college—Navajo Community College (now Diné College) in Tsaile, Arizona—was established in 1968. Over the next few years, a succession of tribal colleges followed, primarily in the Northern Plains. In 1972, the first six tribally controlled colleges established AIHEC to provide a support network for member institutions. Today, AIHEC represents 34 TCUs located in 12 states. Collectively, these institutions serve 30,000 full- and part-time American Indian students from more than 250 federally recognized tribes. Yet in comparison with other institutions, TCUs benefit from only a handful of dedicated programs and receive only a very small portion of overall Federal higher education funding.

The vast majority of TCUs is accredited by independent, regional accreditation agencies and like all institutions of higher education, must undergo stringent performance reviews on a periodic basis. In addition to associate, bachelor, and master's degree programs, TCUs provide much needed high school completion (GED), basic remediation, job training, adult education, and vitally needed community-based continuing education programs. Tribal colleges function as community centers; libraries; tribal archives; career and business centers; economic development centers; public meeting places; and child care centers. Each TCU is committed to improving the lives of students through higher education and to moving American Indians toward self-sufficiency.

TCUs provide access to higher education for American Indians and others living in some of this nation's most rural and economically depressed areas. These institutions, chartered by their respective tribal governments, combine traditional teachings with conventional postsecondary courses and curricula. They have developed innovative means to address the needs of tribal populations and are successful in overcoming long-standing barriers to higher education for American Indians. Over the past three decades, these vital institutions have come to represent the most significant development in the history of American Indian education, providing access to under-represented students and promoting achievement among students who may otherwise never have known postsecondary education success.

Despite their remarkable accomplishments, TCUs are the most poorly funded institutions of higher education in the country. Chronically inadequate operations funding remains the most significant barrier to their success. Funding for basic institutional operations of 24 reservation-based TCUs is provided through Title I of the Tribally Controlled College or University Assistance Act (Public Law 95–471). Funding under the Act was first appropriated in 1981 and is still, over 20 years later, less than two-thirds of its authorized level of $6,000 per full-time Indian student (ISC). Despite a nearly $2 million increase in basic operations funding in fiscal year 2003, Title I colleges are receiving $3,908 per full-time equivalent Indian student, an $8 decrease per ISC from the fiscal year 2002 funding level, due to enrollment increases and an unclear method for allocating operations funding. While mainstream institutions have a foundation of stable state tax support, TCUs must rely on annual appropriations from the Federal government for their basic institutional operating funds. Because TCUs are located on Federal trust territories, states have no obligation to fund them even for the non-Indian state-resident students who account for approximately 20 percent of TCU enrollments. Yet, if these same students attended any other public institution in the state, the state would provide basic operating funds to the institution.

As a result of more than 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in abject poverty comparable to that found in Third World nations. Through the efforts of TCUs, American Indian communities receive services they need to reestablish themselves as responsible, productive, and self-reliant.

JUSTIFICATIONS

Department of Housing and Urban Development

We are pleased that the President's fiscal year 2004 budget request includes $3 million for HUD–TCU program funded under the Community Development Block Grant program. This competitive grants program enables tribal colleges to expand their roles and effectiveness in addressing development and revitalization needs in their respective communities. No academic or student support programs are funded through this program; rather, funding is available only for community-based outreach and service programs at TCUs. Over the past few years, a handful of tribal colleges have been able to build or enhance child care centers, social service offices; help rehabilitate tribal housing; establish and expand small business development; and enhance vitally-needed library services.

The number of TCUs is continuing to grow. Two additional colleges have joined our ranks, Saginaw Chippewa Tribal College, in Mt. Pleasant, Michigan and Tohono O'odham Community College in Sells, Arizona. We strongly urge Congress to continue to fund this program at a minimum of $3 million, included in the President's budget request, to help ensure that much needed community services and programs are expanded and continued.

National Science Foundation Programs

Tribal Colleges and Universities Technology Initiative.—In fiscal year 2001, NSF launched a new TCU initiative designed to enhance the quality of science, technology, engineering and mathematics (STEM) instruction and outreach programs, with an emphasis on the leveraged use of information technologies at TCUs. The program enables colleges to implement comprehensive institutional approaches to strengthen teaching and learning in ways that improve access, retention, and completion of STEM programs, particularly those that have a strong technological foundation. Through this program, colleges gain support their efforts to bridge the "digital divide" and prepare students for careers in information technology, science, mathematics, and engineering fields. The overall goals of the program are to improve access, retention, and graduation rates among American Indian students and to increase the number of American Indians in the information technology, science, mathematics and engineering workforce. In three years, 19 of the 32 eligible TCUs are participating in the program, along with seven Alaska Native and Native Hawaiian serving institutions. We request that Congress expand this vital program to $15 million, $5 million above the President's budget request. This level more accurately reflects the true needs of the eligible pool, which NSF significantly expanded when it included Alaska Native and Native Hawaiian serving institutions, in the TCU program.

Tribal College Linkages with K–12 Schools: Rural Systemic Initiative (TC–RSI) and the Math Science Partnership Program (MSP).—In the mid-1990s, NSF established a program to assist tribal colleges and other rural institutions of higher education in promoting systemic, standards-based change in STEM education in rural K–12 schools. Since 1995, this program has proven to be remarkably successful in terms of standards-based testing, professional development of teachers, and enhanced learning strategies. Fourteen TCUs currently participate in the program. Despite its success, NSF has decided to terminate the program as current grants expire.

In fiscal year 2002, the President established a similar, but significantly expanded new program, the Math Science Partnership program (MSP). MSP seeks to strengthen K–12 science and mathematics education through partnerships involving K–12 schools, institutions of higher education and community stakeholders. In the first year, NSF funded 24 programs. None included minority serving institutions or specifically targeted American Indian children. We strongly urge the Subcommittee to support the ESR division budget and to establish American Indian and Rural Schools programs within the Math Science Partnership program or to include report language reaffirming Congressional support for the TC–RSI program beyond the current grant period.

Advanced Networking with Minority Serving Institutions (AN–MSI).—Four years ago, NSF funded a project within its Computer and Information Science and Engineering (CISE) Directorate to help minority-serving institutions (MSIs) develop the campus infrastructure and national connections necessary to participate in the emerging Internet-based Information Age. The project involves an historic and successful collaboration between three minority communities and mainstream institutions, which had little or no prior experience working together. AN–MSI has developed a successful model for providing TCUs and other MSIs with technical assistance, education, and training programs to improve campus-based information and communications systems and strengthen IT staff. While much has been accomplished, TCUs are at the beginning stages of technology use, particularly for collaborative education and research. AN–MSI's funding expires at the end of fiscal year 2003, and if new funding is not secured, the project's work will cease. We request that the Subcommittee include funding within NSF's CISE Directorate to continue and expand the AN–MSI program at $3 million in fiscal year 2004.

National Aeronautics and Space Administration (NASA)

In fiscal year 2001, TCUs established a formal cooperative agreement with NASA for a project designed to increase access, participation, and success of American Indians in high quality K–16 mathematics, science, engineering, and technology programs. The agreement includes a TCU liaison between AIHEC and NASA to oversee implementation of the project and provides modest program enrichment grants to

the colleges. However, as NASA implements a major reorganization of its education programs, it is unclear whether and how it will support partnerships with tribal colleges. We urge Congress to include report language to encourage NASA to extend its successful cooperative agreement on behalf of TCUs; ensure that the modest existing initiatives for TCUs are not eliminated in the reorganization of NASA's education programs; and encourage NASA faculty exchange programs and IPA contracts with TCUs to provide needed on-site expertise and partnerships. Additionally, we ask for report language to encourage the development of new initiatives to address the technology infrastructure needs at TCUs.

CONCLUSION

In light of the justifications presented in this statement and the overwhelming evidence of inequitable access to technology in rural America, we respectfully request Congress increase funding for Tribal College and University programs to help bring economic self-sufficiency to Indian Country. Fulfillment of AIHEC's fiscal year 2004 request will strengthen the missions of TCUs and the enormous, positive impact they have on their respective communities. Your support will help ensure that they are able to educate and prepare thousands of American Indians for the workforce of the 21st Century. TCUs have proven to be very responsible with the Federal support they have received over the past three decades. It is important that the Federal government now capitalize on its investment. We respectfully request your continued support of tribal colleges and full consideration of our fiscal year 2004 appropriations requests.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM), the largest single life science organization in the world, comprising more than 40,000 members, appreciates the opportunity to provide written testimony on the fiscal year fiscal year 2004 appropriation for the National Science Foundation (NSF).

The ASM represents scientists who work in academic, industrial, medical and governmental institutions worldwide. Microbiologists are involved in research to improve human health and the environment. The ASM's mission is to enhance the science of microbiology, to gain a better understanding of basic life processes, and to promote the application of this knowledge for improved health, and for economic and environmental well being.

The following testimony will outline the ASM's funding recommendations for the NSF for fiscal year 2004.

NATIONAL SCIENCE FOUNDATION

The ASM endorses the level of funding approved by Congress in the NSF Authorization Act of 2002 (Public Law 107–368) to provide $6.39 billion, a 20 percent increase, for the NSF in fiscal year 2004. This would raise the NSF budget by $1.1 billion from its current $5.3 billion level of funding for fiscal year 2003. The ASM strongly supports Congress's bipartisan commitment to strengthen scientific research and education. The NSF budget is one of the nation's most important investment opportunities because it funds research in new frontiers of scientific inquiry and contributes to creating a highly skilled, competitive workforce in science and engineering. Although NSF accounts for only 4 percent of federal R&D spending, it supports nearly 50 percent of the non-medical basic research at our colleges and universities. A 20 percent increase will fund additional excellent rated research projects in pursuit of important discoveries and innovations. In addition, increasing NSF's budget beyond the Administration's proposed $5.5 billion budget will allow the NSF to continue making increases in the size and duration of NSF grants, graduate student stipends and investments in priority areas, such as Biocomplexity in the Environment and Nanoscale Science and Engineering. Increases in these areas will ensure high productivity among researchers and will improve the attractiveness and viability of the science and engineering fields to future students. Achieving these goals requires public investment that reflects the importance of science and engineering to the social and economic foundation of the nation.

The NSF's mission is to promote and advance scientific, mathematical, and engineering research and education in the United States. It is a key agency for supporting research that uses genomic information in new and creative ways through interagency partnerships that advance all the sciences. The NSF has launched several grants that seek to bring multidisciplinary approaches to ecology, human health, and genomic sequencing. These efforts are supported by promising partner-

ships with the National Institutes of Health (NIH), the U.S. Department of Agriculture (USDA), the U.S. Geological Survey (USGS), and the Department of Energy (DOE). Other NSF initiatives will result in increased understanding of environmental and human microbial interactions, which have particular relevance to global environmental change as well as infectious diseases and represent a new frontier in scientific research.

Continued research concerned with the impact of microorganisms on the well being of humans, animals, plants and the environment is critical. The ASM supports NSF's continued focus on microbial biology and the diversity of microorganisms. Microorganisms play key roles in processing our wastes, recycling the nutrients that support our agriculture, forests and fisheries, yield new pharmaceuticals, provide key tools for biotechnology, affect the quality of our food and water, control some pests, and cause disease. The NSF recognizes the important role microorganisms play in our well-being and funds programs that advance our understanding of the microbial world. This effort has led to new programs such as the Microbial Observatories program, which focuses on the discovery of important but uncultured microorganisms. It also provided the foundation for NSF's participation in the interagency effort, "The Microbe Project."

BIOCOMPLEXITY IN THE ENVIRONMENT

The ASM supports the proposed $100 million budget for fiscal year 2004 for Biocomplexity in the Environment (BE) research. BE is an integrative program that utilizes all of the NSF science directorates to address some of the worlds most pressing scientific and societal challenges, such as, climate change and the complicated question of long-term environmental security. This intradirectorate initiative seeks to better understand the complexity of interactions between local, regional and global ecosystems that is inextricably linked to human well being. Advances in molecular biology, ecology, the geosciences, mathematics and the computational sciences have made it feasible to begin to understand these complex interactions. Microorganisms are key components of the soil, water, plant, and animal environments and therefore are dominant factors in understanding these interactions. Furthermore, only a small percentage of the microbial species on earth are known, leaving their functional role unknown. These unknown organisms are the largest untapped source of biodiversity and a potential source of new pharmaceuticals, enzymes, biocontrol agents, and tools for nanotechnologies.

The ASM also endorses the program's emphasis on microbial genomic sequencing as a major new tool in furthering our understanding of the microbial world. In 2004, BE will focus on a number of priorities that will enhance our fundamental understanding of microorganisms important in nature and to humans (e.g., Microbial Genome Sequencing (MGS) activity). The MGS activity will focus on microorganisms chosen for their fundamental biological interest through the peer-reviewed process and for their importance in agriculture and forestry, relevance to the safety and quality of the food and water supply, and as potential bioterrorism agents. The ASM is also pleased with the Tree of Life Project. The NSF expects this program to capitalize on new and powerful computational and genomic technologies, which biologists' will then use to construct a universal genealogy for all 1.7 million named species of living organisms on Earth. Genome sequencing will provide the basis of efforts to better manage these organisms. The ASM is equally pleased to see joint efforts with NIH, USDA, NSF, USGS, USDA, and the National Aeronautics and Space Administration (NASA) continue in the Ecology of Infectious Disease activity. Research will focus on ecological determinants of disease transmission, possible health effects from environmental change, and improved tracking of outbreaks, which should be useful in following the West Nile virus. BE's research (Coupled Biogeochemical Cycles activity) in the biological, geochemical, geological, and physical processes is promoting new multidisciplinary approaches to traditional biological and geochemical science and should be continued.

ASM applauds NSF's continued leadership in expanding multidisciplinary research opportunities and urges Congress to fully support BE.

NANOSCALE SCIENCE AND ENGINEERING

The NSF is the lead agency in the National Nanotechnology Initiative, which allows scientific disciplines an opportunity to focus information technology, biology, engineering, physics, chemistry, and material and computer sciences into a unified research effort to make discoveries in materials and manufacturing, medicine, environment and energy and national security. The ASM supports the Administration's proposed level of funding of $249 billion for this program. The Biological Direc-

torate's (BIO) portion of the fiscal year 2004 initiative is $5 million, which represents a $2 million increase from fiscal year 2003.

The ASM supports the Biosystems at the Nanoscale program ($21 million). This program will study biologically based systems that have potential applications in biocompatible nanostructured materials, new devices for research in genomics, proteomics and cell biology, and nanoscale sensory systems. Nanoscale research could be particularly beneficial to understanding cellular communication and detection of environmentally important signals.

The NSF is a pioneer among federal agencies involved with nanotechnology research and the ASM supports additional interagency cooperation between the NSF and the Department of Energy.

NATIONAL ECOLOGICAL OBSERVATORY NETWORK

The National Ecological Observatory Network (NEON) is a continental-scale initiative composed of 10 distinct geographically distributed, networked observatories that will serve as a platform for integrated research across the sciences. NEON will allow for the first time, teams of scientists to monitor the environment as it changes, providing new insights into regional and national ecological health and sensitivity. NEON will require new technologies, approaches and methodologies and will provide an opportunity for scientists to break new ground on innovative equipment and instrumentation that is so crucial to move science forward. NEON sites will also provide opportunities for other agency scientists to work in partnership with NSF grantees on multidisciplinary projects that will enhance all of the sciences.

The Administration has proposed $12 million for the initiative in fiscal year 2004. The ASM is encouraged by the Administration's support; however, the ASM recommends that the Subcommittee build upon the President's request and fund NEON at $20 million for fiscal year 2004. This level of funding would allow the construction of one complete observatory and a more rapid realization of NEON.

The ASM recommends that Congress give high priority to increasing the NSF's funding as it considers its fiscal year 2004 appropriation. Many of today's scientific achievements leading to the development of biotechnology, antifreeze proteins, improved crops and plant-based products, and DNA fingerprinting have their roots in basic research supported by the NSF. The many future health and environmental challenges the United States will face can only be overcome through the potential of basic research to generate crucial new scientific knowledge and advancements that lead to new technologies for the future.

The following testimony will outline the ASM's funding recommendations for EPA's research and development programs for fiscal year 2004.

ENVIRONMENTAL PROTECTION AGENCY

The EPA's scientific research and development programs are critical to researchers in the fields of applied and environmental microbiology. Research on environmental microbiology is essential for improving air, water, and soil quality; for assuring the safety of potable water supplies; for protecting public water systems from biological threats; for providing safe means for waste disposal; and for cleanups of environmental contaminants. The ASM believes that sound public policy for environmental protection depends on adequately funded programs of intramural and extramural research based on a system of peer review to assure that support is awarded to research programs having both quality and relevance. The EPA has begun its own peer review system based upon the National Science Foundation model. Critical peer review of both the intramural and extramural research programs of the EPA are necessary for ensuring the quality and scientific validity of studies that are funded.

SAFE WATER AND WATER RESEARCH

The ASM strongly recommends increasing the Administration's request of $49.2 million for Safe Drinking Water Research. The ASM also believes the total funding level for Clean and Safe Water programs at $2.9 billion is very inadequate and should be restored to fiscal year 2003 levels. The ASM is very concerned that the Administration continues to cut the budgets of EPA's water programs that help to ensure the quality of the nation's water system. The ASM requests that Congress restore critical funding across EPA's water programs that ensure the Clean Water Act and the Safe Drinking Water Act are properly maintained. Maintaining a strong infrastructure for water quality is the foundation of EPA's Area-Wide Optimization

Program (AWOP), which is designed to reduce consumers' exposure to microbial contaminants by improving the performance of filtering technology. This program is particularly important in maintaining the viability of drinking water systems ability to comply with drinking water regulations, especially the arsenic and microbial, disinfectant and disinfection by-products rules.

The ASM applauds the EPA's continuing support of program initiatives such as drinking water safety standards (e.g., Contaminant Candidate List (CCL)), cost-effective water treatment technologies focusing on microbes, improved water safety guidelines and pollution indicators, and a federal database of beach advisories and closings across the United States. It is essential that EPA's water quality programs continue to focus on reducing the uncertainties surrounding the exposure to biological and chemical contaminants by improving analytical methods and risk assessments. ASM encourage these and other efforts to improve drinking water implementation programs that strengthen coordination between local, state, and federal authorities.

SCIENCE TO ACHIEVE RESULTS PROGRAM (STAR)

The ASM is concerned that the Administration is funding the STAR program at the fiscal year 2000 level of $100 million. The flat funding of this program over the past four fiscal cycles has lead to a reduction in the program's ability to attract new researchers. Therefore, the ASM believes the program would be better served if funded at $110 million for fiscal year 2004. The STAR program is an important mission-driven, extramural research initiative. This program funds important environmental research proposals from scientists outside the federal government and is a valuable resource for the EPA in finding solutions to many complex environmental problems. Grants made under the STAR program last from two to three years and provide about $150,000 of scientific support per grant year. The STAR program funds projects in specific focal areas including global warming, drinking water, ecology of harmful algal blooms, water and watersheds, ecological indicators, and pollution prevention (e.g., mercury), which have significant microbiological components. For instance, in 1999, STAR program grantees developed a model to better understand mercury's terrestrial and aquatic fate and transformation processes that influence environmental exposure and toxicity. This study is particularly important in understanding ecosystem responses to changes in mercury inputs and its affect on water quality, wildlife, and humans.

The ASM is pleased to see that the EPA continues to expand the bounds of STAR research by developing multi-year plans (e.g., for Particulate Matter) that will relate STAR and intramural research products to the Agency's strategic goals for different program areas. These plans will help provide a framework for the Agency to consider, and to explain the balance of R&D performers in individual research areas. The ASM also recommends that 20 percent of the STAR budget remain open for exploring broader issues not covered by targeted RFA's. This mechanism captures the creativity of the scientific community to foresee EPA relevant needs and solutions.

GRADUATE ENVIRONMENTAL FELLOWSHIP PROGRAM

The EPA's Graduate STAR Environmental Fellowship Program has been an outstanding success in attracting some of the best young talent to environmental research. Examples of research conducted in the STAR program include new methods of classifying biologically impaired watersheds and the human health effects of particulate matter. This type of research is generally unique to the EPA and is integral to its role as steward of the environment. Unfortunately, the Administration is cutting the program funding in half ($4.9 million) in its fiscal year 2004 budget. Therefore, the ASM highly recommends that the Subcommittee allocate the necessary funds ($10 million) to keep the STAR fellowship program competitive for the nation's best students.

The ASM believes the Fellowship program is one of the many initiatives the federal government must fully support to ensure that the nation is prepared to answer the complex scientific questions of the future. Both the public and private sectors will benefit from a steady stream of well-trained environmental specialists. The proposed elimination of the program will hinder further research in such areas as bioremediation, global warming, and water safety. The ASM also shares the concern raised by the EPA's Science Advisory Board (SAB) that without the Fellowship program, the EPA may be unable to replace many of the EPA scientists nearing retirement with top-level scientists. The ASM is also concerned that the quality and regard for EPA science will suffer in the short and long-term if the program is abolished. The EPA would not only lose valuable graduate research, but the partnerships developed between industry environmental labs and the EPA.

During this year's appropriations process, the ASM urges Congress to consider these needs and provide the necessary incremental funding. The ASM appreciates the opportunity to comment and would be pleased to provide additional information.

PREPARED STATEMENT OF THE NORTHWEST INDIAN FISHERIES COMMISSION

Mr. Chairman, and Honorable Members of the Committee, I am Billy Frank, Jr., Chairman of the Northwest Indian Fisheries Commission (NWIFC). On behalf of all the tribes in the State of Washington I would like to thank you for the opportunity to provide testimony concerning the Environmental Protection Agency's (EPA) fiscal year 2004 appropriations.

We are specifically requesting that you identify $700,000 within EPA's 104(b)(3) program for the tribes in Washington State, through the Northwest Indian Fisheries Commission, for the purpose of maintaining the existing and successful Coordinated Tribal Water Quality Program (CTWQP). The purpose of our request is to continue implementation of this inter-governmental mechanism for twenty-six participating tribes and tribal organizations in the State of Washington for fiscal year 2004. We thank you for your support this past fiscal year when the Committee provided us $630,000 for our needs. This program, has provided a forum for continuous and meaningful communication between tribal, state and federal agencies for more than a decade. Strong congressional support for implementation of this tribal initiative which began in 1990, and is still present today.

In recent years Congress has been very responsive to tribal environmental protection issues through unprecedented increases in the Environmental Protection Agency's General Assistance Program (GAP) for tribes. Paradoxically, during this same time, this important tribal/EPA water initiative is losing funding. The urgency of this request is a result of significant erosion of base level funding for the CTWQP potentially jeopardizing the long-term investment of federal and tribal government's within this efficient and effective water resources protection and management program.

The intent of this testimony and funding request is to maintain this important and successful tribal initiative by:

—Providing implementation funding to further tribal objectives relative to water resource management and protection of the twenty-six participating tribes; and,

—Maintaining centralized program coordination at the Northwest Indian Fisheries Commission.

Support for this model tribal initiative is timely, as it complements and supports federal initiatives aimed at maintaining healthy waterways. Further, as an existing program that centers around watershed-based water quality protection by building partnerships, and fostering inter-jurisdictional cooperation, it maximizes and leverages the efficiency of available resource dollars. Additionally, it is a critical component in the protection and restoration of our northwest salmon and shellfish.

Justification for this funding request is based on:

—Legal rights and obligations of the federal government to protect the treaty-reserved rights of the tribes;

—The United States' trust responsibility to protect the health and environment of the tribes on a government-to-government basis;

—Cost effective use of a cooperative intergovernmental strategy to accomplish national clean water goals; and,

—The minimization of conflict between multiple jurisdictions who manage water resources.

To assist the Committee members, I would like to summarize background information relevant to our request.

BACKGROUND

The NWIFC request is made on behalf of our nineteen (19) member treaty fishing tribes, the Hoh, Chehalis, and Shoalwater Bay tribes in western Washington, and the Yakama Indian Nation, Colville Confederated, Spokane, and Kalispel Tribes in eastern Washington. The funding request is to continue implementing the model Coordinated Tribal Water Quality Program that began in 1990.

The State of Washington has been blessed with bountiful rivers and streams. Five species of Pacific salmon and three species of anadromous trout use streams in the State of Washington during the fresh water stages of their life cycles. Historically, there were ample supplies of fish for ceremonial, subsistence, commercial and recreation purposes. Old growth conifer removal, riparian zone impacts, farming activities, and channelization of the streams has reduced the productive capacity of these

streams to extremely low levels. Currently, there are Puget Sound salmon stocks listed under the Endangered Species Act.

In 1979, the United States Supreme Court re-affirmed the treaty tribes right to catch half of the harvestable number of anadromous fish passing through tribal usual and accustomed areas. In 1980, the Federal District Court held that the United States and the State of Washington must not permit degradation of fish habitat which would diminish the treaty harvest right. This decision specifically included degradation by point and non-point pollution. The federal courts have recognized that protection of water quality and other attributes of fish habitat are necessary to secure the Constitutionally-protected rights of the tribes to harvest fish.

The sovereign authorities of the Tribes and the legal principles enunciated in United States v. Washington and other federal court decisions support tribal involvement with both on and off-reservation environmental issues. The federal court decisions recognized the tribes as co-managers of the fish resource and water quality in our state. As co-managers in Washington, the tribes must have the resources to adequately participate in environmental protection programs.

The EPA Indian policy (1984) of working with federally recognized tribes on a government-to-government basis concerns more than 375 Indian tribes in the lower 48 states which control more than 52 million acres of land base. In our state, tribal reservations make up approximately six percent (6 percent) of the State of Washington. Our tribes have also retained usual and accustomed fishing grounds that include most of the State of Washington.

The combined area of Indian reservations nationally is larger than all of New England, yet EPA now devotes only a tiny fraction of its personnel and funds to environmental protection for the tribes. This is clearly a discriminatory prioritization of federal funds. On a national level, tribal reservations represent three percent (3 percent) of the land base of this nation. Although the EPA has worked closely with the states to implement adequate environmental programs, little has been done, until recently, to accomplish the same for the tribal governments. Indian tribes are over two decades behind the states both in resources received from the EPA and in technical assistance provided by the EPA in developing tribal water program offices. A front end investment will promote cooperation and increased tribal involvement in environmental protection, as has been the case between the EPA and state governments for the past 20 years. The Coordinated Tribal Water Quality Program enables and fosters cooperative inter-jurisdictional partnerships.

We recognize, support, and appreciate the successful efforts that have been made to improve EPA Indian Programs and tribal funding. Our request for additional funding is intended to stabilize existing program implementation activities. Clearly, a means must be found to support the long term funding of tribal programs that seek to protect tribal treaty rights, their waters, and their peoples, or, the efforts being made by EPA will not continue to be successful.

TRIBAL/STATE ROLES

Beginning in 1990, the State of Washington has supported tribal involvement in environmental protection, both off and on-reservation. The state is committed to work with the tribes on a government-to-government basis as co-managers of the water resource in the implementation of this program. The federally recognized Indian tribes in our region have a long legacy of working cooperatively with the State of Washington. The intent to foster that kind of relationship was articulated in the Centennial Accord with Governor Gardner in 1989 and was re-affirmed with Governor Locke in the 1999 Leavenworh Agreement. The water quality protection efforts supported by EPA funding are part of sustaining that kind of inter-governmental cooperation.

The Coordinated Tribal Water Quality Program, an EPA/Tribal partnership, has generated successful models of state/tribal inter-jurisdictional cooperation. Examples of these models are:

—the Tribal Water Quality Standards Template, which encourages inter-governmental uniformity and coordination of water quality management;

—the Clean Water Act § 303(d) Cooperative Management Program, which provides a forum for state/tribal government-to-government relations throughout the CWA § 303(d) listing and implementation process; and,

—the Coordinated Tribal Data Management System for Water Quality, design to promote efficiency, accuracy and cooperation in utilizing water quality data.

The tribes must be part of the solutions to prevent and control water pollution in the State of Washington. The tribes must participate in these activities to protect their governmental interests and treaty-protected fishing rights. In this time of existing and pending listings of salmon stocks under the Endangered Species Act, nei-

ther we, nor the resource, can afford to lose programs integral to our inter-governmental cooperative watershed program. The Coordinated Tribal Water Quality Program is part of protecting our nation's environmental heritage.

CONCLUSION

For thirteen years, Congress has recognized and supported the Coordinated Tribal Water Quality Program by appropriating funding to maintain its operation. Even with the increased EPA General Assistance Program tribal set aside, tribes in the State of Washington are in danger of losing this successful tribal water quality initiative. This model program demonstrates how tribes can develop environmental programs and work with EPA to realize its long-range objective of including tribal governments as partners in decision-making and program management of tribal lands and resources.

We appreciate the difficulty Congress is facing in making decisions for this next fiscal year. In the case of the EPA, Congress and the Administration will probably direct their resources to address those areas of highest risk to human health, public safety, and the environment. Therefore, we want to reiterate that tribal reservations and protection of their treaty resources have not been adequately addressed for the past twenty years and thus represent the highest of risks to this nation.

Sufficient and permanent funding is necessary to continue the tribal cooperative program. Certainty of funding is necessary for the tribes to hire permanent and professional staff to implement this program. Without an ongoing investment by Congress much of the good that has been accomplished to date will be lost.

Please consider our request for $700,000 for the Washington State Tribal Water Quality Initiative. Once again, thank you for the opportunity to provide testimony. Thank you also for your support in developing a national model, which demonstrates the ability of tribal governments to address environmental protection priorities through cooperative watershed processes with state and local governments.

Thanks to this Committee, we are making significant progress, and this water quality initiative is being supported at all levels. We hope you and the Committee will continue to look favorably on our request.

PREPARED STATEMENT OF THE QUINAULT HOUSING AUTHORITY, QUINAULT INDIAN RESERVATION

Thank you Chairman Walsh and other distinguished Members of this Subcommittee for accepting this written testimony. The Quinault Indian Nation and Quinault Housing Authority (QHA) Board of Commissioners appreciate this opportunity to present our housing priority requests, on the fiscal year 2004 Budget for the Department of Housing and Urban Development, Indian Housing, Office of Native American Programs, to this Subcommittee.

I would also like to take this opportunity to express my sincere appreciation to the military personnel who are away from home and their loved ones. On behalf of my People, I pray that they will have a safe and expedient return to their families and to their Homeland.

NATIONAL INDIAN HOUSING NEEDS

$1 Billion.—For Native American Housing Assistance and Self-Determination Act (NAHASDA)
$150 Million.—For Community Development Block Grants (CDBG)
$20 Billion.—For Indian Health Service Sanitation Facilities Construction
$26 Million.—For USDA Indian Set-Aside for Utilities
$35 Million.—For Supplemental Housing Efforts
$4.8 Million.—For Technical Assistance to Indian Housing Authorities by the Native American Indian Housing Council

JUSTIFICATION OF REQUESTS

For 32 years I have worked to improve living conditions on the Quinault Indian Reservation, located on the Olympic Peninsula, in Coastal Washington State. As an employee and Executive Director for the Quinault Housing Authority, I am disappointed, to say the least, with the President's budget proposal for Indian Housing for fiscal year 2004.

Today, we have the same concerns as other Americans about terrorist attacks, chemical warfare, and how Homeland Security will protect our Nation during this time of war. But, for American Indians and Alaskan Natives (AI/AN), our concerns are heightened during these times because of our basic human needs, which are

often taken for granted by people who do not live in rural remote areas such as reservations. Shelter for our tribal members is a high priority for the Quinault Tribal Government and the Quinault Housing Authority.

Many factors complicate and make costly the development and maintenance of affordable housing for AI/AN. Noted studies, reports and testimony on this subject have documented many of the obstacles and challenges Indian Housing Authorities (IHAS) are confronted with in just trying to provide housing to Indian people on reservations. While the list may be extensive, the challenges identified most frequently are (1) the remoteness of the reservations limit infrastructure and the availability of human resources; (2) land-use restrictions and the unfavorable land conditions on most reservations complicate the development and maintenance of low-income housing; and (3) the cost of the projects spiral upward because of the aforementioned challenges.

While there will always be hurdles to scale over and barriers to remove, I find my job more benefiting than ever; not only to the people I serve, but to myself as well. And, the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA) is largely responsible for this new attitude.

The reauthorization of NAHASDA last fall opens the regulations up to review and revisions. The negotiated rulemaking committee will need the support of the Quinault Housing Authority, as well as the other IHAS, to improve upon how NAHASDA works for us all. Each area will have a representative and an alternate on the committee and it is our responsibility to maintain a line of communication with these representatives to know what is going on throughout the negotiated rulemaking process and to provide an advisory role to our area representatives.

If Congress supports our requests for increased funding, on behalf of the Quinault Housing Authority, I would like to offer my support to the negotiated rulemaking committee to support the formula they design to distribute all new monies. I encourage my colleagues who operate Indian Housing Authorities to support this committee in their efforts to make NAHASDA an even better mechanism to improve housing on Indian land.

Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA)—$1 Billion

The Indian Housing Block Grant line item has been flat-lined since 1998 but tribal housing needs have continued to increase with births, marriages, extended life cycles of our Tribal Elders and tribal members returning to the reservations. Many reports indicate that Indian Housing is the worse in the United States, with an immediate need for 200,000 homes. One may ask how and why, but it is quite simple: we have never received enough funding to eliminate the worse case conditions.

NAHASDA allows Tribes to develop and utilize their grants to fit the needs of each Tribe. One thing we know is that we cannot develop homes without an infrastructure. The Quinault Housing Authority has been successful with NAHASDA. The flexibility of the Block Grant has allowed us to assist our Tribal Elders by providing them with a home in which they could age without the threat of eviction and homelessness. Tribal youth activities have been accessible and have offered our youth positive choices as alternatives to illegal drug and alcohol use. We have acquired homes that families have out-grown and, in some cases, where families have downsized and are no longer in need of the larger homes they once occupied, we have also intervened.

The Quinault Housing Authority has been utilizing a USDA utilities grant along with NAHASDA grants to develop the water/sewer, water storage tank, power, telephone and streets for an eighty-unit (80) development (Phases I and II). We are nearing the completion of the USDA grant and we are moving forward and powering up the water/sewer treatment facilities. We can now begin the development of homes.

Community Development Block Grant—$150 Million

This is a valuable grant utilized by Tribes to assist them in the development of Community buildings, health clinics, youth facilities, economic development, and infrastructure. As we continue to strive to build healthy communities for our Tribal members we request an Indian Set-Aside at a minimum of $150 Million.

Indian Health Service Sanitation Facilities Construction Funds—$20 Million

Presently, appropriation report language precludes Tribes from utilizing IHS Sanitation Facilities Construction funds for HUD-funded housing projects. With this restrictive language, Tribes are forced to utilize NAHASDA funds to develop infrastructure rather than houses. Removing the language will allow for Tribal flexibility for sanitation construction, but will place additional stress on limited funding. We support Health & Humans Services Secretary Tommy Thompson's request for an

additional $20 Million to improve sanitation and infrastructure needs on Indian Reservations, with the removal of restrictive appropriations language.

USDA Indian Set-Aside for Utilities—$26 Million

This program is vital to Tribal Housing Infrastructure needs. While $13 Million is greatly appreciated, because of the cost of developing utilities on a remote Indian Reservation, this amount would assist little more that 13 Tribes. Increasing this amount to $26 million would allow for NAHASDA funds to build houses.

The Quinault Housing Authority has developed the infrastructure for a forty-unit housing development, Phase I, with streets, electricity, telephone lines, water wells, water treatment, water storage tanks and a sewer treatment facility. We have invested $6 million dollars into this development. Engineering and construction estimates have projected that housing will cost $3.2 million. We will extend the development to include an additional forty (40) homes, Phase II, when funding is available.

Bureau of Indian Affairs Housing Improvement Program—$35 Million

The Quinault Housing Authority administers this program for the Quinault Indian Nation. Although the funding is minimal at $70,000 annually, it is vital to our Elders. Each year we are able to rehabilitate two houses or construct one. This program allows for our Indian Elders to live their declining years in comfort. We request $35 Million a year to supplement other housing efforts.

Technical Assistance—$4.8 Million

While the Quinault Housing Authority has not utilized the National American Indian Housing Council's technical assistance, we are aware of tribes who have. Most of these tribes are small and either lack experience or knowledge in construction, administration, or grant application preparation. Keep in mind the remoteness of many of these Tribes. In order for grant dollars to get to the people identified and most in need, and to get houses built, it is imperative that technical assistance be provided. The National American Housing Council has a vehicle in place to provide this expertise that is so desperately needed by so many tribes. We support NAIHC's request of $4.8 Million for fiscal year 2004.

Performance Concerns and Performance Based-Budgeting

HUD Assistant Secretary Michael Liu recently reported that 40 percent of NAHASDA funds remain unspent. We request that HUD be required to provide an accurate accounting of IHBG funds and 1937 Housing Act funds alleged to be in the pipeline because we feel this is an inaccurate estimation of the performance of NAHASDA.

We also request that the A–133 Audit supplemental be expanded to accurately account for the performance of Indian Housing Block Grants. Presently Indian Housing Plans and Annual Performance Reports are NOT adequate to provide an accurate accounting of Tribal performance. Both of these documents are extremely time consuming and repetitive. HUD conducts their Audits, Reviews and Monitoring with the "GOTCHA" mentality. The Seattle HUD Office of Native American Programs has four Certified Public Accountants (CPA's) on staff to conduct the reviews or audits. We have the Federal Government conducting Financial Audits in addition to the Independent Auditors; this is excessive. In some cases we have had the Inspector General's Office also conducting audits.

Tribal Independent Financial Auditors are required to audit not only the financial records, but verify that Current Assisted Stock funding from the grant formula is being spent on the 1937 Housing Act units as required. They also test the financial expenditures against the Indian Housing Plans and verify the Annual Performance Reports' accuracy. Again, we feel that this is over zealous auditing and oversight.

Our opinion is that HUD needs to provide some hands-on technical assistance to struggling Tribes, rather than having four CPA's come in afterwards to criticize what they could have prevented. An Architect or Engineer on staff would better serve Tribes. The CPA's would be better utilized providing technical assistance in bookkeeping and accounting focusing on those auditable areas for reporting.

CONCLUSION

We ask that you inquire into HUD's inaccurate accountability for the Indian Housing Block Grant funding and further investigate the Infrastructure funding for Tribes.

Mr. Chairman, and Honorable Committee members, I thank you for this opportunity to be heard today. My thoughts and prayers are with you in the difficult days ahead.

We appreciate and thank you for your hard work and attention to Indian Housing issues and concerns.

PREPARED STATEMENT OF THE FLEET RESERVE ASSOCIATION

Mr. Chairman, members of the Subcommittee, the membership is again pleased that the Fleet Reserve Association (FRA) has been invited by the Subcommittee to present our legislative goals for the year 2004. On behalf of more than 134,000 shipmates, I extend gratitude for the concern, active interest and progress to date generated by the Committees in protecting, improving, and enhancing benefits that are richly deserved by our Nation's veterans.

FRA was established in 1924 and its name is derived from the Navy's program for personnel transferring to the Fleet Reserve or Fleet Marine Reserve for the Marine Corps after 20 or more years of active duty but not 30 years to fully retire. During the required period of service in the Fleet Reserve, assigned personnel earn retainer pay and are subject to recall by the Secretary of the Navy.

FRA is the oldest and largest professional military enlisted association exclusively serving and representing men and women of the three Sea Services. It continues to seek protection and equity for those who serve in or have retired from the United States Navy, Marine Corps, Coast Guard and those veterans requesting assistance. The Association has been active over the past 77 years in pursuing Congressional and the respective Administration's support for quality of life and veterans' programs for enlisted Sea Services personnel.

LEGISLATIVE GOALS IN BRIEF

FRA's membership has an average age of 68 years, all veterans of as many as three wars, mostly retired from the Sea Services. Our members have tasked us with the following Legislative priorities and to work with Congress to obtain appropriate funding for each.

—Expand Military Retiree Access to the VA Health Care System.
—Explore possibilities for alternative Managed Health Care Programs in VA.
—Expand Health Care Options for Retired Military Veterans under Age 65.
—Funding for the construction and leasing of additional nursing and long-term care facilities.
—Amend Title 38 USC to authorize concurrent receipt of military retired pay and veterans' compensation.
—Support statute requiring the repayment of separation pay if the service member reenlists in the Reserve component, subsequently is entitled to retired pay, or becomes entitled to VA compensation.
—Support H.R. 1111 that amends the Uniformed Services Former Spouse Protection Act to deter state courts from dividing VA or DOD disability pay as property in divorce proceedings.
—Enhance educational programs and provide voluntary open enrollment in the Montgomery GI Bill for all current active duty military personnel, including military personnel who never enrolled in VEAP or MGIB.

DEPARTMENT OF VETERANS AFFAIRS FISCAL YEAR 2004 BUDGET

Fiscal Year 2004 Budget

FRA continues its quest for a realistic DVA budget that will provide adequate funding to care for all of the Nation's veterans, their families and survivors. Although the fiscal year 2004 budget has the largest percentage increase for any Government department, we believe that in real funds no substantial increase has been noted and that the increases are based on optimistic goals of collections and other monetary reimbursements that we hope can be met. FRA has listed the following veterans' programs it believes should be authorized and funded in full. The Association urges your consideration and adoption of these programs to assure America's veterans that they will be fully compensated for their sacrifices while in the uniform of the Armed Forces of the United States, and that their families and survivors will be cared for as prescribed in the mission of the Department of Veterans Affairs. Currently the Veterans Benefits Administration (VBA) part of the DVA budget is funded as mandatory spending. FRA concurs with and endorses the House Veterans Affairs Committee recommendation to convert the veterans health care account from discretionary to mandatory. This will ensure that the Veterans Healthcare Administration (VHA) has sufficient funding without the necessity for annual hearings.

Suspension and Realignment of Veterans Categories

In January, citing mounting deficits and difficulties of operating on funding based on Continuing Resolutions, Secretary Principi suspended enrollments in Priority 8 for the remainder of this year. We applaud the effort it took to make this decision to concentrate on the VA core values of providing care for Service Connected veterans, indigent and homeless veterans and those that need specialized services such as blind rehabilitation and prosthetic services. The Secretary promised that he will monitor the situation and if warranted may possibly re-open enrollment sooner. We hope that with adequate funding this suspension will be terminated in the near term.

The VA's proposal of a $250 yearly enrollment fee for non-service connected Priority 7 and Priority 8 veterans is totally unacceptable. All veterans, regardless of their financial status should be afforded an opportunity to enroll in VA health care programs. We understand the need for re-imbursement of monies utilized in treatment of veterans, but believe it would make more sense for those veterans that are Medicare eligible, and choose to have their health care at VA facilities, be covered by subvention which is reimbursement of fees directly to the VA by the Department of Health and Human Services. This proposed new enrollment fee combined with new drug co-pay proposals for Priority 7 & 8 veterans would have the effect of driving away many veterans who just cannot afford the increased costs.

A second initiative announced by the Secretary will be the establishment of a VA+Choice Medicare plan for Priority 8 veterans aged 65 or older who are denied enrollment in the VA system. Although this is a good idea that will assist in providing medical coverage for veterans unable to qualify for VA healthcare, we question the ability of VA to provide adequate and accredited services for treatment within a 30 day Medicare-mandated period and not somehow shortchange many veterans who are waiting many months for appointments. We do not see any excess capacity for treatment in most VA facilities especially in areas where the majority of veterans live. At the press conference announcing the VA's fiscal year 2004 budget, the Assistant Deputy Secretary for Finance William H. Campbell was asked what would be done if capacity was insufficient or the required Medicare standards could not be met. He answered that the obvious response would be to contract out the necessary services. It would seem that any outsourcing of services would defeat the stated purpose of providing VA healthcare services to those veterans unable to join the VA health care system. FRA believes contracting out the necessary services would only anger and confuse many older veterans who would be torn between remaining in the VA system to continue on waiting lists or disenroll from the VA Health Care System and then enroll in the VA+Choice in order to gain access to health care in a more timely manner. A final consideration for this proposal is the state of all Medicare+Choice programs. There are problems with these programs and it is becoming more difficult for Medicare-eligible people to locate plans and doctors willing to accept new Medicare insured patients. FRA believes this could very well happen with a VA+Choice plan as well.

Now that the war with Iraq has started, FRA notes with encouragement the letter from Senator Specter and Senator Graham which was sent to the Pentagon on February 14, 2003 requesting a formal report on the "military's preparedness to protect forces in southwest Asia" and a second letter from VA Secretary Principi on the same day which requested information on the current health of the deploying forces. Further this letter requested information on "record-keeping of medical treatment during deployment; information-gathering mechanisms; and the Pentagon's preparedness to share data with the Department of Veterans Affairs". We believe the proactive actions by the members of these two committees and Secretary Principi's foresight should help in resolving any healthcare issues from a possible conflict in the area and will hopefully prevent or at least mitigate any problems such as what happened with the so called Gulf War Syndrome. We trust that continued pressure from Congress will ensure the Pentagon maintains its improved record keeping and will share their information in a timely manner to aid the DVA in its mission.

FRA understands the VHA is undergoing major changes and that one of its stated goals is to drastically reduce the waiting times for primary care. We hope that this goal includes dental care. In December FRA received a call from one of its members who lives in the Phoenix area. He is 100 percent service connected disabled and entitled to dental care which he desperately needs as one of his prescriptions has badly deteriorated his teeth. When he called to make an appointment he was told the earliest he could be seen was two years and three months. We hope this is not wide-spread throughout the VA system, if so, FRA believes that expanded recruiting efforts and increased pay levels for dentists as briefed to VSO's at the January

meeting of the National Leadership Board will help ease the long waiting times for dental care.

Nursing Homes, Long Term Care, and Other Health Care Programs

Public Law 106–117, Section 101, The Veterans Millennium Health Care Act made great strides in providing long-term care for our veterans. However, this program is only authorized for a four-year period, and only for veterans who need care for a service-connected disability, and/or those with service-connected disability ratings of 70 percent or more. This program should be extended, expanded and funded to include veterans with service-connected disability ratings of 50 percent.

World War II and Korean veterans are in their 60s and older, as are some Viet Nam veterans, and many require a greater level of long-term care. No one can argue that as veterans grow older, more and more of them will become dependent upon the VA to provide the necessary care in nursing homes, domiciles, state home facilities, and its underused hospital beds. The Nation can ill afford to wait for out-year funds before it expands nursing or long-term care.

FRA disagrees with the methodology used in collecting funds for the Millennium Act and transferring that money to the Treasury. VA's rationale for this is to allow more discretionary VA spending under the current caps set in the Balanced Budget Act. The Association views this a slight of hand rather than a reliable business practice and firmly believes any money collected from veterans for veterans' health care should stay within the VHA.

Tobacco-related Illnesses

In 1998, Congress changed the law prohibiting service-connection for disabilities related to smoking. Many veterans began using tobacco during their military service. It was a way of life and information detailing the health risks associated with tobacco use and nicotine addiction was nonexistent. In earlier years there were many who believed the Armed Services facilitated smoking by including cigarettes in meal rations, and cigarettes were sold at discounted prices in military exchanges. FRA recommends that Congress revisit and repeal its 1998 decision, and provide the appropriate funds.

Medical and Prosthetic Research

Dollar for dollar, VA is widely recognized for its effective research program. FRA continues to support adequate funding for medical research and for the needs of the disabled veteran. The value of both programs within the veterans' community cannot be overstated.

VETERANS BENEFITS ADMINISTRATION

Separation Pays

Under current law, service members released from active duty who fail to qualify for veterans' disability payments, and are not accepted by the National Guard or Reserve, never have to repay any portion of separation pay. If, however, qualified for either, it's time for pay-back. FRA has difficulty understanding why the individual willing to further serve the Nation in uniform, or is awarded service-connected disability compensation, should have to repay the Federal government for that privilege.

FRA is opposed to the repayment requirement. The Association recommends the repeal or the necessary technical language revision to amend the applicable provisions in Chapters 51 and 53, 38 USC, to terminate the requirement to repay the subject benefits. (Also requires an amendment to 1704(h)(2), 10 USC.)

Court-Ordered Division of Veterans Compensation

The intent of service-connected disability payments is to financially assist a veteran whose disability may restrict his or her physical or mental capacity to earn a greater income from employment. FRA believes this payment is exclusively that of the veteran and should not be a concern in the states' Civil Courts. If a Civil Court finds the veteran must contribute financially to the support of his or her family, let the court set the amount allowing the veteran to choose the method of contribution. FRA has no problem with child support payments coming from any source. However VA disability should be exempt from garnishment for alimony. If the veteran chooses to make payments from the VA compensation award, then so be it. The Federal government should not be involved in enforcing collections ordered by the states. Let the states bear the costs of their own decisions. FRA recommends the adoption of stronger language offsetting the provisions in 42 USC, now permitting Federal enforcement of state court-ordered divisions of veterans' compensation payments.

Montgomery GI Bill (GI Bill)

The GI Bill is one of the major enticements for enlisting in the United States Armed Forces. FRA believes that continued improvements to the GI Bill are necessary in order to continuously attract new recruits per Congressionally mandated recruitment levels each year.

The Association is grateful that the 107th Congress passed enhanced MGIB benefits. We are also very encouraged and heartily endorse the House Veterans Affairs Committee recommendation to increase the MGIB payment to $1,200 effective October 1, 2004. FRA believes Congress should increase MGIB benefits annually based on a current average cost of a four-year state run college education.

In the past, would be participants in the MGIB were not permitted to enroll because they never enrolled in the Veterans Educational Assistance Program (VEAP). During the VEAP era, that program was considered to be insufficient in providing adequate funding for a college education. Therefore, current active duty military members who have never enrolled in VEAP or MGIB should be given an opportunity to participate. It is somewhat puzzling to know that an individual may enlist to enroll in the MGIB, but cannot enroll if he or she reenlists. The question is, WHY NOT?

Meanwhile the Association continues to subscribe to the belief once offered by the Treasury Department, that veterans who take advantage of their GI bill will eventually return more money to the U.S. Treasury than was spent by the Federal government for their education.

Disability Compensation Claims Processing

FRA believes VA's efforts in decreasing the backlog of initial disability claims are commendable and are continuing at a very good rate.

However there appears to be an impediment at the Board of Veterans Appeals (BVA) that is growing daily. In February 2002, the BVA started a process that allows them to be responsible for gathering all available information to assist their efforts in processing veterans' claims and appeals. Currently there are over 9,000 cases in various stages of development. Since last year they have only cleared a little over 600 cases. The 26 employees doing this work are overwhelmed. During a recent visit to the BVA, a member of the FRA staff was told there are no plans in the immediate future to expand the workforce dealing with these claims. It appears that strides made in initial claims processing may be negated by this current and growing backlog of cases on appeal. FRA urges the VBA to expeditiously expand the workforce dealing these cases.

NATIONAL CEMETERY ADMINISTRATION

Cemetery Systems

The National Cemetery Administration (NCA) has undergone many changes since its inception in 1862. Currently, the administration maintains almost 2.5 million gravesites at 124 national cemeteries in 39 states, the District of Columbia and Puerto Rico.

One quarter of the nation's 26 million veterans alive today is over the age of 65. Rapidly aging veteran populations coupled with the death rate of World War I and World War II veterans create resource challenges within the NCA. It was estimated that the number of deaths in 2002 were over 680,000 veterans, and by 2006 that number will increase to 687,000 annually, or an average of 1,900 funerals a day. During this time period, the interment rate will continue to rise thereby placing even greater strain on NCA's workforce and equipment.

FRA is grateful to Congress for its increased funding for new cemetery sites in Atlanta, Detroit, Southern Florida, Oklahoma City, Pittsburgh and Sacramento. The NCA is doing much to meet resource challenges and the demand for burial spaces for aging veterans. With additional resources, the NCA will hopefully be able to meet the demand. FRA urges increased funding, structured so the NCA has exclusive use for the purchase of land, preparation, construction and operation of new cemeteries, the maintenance of existing cemeteries, and the expansion of grants to States to construct and operate their own cemeteries.

CONCLUSION

Mr. Chairman. In closing, allow me to again express the sincere appreciation of the Association's membership for all that you, the Veterans Affairs Committees, have done for our Nation's veterans over these many years.

FRA is grateful to address its recommendation for funding of the Department of Veterans affairs. Granted, not all veterans' issues are cited in this statement; how-

ever, the Subcommittees do have the Association's support for the improvement or enhancement of any veterans programs not addressed herein.

PREPARED STATEMENT OF THE UNIVERSITY CORPORATION FOR ATMOSPHERIC RESEARCH (UCAR)

On behalf of the University Corporation for Atmospheric Research (UCAR) and the university community involved in weather and climate research and related education, training and support activities, I submit this testimony for the record of the U.S. Senate Committee on Appropriations, Subcommittee on VA, HUD and Independent Agencies. UCAR is a consortium of 66 universities that manages and operates the National Center for Atmospheric Research (NCAR) and additional research, education, training, and research applications programs. In addition to its member universities, UCAR has formal relationships with approximately 100 additional undergraduate and graduate schools including historically black and minority-serving institutions, and 40 international universities and laboratories. UCAR is supported by the National Science Foundation (NSF) and other federal agencies including the National Aeronautics and Space Administration (NASA).

NATIONAL SCIENCE FOUNDATION (NSF)

The science community was encouraged last year when Congress passed, and the President signed, the National Science Foundation Authorization Act of 2002 authorizing the doubling of NSF's budget over the next several years. Doubling the NSF budget would allow for the long overdue enhancement of the research directorates, enable funding of several critical large facility projects that have already been approved by the National Science Board, and strengthen NSF's K–12 education projects including those targeting populations of students who are underrepresented in this nation's scientific endeavors. While last year's support from Congress and the White House looked promising, the NSF fiscal year 2004 Request recommends $5.48 billion overall, a flat budget at best when compared to fiscal year 2003 final funding plus inflation. I urge the Committee to appropriate for NSF a budget of $6.39 billion (a 19 percent increase over the fiscal year 2003 final appropriation), as authorized by Congress, in order to bring this country's physical sciences and engineering programs into parity with those of the life sciences.

NSF Research and Related Activities (R&RA)

The peer-reviewed work supported by the directorates and programs of NSF's Research and Related Activities represent a major portion of this nation's scientific research achievement and technological progress. The fiscal year 2004 request for RR&A is $4.1 billion, a completely inadequate 0.6 percent increase over the fiscal year 2003 final budget. I urge the Committee to appropriate for Research and Related Activities an amount commensurate with the doubling of the NSF budget as authorized by Congress.

Geosciences (GEO) Directorate.—This NSF Directorate is the principal source of federal funding for university-based research in the geosciences. The GEO section of the fiscal year 2004 NSF Request states that, "Breakthroughs in observing, modeling, and understanding complex Earth systems are coming just at the time when society is in critical need of sound scientific advice on how to mitigate or adapt to changes in the habitability of the planet. The geosciences stand poised to make tremendous contributions to improve the quality of life by providing useful information to decision makers about the key planetary processes, their complex interactions, and, where possible, their future implications." This tremendous potential cannot be achieved with diminished resources as suggested by the fiscal year 2004 request of $687.9 million, a 0.19 percent decrease when compared with the fiscal year 2003 final appropriation. I urge the Committee to appropriate for the Geosciences Directorate an amount commensurate with the doubling of the NSF budget as authorized by Congress.

Atmospheric Sciences (ATM).—Within the GEO Directorate, the Division of Atmospheric Sciences supports research that contributes new understanding of the behavior of the Earth's atmosphere and its interactions with the sun in addition to supporting the operation and maintenance of large, complex facilities required for such research. ATM programs are of direct importance to the physical safety of our citizens, our economic health, and global issues of national security relevance, such as severe weather, climate change, the security of our communications infrastructure, and the environmental health of the planet. I urge the Committee to appropriate for the Atmospheric Sciences within the Geosciences Directorate an amount commensurate with the doubling of the NSF budget as authorized by Congress.

National Center for Atmospheric Research (NCAR).—Funded within ATM, the world-class National Center for Atmospheric Research supports the country's entire atmospheric and related sciences community through observational and computer facilities, instrumented research aircraft, and an extensive visiting scientist program. The work of NCAR is critical to our understanding of weather phenomena, space weather, climate change, the chemical composition and behavior of the Earth's atmosphere, and the societal impacts of environmental change. In addition, NCAR's research products are applied to create technologies that mitigate the impacts of hazardous weather on air and surface transportation and that provide support for the prediction and control of wildland fire. I urge the Committee to appropriate for the National Center for Atmospheric Research an amount commensurate with the doubling of the NSF budget as authorized by Congress.

Major Research Equipment and Facilities Construction (MREFC) Programs

Support for unique national facilities, as provided through NSF's MREFC account, is necessary to advance U.S. capabilities required for world-class research. While requested fiscal year 2004 funding exceeds that of the fiscal year 2003 final by 35 percent, this amount will still not allow the tremendous progress that this country is capable of making in developing MREFC projects that have already been approved by the National Science Board and that could serve this nation well. I urge the Committee to appropriate for the Major Research Equipment and Facilities Construction (MREFC) Programs, an amount commensurate with the doubling of the NSF budget as authorized by Congress.

HIAPER.—When the Budget Request was prepared, the fiscal year 2003 final budget for NSF had not been completed. Since HIAPER development funding was completed in the fiscal year 2003 Omnibus Bill, HIAPER, funded in the fiscal year 2004 Request at $25.5 million, does not need to be included in the final budget. This gives the Committee a tremendous opportunity to apply this $25.5 million to another project in the extensive list of those approved by the National Science Board. On behalf of the atmospheric sciences community, I want to thank the Committee for the crucial role it played in seeing that funding for HIAPER, the nation's newest high-altitude research aircraft, was appropriated over the past several years.

Earthscope.—This multi-purpose geophysical instrument array will allow scientists to make major advances in our knowledge and understanding of the structure and dynamics of the North American continent. The initial Earthscope activity, deployment of high-capability seismometers throughout the United States, will improve our resolution of the subsurface structure, lead to advances in understanding fault conditions and the rupture processes of earthquakes, and make contributions to the atmospheric sciences. I urge the Committee to support the fiscal year 2004 request of $45.0 million for Earthscope.

Education and Human Resources (EHR)

Nothing is more important for the future of our nation than the education of the next generation of leaders. I applaud the EHR request for increased stipends to $30,000 annually to attract our best graduates for research and teaching fellowships and ask the Committee to ensure that this is included in the final budget bill.

National STEM Digital Library (NSDL).—I would like to draw the Committee's attention to a bold, new NSF effort to provide the nation with a comprehensive digital library for the sciences. NSDL will provide innovative infrastructure to support teaching and learning across scientific fields. Such a massive effort needs strong backing, particularly during the initial development-into-operations phase. I urge the Committee to support the NSDL effort, the budget for which appears to be eroding (down $5 million in the Request from the fiscal year 2003 appropriation of $25 million), even in this early, critical stage of its development.

Climate Change Research Initiative (CCRI)

NSF has played a key role in the U.S. Global Change Research Program (USGCRP) and now, as part of the Administration's multi-agency Climate Change Research Initiative, the agency will support research to reduce uncertainty and provide timely information to facilitate policy decisions. The Request states that, "These investigations will complement NSF's ongoing programs in climate change science." In my opinion, the Administration could take far more advantage of NSF's strengths in achieving the nation's climate research goals. Therefore, I urge the Committee to support, at the very least, the fiscal year 2004 request for $25 million for CCRI, ask that you ensure that these activities truly complement and not diminish the critical research activities that have existed in the past under USGCRP, and ask that you investigate expanding NSF's climate change research responsibilities in fiscal year 2004 in order to tap NSF's extraordinary potential to advance the research agenda.

Following the space shuttle disaster, we understand that NASA has the enormous and unfortunate task of examining and possibly revamping the Space Flight account. As this task is performed, I urge the Committee to protect NASA's strong and vibrant science accounts and not allow them to be harmed by fund transfers. I would like to comment on the following NASA Science Aeronautics and Exploration programs that contribute to the health and well being of the nation, in part through the achievements of the atmospheric and related sciences community:

Space Science Enterprise

The extraordinary mission of the Space Science Enterprise is to chart the evolution of the universe and understand its galaxies, stars, planetary bodies, and life; to discover planets around other stars; and to understand the behavior of the sun and its interaction with Earth. I urge the Committee to support the Administration's fiscal year 2004 request for the Space Science Enterprise of $4.0 billion.

Sun Earth Connections (SEC).—The SEC program within the Space Science Enterprise formulates missions to investigate the effects of solar phenomena on Earth and on the space environment. Its overall goal is to understand the changing sun and its effects on the Solar System, life, and society. I urge the Committee to support the Administration's fiscal year 2004 request for Sun Earth Connections by appropriating the request of $769.6 million. SEC contains several missions that promise great benefit to society, and are of particular importance to our community, including the following:

Thermosphere, Ionosphere, Mesosphere, Energetics and Dynamics (TIMED), the first science mission of Solar Terrestrial Probes within SEC, was successfully launched in 2001. The mission provided the first ever data on the composition of the Mesosphere and Lower Thermosphere/Ionosphere (MLTI) region of the Earth's atmosphere, and is investigating the influences of the sun and humans on this altitude (60–180 km) in order to understand MLTI variability and the potential impact of these changes on satellite tracking, spacecraft lifetimes, degradation of spacecraft materials, and re-entry of piloted vehicles. I urge the Committee to continue to support TIMED operations and data analysis at a level at least equal to the fiscal year 2003 appropriation.

Solar-B is a U.S./Japan collaboration to investigate the interaction between the Sun's magnetic field and its corona. The mission will provide space weather data to help understand events such as solar mass ejections that can endanger astronauts in orbit and impact Earth's atmosphere occasionally causing expensive communications disruptions. The Solar-B launch, originally scheduled for 2005, has been delayed in Japan until 2006. This unavoidable shift in schedule will add to the cost of the program. I urge the Committee to support the fiscal year 2004 request for $12.5 million for the continued NASA development of the Solar B mission's instrument subsystems, and to support, with new funding so as not to adversely affect the mission, additional costs that are incurred as a result of launch delay.

Earth Science Enterprise (ESE)

The purpose of ESE missions is to provide data sets that hold the key to answering one of the most important questions for the future of this planet: "How is the Earth changing, and what are the consequences for life on Earth?" Even so, the fiscal year 2004 Request gives ESE the only decrease of any NASA Enterprise. In addition to its ongoing programs that have important practical applications for watershed management, flood remediation, ecosystem management, and wildland fire assessment and response, ESE will play an increasingly important role in the Administration's Climate Change Research Initiative by providing state-of-the-art remote sensing measurements critical to understanding climate change processes. While the fiscal year 2004 Request states that the ESE decrease reflects the fact the several large programs are past their peak development phases, the funding level allows for no growth. I urge the Committee to keep the investment in NASA balanced by providing an increase for the Earth Science Enterprise that is consistent with increases for other NASA Enterprises such as Space Science and Biological and Physical Research. Such support would provide ESE with an approximate 10 percent increase over the fiscal year 2003 appropriated amount.

Earth System Science.—Within ESE, Earth System Science employs a constellation of more than 15 Earth observing satellites collecting global data used to analyze, model, and improve our understanding of the Earth system. Application of these data will enable improved predictions of climate, weather, and natural hazards. I urge the Committee to support the fiscal year 2004 budget request of $1.47 billion for the Earth System Science Theme. This Theme area contains several pro-

grams that are of great benefit to society, and are of particular importance to the atmospheric sciences community, including the following:

Climate Change Research Initiative (CCRI) Acceleration.—New in this year's ESE request is the CCRI Acceleration program that advances several climate change data collection and evaluation programs that are of great importance to society. I urge the Committee to support the CCRI Acceleration activities as long as the request of $26.0 million is not drawn from and thereby diminishing other critical research programs.

Earth Observing System Data and Information System (EOSDIS) Development.—EOS satellites collect data on the major interactions of the land, oceans, atmosphere, ice, and life that comprise the Earth system in order to answer questions about how the Earth is changing and what the consequences of those changes are for life. EOSDIS development supports new Earth Science Enterprise missions and the data sets are used broadly in a number of scientific fields. I urge the Committee to support the fiscal year 2004 request of $98.3 million for EOSDIS.

AURA.—Scheduled to launch next year, this EOS mission will provide data to answer such critical questions as whether the Earth's ozone layer is recovering and whether air quality is deteriorating around the globe. These are issues that affect environmental policies and international agreements. I urge the Committee to support the fiscal year 2004 budget request of $52.5 million for AURA development.

Missions in Formulation.—As the first cycle of EOS missions comes to a close, future missions are being planned to continue to meet the scientific needs of the NASA Earth System Science projects. I urge the Committee to support the Administration's fiscal year 2004 request of $274.4 million for EOS Missions in Formulation.

U.S. Global Change Research Program (USGCRP).—While the interagency USGCRP is not called out specifically in the Request, I would like to acknowledge the crucial role NASA has played in this program in the past and the critical role it plays and will play in the Administration's Climate Change Research Initiative. NASA research efforts in global change involve space-based, satellite studies of the Earth as an integrated system. These activities, concentrated within the ESE, represent a critical investment for the future of this country, its economy, and the health and safety of its citizens. I urge the Committee not to lose sight of critical U.S. Global Change Research Program activities as the Climate Change Research Initiative continues to provide important new structure to this nation's climate research efforts.

Earth Science Applications

Within NASA's Earth Science Applications Theme, we are pleased to note the increased request for Earth Science Education and the continuation of the GLOBE Program. I urge the Committee to support the fiscal year 2004 request of $20.8 million for Earth Science Education.

Office of Aeronautics Technology

Within the Office of Aeronautics Technology, The Aviation Safety and Security Program encompasses four areas, one of which is Weather Safety Technologies. In partnership with the FAA, the Department of Defense and the aviation industry, this program develops and supports the implementation of technologies to reduce fatal aviation accidents and delays caused by weather hazards. I urge the Committee to support the fiscal year 2004 request for the Weather Safety Technologies program of $42.3 million.

On behalf of the UCAR community, I want to thank the Committee for the important work you do for U.S. scientific research, education, and training. We understand and appreciate that the nation is undergoing significant budget pressures at this time, but a strong nation in the future depends on the investments we make in science and technology today. We appreciate your attention to the recommendations of our community concerning the fiscal year 2004 budget of NSF and NASA.

PREPARED STATEMENT OF THE DORIS DAY ANIMAL LEAGUE

Mr. Chairman and members of the Subcommittee, thank you for the opportunity to present testimony relevant to the fiscal year 2004 budget request for the U.S. Environmental Protection Agency's (EPA) Office of Research and Development (ORD) and Science and Technology Account. I hope the Subcommittee will consider the concerns of the 350,000 members and supporters of the Doris Day Animal League and take steps to ensure the EPA recognizes the necessity of sound science approaches in its research, development and validation of non-animal, alternative toxicological test methods. These methods can significantly reduce the numbers of, and ultimately replace, animals in its testing programs.

RESEARCH, DEVELOPMENT AND VALIDATION OF NON-ANIMAL, ALTERNATIVE TEST METHODS

In recent fiscal years, the enacted budget for the ORD has hovered at approximately $500 million, comprising just 9 percent of EPA's total budget. In a report filed by the agency's own Science Advisory Board, fiscal year 2002 Presidential Science and Technology Budget Request for the Environmental Protection Agency: An SAB Review, the SAB urged Congress to increase the proportion to 12 percent by 2004. However, within these appropriations, we have found it difficult, if not impossible, to track funding by ORD for specific non-animal, alternative test methods to meet the EPA's needs in new testing programs. It is our contention that many emerging technologies, which often prove to be faster to run, less expensive and at least as predictive as current animal tests used for hazard and risk assessment, would benefit from research and development dollars.

Thanks to the leadership of Chairman James Walsh, House Subcommittee on VA, HUD and Independent Agencies Appropriations, the House inserted a $4 million directive for the EPA to research, develop and validate non-animal, alternative test methods in the fiscal year 2002 bill. Ultimately, the conference committee for the VA, HUD and Independent Agencies fiscal year 2002 bill agreed to the following language:

"The conferees have agreed to provide $4,000,000 from within available funds throughout the Science and Technology account, for the research, development, and validation of non-animal, alternative chemical screening and prioritization methods, such as rapid, non-animal screens and Quantitative Structure Activity Relationships (QSAR), for potential inclusion in EPA's current and future relevant chemical evaluation programs. Activities funded in this regard should be designed in consultation with the Office of Pollution Prevention and Toxic Substances."

The animal advocacy community is greatly appreciative of this first-ever directive to the EPA. However, the House report language for fiscal year 2002 also included a directive for a report to Congress on the specifics of the EPA's expenditures. It is truly unfortunate that this language was deleted from the final conference report as we have had significant difficulty in obtaining concrete information from the agency on the expenditure of funds to date. And, in fact, communications from the EPA which have been shared with Chairman Walsh clearly delineate an agency preference for "basic research" into long range potential methods versus "applied research" that may yield immediate results with existing promising methods. In addition, to our current knowledge, the EPA did not of its own volition direct additional resources to these efforts in fiscal year 2003.

We request that $5 million, from the current budget request, be set aside for research, development and validation for regulatory acceptance of non-animal, alternative test methods. Activities funded by these allocations shall be designed in consultation with the Office of Pollution Prevention and Toxic Substances. It is our preference that these test methods have direct relevance to new EPA testing programs, including the High Production Volume chemical testing program, Endocrine Disruptor Screening Program (EDSP) and Children's Health initiative. A case in point is the lack of strategy by the agency to research, develop, validate and integrate in vitro systems for thyroid disruption and metabolism, which would greatly reduce the numbers of animals slated for death under the EDSP. Our request for $5 million represents just 1 percent of the total ORD budget and would be perceived by all stakeholders as a genuine commitment by EPA to new non-animal, alternative test methods.

I also request that the Subcommittee require the EPA report to the Subcommittee by April 30, 2004 regarding expenditures and plans for additional expenditures for fiscal year 2004 funds.

CONTINUED RELIANCE ON ANIMAL TEST METHODS

As you may know, the EPA requires substances such as pesticides, industrial chemicals, and others to be tested for their rates of skin corrosion, skin absorption, and skin irritation. Traditionally, these tests cause grave pain, distress and death to great numbers of animals—including literally chemical burns through the skin and organs of rabbits.

Fortunately, there are non-animal test methods that are just as predictive, if not more so. Human skin equivalent tests such as EpiDerm™ and EpiSkin™ have been scientifically validated and accepted in Canada, the European Union, and by the Organization for Economic Cooperation and Development (OECD), of which the United States is a key member, as complete replacements for animal-based skin corrosion studies. Another non-animal method, Corrositex™, has been assessed as scientif-

ically valid by the U.S. Interagency Coordinating Committee on the Validation of Alternative Methods and data generated from the non-animal test is accepted by the relevant federal agencies. Various tissue-based methods have been accepted in Europe as total replacements for skin absorption studies in living animals. Government regulators in Canada accept the use of a skin-patch test in human volunteers as a replacement for animal-based skin irritation studies (for non-corrosive substances free of other harmful properties).

I therefore respectfully urge that you also include language in the report accompanying the fiscal year 2004 VA, HUD and Independent Agencies Appropriations bill stating that: No funds for the EPA (including salaries or expenses of personnel) may be used for the purpose of assessing data from an animal-based test method when a non-animal test for the desired endpoint has been validated and/or accepted by the OECD or its member countries.

CONCLUSION

I respectfully request that the Subcommittee direct the EPA provide $5 million for the ORD to research, develop and validate non-animal, alternative toxicological test April 24, 2003 Page 4 methods for regulatory acceptance and that the agency be required to provide a timely, detailed report on the expenditure of these funds.

I also respectfully request that the Subcommittee direct that no funds be used to assess data from an animal-based method when a scientifically valid non-animal test is widely accepted.

PREPARED STATEMENT OF THE MICKEY LELAND NATIONAL URBAN AIR TOXICS RESEARCH CENTER

The Mickey Leland National Urban Air Toxics Research Center (NUATRC or Leland Center) is requesting a $2.5 million appropriation for fiscal year 2004 to continue the air quality public health research on air toxics in urban areas as directed by the U.S. Congress. The NUATRC is a 501(c)(3) institution, which was authorized by Congress in the Clean Air Act Amendments of 1990 (Title III, Section 301 (p)).

The NUATRC has been operational for over ten years as a unique public/private research partnership. Active research has been performed for eight years. The NUATRC receives EPA Assistance Awards based upon Congressional appropriations. We leverage these federal funds with non-federal funds contributed from a variety of government and non-government sources. Our 2003 non-federal contributor's commitments included major U.S. companies, local government, and a local privately funded ambient monitoring network; with industrial firms being the major private contributors. To further leverage our funding, NUATRC utilizes an administrative services agreement with The University of Texas-Houston Health Science Center in the Texas Medical Center complex. This arrangement lowers the NUATRC's overall costs and allows the NUATRC to take advantage of the world-renowned scientific community at The University of Texas and the Texas Medical Center, as directed by Congress, while still remaining an independent entity.

The NUATRC's mission is to sponsor and direct sound, peer-reviewed scientific research on the human health effects of air toxics in urban populations. The NUATRC's goal is research on these topics driven by scientific questions requiring answers by policy and decision makers in government, industry and academia to improve the scientific basis of regulatory decisions. It is an integral part of the air toxics strategy established by Congress to assess the risks posed by air toxics to individuals living in areas where air quality concerns have been expressed by both medical and scientific experts and urban community leaders.

The NUATRC is governed by a nine-member Board of Directors, appointed pro rata by the Speaker of the U.S. House of Representatives, the Majority Leader of the U.S. Senate, and the President of the United States. The current membership of the Board of Directors is shown in Attachment 1. We are grateful for the recent appointments of Wilma Delaney, Monica Samuels, and Mary Gade by the President to our Board. We are awaiting action on the appointment of two additional Board Members. One is a House appointment; one is a Senate appointment. Amongst its duties, the NUATRC Board appoints a 13-member Scientific Advisory Panel, selected from national research institutions, academic centers, government agencies, and the private sector. The current membership of the Scientific Advisory Panel is shown in Attachment 2.

ACHIEVEMENTS

We have established the following major scientific achievements over the last several years that are in keeping with our Congressional charge in the Clean Air Act Amendments of 1990:

—Establishment of the importance of personal exposure (e.g. what people breathe) to the evaluation of possible public health effects. These findings are stimulating a reevaluation of the national emphasis on outdoor levels and sources.

—Development of inexpensive and accurate personal monitoring technology to allow measurements of individual exposures to air toxics. This provides a new and, for the first time, direct view of the possible public health risks of personal exposure to air toxics. To our knowledge, this is a unique contribution by the NUATRC. See the supplemental material for photos and further descriptions of this technology (Attachment 3).

—Results that support a new focus on those air toxics that exist on particles and may be a factor in the claims of increased mortality from these exposures.

—Initiation of community-based studies that involve participation by those citizens directly exposed to urban levels of air toxics. This includes early data from NUATRC's involvement in the National Health and Nutrition Examination Survey (NHANES).

We owe these advances in large part to the work of our Scientific Advisory Panel, made up of world class scientists from the public (EPA), private and academic sectors, who have spent considerable time and effort to develop and refine these studies in a collegial and efficient manner. We also are fortunate to have had the encouragement of this body, which has consistently supported the NUATRC with annual appropriations in the EPA budget, without which we would not be able to continue.

We continue to work closely with the EPA, through which we access the Congressionally-appropriated funds. We have an excellent working relationship with the EPA scientists that serve on our research panels, and we are continuing to interact with their administrative counterparts to establish a firmer base for our EPA financial support.

CURRENT ACTIVITIES

The NUATRC has been very active on its air toxics research initiatives. One of these initiatives addresses the national concerns about asthma. The NUATRC's initiative seeks to determine whether air toxics play a major role in the exacerbation of asthma, which is a multi-faceted, complex, and increasing public health issue especially among the minority and underserved populations. The NUATRC has had several discussions with the scientific staff at the National Institutes of Environmental Health Sciences (NIEHS) to understand how we can best leverage our experience in personal exposure assessment with the NIEHS' well known expertise in public health effects. We are hopeful of developing considerable support in 2003–2004 for joint NUATRC-NIEHS programs on urban air toxics and asthma exacerbation.

To further understand asthma the NUATRC has begun receiving preliminary results from the NUATRC sponsored research program on children's asthma and the effects, if any, that result from exposures to air toxics. The pilot study is entitled "Oxygenated Urban Air Toxics and Asthma Variability in Middle School Children: A Panel Study" or Air Toxics and Asthma in Children (ATAC). We expect that this study will be completed in 2004. Aside from generating important health data in Houston, it will help define the cost and scope of any national study of this kind, similar to what we are discussing with NIEHS. Our ability to discern specific personal exposures to those air toxics that are thought to play a role in asthma exacerbation will allow us to pinpoint and separate those effects from the many urban confounders that often mask the important factors in the spread of this disease. We have relied on scientific input from our expert Panel and submit all proposals to external peer-review. This process has led us to select a team of physician/scientists from major medical research institutions at the Texas Medical Center. Specifically, NUATRC has selected an excellent interdisciplinary research team whose members represent Baylor College of Medicine, The University of Texas School of Public Health and Texas Children's Hospital to carry out this work with asthmatic middle school children in the Houston area. This research is supported by EPA funding, funding from local government, and private sector contributions. We are hopeful that the success of this program will lead to NIEHS involvement in a wider ranging study of asthma and air toxics with a national focus, and part of our appropriations request is for leveraging the NIEHS support.

In addition to funding research, publication of research findings is a NUATRC goal. Our priority is to support research leading to peer-reviewed publications. A list

of the NUATRC's publications is presented in Attachment 4. Another NUATRC goal is the participation in or hosting of an annual Workshop or Symposia. In 2004, NUATRC will sponsor a workshop or symposium on "Association Between Micro-environments and Levels of Air Toxics from Personal and Biological Monitoring".

RESEARCH FINDINGS TO DATE

In 2004, NUATRC will continue research efforts to better understand the personal exposures of people living in urban areas to a number of the 188 air toxics defined in the Clean Air Act. However, NUATRC is also beginning to receive data from our new health effects studies, an emphasis area on which we will continue to focus in 2004.

From our earlier exposure studies we have achieved pioneering accomplishments in measuring levels of personal exposures to toxic air pollutants. These studies in New York, New Jersey, Los Angeles and Houston have ended. We anticipate the final report shortly and that the information generated will be reported at a number of major scientific meetings, and published, during the next 12 months. The investigators at Columbia University, EOHSI in New Jersey and The University of Texas have obtained massive amount of important data which will be the subject of many analyses and publications over the next several years. These data point conclusively to the importance of personal exposures in terms of assessing the actual public health risk from air toxics.

In Attachment 5 to this submission, we provide examples of the kind of information we are obtaining, which suggests that the nation's environmental resources need to be focused on personal situations, as opposed to a continuing emphasis on fixed site urban air monitors.

These fixed site monitors, which play a key role in determining overall urban air quality and air quality standard attainment, are not numerous enough or precise enough to address public health risks. The support we have received from this Subcommittee has been instrumental in creating a new scientific emphasis on personal exposure measurement. The EPA has now accepted the importance of such approaches and is instituting its own program in this area.

The NUATRC research programs at Harvard and Washington State University are focused on the air toxic component of fine particles, notably metals, in terms of possible effects on peoples' heart rate and pulmonary functions when exposed to fine particles. These epidemiological studies also allow us to better define future research, which will combine personal exposure measurements, the apportionment of source contributions and the health effects end points, as are being developed in this work at Harvard and Washington State. Of course, the NUATRC's pilot asthma studies will be a major advance in the public health science area.

We have also expanded our involvement in community-based environmental health research, which is an important element in our charge, as air toxics health effects can be expected to disproportionately impact the economically and medically underserved people in our urban populations. Through our Small Grants Program we have recently completed research underway in Baltimore under a Johns Hopkins University research grant to address exposures to air toxics in a residential community in close proximity to an industrial complex. This research also has met the goal of keeping the community informed as to the results of our studies, which is all too often ignored or neglected in our haste to complete studies and submit them for publication. We have a somewhat similarly-intentioned program in progress at the University of Illinois at Chicago, which deals with the levels of polycyclic aromatic hydrocarbons (PAH) in indoor environments.

ADMINISTRATION

The NUATRC operates with an efficient administrative staff of five full-time and one part-time equivalent staff, one consultant, and important administrative support from The University of Texas Health Science Center at Houston (UTHSC). Our staff is employed by UTHSC, which obviates the need for considerable personnel support services and allows us the benefit of residence a world class health science center, while remaining an independent institution. This provides important scientific and administrative benefits, including access to the Medical School and School of Public Health faculty. We are extremely conscious of and pleased to call attention to our ratio of monies spent directly on research compared to administrative costs, and we will continue to leverage of our research funds.

2004 BUDGET RATIONALIZATION

For 2004 the NUATRC will support several categories for individual research studies. The research category budgets are shown in the budget table below. First,

the NUATRC will continue to fund asthma and air toxics research in 2004. NUATRC's pilot asthma work (ATAC) is planned to be expanded to a national study with NIEHS, which we will cost share with NIEHS and/or other interested participants. NUATRC has recently completed several data rich urban air toxics research studies. For 2004 NUATRC plans to offer additional data analysis and interpretation RFA's to the scientific community to "mine" this rich, complex, and deep data base. The particle personal cascade impactor and pump development has been completed. Funding in this category for 2004 will also be used to fund the use of both in research studies. We also would continue our involvement with the NHANES program run by the National Center for Health Statistics, in which our participation is highly leveraged. The evaluation of Perinatal Health Effects of Air Toxics is an emerging and important area of research. For 2004, at the direction of NUATRC's SAP, NUATRC plans the development and release of an RFA to assess the status, scope, and direction of this research area. Current NUATRC sponsored Health Effects Research has shown results on the effects of air toxic exposures on human respiratory functions and is planned to continue with new studies for 2004. The Small Grants Program has been a successful, cost effective program for NUATRC in terms of identification of emerging research areas and publications in the peer-reviewed literature. We will continue this program in 2004. The emphasis we place on having Workshops and/or Symposia every year has proven cost-effective in advancing the understanding of air toxics health effects. With 2004 funding we will continue to support an annual Workshop or Symposium. The Research Support category is essential to provide funds for scientific peer-review, publications, reports, additional scientific research, quality assurance and other activities recommended by the SAP and approved by the Board. This budget also serves an important strategic research function for the entire NUATRC program. The total budget shown below is an effort recognizing current budget pressures. However; the budget presented below also capitalizes on the legacy investment in research already made by providing resources to fully analyze and capture the knowledge inherent in the study results in time for answers to regulatory and scientific questions. We will continue, as noted elsewhere, to seek supplemental funding sources for our research program. We are encouraged with the interest in our research program by non-federal funding sources. For the first time in the NUATRC's history we have received project specific funding commitments from Harris County, Texas and the Houston Regional Monitoring Corporation. We are also encouraged by the contributions of several private companies such as ExxonMobil, Rohm and Haas, Inc., and Shell Oil Foundation (and 7 other organizations) as contributors the NUATRC's research program.

Fiscal Year 2004 Budget

Asthma Studies/Air Toxics Research	$450,000
Perinatal Health Effects of Air Toxics Research	300,000
Data Analysis, Interpretation, and Presentation (''Mining'')	250,000
Health Effects Research	150,000
Small Grants	300,000
Workshops, Symposia	50,000
Research Support	100,000
Administration	900,000
Total	2,500,000

PREPARED STATEMENT OF PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS (PETA)

People for the Ethical Treatment of Animals (PETA) is the world's largest animal rights organization, with more than 750,000 members and supporters. We greatly appreciate this opportunity to submit testimony regarding the fiscal year 2004 appropriations for the Environmental Protection Agency (EPA). Our testimony will focus on chemical tests allowed or required by the EPA to be conducted on animals.

As you may know, the EPA requires substances such as pesticides, industrial chemicals, and others to be tested for, among many other hazards, their rates of skin corrosion, skin absorption, and skin irritation. Traditionally, these particular tests have involved smearing chemicals on animals' shaved backs, often causing effects ranging from swelling and painful lesions to wounds where the skin is totally burned through.

Fortunately, there are non-animal test methods that are just as effective, if not more so, for these three endpoints. "Human skin equivalent" tests such as

EpiDerm™ and EpiSkin™ have been scientifically validated and accepted in Canada, the European Union, and by the Organization for Economic Cooperation and Development (OECD), of which the United States is a key member, as total replacements for animal-based skin corrosion studies. Another non-animal method, Corrositex™, has been approved by the U.S. Interagency Coordinating Committee on the Validation of Alternative Methods. Various tissue-based methods have been accepted in Europe as total replacements for skin absorption studies in living animals. In fact, in 1999 the EPA itself published a proposed rule for skin absorption testing using a non-animal method that has never been finalized. Government regulators in Canada accept the use of a skin-patch test in human volunteers as a replacement for animal-based skin irritation studies (for non-corrosive substances free of other harmful properties).

However, the EPA continues to require the use of animals for all three of these endpoints, despite the availability of the non-animal tests.[1]

In fiscal year 2002, the subcommittee allocated the first-ever appropriation for the EPA to research, develop, and validate non-animal methods. The appropriation was in the amount of $4,000,000 and was to be used for "non-animal, alternative chemical screening and prioritization methods, such as rapid, non-animal screens and Quantitative Structure Activity Relationships." However, to date, the EPA has refused to provide a detailed accounting of how this appropriation was spent and exactly what non-animal testing methods received these funds.

We respectfully request that the subcommittee include report language ensuring that no funds for the EPA (including salaries or expenses of personnel) may be used for the purpose of assessing data from an animal-based test method when a non-animal test for the desired endpoint has been validated and/or accepted by the OECD or its member countries. We also request that $5 million from the current budget request be set aside for the research, development, and validation of non-animal test methods, and that the EPA be required to report to Congress on how these funds are spent.

ANIMAL TESTS CAUSE IMMENSE SUFFERING

Traditionally, the degree to which corrosive materials are hazardous has been measured by the very crude and cruel method of shaving rabbits' backs and applying the test substance to the animals' abraded skin for a period of hours. As one can imagine, when highly corrosive substances are applied to the backs of these animals, the pain is excruciating. In skin absorption tests, the rate at which a chemical is able to penetrate the skin is measured by shaving the backs of rats and smearing the substance on them for an exposure period of up to 24 hours. They are eventually killed, and their skin, blood, and excrement are analyzed. A similar method is used to test for skin irritation, except the unfortunate subjects are again rabbits, who are locked in full-body restraints. A test chemical is applied to their shaved backs, and the wound site is then covered with a gauze patch for normally four hours. A chemical is considered to be an irritant if it causes reversible skin lesions or other clinical signs, which heal partially or totally by the end of a 14-day period. Animals used in the above tests are not given any painkillers.

THESE TESTS HAVE NEVER BEEN PROVEN TO BE RELEVANT TO HUMANS

None of the animal tests currently used for skin corrosion, absorption, or irritation has ever been scientifically validated for its reliability or relevance to human health effects. Animal studies yield highly variable data and are often poor predictors of human reactions. For example, one study, which compared the results of rabbit skin irritation tests with real-world human exposure information for 65 chemicals, found that the animal test was wrong nearly half (45 percent) of the time in its prediction of a chemical's skin damaging potential (Food & Chemical Toxicology, Vol. 40, pp. 573–92, 2002).

VALIDATED METHODS EXIST WHICH DO NOT HARM ANIMALS

Fortunately, test methods have been found to accurately predict skin corrosion, absorption, and irritation.

EpiDerm™ and EpiSkin™ are test systems comprised of human-derived skin cells, which have been cultured to form a multi-layered model of human skin. The Corrositex™ testing system consists of a glass vial filled with a chemical detection fluid capped by a membrane, which is designed to mimic the effect of corrosives on

[1] The EPA may allow the use of EpiDerm™, however it will apparently require confirmatory testing on animals of any negative non-animal test results. This sets an unjustified precedent of requiring confirmatory testing of validated non-animal tests with non-validated animal tests.

living skin. As soon as the corrosive sample destroys this membrane, the fluid below changes color or texture.

For skin absorption tests, the absorption rate of a chemical through the skin can be measured using skin from a variety of sources (e.g. human cadavers). The reliability and relevance of these in vitro methods have been thoroughly established through a number of international expert reviews, and have been codified and accepted as an official test guideline of the OECD.

Instead of animal-based skin irritation studies, government regulators in Canada accept the use of a skin-patch test using human volunteers. (The chemical is first determined to be non-corrosive and free of other harmful properties before being considered for human studies.)

NON-ANIMAL TEST METHODS CAN SAVE TIME, MONEY, AND YIELD MORE USEFUL RESULTS

Unlike animal testing that can take two to four weeks, Corrositex™ testing can provide a classification determination in as little as three minutes and no longer than four hours.

Tissue culture methods to test for skin absorption allow researchers to study a broader range of doses, including those at the actual level of exposure that occurs in the occupational or ambient environment, which is not possible with the animal-based method.

Many non-animal methods can yield results with greater sensitivity and at a lower cost than animal-based methods. Protocols are more easily standardized, and the variations among strains and species are no longer a factor.

THE EPA CONTINUES TO REQUIRE THE USE OF ANIMALS

Despite the ethical, financial, efficiency, and scientific advantages of the above non-animal methods, the EPA continues to require and accept the unnecessary use of animals in tests for skin corrosion, absorption, and irritation.

SUMMARY

Non-animal methods are available now to replace animal-based methods to test substances for skin corrosion, absorption, and irritation. There simply is no excuse for continuing to cause animals to suffer when non-animal tests are available.

We therefore hereby request, on behalf of all Americans who care about the suffering of animals in toxicity tests, that you please include language in the report accompanying the fiscal year 2004 VA, HUD and Independent Agencies Appropriations bill stating that:

—no funds for the EPA (including salaries or expenses of personnel) may be used for the purpose of assessing data from an animal-based test method when a non-animal test for the desired endpoint has been validated and/or accepted by the OECD or its member countries;

—an allocation in the amount of $5 million of the EPA's research budget be directed toward the research, development, and validation of non-animal test methods; and

—the EPA must report to the Subcommittee by April 30, 2004, providing a detailed accounting of how the above allocation is spent.

Thank you for your consideration of our request.

PREPARED STATEMENT OF THE JOSLIN DIABETES CENTER

INTRODUCTION

Mr. Chairman, thank you for this opportunity to provide a status report on the Diabetes Project conducted jointly by the Joslin Diabetes Center in Boston, MA and the Department of Veterans Affairs (Medical Care account), for which you provided $5 million each in the fiscal year 2001, fiscal year 2002 and the fiscal year 2003 Appropriations Acts.

Our request for fiscal year 2004 to continue this project with the VA is $5 million in the Medical Care account, of which the VA's costs represent approximately 50 percent. I am Dr. Sven Bursell, Principal Investigator of the project and Associate Professor of Medicine at the Harvard Medical School.

BACKGROUND

Joslin Diabetes Center has been involved with the Department of Defense and the Department of Veterans Affairs in a pilot demonstration project for the advanced

detection, prevention, and care of diabetes. The Joslin Vision Network (JVN) has been deployed in VA sites in VISN 21 in Hawaii (Honolulu, Hilo and Maui), VISN 1 in New England (Boston, Brockton in Massachusetts, and Togus, Maine) and VISN 19/20 (Seattle and Tricities in Washington, Anchorage in Alaska and Billings in Montana). The JVN employs telemedicine technology to image the retina, through an undilated pupil, of patients with diabetes, and produces a digital video image that is readable in multiple formats.

This project was funded initially through the Department of Defense Appropriations Act. The Department of Veterans Affairs medical staff was eager to expedite the deployment of this advanced diabetes technology beyond the limited resources available through participation in the DOD funded project. We petitioned this Subcommittee for additional resources to be made available to the VA for discretionary diabetes detection and care.

This Committee provided $2 million in fiscal year 2000 and $5 million each in fiscal year 2001, fiscal year 2002 and fiscal year 2003 for expansion of this project within the VA. The VA has indicated a desire to continue expansion, citing the JVN as the model of the future telemedicine in a recent conference of the Association of Military Surgeons-General of the US (AMSUS). We are seeking $5 million to continue this expansion, and are supported by the VA medical policy staff.

The leadership shown by this Subcommittee has enabled the VA to provide its patient population the best diabetes care, prevention, and detection in the world. We extend our sincere appreciation to you for your response to that request.

FISCAL YEAR 2002 AND FISCAL YEAR 2003 ACTIVITIES

The policy and program officials of the VA have established the appropriate contracts and statements of work that resulted in consensus with respect to deployment of the Joslin Vision Network (JVN) technology to three sites: Anchorage, Alaska, TriCities, Washington, and Billings, Montana. A Reading Center will be created and utilized in Seattle, Washington. In addition, the refinement of JVN technology, both hardware and software, will move toward developing a scalable system that is capable of widespread deployment agency-wide. This system was completed and it is anticipated that this next generation of the system will be completely integrated into the VA's VISTA Medical Records System and the VA communications infrastructure.

Results from our various demonstration installations have shown that appropriate clinical resources can be efficiently allocated with respect to appropriate ophthalmology referral. For example, the installation in Togus, Maine where there is no ophthalmology resources on site has shown that the use of the JVN system can effectively prioritize patients that need to be seen by the opthalmologist at the time when the ophthalmologist plans to visit that clinic. This site is imaging approximately 10 patients per day and they find the JVN program extremely resource efficient in providing the appropriate eye care to their patients.

The same experience was noted from the VA clinics in Hilo and Maui where the Optometrist from the Honolulu VA visits these island clinics once a month and was able to effectively focus his time on the patients that really needed his expertise for managing their diabetes eye complications.

Results from a recently completed cost efficiency study using the VA diabetic patient population showed that the use of the JVN system was both less costly and more effective for detecting diabetic retinopathy than traditional dilated eye examination performed by a retinal specialist. Additionally, data showed that the JVN system was both less costly and more effective for preventing severe visual loss in VA diabetic patients compared to traditional ophthalmoscopy.

An equally important concentration of resources in fiscal year 2001–2003 was focused on refining the technical core using outcomes based medical and case management scenarios to develop a diabetes healthcare model that is modular, customizable and that can be seamlessly integrated into the existing VA telemedicine systems. This is the stated goal of the medical leadership in the VA, DOD and HIS health care systems. The overarching vision for the VA/JVN project is a web-based comprehensive diabetes health care system that can be interactively used by both patients and providers, that incorporates diagnosis specific education and training modules for patients and providers and that incorporates software applications that allow outcome measures to be statistically assessed and individual treatment programs to be interactively adjusted based on these outcome measures. The JVN Eye Health care system exists as a component of a comprehensive diabetes management system, incorporating other clinical disciplines such as endocrinology, vascular surgery and internal medicine.

FISCAL YEAR 2002–2003 GOALS

The use of the JVN equipment and expansion of screening opportunities are a continuing major focus for fiscal year 2003 activities. The actual number of sites deployed to will be determined on the locales with the greatest need for diabetes care in conjunction with the telecommunications infrastructure at the identified sites and the ease and costs associated with interfacing the JVN technology into the existing infrastructure.

We will also develop clinical pathways and protocols to facilitate access and coordination of care for diabetic patients using mobile JVN systems. The goal is to access diabetic patients from smaller Community Based Outpatient Clinics (CBOC) where specialty eye care is not available and where performance with respect to accessing diabetic patients for eye care falls below the performance standards set by the VA.

We have expended considerable effort in migrating the JVN demonstration technology platform into an application that is totally compliant with existing medical informatics infrastructures and the existing VISTA infrastructure of the VA system. This will encompass the integration of hardware and software in close collaboration with available resources from the VA VISTA program that will allow a highly scaleable transparent integration of the JVN Diabetes Eye Health Care system into the existing health informatics infrastructures of the VA system.

For the fiscal year 2002–2003 project phase, we have established the following tasks, targets, and activities:

—Deployment of fixed site and mobile units of a viable, sustainable, and refined operating JVN Diabetes Eye Health Care model and Comprehensive Diabetes Management program.

—Develop a modularized medical outcomes based telemedicine diabetes management program in continued collaboration with the VA with outcome measures incorporated into software based on clinical results and research experiences of the fiscal year 2001 efforts.

—Develop curriculum based patient and provider educational modules.

—Integrate internet based portals that are accessed by patients for reporting of glucose values and receiving feedback with respect to goals for self management of their diabetes and adjustments of their treatment plans based on these goals. These portals will also provide regular education modules for the patients that are customized to their particular needs and clinical diabetes risk assessment.

The effort for fiscal year 2003 will result in the development of modular applications associated with different aspects of total diabetes disease management such as clinical risk assessment, outcomes assessments, behavior modification in an interactive electronic environment, and education programs. These applications will be designed in collaboration with participating VA sites to provide an ultimate product that appropriately assesses the clinical diabetes risk and provides treatment plans and behavior modifications that are tailored to any particular patients needs. The programs will also be designed so that they can realize a significant cost and resource efficiency with respect to support and maintenance of the JVN component and the diabetes management programs that will facilitate an accelerated deployment in the future.

Technologically, we will be providing an application that automatically detects retinal pathology from the JVN images. Using this first step approach it is anticipated that we can reduce the load on the reading center by as much as 50 percent. This is achieved through the use of a computer application that scans the images and detects any abnormalities that may be associated with the development of diabetic retinopathy. In those cases where the computer detects pathology a reader will be notified to perform the appropriate reading for retinopathy assessment. In the case where the computer does not detect any pathology the patient can be assigned to a low risk priority where the computer findings can be rapidly confirmed by the reader and the patient asked to return for repeat JVN imaging in a year.

FISCAL YEAR 2004 REQUEST

For fiscal year 2004, we request that in the VA Medical Account $5 million be allocated to continue and expand this project. The positive response within the VA system indicates that with sufficient resources, the JVN technology would be deployed in a number of sites with the ultimate goal of incorporating the JVN technology throughout the VA Medical Care system. The VA Budget Request by the fiscal year 2005 cycle will include provisions for full deployment for the JVN throughout the VA Medical Care system. As the technology, systems and production of equipment are standardized to off the shelf specifications, the expense per site will decrease.

The specific goals for fiscal year 2004 include the following:
—Establish specific medical codes that will allow the VA to track performance with respect to these JVN examinations and to ensure that it conforms with VA performance criteria in multiple remote VA outpatient settings;
—Improve adherence to scientifically proven standards of diabetes eye care and diabetes care;
—Improve/promote access to diabetes eye care;
—Increase number/percentage of patients with Diabetes Mellitus obtaining eye care;
—Provide education patients and providers in the clinical setting.

CONCLUSION

We request continuation and maintenance of this Committee's policy of support for the improvement of the diabetes care in the VA medical system. Through funding of This $5 million request, the benefits by the close of fiscal year 2004 will include:
—Deployment of JVN detection and care at 5 different VA centers where each center will provide services for 6 different remote sites for a total 35 sites.
—JVN accessibility to increase VA capability to achieve patient compliance to eye examinations to at least 95 percent of the diabetic patient population in any area being serviced. From an estimate of the VA diabetic patient population we would estimate that the JVN would be accessing an estimated patient population of 196,000, or an estimated 11 percent of the total VA Diabetic population after completing anticipated 2002 deployments.
—The model for VA's deployment of the JVN as a diabetes detection and Disease management platform for expansion to availability for the entire VA Patient population.

Thank you for this opportunity to present this request for $5 million for fiscal year 2004 and status report for fiscal year 2003 on a medical technology breakthrough for the patients and health care system within the Department of Veterans Affairs.

PREPARED STATEMENT OF THE CONSORTIUM OF SOCIAL SCIENCE ASSOCIATIONS (COSSA)

Mr. Chairman and Members of the Subcommittee, the Consortium of Social Science Associations (COSSA) represents over 100 professional associations, scientific societies, universities and research institutes concerned with the promotion of and funding for research in the social, behavioral and economic sciences (SBE). COSSA functions as a bridge between the research world and the Washington community. A list of COSSA's Members, Affiliates, and Contributors is attached. We appreciate the opportunity to comment on the spending request for fiscal year 2004 for the National Science Foundation.

COSSA appreciates the Subcommittee's past strong support for NSF, particularly last year's substantial budgetary increase. COSSA is well aware that each year you confront difficult choices among competing agencies under the Subcommittee's jurisdiction. COSSA is delighted that the Subcommittee leadership has expressed that NSF will remain a significant priority for them.

COSSA strongly believes that investing in NSF's research and education efforts will help determine this country's future economic well-being and national security. Therefore, COSSA finds the administration's proposal for a $171 million increase for NSF in fiscal year 2004 totally inadequate. In agreement with the Coalition for National Science Funding, the Subcommittee's leadership, and the NSF reauthorization bill, COSSA strongly supports doubling the NSF budget over the next five years. The Coalition for National Science Funding (CNSF), in congruence with the reauthorization legislation, recommends a fiscal year 2004 budget for NSF of $6.391 billion. COSSA endorses this recommendation. This budget enhancement will return many-fold its value in economic growth, help save lives, promote prosperity, and improve society, and provide more excellent science from more excellent scientists.

Over the past half century science has been the engine that has driven the nation's economic success and quality of life improvements. Fundamental university-based science has delivered the great technological advances that have provided for new methods and products that have advanced our nation forward. These include: geographic information systems, World Wide Web search engines, automatic heart defibrillators, product bar codes, computer aided modeling, retinal implants, optical fibers, magnetic resonance imaging, and composite materials used in aircraft.

A substantial increase for NSF in fiscal year 2004 will forge great advances in the 21st Century. A much larger than proposed budget enhancement would allow NSF a much-needed boost for the size and duration of its research and education grants. It would also lead to improving the scientific literacy of the nation's students and general population. As our business leaders understand, without improvements in education and training and new innovations and scientific findings, growth will stall. NSF needs a significant influx of new funds.

THE FISCAL YEAR 2004 BUDGET AND THE SOCIAL, BEHAVIORAL AND ECONOMIC SCIENCES (SBE)

COSSA also believes the small 1.2 percent increase proposed for the Research and Related Activities Account is dismal. The reauthorization bill calls for a fiscal year 2004 amount of $4.8 billion for R&RA and COSSA strongly endorses that figure.

For the Social, Behavioral and Economic Sciences Directorate (SBE), the administration proposes $211 million for fiscal year 2004. The final fiscal year 2003 appropriation for SBE was $191 million. With some restored funding for the Science, Resources, and Statistics division the SBE current plan is $195.6 million. Although the proposed increase from fiscal year 2003 to fiscal year 2004 is 8.2 percent, seemingly larger than most of the other directorates, in absolute terms this is only $16 million, quite smaller than almost all of the other directorates. For the two research divisions the increase is only $12.1 million. Another thing to keep in mind is that NSF provides almost one-half of federal support for basic research for these sciences. For some fields in the SBE sciences, NSF is the only source of federal support for basic research and infrastructure development.

The Social, Behavioral and Economic (SBE) Sciences are poised and ready to make significant discoveries in the future. Improvements in computer computation, computer communication, and the rapid increases in multidisciplinary scientific endeavors make the old model of these sciences as "cottage industries" a difficult one to sustain any more. Collaborations, collaboratories, merged databases, functional MRIs, and virtual centers are the future of SBE research.

Recognizing this, NSF has proposed a Foundation-wide priority called Human and Social Dynamics (HSD) in the fiscal year 2004 budget. This priority area has been developed and discussed with the SBE community for over three years. Begun with $10 million in seed money in fiscal year 2003, HSD has a proposed budget of $24.5 million in fiscal year 2004, about two-thirds of which is from the SBE proposed budget.

The priority area seeks to understand change: its causes and ramifications, how to anticipate it, how the human mind and social structures create it, and how people and organizations manage it. These questions will be investigated using multidisciplinary approaches with already existing sophisticated research techniques as well as providing support for the development of improved tools for future investigations.

For fiscal year 2004 areas of emphasis include: 1) enhancing human performance on the individual and organizational levels; 2) understanding decision-making under uncertainty; 3) comprehending agents of change, particularly in large scale transformations, such as globalization and democratization; 4) analyzing and modeling various aspects of HSD, including complex networks such as terrorism; 5) improving and using spatial social science techniques to explore HSD topics; and 6) developing and supporting instrumentation and data resources such as cognitive neuroimaging and longitudinal surveys to upgrade the measurement and analysis of information from diverse sources. COSSA strongly supports the implementation of the priority and its increased funding.

In addition to the priority area, the NSF budget includes $20 million for a second year of funding for Science of Leaning Centers. The SBE sciences are in the forefront of providing research and evidence for improving how our children learn and survive in the modern, complex societies in which we live. Fundamental research by developmental psychologists, cognitive scientists, sociologists, and economists, has revealed a wealth of data about how children think and learn and how these processes are mediated by family demographics, community politics, and the structure of the schools. COSSA strongly supports the continued funding of the Science and Learning Centers.

Furthermore, increased support will enhance funding for research in the learning and developmental sciences to integrate studies of cognitive, linguistic, social, cultural, and biological processes related to children and adolescent learning. This support will include research funded under the Children's Research Initiative (CRI). We appreciate the Committee's willingness to ensure that the CRI remains an open competition where the merit review process is allowed to work unhindered by any attempts at privileging certain institutions.

COSSA also strongly supports the funding for research on the ethical, legal, and social consequences of technological change. Both the Information Technology and Research area and the Nanoscale Science and Engineering area include funding to answer important questions on how the results of this cutting-edge research will impact humans and society. From increasing privacy concerns, to the ethics of genetic testing, to how we relate in Web based communities, to how our political system works, SBE scientists are exploring many aspects of this issue.

It is also clear that the NSF's new emphasis on Environmental Research and Education provides exciting opportunities for the SBE sciences. The recent report: Complex Environmental Systems: Synthesis for Earth, Life, and Society in the 21st Century, outlines a research agenda that includes Coupled Human and Natural Systems as a key area. This area integrates population, ecosystems and socioeconomic models to understand and enable response to issues such as landscape fragmentation, spread of pathogens and water resources. SBE will also fund centers focusing on Risk Analysis and Decision-making on global climate change.

SBE continues to maintain support for major long-term data bases such as the Panel Study on Income Dynamics, the General Social Survey, and the American National Election Studies. These three data series paint a portrait of American's attitudes and behavior over almost 40 years. In addition, SBE is providing support for the National Historical Geographic Information System, which will provide free public access to U.S. Census databases from 1790 to the present. By digitizing the data, place-specific information can be utilized by geographic information systems.

Research in the SBE sciences continues to examine the ever more complex and important human dimensions of issues and generates new knowledge and insights to help us understand human commonalities and human differences. Basic research in these disciplines also develops information that policymakers can use later to formulate solutions to individual and societal problems. The research portfolio is diverse and supports science of enormous intellectual excitement and substantial societal importance. It deserves enhanced resources.

The Science, Resources and Statistics (SRS) division is an important resource for the whole Foundation and for the entire science and engineering community. The high quality data it provides to researchers and policymakers about the science and technology enterprise merits generous support. The redesign of its survey samples to reflect the changes discovered in the 2000 Census explain the large jump from fiscal year 2002 to fiscal year 2003. As SRS continues to improve its products its support should be increased.

OTHER ISSUES

COSSA supports the increased funding proposed for the Graduate Fellowship programs. Raising the stipend to $30,000 will attract more excellent students into graduate study in all the sciences. The enhanced stipends should not occur with a corresponding reduction in the number of these prestigious, portable, student-controlled fellowships for graduate training.

COSSA also strongly supports continuation of the Interagency Education Research Initiative (IERI), a collaboration among the NSF, Department of Education, and the National Institute of Child Health and Human Development. The IERI provides significant support over a period of time to conduct meaningful studies of factors affecting student achievement and to seek and disseminate answers to how we can improve.

CONCLUSION

COSSA urges the Subcommittee to significantly boost support for the National Science Foundation in fiscal year 2004. NSF will then provide the fundamental research that will help the world stay healthy, prosperous, and secure. In addition, with increased funding the Social, Behavioral and Economic Sciences Directorate can support basic research in these disciplines to help meet the needs of this country and the world for evidence-based policies to work on the complex problems affecting us all.

Thank you for the opportunity to present our views.

PREPARED STATEMENT OF THE AMERICAN CHEMICAL SOCIETY

The American Chemical Society (ACS) would like to thank Chairman Christopher Bond and Ranking Member Barbara Mikulski for the opportunity to submit testimony for the record on the VA, HUD and Independent Agencies Appropriations bill for fiscal year 2004.

ACS is a non-profit scientific and educational organization, chartered by Congress, representing more than 160,000 individual chemical scientists and engineers. The world's largest scientific society, ACS advances the chemical enterprise, increases public understanding of chemistry, and brings its expertise to bear on state and national matters.

The ACS would like to thank the members of the Subcommittee for strong and continued support for investment in NSF. We understand the difficult choices that must be made in drafting the VA–HUD bill, particularly in this time of worsening deficits. We commend the Subcommittee for taking the long view and providing a notable increase for NSF in fiscal year 2003.

In developing the fiscal year 2004 NSF budget, we believe the subcommittee has an excellent guide. The NSF authorization law that President Bush signed in December sets out sound program directions for NSF and calls for an investment of $6.4 billion for the Foundation in fiscal 2004. We respectfully ask the subcommittee to support this level during markup of the bill.

NSF has earned strong bipartisan support for advancing new discoveries, industries, and the work of countless scientists and engineers—including most Nobel laureates in science. As the only agency devoted to supporting basic research and education across all scientific fields, NSF is critical to continued progress in all areas of science and engineering. Support for the best ideas and new frontiers across core disciplines has been the hallmark of NSF and the backbone our research system. We believe renewed support for core disciplinary research is essential to address unmet needs and to sustain NSF's support for high quality, high-risk research. This investment is also essential in promoting the success of multidisciplinary initiatives such as information technology and nanotechnology—areas ripe for scientific progress to benefit society.

On April 8th, an article in the New York Times highlighted the enormous potential benefits of nanotechnology research to our military and other national needs. It emphasized the importance of federal funding in this area, which is led by DOD, NSF, and other agencies. The article noted "nearly 25,000 graduates in Asian countries received doctoral degrees in engineering fields related to nanotechnology in 2000, compared with fewer than 5,000 in the U.S." A senior Pentagon official was quoted as saying that "nanotechnology will eventually alter warfare more than the invention of gunpowder."

We also encourage the subcommittee to grow NSF's budget to help address the need for renewed federal investment in physical sciences and engineering research, which has lagged over the last decade. President Bush's top science and technology advisory council, the Hart-Rudman Commission on National Security, and many other groups have called for boosting federal investment in this area given its central role in advancing our economic, energy, and homeland security. One need only look at the current reliance of our troops on technology to know that our long-term national security depends on scientific advances. We commend the House and Senate Appropriations Committees for recognizing this need in the fiscal year 2003 omnibus appropriations bill. While the administration did emphasize physical sciences research at NSF in its budget, the request unfortunately would not translate into notable increases over the enacted fiscal year 2003 level.

NSF is very important to transforming scientific knowledge into economic value. NSF investments are critical to productivity in many sectors, including chemicals, electronics, communications, and biotechnology. While the avid support for NSF among our academic members may not come as a surprise, it is often our industrial members—who make up 60 percent of ACS—who speak most passionately about the importance of NSF. They understand the key role of basic NSF research in enabling industrial innovation, productivity growth, and the training of the next generation of scientists and engineers.

Sustaining America's global technological and economic leadership demands improvements in science and engineering education at all levels. It is alarming that the nation's growing workforce demand is coming at a time of declining science achievement by high school students and while decreasing numbers of students are earning science and engineering degrees. NSF"s research and education programs are essential to improving science education at the precollege, undergraduate, and graduate levels and in expanding opportunities for students to pursue and remain in science and engineering programs at universities. The Foundation's Education and Human Resources (EHR) division plays a critical role in this effort.

Precollege Education.—With an emphasis on curriculum reform, assessment, and teacher preparation and professional development, EHR's precollege programs improve standards-based, inquiry-centered math and science education across the country. ACS encourages continued support for NSF's precollege programs to nurture the development of the next generation of technologically proficient workers.

ACS supports the administration's $200 million request for the Math and Science Partnership program, which establishes alliances between schools, colleges and universities, and other stakeholders to improve teacher quality and student achievement in math and science. Strong funding will continue to provide effective model programs and strategies to improve teacher training and curriculum development across the nation.

Underrepresented Groups.—ACS strongly supports NSF efforts to help cultivate the vast pool of untapped talent among women and underrepresented minorities. With an emphasis on two-year colleges, NSF's Advanced Technological Education program promotes science, technology and mathematics preparation for today's technology-based workplace. The two-year college system is especially important for economically disadvantaged students who use it as a point of entry into higher education. In addition, ACS also supports the Science, Technology, Engineering and Mathematics Talent Expansion Program, which provides grants to higher education institutions for initiatives that increase the number of degrees in these fields. Strategies in this area have included summer learning, faculty development, research experiences, scholarships, and partnerships.

Noyce Scholarships.—Since 2002, the Noyce Scholarships have provided multiyear awards to institutions of higher education to provide future teachers with scholarships, stipends, and training toward teacher certification or alternative certification. These scholarships are an important step in the process of recruiting high quality science and mathematics teachers to increase American students' performances in these subjects. The Congress has recognized the value of the Noyce scholarships by authorizing $20 million annually through fiscal year 2005, and we support the administration's request for increased funding in fiscal year 2004.

NSF programs also provide critical support for graduate and post-doctoral fellowships, which can shorten the time to Ph.D. degree, increase the participation of underrepresented groups in science and engineering, and significantly broaden research and training opportunities. The Graduate Research Fellowship Program provides support for graduate students pursuing research-based master's or doctoral degrees in science and engineering. This flagship program selects and supports the most promising science and engineering students in the US and provides support for stipends and cost of education allowances for their graduate education.

As the Subcommittee knows, it takes years to train scientists and engineers and to develop new technologies to advance our economic and national security. The fruit of this investment does not ripen overnight, nor does it come cheaply. Despite fiscal pressures, we hope the subcommittee will continue to take the long view and fund NSF at a level more commensurate with the scope and importance of its mission. One need only look at NSF's low overhead, its renowned peer review system for determining quality science, and its top management ratings from OMB to have the utmost confidence that NSF will allocate increases wisely. NSF is an investment in every sense of the word. And the return on this investment has been extraordinary by any measure.

PREPARED STATEMENT OF THE ASSOCIATION OF AMERICAN UNIVERSITIES

Mr. Chairman and Members of the Subcommittee, I am pleased to have this opportunity to present to you the views of the Association of American Universities (AAU) concerning the fiscal year 2004 budget proposals and matters pertaining the VA, HUD and Independent Agencies Appropriations Bill.

This year, that AAU is asking for two things of this Subcommittee. First, AAU strongly urges the Congress to appropriate funding for the National Science Foundation (NSF) in fiscal year 2004 at the level authorized by Public Law 107–368, the NSF Authorization Act of 2002. Second, AAU urges Congress to support $7.7 billion for National Aeronautics and Space Administration (NASA) Science, Aeronautics, and Exploration (SAE) activities, a total increase of $440 million (6.1 percent) over the fiscal year 2003 level. Even though AAU recognizes that some changes may be made to NASA's fiscal year 2004 request in the coming months, strong funding of the agency's science programs is still in the best interest of the nation.

I cannot overstate the importance to our nation's future prosperity of investment in basic scientific research and in the people who conduct this research. The innovation that flows from basic research has fueled the explosion of technological advancements in our lifetimes and is key to continuing progress. Research in all the physical sciences is increasingly interdependent, and medical technologies such as magnetic resonance imagery, ultrasound, and genomic mapping could not have occurred without underlying knowledge in biology, physics, mathematics, computer sciences, chemistry and engineering. Significant future medical advances also re-

quire advances in the sciences. Industries, state governments, and federal laboratories are entering into partnerships with universities at a rate that multiplies daily because in a knowledge economy, our economic leadership depends on ideas we generate. University research is the primary source for these ideas.

NATIONAL SCIENCE FOUNDATION

NSF is the heart of the federal investment in basic scientific research. Since its founding in 1950, NSF has had an extraordinary impact on American scientific discovery and technological innovation. Despite its size, it is the only federal agency with responsibility for research and education in all major scientific and engineering fields. Approximately 95 percent of the agency's total budget directly supports the actual conduct of research and education, while less than five percent is spent on administration and management.

In recent years, the NSF has enjoyed strong support from the VA, HUD and Independent Agencies Subcommittee in both the House and Senate. In fiscal year 2001, with the Subcommittee's help, Congress provided the single largest funding increase, in both percentage and dollar terms, in the history of the NSF. The Congress again substantially increased funding for the NSF in both fiscal year 2002 and fiscal year 2003. We thank the Subcommittee, and in particular Chairman Bond and Ranking Member Mikulski, for their critical role in securing these increases; the university community is enormously grateful for this support.

The tremendous level of support for NSF was also demonstrated last year when Congress passed H.R. 4664, The NSF Authorization Act of 2002, a bill aimed at putting the NSF on a track to double its budget over five years. This Act (Public Law 107–368), signed into law by President Bush on December 19, 2002, authorized a maximum funding level for the NSF in fiscal year 2004 of $6.4 billion. For fiscal year 2004, AAU endorses the authorized funding level and urges the Congress to appropriate $6.4 billion in funding for the NSF. This represents a $1.1 billion increase over the fiscal year 2003 level of $5.3 billion. The President has requested $5.5 billion for NSF in fiscal year 2004.

The AAU would suggest that approximately half of this fiscal year 2004 funding increase be devoted to advancing NSF's core research programs and priority areas. Of the remainder of our recommended increase, AAU would urge that approximately two-thirds go to advancing the Foundation's education and training efforts, and one-third be used to upgrade and enhance the nation's science and engineering infrastructure. More specific details concerning how we feel funding increases should be used are outlined below.

Advance core programs for research.—Presently, 15 to 20 percent of highly-rated proposals to the NSF are not funded because of inadequate resources. In some NSF programs, this percentage is even higher. The Congress should strive to see that all highly-rated NSF proposals are funded. Had this occurred in fiscal year 2002, 1800 additional proposals (proposals which while rated as high as the average NSF award by external reviewers, were declined due to lack of available funding) would have been awarded requiring an additional $1 billion. Likewise, grant size and duration should be increased. Increasing the size and time period of grants will enable researchers to concentrate more of their time on working with students and on research and discovery rather than paperwork.

Continue support for key initiatives and priorities areas.—New and exciting multidisciplinary initiatives at the NSF should be promoted and encouraged. Significant growth in NSF budgets over the next several years will allow the Foundation to support focused initiatives such as those launched in recent years in nanotechnology, biocomplexity, information technology research and workforce development, which foster new and innovative multidisciplinary efforts on university campuses.

Increase support for education and training.—Declines in enrollment of United States students in science, engineering and mathematics programs at all levels are due to our failure to stimulate, maintain and adequately support students with interests in these fields. We therefore support increasing the NSF graduate student stipend to $30,000 and urge additional support of graduate student research throughout the NSF. Likewise, additional funding should be provided for programs such as the Research Experiences for Undergraduates (REU) program and other new and innovative programs aimed at stimulating involvement of undergraduates in research. Finally, we encourage support for programs, such as Math and Science Partnership initiative, which are specifically focused on improving K–12 math and science education.

Increase support for research infrastructure.—In its recently issued report, the National Science Board (NSB) expresses concerns regarding the current state of your

scientific and engineering research infrastructure. Specifically, they suggest increasing resources to ensure that individual investigators and groups of investigators have the necessary resources and tools to work at the frontiers of science and engineering. The AAU supports the NSB's recommendations with regards to increasing support of research infrastructure and would call our attention to the need to upgrade mid-level infrastructure and to the specific needs we have to upgrade university-based research facilities and instrumentation. We also support funding for large-scale research proposals, such as those proposed for funding within the NSF's Major Research Equipment (MRE) account.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

NASA has a long history of productive collaboration with universities, supporting research that has given the United States the undisputed leadership role in the study of space and the earth's environment. University-based research, with important technological applications, has been supported through research grants, individual collaborations between faculty and NASA scientists, and formal partnerships between NASA centers and universities.

Workforce issues continue to be of concern to both NASA and research universities. Both the current and former NASA Administrators have publicly expressed concern about NASA's ability to attract and retain qualified scientists and engineers. Within the next five years, one third of NASA's workforce will be eligible for retirement. Many university space science teams are facing similar problems. Formerly strong teams are weakening as key investigators age and retire. In some fields the problem is acute, with the major scientists all in their sixties coupled with low enrollments of graduate students to follow them. In other areas, there are major new initiatives to be undertaken and yet no certainty that the required educated workforce will be available. The nation's security depends on an aggressive space program for surveillance and active defense, and economic impacts of space communications and remote sensing are large. We must not lose our lead in space research because we lack educated manpower.

The Subcommittee recognized the seriousness of this problem last year and included report language in the fiscal year 2003 VA–HUD Appropriations report asking NASA, OSTP and NSF, in cooperation with the nation's leading research universities, to develop a comprehensive plan and implementation strategy that will result in the number of students pursuing advanced degrees. AAU remains eager to work with the agencies on this issue. Moreover, while we are pleased that NASA has created the Education Enterprise, we remain concerned that the primary emphasis is still on K–12 programs. The Scholarship for Service program is a step in the right direction, but there is much more that can be done.

The AAU supports $7.7 billion for NASA's Science, Aeronautics, and Exploration (SAE) activities, $34 million above the President's fiscal year 2004 request. This would be a total increase of $440 million (6.1 percent) over the fiscal year 2003 level. The AAU recommendation is consistent with the President's fiscal year 2004 budget proposal for SAE with the exception of the Earth Science Enterprise. For that office, AAU proposes a 2 percent inflationary increase over the fiscal year 2003 appropriation of $1.7 billion. This would increase funding for the office by $34 million. In particular, AAU supports the $26 million requested for acceleration of the Climate Change Research Initiative. Universities are working with the Earth Science Enterprise to develop new instruments and smaller, more capable spacecraft to respond to research needs. The increased funding would help achieve these goals.

AAU supports the Administration's fiscal year 2004 request of $4 billion for the Space Science Enterprise. This would be an increase of $506 million (14.4 percent) over fiscal year 2003. The request funds all currently planned missions, but also contains $59 million for an exciting initiative called Beyond Einstein. This initiative has the potential to answer three questions left unanswered by Albert Einstein's theories: What powered the Big Bang? What happens to space, time, and matter at the edge of a black hole? What is the mysterious dark energy expanding the universe? Research in this area has the potential to transform our understanding of the universe.

The Space Science request also includes new initiatives for power and propulsion technology and for optical communications. The development of these capabilities would address current limitations in robotic space flight and have the potential to revolutionize the type of planetary missions that can be flown a decade hence. AAU supports this revitalization effort.

For the Biological and Physical Research Enterprise, AAU supports the budget request of $973 million, an increase of $110 million (12.7 percent) over the fiscal year 2003 appropriation. The request includes $39 million to begin a Human Research

Initiative to further understand and address health and logistical challenges encountered in long-duration space flights. Although NASA emphasizes biomedical research associated with crew health maintenance, a large number of investigations address cutting-edge scientific problems with direct application to Earth-based technological, industrial, and health issues. Ground-based research is also essential for developing the knowledge and validating experimental approaches for spaceflight experiments, and is especially important at a time when the space shuttle fleet is grounded. NASA currently funds about five ground-based investigations for each flight investigation, and hopes eventually to reach a ten-to-one ratio. Increased funding for this office would permit more grants to be funded at higher levels for longer periods of time.

The highly-leveraged Space Grant program plays an important and successful role in workforce development through university programs and K–12 outreach. AAU also urges the Committee to fund the Space Grant program at its authorized level of $28 million.

Competitive Merit Review.—Finally, NASA's scientific achievements are due both to the hard work of agency and university scientists and to the agency's use of merit review for allocating research funding. We believe that NASA should continue to use merit review to allocate research funds, since this process has helped produce the discoveries and advances from which the nation has benefited.

Thank you for your attention to these matters, and for the opportunity to provide this testimony.

PREPARED STATEMENT OF THE SOCIETY FOR NEUROSCIENCE

Good morning Mr. Chairman and members of the Subcommittee. I am pleased to be submit testimony for this Subcommittee's consideration. I am Dr. Huda Akil and I serve as the President of the Society for Neuroscience. Our organization has a membership of more than 31,000 basic and clinical researchers. We are the largest scientific organization in the world dedicated to the study of the brain, spinal cord and nervous system. The Society's primary goal is to promote the exchange of information among researchers. We are also devoted to education about the latest advances in brain research and the need to make neuroscience research a funding priority.

Aside from my work at the Society, I am the Gardner Quarton Distinguished University Professor of Neuroscience in Psychiatry at the University of Michigan. I am also the Co-Director of the Mental Health Research Institute in Ann Arbor. I study the biology of the emotional circuits in the brain along with the impact of the environment on these circuits. My work focuses on stress, mood disorders, and substance abuse.

Mr. Chairman, the Society appreciates this opportunity to testify and to discuss some of the important VA and NSF sponsored research being conducted in the field of neuroscience. We thank the members of this Subcommittee for their dedication to biomedical research at the National Science Foundation (NSF) and the Veterans Administration (VA).

NATIONAL SCIENCE FOUNDATION

SfN is pleased with the funding levels outlined in the National Science Foundation Reauthorization Act of 2002. This legislation demonstrates Congress's commitment to a solid foundation for scientific endeavors. In order to maintain the technological progress the United States has consistently made, including advances in medical research, this foundation is critical. For the National Science Foundation (NSF), the President's budget request recommends $5.48 billion, an increase of $450 million or 9.0 percent. The Society for Neuroscience endorses the Coalition for National Science Funding (CNSF) request of $6.39 billion, the same as the level included in the reauthorization.

While psychiatry, neurology, and neurosurgery are the better-known medical specialties that have their basis in neuroscience, this research has an impact on so many aspects of our lives and our nation's health. Even for individuals not specifically diagnosed with brain disorders or neurological conditions, neuroscience research facilitates scientists' understanding of how the brain functions. This knowledge is essential to understanding the impact of other diseases and disorders. For example, there is ample evidence that depression increases the likelihood of heart disease and that in turn heart disease can trigger severe depression. Obesity is a major health issue in our country. Feeding behavior and metabolic activity is controlled by the brain. Understanding how to help moderate these two factors could save billions of dollars in health care costs.

With the introduction of programs like Project BioShield and the creation of the new Department of Homeland Security, the threat of imminent danger is now a part of our daily lives. This threat will undoubtedly have an impact on our nation's mental health. In addition to conducting basic research, NSF research can help researchers understand and treat the psychological effects of living with the threat of terrorism and now, under conditions of a war. The science of the brain can have great impact on the overall mental and physical health of this nation.

As the Committee is aware, nearly all NSF appropriated funds are received through competitively awarded grants, with only five percent going to salaries and expenses. NSF is unique in its ability to channel the majority of its funding to the specific goal of acquiring knowledge and conducting research.

DEPARTMENT OF VETERANS AFFAIRS

The Veterans Health Administration (VHA) is the nation's largest direct provider of healthcare services and the nation's most clinically focused setting for medical and prosthetics research. The research component attracts innovative researchers and provides veterans with access to innovative therapies.

For the VA Medical and Prosthetics Research, we support the Friends of VA Medical Care and Health Research (FOVA) and the Independent Budget for the Veteran's Administration fiscal year 2004 Funding Recommendation of $460 million. The VA's Medical and Prosthetic Research Program fulfills a critical promise to our nation's veterans, but also yields innovative research for the nation as a whole. Investments in investigator-initiated research projects at VA have led to an explosion of knowledge that promises to advance our understanding of disease and unlock strategies for prevention, treatment, and cures. Additional funding is needed to improve quality of life for our veterans and plan for care of our nation's soldiers currently serving in Iraq.

INCIDENCE AND ECONOMIC BURDEN OF NEUROLOGICAL AND PSYCHIATRIC DISEASES

Each year, we try to convey the importance of biomedical research in terms of longer, healthier lives for those who suffer from debilitating neurological and psychiatric disorders. It is in the economic costs and burdens that the impact of these diseases is measurable. For example:

—All Depressive Disorders affect 18.8 million Americans and cost $44 billion per year;
—Hearing loss costs the United States $56 billion per year, on the 28 million Americans affected;
—Alzheimer's Disease affects 4 million Americans and costs $100 billion a year;
—4 million people are affected by stroke, which costs the United States $30 billion per year;
—$32.5 billion per year is spent on the 3 million Americans that have schizophrenia;
—1.5 million Americans are affected by Parkinson's Disease at a cost of $15 billion per year;
—Multiple Sclerosis affected 350,000 Americans at a cost of $7 billion per year.

CONCLUSION

NSF and the VA medical system attract top researchers and serve a critical role by providing the opportunity to learn more about the diseases and conditions that affect our quality of life. With NSF building a fundamental base for scientific research and VA researchers building on this, our country will continue to excel in technological and biomedical advancements. Thank you for your efforts to ensure adequate resources for this important endeavor. The Society would also like to thank you for the opportunity to present testimony to the Subcommittee.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF PLANT BIOLOGISTS

Founded in 1924, the American Society of Plant Biologists (ASPB) represents nearly 6,000 plant scientists. The largest segment of ASPB members conducts research at universities in each of the 50 states. ASPB membership also includes scientists at government and commercial laboratories. We appreciate this opportunity given by the Subcommittee to submit these comments on behalf of the plant science community.

The plant biology community joins with other biologists in extending our deep appreciation to Chairman Bond, Ranking Member Mikulski, and to all members of the Subcommittee for your strong support of plant genome research and other funda-

mental research sponsored by the National Science Foundation (NSF) Directorate for Biological Sciences and other directorates.

Tremendous advances in the area of plant genomics have resulted from the interdisciplinary research efforts of plant biologists and physical scientists supported by NSF. As the broadly based science coalition, the Coalition for National Science Funding, noted in its brochure on NSF printed last month (the NSF Directorate for Biological Sciences section of the brochure is attached):

"Accomplishments

Plant Genomics & Economically Important Crops

A study that used microarray technology simultaneously explored the expression of thousands of genes in soybeans in order to better understand this economically vital plant's responses to drought and disease. A separate study on the petunia flower revealed changes in plant gene function that are inherited but that do not entail a change in DNA sequence."

Thanks to the support of the Subcommittee, NSF has been able to sponsor genomic research on economically important plants and on the model plant Arabidopsis thaliana. The entire Arabidopsis genome sequence was completed in 2000, well ahead of schedule. Following the completion of sequencing the genome, NSF has been proceeding with the "2010 Project" to determine the function of every gene in this model plant. Knowledge of the comparatively simple Arabidopsis genome will facilitate discovery of genes and their functions in other flowering plants, including valuable agricultural crops, energy crops and crops that will be the source of new pharmaceutical products.

NSF-funded researchers studying Arabidopsis and economically important plants have learned from this research that some plants are more resistant than others to viral, bacterial or fungal diseases. Identification of specific disease-resistant genes will allow for the development of commercially important plants that are resistant to disease. Changes in Arabidopsis gene expression in response to light, temperature, water availability, salinity, air quality and other environmental factors have been found. Genes for cold tolerance have been identified. This is a genomic treasure of knowledge that combined with biotechnology will lead to the development of hardier food and energy crops resistant to heat, drought, cold and other environmental challenges. Scientists will have more effective tools to help prevent environmental, agricultural crop and forestry disasters with the increased knowledge available through genomic research.

With the knowledge gained through finding similarities between genomes of different species of plants, scientists can manipulate genomes of grains, fruits and flowers to create improved crops including safer food crops with enhanced nutritional qualities. For example, research is contributing to improved, higher quality vegetable oil with reduced polyunsaturated fat, corn with higher quality protein, and foods with inactivated allergens.

NSF-sponsored plant research has enabled scientists to successfully inactivate allergens in the major food crop, wheat and in other foods. Allergic reactions to wheat products such as bread and pasta should be significantly reduced when these experimental food crop products become commercially available.

The White House-appointed National Science and Technology Council, Committee on Science, Interagency Working Group (IWG) on Plant Genomes has reported on the significant progress made with NSF-sponsored plant genome research. For example, NSF-supported researchers are developing methodologies that will enhance and facilitate use of the information encoded in the plant genome. These methodologies include microarray analysis, chromatin charting, and comparative genomics.

The National Science and Technology Council's IWG cites the need to increase support for plant genome research to $1.3 billion over the next five years to reach objectives of its five-year plan. ASPB strongly endorses the recommendations of the National Science and Technology Council's IWG as outlined below in the IWG's January 2003 report: National Plant Genome Initiative: 2003–2008:

—$400 million for generating sequences and sequence resources for genome structure and organizational studies will result in the production of: (1) a completely finished rice genome sequence; (2) completely finished and mapped sequences of gene-rich regions of the maize genome; (3) highly accurate draft sequences of gene-rich regions of several key plant species; and (4) a variety of genome analysis tools to study structure and organization of a large number of plant species of economic importance.

—$200 million for functional genomics studies will allow U.S. scientists to participate in international projects to determine the function of all of the genes in Arabidopsis and rice. The resulting functional genomics research resources will

be shared freely and quickly, building a foundation for functional genomics research for all plant species.

—$300 million for translational genomics studies will enable a broad community of scientists to begin applying the knowledge, resources and tools of genomics to understand the fundamental biology of plants and the underlying mechanisms for economically important plant processes.

—$250 million for data management and informatics tools development will enable a broad community of both basic and applied scientists to utilize the outcomes of NPGI (National Plant Genome Initiative) research activities. $250 million is a conservative estimate since all plant genome research activities described above will include informatics as an integral component, and thus the actual expenditure for data management and informatics will be considerably higher.

—$125 million for training, education and outreach will allow establishment of a NPGI training grant program and incorporation of training activities in all NPGI research activities.

The National Science and Technology Council's IWG is made up of representatives from the National Science Foundation, Department of Agriculture, Department of Energy, National Institutes of Health, White House Office of Science and Technology Policy and Office of Management and Budget.

Plant genome research and research on the applications of plant biotechnology, supported by this Subcommittee have revolutionized the way scientists can improve plants. This is essential to meeting the growing national and world needs for food, much of the world's energy, industrial feed stocks, clothing and building materials, and for lifesaving medicines.

We commend the Subcommittee for its fair and balanced support of biological, physical and social and behavioral sciences sponsored by the National Science Foundation. As the Subcommittee understands, biological research sponsored by NSF differs significantly from medical research sponsored by the National Institutes of Health (NIH). The fundamental biology questions addressed by NSF-sponsored researchers are not the same questions addressed by NIH-sponsored research.

Future discoveries providing novel ways to contribute to a cleaner environment; better protection of limited fresh water and other resources; and more effective responses to severe weather conditions and other environmental stresses affecting plants and other organisms could be lost if there was inadequate support for the NSF Directorate for Biological Sciences.

The nation's capabilities in fundamental biology research in plants, systematics, physiology, water relations, environmental stress and other areas would decline rapidly if the NSF Directorate for Biological Sciences received less emphasis for support. We appreciate the Subcommittee's recognition of the substantial differences between research sponsored by NSF and NIH. The nation benefits from support of each of the science disciplines.

We strongly endorse and appreciate the efforts on the Subcommittee to double support for NSF over five years.

PREPARED STATEMENT OF THE NATIONAL COUNCIL FOR SCIENCE AND THE ENVIRONMENT

SUMMARY

The National Council for Science and the Environment (NCSE) urges Congress to appropriate the funds necessary to implement the National Science Foundation Authorization Act of 2002. The Act authorizes a doubling of the NSF budget over five years, as championed by Senators Bond and Mikulski. In fiscal year 2004, NCSE supports the authorized NSF funding level of $6.39 billion. In addition to increasing the total NSF budget to the authorized funding level, NCSE urges Congress to provide strong support across NSF's entire portfolio, including its environmental research and education portfolio.

The NSF budget request for fiscal year 2004 falls far short of the funding level authorized. Senator Christopher Bond expressed his views on the NSF budget request as follows: "To say I am very disappointed that the President's fiscal year 2004 budget request only provides a 3 percent increase over fiscal year 2003 would be a drastic understatement."

Federal investments in R&D and science education are essential to the future well-being and prosperity of the nation and deserve the highest priority of Congress. The long-term prosperity of the nation and the maintenance of our quality of life depend on a steady and growing commitment of federal resources to science and

technology. Environmental R&D is a critical component of the nation's R&D portfolio and the National Science Foundation plays a pivotal role in supporting environmental R&D. We encourage Congress to explore the role of environmental R&D in homeland security and counterterrorism.

NCSE encourages Congress to strongly support full and effective implementation of the National Science Board (NSB) report, Environmental Science and Engineering for the 21st Century: The Role of the National Science Foundation, within the context of efforts to double the budget of the NSF. The NSB report calls for significant improvements in the way that NSF supports environmental research, assessment and education, and proposes that the Foundation invest an additional $1 billion per year in these areas, to be phased in over five years. NSF has taken many steps to implement the NSB report and deserves full support from Congress.

NCSE emphasizes the need for increased funding for NSF's Priority Area on Biocomplexity and the Environment. In addition, we recommend full funding for two large projects—the National Ecological Observatory Network (NEON) and EarthScope—which would create unprecedented opportunities for environmental research.

NCSE urges Congress to restore full funding for the Environmental Protection Agency's (EPA) Science to Achieve Results (STAR) graduate fellowship program. The fiscal year 2004 budget request for EPA would cut funding for the EPA STAR fellowship program by 50 percent, from $9.75 million in fiscal year 2003 to $4.875 million in the fiscal year 2004 budget request.

NCSE commends the Chairman and Ranking Member of the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies for their bipartisan leadership on science for the nation's future. No other Appropriations Subcommittee has a greater impact on the future of environmental science.

INTRODUCTION

The National Council for Science and the Environment thanks the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies for the opportunity to provide testimony on the National Science Foundation budget request for fiscal year 2004.

NCSE is a nonprofit, nonpartisan organization that has been working since 1990 to improve the scientific basis for environmental decisionmaking. Our work is endorsed by nearly 500 organizations, ranging from the U.S. Chamber of Commerce to the Sierra Club, including the National Association of Attorneys General, National Association of Counties, some 300 colleges and universities, and more than 80 scientific and professional societies. As a neutral science-based organization, NCSE promotes science and its relationship with decisionmaking but does not take positions on environmental issues themselves.

FEDERAL INVESTMENTS IN ENVIRONMENTAL R&D

Federal investments in R&D and science education are essential to the future well-being and prosperity of the nation and deserve the highest priority of the Congress. The long-term prosperity of the nation and the maintenance of our quality of life depend on a steady and growing commitment of federal resources to science and technology.

TABLE 1.—ENVIRONMENTAL R&D BY FEDERAL AGENCY

(Budget authority in millions of dollars)

Agency	Environmental R&D (dollars in millions)			Change (percent)		
	Fiscal Year 2002 Actual	Fiscal Year 2003 Request	Fiscal Year 2003 Enacted	Fiscal Year 2002 Actual to Fiscal Year 2003 Request	Fiscal Year 2002 Request to Fiscal Year 2003 Enacted	Fiscal Year 2002 Actual to Fiscal Year 2003 Enacted
National Science Foundation	1,062	1,164	1,177	9.7	1.1	10.9
NASA	1,628	1,628	1,708	0.0	4.9	4.9
Environmental Protection Agency	592	617	643	4.2	4.4	8.7
Department of Energy	1,840	1,649	1,813	−10.4	9.9	−1.5
Department of Defense	400	471	498	18.0	5.7	24.7
Department of Commerce—NOAA	677	605	684	−10.6	13.1	1.1
Department of the Interior	623	608	627	−2.4	3.1	0.7
U.S. Department of Agriculture	504	473	531	−6.3	12.3	5.2

TABLE 1.—ENVIRONMENTAL R&D BY FEDERAL AGENCY—Continued

(Budget authority in millions of dollars)

Agency	Environmental R&D (dollars in millions)			Change (percent)		
	Fiscal Year 2002 Actual	Fiscal Year 2003 Request	Fiscal Year 2003 Enacted	Fiscal Year 2002 Actual to Fiscal Year 2003 Request	Fiscal Year 2002 Request to Fiscal Year 2003 Enacted	Fiscal Year 2002 Actual to Fiscal Year 2003 Enacted
National Institutes of Health	81	74	84	−7.7	12.9	4.1
Department of Transportation	68	67	71	−2.1	6.3	4.1
Smithsonian Institution	40	41	41	3.8	0.0	3.8
Corps of Engineers	27	27	29	0.0	8.5	8.5
TOTAL	7,541	7,425	7,907	−1.5	6.5	4.9

Source: AAAS/NCSE estimates based on OMB data for R&D in the fiscal year 2003 Budget, agency budget documents, and information from agency budget offices.

Environmental R&D is a critical component of the nation's R&D portfolio. NCSE estimates that federal funding for environmental R&D in fiscal year 2003 is approximately $7.9 billion, an increase of $366 million or 4.9 percent relative to fiscal year 2002 (Table 1), based on an analysis of the federal R&D budget conducted jointly with the American Association for the Advancement of Science.

The Appropriations Subcommittee on VA, HUD and Independent Agencies plays the largest role in setting funding levels for environmental R&D. It has jurisdiction over agencies that account for 45 percent of federal funding for environmental R&D.

Congress has played a crucial role in determining the level and growth rate of federal funding for environmental R&D. The President's fiscal year 2003 budget request would have cut federal funding for environmental R&D by $116 million or 1.5 percent relative to fiscal year 2002. Congress restored the $116 million cut and added an additional $366 million above the President's fiscal year 2003 budget request (Table 1).

In the fiscal year 2003 enacted appropriations bills, federal funding for environmental R&D increased by 4.9 percent relative to fiscal year 2002. However, federal funding federal funding for environmental R&D grew at approximately one-third the rate of total R&D, which increased by 13.8 percent to $117.3 billion. Federal investments in environmental R&D need to keep pace with the growing need to improve the scientific basis for environmental decisionmaking.

The National Science Foundation plays a pivotal role in supporting environmental R&D. Environmental research often requires knowledge and discoveries across disciplinary and institutional boundaries. The NSF recognizes this and encourages multidisciplinary interactions within directorates and among directorates and programs, as well as with other federal agencies. The NSF has established a "virtual directorate" for environmental research and education. Through this virtual directorate, NSF coordinates the environmental research and education activities supported by all the directorates and programs. NSF's Environmental Research and Education portfolio has grown from $595 million in fiscal year 1999 to over $900 million in fiscal year 2003.

IMPLEMENTING THE NSF DOUBLING ACT

The National Council for Science and the Environment urges Congress to implement the National Science Foundation Authorization Act of 2002, which passed Congress on November 15, 2002 and was signed into law by the President on December 19, 2002. A central goal of the Act is to double the budget of the National Science Foundation in five years. It authorizes a budget increase of 105 percent for the NSF, from $4.8 billion in fiscal year 2002 to $9.8 billion in fiscal year 2007.

NCSE commends the Chairman and Ranking Member of the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies for their sustained leadership in a bipartisan, bi-cameral effort to double NSF's budget over a five-year period. Senator Christopher Bond (R-MO) and Senator Barbara Mikulski (D-MD) initiated a letter signed by a bipartisan majority of 54 Senators aimed at doubling the budget of the NSF in five years. They were original co-sponsors of the National Science Foundation Doubling Act of 2002. Senator Bond said, "I believe this bill underscores the critical role NSF plays in the economic and intellectual growth and well-being of this Nation," upon introduction of the legislation.

The NSF Authorization Act has strong bipartisan support in Congress. Senator Barbara Mikulski said, "with this bill, we take an important step to ensure the well-being of this nation and its citizens."

"This is landmark legislation," said Science Committee Chairman Sherwood Boehlert (R-NY), who championed the bill in the House. "From our nation's students, to our economy, and to our security, the fruits of this effort will be enjoyed for many years to come."

Rep. Nick Smith (R-MI), Chairman of the House Science Subcommittee on Research, said, "These efforts will pay off in the form of continued scientific breakthroughs that will improve our lives in ways that we can only imagine today."

"Passage of this bill is a great achievement," said Rep. Vernon Ehlers (R-MI). "The research results, while not clear now, will reap huge benefits in the future."

The NSF Authorization Act of 2002 is a major milestone for the NSF, the scientific community, and the nation. In order to realize the outcomes envisioned by this legislation, Congress must appropriate the funding levels authorized in the NSF Authorization Act.

NATIONAL SCIENCE FOUNDATION BUDGET REQUEST FOR FISCAL YEAR 2004

The National Council for Science and the Environment urges Congress to appropriate the authorized funding level of $6.39 billion for the National Science Foundation in fiscal year 2004. The fiscal year 2004 budget request would increase funding for NSF by 3.2 percent to $5.5 billion. The fiscal year 2004 budget request of $5.5 billion falls far short of the $6.39 billion budget and 15 percent increase authorized in the NSF doubling act (Table 2).

At a recent congressional hearing, Senator Christopher Bond (R-MO) expressed his views on the NSF budget request as follows: "To say I am very disappointed that the President's fiscal year 2004 budget request only provides a 3 percent increase over fiscal year 2003 would be a drastic understatement."

In addition to increasing total NSF funding to the authorized level, NCSE urges Congress to provide strong support across NSF's entire research portfolio. When the NSF Authorization Act was introduced in the House of Representatives on May 7, 2002, the bill included language about the allocation of funding among "the physical sciences, mathematics, and engineering." References to "physical sciences" as opposed to all fields of science could have negative consequences for the environmental sciences, geosciences, non-biomedical life sciences, social sciences and interdisciplinary science. On May 22, 2002, the House Science Committee passed an amendment to the NSF authorization act that replaced "physical sciences" with "sciences" and made related revisions.

The House Science Committee Report (House Report 107–488) on the NSF Authorization Act provides further guidance on the balance in the NSF's research portfolio: "While the Committee is of the opinion that the mathematical, physical, and information sciences and engineering disciplines have been significantly underfunded, the Committee also recognizes that greater science funding for other disciplines, including the non-biomedical life sciences and the social sciences is also necessary . . . the committee strongly believes that all disciplines for which NSF provides support should receive significant budget increases."

NCSE supports the Science Committee's view that NSF's entire research portfolio—including the environmental sciences, geosciences, non-biomedical life sciences, social sciences, and interdisciplinary science—should receive significant budget increases. Although the fiscal year 2004 budget request would increase NSF's total budget by 3.2 percent, several key programs that provide funding for environmental research would decline under the fiscal year 2004 budget request.

TABLE 2.—NATIONAL SCIENCE FOUNDATION BUDGET

NSF Program	Budget Authority (dollars in millions)				Change (percent)	
	Fiscal Year 2002 Actual	Fiscal Year 2003 Enacted [1]	Fiscal Year 2004 Request [2]	Fiscal Year 2004 Authorized [3]	Fiscal Year 2002 to Fiscal Year 2003 [4]	Fiscal Year 2003 to Fiscal Year 2004 Req. [5]
Research and Related Activities (R&RA)	3,612	4,056	4,106	4,800	12.3	1.2
Biological Sciences	510	571	562	.....	12.1	−1.6
Computer & Info. Science & Engineering	515	579	584	.....	12.3	1.0
Engineering	471	531	537	.....	12.7	1.1
Geosciences	610	684	688	.....	12.3	0.5
Mathematical & Physical Sciences	920	1,035	1,061	.....	12.4	2.6

TABLE 2.—NATIONAL SCIENCE FOUNDATION BUDGET—Continued

NSF Program	Budget Authority (dollars in millions)				Change (percent)	
	Fiscal Year 2002 Actual	Fiscal Year 2003 Enacted [1]	Fiscal Year 2004 Request [2]	Fiscal Year 2004 Authorized [3]	Fiscal Year 2002 to Fiscal Year 2003 [4]	Fiscal Year 2003 to Fiscal Year 2004 Req. [5]
Social, Behavioral & Economic Sciences ..	184	191	212	.....	3.8	10.9
Polar Programs	301	319	330	.....	6.1	3.4
Integrative Activities	106	147	132	.....	39.0	−9.9
Budget Adjustment [6]	−4	.....	.....	.....	.....	.....
Education and Human Resources (EHR)	894	903	938	1,157	1.0	3.9
Major Research Equipment	139	149	202	211	7.0	36.2
Salaries and Expenses [7]	170	193	226	214	13.0	17.2
Office of Inspector General	7	9	9	8	35.9	−4.6
Total NSF Budget	4,823	5,310	5,481	6,391	10.1	3.2

Source: NSF budget justification and data tables & AAAS (revised March 2003).

[1] Fiscal year 2003 Enacted figures reflect the final fiscal year 2003 omnibus appropriations bill passed by Congress on Feb. 13, 2003 and signed by the President on Feb. 20, 2003.

[2] Fiscal year 2004 President's budget request was released Feb. 3, 2003 before Congress passed the fiscal year 2003 omnibus appropriations bill.

[3] Fiscal year 2004 Authorized figures are from the NSF Authorization Act of 2002, which was passed by Congress Nov. 15, 2002 and signed by the President Dec. 19, 2002.

[4] Percent change from fiscal year 2002 actual to fiscal year 2003 enacted appropriations.

[5] Percent change from fiscal year 2003 enacted budget to the President's fiscal year 2004 budget request.

[6] Adjustment from budget obligation to budget authority.

[7] Includes NSB Staff Salaries.

Biological Sciences Directorate.—Under the fiscal year 2004 budget request, funding for NSF's Biological Sciences Directorate would decline by 1.6 percent relative to the fiscal year 2003 enacted appropriations bill (Table 2). Within the Biological Sciences Directorate, the budget for Environmental Biology would decline by 2.8 percent, Integrative Biology and Neuroscience would decline by 3.1 percent, and Emerging Frontiers would increase by 11.6 percent.

Geosciences Directorate.—Funding for the Geosciences Directorate would increase by 0.5 percent, but two of its three divisions would face cuts in fiscal year 2004 relative to the fiscal year 2003 enacted appropriations bill. Funding for the Earth Sciences Division would decline by 4.9 percent and funding for the Ocean Sciences Division would decline by 0.7 percent.

Biocomplexity and the Environment Priority Area.—NCSE is particularly supportive of NSF's priority area on Biocomplexity and the Environment. This initiative provides a focal point for investigators from different disciplines to work together to understand complex environmental systems, including the roles of humans in shaping these systems.

The Biocomplexity and the Environment initiative is a growing priority within NSF, as reflected by the growth of its budget from $59.0 million in fiscal year 2002 to $99.8 million in the fiscal year 2004 budget request. This priority area has been expanded to include research in microbial genome sequencing and ecology of infectious diseases—to help develop strategies to assess and manage the risks of infectious diseases, invasive species, and biological weapons. We urge Congress to support this critical initiative and to consider funding it at a level of $136 million, as proposed in fiscal year 2000 budget request for NSF.

Major Research Equipment.—The NSF budget request includes funding for the National Ecological Observatory Network (NEON) and EarthScope in its account for Major Research Equipment and Facilities Construction. These projects would provide major new opportunities for environmental research.

—*National Ecological Observatory Network.*—NEON would be a continental scale research instrument consisting of 10 geographically distributed observatories, networked via state-of-the-art communications, for integrated studies to obtain a predictive understanding of the nation's environments. NSF is requesting $12 million in initial funding for the first two NEON observatories in fiscal year 2004.

—*EarthScope.*—EarthScope would be a distributed, multi-purpose geophysical instrument array that is designed to make major advances in our knowledge and understanding of the structure and dynamics of the North American continent. Three components of the project would be the United States Seismic Array (USArray), the San Andreas Fault Observatory at Depth, and the Plate Bound-

ary Observatory. NSF is requesting $45 million for EarthScope in fiscal year 2004.

We urge Congress to fund both NEON and EarthScope at the levels specified in fiscal year 2004 budget request. Both NEON and EarthScope were included in NSF's budget request for fiscal year 2001 but funding for these projects was not provided in the enacted appropriations bill. NSF's budget request for fiscal year 2002 did not contain any new starts for the MREFC account. In fiscal year 2003, the NSF budget request included initial funding for both NEON and EarthScope. Congress appropriated $30 million for EarthScope in fiscal year 2003 but deferred funding for NEON "without prejudice," implying that the project was not rejected based on merit and may be funded in the future.

NATIONAL SCIENCE BOARD REPORT ON ENVIRONMENTAL SCIENCE AND ENGINEERING

The National Council for Science and the Environment encourages Congress to support full and effective implementation of the National Science Board's report, Environmental Science and Engineering for the 21st Century: The Role of the National Science Foundation, within the context of a doubling of the budget for the NSF.

The NSB report sets out a bold, ambitious set of recommendations that could dramatically improve the scientific basis for environmental decisionmaking. The first keystone recommendation is as follows:

"Environmental research, education, and scientific assessment should be one of NSF's highest priorities. The current environmental portfolio represents an expenditure of approximately $600 million per year. In view of the overwhelming importance of, and exciting opportunities for, progress in the environmental arena, and because existing resources are fully and appropriately utilized, new funding will be required. We recommend that support for environmental research, education, and scientific assessment at NSF be increased by an additional $1 billion, phased in over the next 5 years, to reach an annual expenditure of approximately $1.6 billion."

NSF has taken many steps to implement the recommendations of the NSB. It has appointed an environmental coordinator and created a new position in the office of the Director. It has established a Priority Area on Biocomplexity and the Environment that provides new opportunities for multidisciplinary research on the interactivity of biota and the environment. NSF has formed an Advisory Committee on Environmental Research and Education. In January 2003, the Advisory Committee released a report entitled Complex Environmental Systems: Synthesis for Earth, Life, and Society in the 21st Century, which provides a 10-year outlook in environmental research and education for the NSF. The report presents pathways for building interdisciplinary bridges and increasing capacity to address environmental challenges. "The concept of synthesis-based research is a touchstone for environmental research and education," said Stephanie Pfirman, Past Chair of the Advisory Committee, "and long-term support is necessary to fulfill its promise."

Full implementation of the NSB report will require strong support from Congress and a significant increase in funding for NSF's portfolio of environmental science, engineering and education.

EPA'S STAR GRADUATE FELLOWSHIP PROGRAM

NCSE urges Congress to restore full funding for the Environmental Protection Agency's Science to Achieve Results (STAR) graduate fellowship program. STAR is the only federally supported fellowship program specifically aimed at graduate students in the environmental sciences and policy areas. From 1995 to 2001, EPA funded over 800 STAR fellows at 168 colleges and universities. The STAR fellowship program is highly competitive, with only 7 percent of applicants being awarded fellowships.

The fiscal year 2004 budget request for EPA would cut funding for the EPA STAR fellowship by 50 percent, from $9.75 million in the fiscal year 2003 omnibus appropriations bill to $4.875 million in the fiscal year 2004 budget request. Last year, the EPA budget request for fiscal year 2003 would have eliminated all funding for new STAR fellowships. Congress responded by restoring full funding for the STAR fellowship program in the fiscal year 2003 appropriations process and we call upon Congress to restore full funding again in fiscal year 2004. NCSE urges Congress to appropriate at least $9.75 million for the STAR fellowship program in fiscal year 2004. A higher appropriation is needed to redress the impact of the cancellation of the STAR fellowship competition last year. The proposed elimination of the STAR fellowship in the President's fiscal year 2003 budget request led to the suspension

of new fellowships beginning in February 2002, despite the fact that over 1,400 applications had already been received and reviewed for 100 new fellowships.

HOMELAND SECURITY AND ENVIRONMENTAL R&D

Environmental R&D is a critical component of homeland security. Homeland defense will benefit from a robust and balanced research agenda in addition to the rapid development of existing technologies. Consider, for example, research on the explosion of a "dirty bomb" in an urban area. In addition to research related to the treatment of victims, protection of first responders, and emergency response plans, a balanced research agenda would include interdisciplinary studies on the fate, transport, and clean-up of radionuclides and toxins in air, water, and land. Environmental scientists conduct research on chemical, isotopic and biological tracers on a broad range of length scales and time scales. They are well-positioned to contribute to homeland defense. We encourage Congress to explore the role of environmental R&D in homeland security and counterterrorism and to recommend actions that would improve the nation's capacity in this area.

The National Council for Science and the NCSE commends the Chairman and Ranking Member of the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies for their bipartisan leadership on science for the nation's future. No other Appropriations Subcommittee has a greater impact on the future of environmental science. Investments in the environmental science continue to pay enormous dividends to the nation. Thank you very much for your interest in improving the scientific basis for environmental decisionmaking.

PREPARED STATEMENT OF AMERICAN RIVERS

This year, American Rivers was joined by more than 400 national, regional and local organizations concerned with river conservation throughout the United States [1] in calling for significantly increased funding for the following Environmental Protection Agency (EPA) programs and other programs funded through the Veteran's Affairs, Housing and Urban Development, and Independent Agencies (VA–HUD) Appropriations bill. I urge that these requests be incorporated in the VA–HUD Appropriations bill for fiscal year 2004.

CLEAN WATER STATE REVOLVING FUND

With the passage of the Clean Water Act 30 years ago, Congress made a financial commitment to protecting and improving water quality through grants to municipalities for construction of wastewater treatment systems. In 1987, the construction grants program was converted to a revolving loan program, in which federal capitalization grants are made to states that then make low-interest loans to municipalities for wastewater, stormwater, and other water quality protection activities. The 1996 Safe Drinking Water Act also created state revolving funds (SRFs) for drinking water treatment and protection of source water and wellhead areas.

Maintaining the nation's high-quality drinking water and wastewater services will require a substantial increase in spending over the next two decades. Aging infrastructure, increased population and sprawl have stressed existing water infrastructure systems, as evidenced by the yearly 1.2 trillion gallons of stormwater overflows from combined sewer systems that carry untreated sewage into the nation's rivers and other water bodies. A May 2002 study by the Congressional Budget Office estimates that from 2000 to 2019, annual costs for investment in the nation's water systems will average between $11.6 billion and $20.1 billion for drinking water systems and between $13.0 billion and $20.9 billion for wastewater systems.

The SRF programs have been used to fund projects that reduce non-point pollution, protect estuaries, prevent contamination of drinking source waters, and reduce polluted runoff by protecting natural areas and other "green infrastructure," such as stream buffers. These approaches are often more cost-effective and provide a wide array of environmental and social benefits, including open space, wildlife habitat, recreation, and water supply.

Congress should reauthorize the Clean Water SRF program at $3.2 billion and the Drinking Water SRF at $1.5 billion, and appropriate the full amount authorized to both SRF programs.

---

[1] These groups have endorsed the "River Budget for fiscal year 2004", a report of national funding priorities for local river conservation. A list of groups endorsing the River Budget can be viewed at http://www.americanrivers.org/riverbudget/default.htm.

FEDERAL SALMON PLAN FOR THE COLUMBIA AND SNAKE RIVERS

Several Members of Congress from the Northwest, as well as the Administration, have pledged to work to restore twelve Endangered Species Act listed stocks of Snake and Columbia river salmon without partially removing the lower four Snake River dams. Congress can help honor that commitment by funding the necessary salmon recovery measures. As we approach the first "check-in" for the 2000 federal Salmon Plan for the Columbia and Snake Rivers this September, federal agencies have failed to fulfill over 70 percent of its requirements.

So far, Salmon Plan implementation has fallen well behind schedule, due in part to inadequate federal funding. Full funding for fiscal year 2004 will require $529.3 million distributed among ten federal agencies through five different appropriations bills. The VA–HUD and Independent Agencies Appropriations bill provides funding to one of these agencies, the Environmental Protection Agency. EPA is charged with addressing water quality issues in the Snake and Columbia rivers, including the unnaturally high water temperatures and dissolved gas levels caused by the 29 federal dams in the Columbia River Basin.

In fiscal year 2003, the EPA was one of only two agencies charged with implementing the Salmon Plan to receive sufficient funding. In fiscal year 2004, Congress should maintain the EPA's Columbia Basin budget at $18.3 million.

TOTAL MAXIMUM DAILY LOADS, CLEAN WATER ACT SECTION 303(D)

The water quality of America's natural water bodies is damaged and threatened by a wide range of activities and sources. Water quality impairments will not be cured without accounting for all of these sources and addressing problems in troubled watersheds in a comprehensive manner. The establishment of Total Maximum Daily Loads (TMDLs) under section 303(d) of the Clean Water Act is a sensible and necessary step in this process. States and the Environmental Protection Agency (EPA) must identify all sources of water quality impairment to rivers, streams and lakes that do not meet water quality standards, develop specific goals for improvement, and design plans to achieve the best overall results for the water bodies.

However, this sensible process has not proceeded as quickly and efficiently as it should, due in part to a shortage of resources within regulatory agencies responsible for making the comprehensive assessments and strategies for improvement. Investigations of the harm caused by point source and non-point source pollution, physical alterations and habitat destruction in aquatic systems, and biological contaminants and invasive species can be complicated and must be done thoroughly and professionally. TMDLs must be developed in a way that is consistent with the Clean Water Act, is compatible with related water quality programs and regulatory processes, and leads to real improvements, rather than more paperwork and delay. The development of strong TMDLs requires adequate commitment and resources.

In this, the 30th anniversary of the Clean Water Act, far too many of our nation's waters fail to support healthy natural communities of animals and plants and are dangerous or unsuitable for people to use and enjoy. Congress should show its continued commitment to restoring our natural heritage and appropriate $250 million for EPA's State Program Management Grants (Section 106 of the Clean Water Act) for grants to states for TMDL development and implementation in fiscal year 2004.

NONPOINT SOURCE MANAGEMENT PROGRAM

Every time it rains, silt, fertilizer, pesticides, oil, manure, and other pollutants flow into rivers and streams. As societal growth paves more land area, produces more air emissions, culverts and manipulates more streams and drainage channels, and generally encroaches further into naturally-functioning systems with human-designed environments, it damages water bodies in countless ways. Though the idea of water pollution often produces visions of pipes spewing industrial wastes or sewage into streams, these "non-point sources" of pollution degrade thousands of stream miles and hundreds of lakes, ponds, and wetlands. The damage caused by non-point source pollution includes habitat and aquatic life degradation, drinking water contamination, swimming area closures, lost recreational opportunities, fish kills, aesthetic degradation of waterways, and many other severe environmental and human health problems.

While the Clean Water Act (CWA) established regulatory limits, targets, and penalties for point source pollution in 1972, it did not provide resources to address polluted runoff until 1987. That year, Congress recognized the need for greater federal leadership to reduce non-point source pollution by amending the CWA to establish the Section 319 Non-point Source Management Program. The Section 319 program provides grant money that states, territories, and Indian tribes can use for a wide

variety of non-point pollution reduction activities including technical and financial assistance, education, training, technology transfer, demonstration projects, and monitoring.

The threat posed by non-point source pollution is as great as or greater than ever before and increasing. Congress should appropriate $250 million for EPA's Section 319 Non-point Source Management Program to help states and localities reduce runoff pollution.

ENFORCEMENT OF DISCHARGE PERMITS UNDER THE CLEAN WATER ACT

The Environmental Protection Agency's (EPA) ability to enforce environmental laws is critical to our nation's efforts to fulfill the Clean Water Act's stated objective of restoring waters to fishable and swimmable conditions. While the nation has made great progress in cleaning up its waters, we continue to need a strong enforcement presence by EPA because 40 percent of waters remain unsafe for fishing or swimming.

The Clean Water Act prohibits discharges of pollutants through point sources into U.S. waters without a National Pollution Discharge Elimination System permit. These permits contain limits on what can be discharged, monitoring and reporting requirements, and other provisions to ensure that the discharge does not harm water quality or human health.

Nationwide, about one-fourth of all major water polluters, nearly 1,700 facilities, are operating without current permits to discharge wastes to the nation's waters. More than 750 major facility permits have been expired for two years, and 251 have been expired for 5 years. Many of these facilities dump huge amounts of highly toxic effluent into receiving waters. More than one-fourth of major facilities were in significant noncompliance with their permits over a recent 15-month period.

To ensure that permits are current and properly complied with, EPA engages in enforcement activities, including inspections, sampling, testing, as well as civil and criminal enforcement actions. It is essential that EPA maintain a strong enforcement presence working with the states to undertake civil and criminal enforcement activities at facilities that can result in real improvements in environmental quality. For example, recent settlements with multiple cities across the country have helped clean our rivers and coastal waters of raw sewage overflows, improved operation and maintenance, and expanded treatment capacity. EPA needs adequate level-funding to conduct activities such as laboratory analysis and the hiring of expert witnesses to bring cases to make polluters pay for actions that harm the environment.

The need to vigilantly guard the health of the nation's waters from illegal discharges is greater than ever before. It is essential that Congress fund the EPA Office of Enforcement and Compliance at a level sufficient to retain fiscal year 2002 staffing levels with adequate increases to allow for cost of living increases. Congress should fund EPA's enforcement programs at $485 million.

CHESAPEAKE BAY PROGRAM

The Chesapeake Bay, the nation's largest estuary and one of the most ecologically productive in the world, is home to more than 15 million people and 3,600 species of plants and wildlife. The 64,000-square mile watershed drains more than 100,000 streams and rivers, provides important opportunities for recreation and refuge for fish and wildlife, and serves as a key resource for the prosperity of the region.

Unfortunately, the ecological integrity and productivity of the Bay's watershed have been severely compromised by development, agriculture, over-harvesting of resources, and more than 2,500 small dams and other obstructions that block migratory fish from their historic spawning habitats. The impact on the Bay's important seasonal fisheries has been dramatic. Annual harvests of Bay shad have dropped from 17.5 million pounds to less than 2 million during the past century. Between 1976 and 1985, the commercial harvest of anadromous fish in the Bay declined by 82 percent.

Concern over these threats culminated in the creation of the Chesapeake Bay Program (CBP) in 1983, establishing what is now a national and international model for estuarine research and restoration. The program focuses on restoring tributaries, underwater Bay grasses, and fish passage, and also reducing agricultural runoff pollution and toxics. Among other goals, the CBP hopes to reopen more than 1,350 miles of upstream spawning habitat for migratory fish by removing small dams and other blockages on the Bay's rivers by 2003. In the past decade, the program has reopened more than 1,000 miles of habitat to migratory fish.

Restoring the Bay's fisheries would provide the region with a significant economic boost. According to the Fish and Wildlife Service, healthy fish populations in the

Bay and its tributaries would generate $10 to $30 million per year in shad sport fishing alone.

In fiscal year 2004, Congress should provide the CBP with $30 million to better protect and restore this valuable ecosystem. In addition, Congress should make the Chesapeake Bay Small Watershed Grants Program, a popular funding source for education and restoration projects throughout the Bay watershed, a separate line item to ensure its long-term success and to help restore funding to other Bay program areas, including fish passage engineering, construction and coordination.

WATERSHED ASSISTANCE GRANTS

Solving today's water quality challenges, especially habitat loss and non-point source pollution, requires the active involvement of local citizens who care about the water quality where they live and are willing to take action. Ideally, locally-based watershed partnerships provide the frameworks to focus public and private sector efforts to identify needs, define protection and improvement goals, implement solutions, and measure progress in protecting and restoring watersheds.

Yet without a sustainable, healthy organizational structure and good leadership, the survival of local watershed partnerships becomes harder. Without a watershed steward, it becomes difficult to implement the actual on-the-ground restoration work. To address this problem, the U.S. Environmental Protection Agency (EPA) teamed up with citizen activists to institute the Watershed Assistance Grants program.

Administered in collaboration with the EPA, the Watershed Assistance Grants program supports the growth, sustainability, and organizational capacity of local watershed partnerships across the United States in the form of grants. Its goals are essential to the river movement, as the program addresses a serious funding gap in local watershed protection efforts.

Unfortunately, minimal program funding is available to build the strength of these partnerships. In the last three years, only 6 percent of the proposals received by the program were funded, with award amounts ranging from $1,000 to $30,000. To date, 1,360 proposals (requesting approximately $25 million) have been submitted, but only 80 awards have been made to locally initiated watershed partnerships in 39 states.

Each year for the past two years, the program has reviewed $2 million in worthwhile applications. In fiscal year 2004, Congress should provide the Watershed Assistance Grants program with $2 million to support innovative efforts that build the capacity of community-based partnerships to conserve and restore watersheds.

PREPARED STATEMENT OF THE STATE AND TERRITORIAL AIR POLLUTION PROGRAM ADMINISTRATORS AND THE ASSOCIATION OF LOCAL AIR POLLUTION CONTROL OFFICIALS

The State and Territorial Air Pollution Program Administrators (STAPPA) and the Association of Local Air Pollution Control Officials (ALAPCO) appreciate this opportunity to provide testimony regarding the fiscal year 2004 proposed budget for the U.S. Environmental Protection Agency (EPA), particularly regarding grants to state and local air pollution control agencies under Sections 103 and 105 of the Clean Air Act.

STAPPA and ALAPCO are the national associations of air quality officials in 54 states and territories and more than 165 metropolitan areas across the country. The Clean Air Act gives state and local air quality officials the primary responsibility for implementing our country's clean air program on behalf of our citizens. These agencies must work to limit or prevent emissions of a host of pollutants from a variety of sources that have impacts on public health. These include particulate matter, ground-level ozone, toxic air pollution, and acid rain, among others. State and local air agencies must maintain the fundamental elements of their programs—the foundation of our clean air efforts—while, at the same time, addressing new and emerging problems.

RECOMMENDATION

The President's fiscal year 2004 budget request calls for $228.5 million for state and local air agency grants under Sections 103 and 105 of the Clean Air Act, which is $5 million more than Congress appropriated for fiscal year 2003. While we appreciate this modest increase, the total is not sufficient to support our vital air quality efforts. Furthermore, the increase is earmarked for a specific purpose—air toxics monitoring—so it is not available to fund many of the different and varied programs

that state and local air agencies must undertake. While we agree that monitoring toxic air pollution is very important, there are many other activities that are in great need of additional funding as well. The fact of the matter is that state and local air agencies are currently underfunded in general and are in need of substantial increases for numerous activities.

We are very aware that there are tremendous budgetary pressures facing Congress, mostly due to the increased need for homeland security and expenses related to events in Iraq. As a result, many programs cannot be funded as robustly as needed. However, in light of the fact that air pollution poses a considerable threat to the public health of our country, we believe it should be considered one of our highest priorities. We recommend, then, that federal grants to state and local air quality agencies be increased by $25 million above the President's request, which is only a small share of the amount that is actually needed.

THE NEED FOR INCREASES IS GREAT

It is well established that air pollution presents a pervasive national threat to public health and the environment. The health risks are not only significant, we know of no other environmental problem presenting greater risk. Air quality regulators at all levels of government have worked diligently for many years in pursuit of our clean air goals. In spite of the considerable improvements that we have achieved, clean, healthful air nationwide still eludes us.

The magnitude of our air quality problem and the associated health effects, which will be discussed below, make it clear that funding for the control of air pollution should be a top priority. Unfortunately, the reality is that state and local air agencies are underfunded. Although states and localities devote significant resources to their air quality programs, air agencies have been operating for years with inadequate financial support from the federal government. As a result, many of our programs are not as robust as they need to be.

A few years ago, STAPPA and ALAPCO, in cooperation with EPA, conducted a study of air program funding and estimated that federal grants to state and local air pollution control agencies under Section 105 of the Clean Air Act fell short of our needs by nearly $100 million a year. While we have received modest funding increases in recent years, and additional grants are proposed for fiscal year 2004, these are simply not enough, especially in light of our expanded responsibilities. Unless our programs receive a substantially greater boost in funding, we will continue to face a serious financial shortfall, which will adversely affect our ability to protect and improve air quality. This shortfall will only become worse as greater demands are placed on our programs. Among the air program priorities for which state and local agencies require additional funding are hazardous air pollutants (HAPs); fine particulate matter, especially diesel particulate; compliance; inspections; monitoring; data improvements, including maintaining and improving infrastructures, emission inventories and modeling; haze and visibility monitoring; and outreach to and education of the public and regulated community.

To address the problem of inadequate funds we have identified, we recommend that federal grants to state and local air pollution control agencies be increased in fiscal year 2004. While we believe an increase of $100 million would help our programs tremendously, we recognize that there are many other competing programs also in need of additional funding, especially this year. Therefore, we are requesting an increase of a quarter of that amount—$25 million.

THE MAGNITUDE OF THE AIR POLLUTION PROBLEM

Air pollution is a persistent, nationwide problem. Over 170 million tons of pollution are emitted into the air each year across the United States. One hundred and thirty-three million people live in areas of the country that violate at least one of the six health-based National Ambient Air Quality Standards (NAAQS), not to mention the many millions of people who are exposed to toxic air pollutants that cause cancer and other health problems. As noted, the health risks from air pollution are significant and far exceed those from almost every other environmental medium. State and local agencies must address a range of serious air quality problems, a few of which are briefly described below.

Perhaps the most complex air quality problem we face is achievement and maintenance of the NAAQS for particulate matter and ozone. In 1997, EPA established a new standard for fine particulate matter ($PM_{2.5}$). Although we are still working to complete the data-gathering efforts necessary to determine which areas of the country violate the $PM_{2.5}$ standard, one thing is very clear: $PM_{2.5}$ poses the greatest health risk of any air pollutant, resulting in as many as 30,000 premature deaths each year. Additionally, fine particles are responsible for a variety of adverse health

impacts, including aggravation of existing respiratory and cardiovascular disease, damage to lung tissue, impaired breathing and respiratory symptoms, irregular heart beat, heart attacks and lung cancer.

Fine particles are not only emitted into the atmosphere directly from combustion processes, they are also formed secondarily in the atmosphere from such precursor emissions as oxides of nitrogen (NO_X), sulfur dioxide and ammonia; in addition to their adverse health consequences, fine particles also contribute to regional haze. Based on preliminary air quality monitoring data, it appears that $PM_{2.5}$ concentrations in over 170 counties throughout the U.S. exceed the health-based standard.

Overall, progress in attaining clean air has been slowest with respect to ground-level ozone. Some parts of the country actually experienced increased levels of ozone in the past 10 years, and in 33 national parks, ozone levels have risen by more than 4 percent. A significant factor in this trend is the increase we have experienced in NO_X emissions, which are not only a precursor to ozone, but also a contributor to such public health and welfare threats as acid rain, eutrophication of water bodies, regional haze and, as mentioned, secondary $PM_{2.5}$. Over the past 20 years, NO_X emissions have increased by almost 9 percent, largely due to emissions from nonroad engines and diesel vehicles. Current data show that almost 300 counties measure exceedances of the eight-hour ozone standard.

The serious public health threat posed nationwide by emissions of hazardous air pollutants (HAPs) is another continuing concern we have. Last year EPA released the most recent results of its National-Scale Air Toxics Assessment (NATA), which provides nationwide estimates of exposure and health risks associated with 32 HAPs. While the NATA information reflects the situation of several years ago, it still provides the best indication we have of the magnitude of the problem. According to EPA, more than 200 million people in the U.S. live in areas where the lifetime cancer risk from exposure to HAPs exceeds 1 in 100,000. Moreover, approximately 3 million face a lifetime cancer risk of 1 in 10,000. Considering that EPA has established 1 in 1,000,000 as the generally acceptable level of risk, these estimates not only illustrate the pervasive nature of the threat posed by HAPs, they also speak to the level of effort that will be required to reduce the risk and the high level of priority that should be placed on doing so.

One HAP of special concern is mercury. Some portion of the mercury that is found in fish is the result of air emissions of that contaminant. The deposition of air emissions in our water bodies, and ultimately into our fish, is a significant problem, especially for those who rely on fish as an important part of their diets. Because of public health concerns, many states have had to issue advisories to the public about elevated concentrations of mercury in the fish that is caught in their water bodies. In fact, by 2001, 44 states had issued advisories, with 17 of them applying statewide. An additional nine states issued advisories for their coastal waters.

The effect of air pollution on the nation's population is very troubling. This concern is only sharpened when we consider the adverse impact of air contaminants on one of our most sensitive and precious populations—our nation's children. Because they are still developing and spend more hours exercising outdoors, air quality has a greater impact on them. EPA recently published a study entitled, America's Children and the Environment (February 2003), which contains extremely disturbing data related to air pollution and children. For example, the report concludes the following:

—in 2001, approximately 15 percent of children lived in counties in which the one-hour ozone standard was exceeded on at least one day per year;

—in 2001, nearly 40 percent of children lived in counties that exceeded the eight-hour ozone standard;

—in 2001, approximately 25 percent of children lived in counties that exceeded the $PM_{2.5}$ particulate matter standard;

—in 1996, all children lived in counties in which the combined estimated concentrations of hazardous air pollutants exceeded the 1-in-100,000 cancer risk benchmark; approximately 95 percent lived in counties in which at least one HAP exceeded the benchmark for health effects other than cancer;

—in 1999–2000, about 8 percent of women of child-bearing age had at least 5.8 parts per billion of mercury in their blood (children born to women with blood concentrations above that number are at some increased risk of adverse health effects); and

—between 1980 and 1995, the percentage of children with asthma doubled, to 7.5 percent, and by 2001, 8.7 percent of all children had asthma.

The magnitude of the air quality problem and the associated health effects make it clear that significantly increased funding for the control of air pollution should be a top priority.

EXPENDITURE OF ADDITIONAL FUNDS

STAPPA and ALAPCO recently collected information from their members to learn about funding priorities for state and local air pollution control programs. The report we compiled presents valuable information about the highest priorities of state and local agencies and how they would spend additional federal grant funds. We provided you this report when it was completed and would be happy to supply you with an additional copy if you wish.

Among the general activities that state and local air agencies identified as their highest priorities, and those on which they would spend increased grant funds, are efforts addressing hazardous air pollutants; compliance, fine particulate matter, especially diesel particulates; inspections; monitoring; improvements in data, including maintaining and improving infrastructures, emission inventories and modeling; haze and visibility monitoring; and outreach and education for the public and regulated community. Depending on what the high-priority issues in their areas are, state and local agencies identified a range of specific activities to which they would target a grant increase. These included the following, among others:

—improve emission inventories of toxic air pollution;
—increase the frequency of inspections of major and minor sources;
—meet the various federal and public expectations under Section 112 (air toxics);
—expand criteria pollutant monitoring;
—improve risk assessment capacity;
—reduce concentrations of fine particulates;
—increase public outreach efforts;
—improve small business compliance assistance;
—purchase replacements for equipment that has outgrown its expected usage;
—increase the number of air toxics monitoring locations to better characterize baseline concentrations and localized impacts; and
—improve modeling tools to determine emission reductions needed.

State and local air agencies' need for increased grants is very great; there are many critical activities that are currently underfunded. Many of these activities are the foundation of our air quality program and are, therefore, essential. Without additional federal grants, and the flexibility to target them to the activities that are most appropriate in individual states and communities, state and local air agencies will find it increasingly difficult to obtain and maintain healthful air quality.

EPA'S BUDGET

Finally, notwithstanding the essential contributions of state and local air agencies to air quality, the federal government's job is critical as well. We need a strong and effective EPA to carry out its responsibilities if we are to achieve and maintain healthful air quality. Therefore, we recommend that Congress provide adequate funding for EPA so that the agency can continue its efforts related to particulate matter; mobile sources; national emission standards, including toxic air pollutant standards; training; health research and risk estimates; and modeling.

CONCLUSION

We must always keep in mind that the most valuable asset our nation can ever have is a healthy population and a clean environment. In working to achieve our clean air goals, protecting these assets must be our highest priority. Accordingly, we strongly recommend and urgently request that Congress increase federal grants to state and local air quality agencies under Sections 103 and 105 of the Clean Air Act by $25 million in fiscal year 2004.

Thank you very much for this opportunity to provide you with our testimony. Please contact us if you have questions or require any additional information.

PREPARED STATEMENT OF THE PATH INDUSTRY STEERING COMMITTEE

Mr. Chairman and Members of the Subcommittee, my name is Michael Chapman, and I am a home builder from Santa Fe, New Mexico. As Chairman of the Industry Steering Committee for the Partnership for Advancing Technology in Housing ("PATH") program, I welcome the opportunity to submit testimony in support of continued funding for the PATH initiative at the fiscal year 2001 level of $10 million.

First, let me thank you, Mr. Chairman, as well as Ranking Democrat Senator Mikulski and all the members of this subcommittee for your foresight and leadership in helping to support this program. Second, I would like to point out that the current HUD leadership has not put the PATH program in the Administration budget, making it necessary for the direction to come from this committee to ensure contin-

ued funding. Although I can't explain the rationale for HUD's position, PATH is clearly within the congressional mandate embodied in Title V of the basic HUD statute, that the

"Secretary shall require, to the greatest extent feasible, the employment of new and improved technologies, methods, and materials in housing construction, rehabilitation, and maintenance . . . with a view to reducing costs, and shall encourage and promote the acceptance and application of such advanced technology, methods, and materials by all segments of the housing industry".

It is a goal of the Industry Steering Committee to educate the HUD leadership as to the importance of this program to the housing industry.

The PATH program seeks to accelerate the creation and widespread use of advanced technologies in order to improve the quality, affordability, and durability of our nation's housing stock. A recently released report by the RAND Science and Technology Policy Institute makes a compelling case for federal investment in housing R&D programs such as PATH. It has long been recognized that housing is a major driver in the economy, and as such, innovation in housing has significant economic ramifications. The report states that "innovation contributes positively to increased productivity and provides other benefits to all who are involved . . . [including] a broad range of housing industry participants from homebuilders to manufacturers, insurers, regulators, homeowners, and others." You should also know that the PATH program money is leveraging $5–6 million of private sector investment in program activities.

Now in its fifth year of funding, the accomplishments of the PATH program are real and demonstrable, from funding for basic research activities at Universities to industry efforts at technology transfer.

PATH UNIVERSITY RESEARCH

Due entirely to PATH and the interagency co-operation it has fostered, universities now have the only national research grant program for faculty in housing technology, and the only university program in housing technology in US history. HUD and NSF are collaborating on the PATH-NSF "Program Awards in Housing Technology" which provide funding to spur innovative basic research so researchers in universities and academic institutions can bring new conceptual approaches to the homebuilding community. PATH fosters this dedication and innovation by working directly with universities, connecting members of the academic research community with each other and to the housing industry. PATH makes it clear to Federal and industrial stakeholders that quality research on housing is being done in America's institutions of higher learning. To date, 28 universities have benefited from the Program awards, and numerous other faculty are starting to focus their research agendas for the benefit of America's housing. This includes work as varied as manufactured housing factory streamlining at Michigan State, studies of new house panel systems and information technologies at Virginia Tech, and new multifamily development systems at the University of Central Florida. Over the long term this will be of enormous benefit to housing, both in producing research results and in engaging students in housing technology curricula.

PATH GOVERNMENT/INDUSTRY COLLABORATION

The inability to accurately determine the durability or predict the "service life" of building materials exposed to outside weathering continues to be major barrier to innovation in housing. This is clearly illustrated by the dilemma faced by a manufacturer of a new product and the willingness of consumers to purchase this product. The manufacturer either can wait 5–20 years to fully develop the durability data from existing methods, or can introduce the product to the market without reliable durability data and expose the corporation to potentially significant liability.

The service life prediction problem extends far beyond the housing industry. It encompasses everything from plastic toys for children, to coatings for automobiles and orbiting satellites. Despite the obvious need for improved service life prediction, it is one of a handful of scientific problems that has not experienced significant progress over the last 100 years. This problem has proven too complex to address with the resources of any individual entity such as a university laboratory or single corporation. PATH has recognized, facilitated and invested in a unique public/private sector partnership led by the Commerce Department's National Institute of Standards and Technology (NIST). The partnership includes four federal agencies, the Smithsonian Institution and eighteen major U.S. corporations. This multidisciplinary public-private approach is leveraging knowledge discovered in skin cancer

research and applying it to measuring and predicting the weathering of building materials.

This NIST-led approach has developed a device known as "SPHERE" (Simulated Photodegradation by High Energy Radiant Exposure) which is illustrated in a separate handout. SPHERE compresses the time required to evaluate a material's response to weathering in two ways: first, it operates 50 times faster than outdoor exposure, and second, it can accommodate more than 500 samples distributed into as many as 32 specimen chambers with known UV, temperature, and humidity conditions. Each chamber can generate exposures similar to a Texas summer dawn, a North Dakota winter night, a mid-summer Florida afternoon and a California sunset, plus up to 28 other environments, all at the same time. Materials exposed to the SPHERE's UV light for one day receive the equivalent of 50 days of sunlight.

Although NIST is still in the early stages of this research, the SPHERE has already challenged long-held beliefs about the weathering of materials. For example, it is widely believed that paint fails through a process where it wears away due to intense sunlight exposure. This PATH-sponsored research has shown that, in reality, the coating fails through the formation of pits. Shown in another handout at an early stage of degradation, these pits are just one-twentieth the width of a human hair. They are large enough to breach the coating, yet small enough that the coating appears defect free to the eye. Surprisingly, these damaging pits are formed only when sunlight and water (humidity) are combined, and not just by intense sunlight.

This result plus others embolden the private-sector partners to believe that this PATH research is on the cusp of fundamentally changing the methods used to predict durability. The ability to rapidly and accurately predict in-service performance allows manufacturers to deliver innovative products more quickly into the housing and other markets.

This innovation will take many forms. Our private sector partners are actively considering two innovations. The first is materials specifically formulated for local climate durability. The second is tools enabling builders, owners, operators and even homeowners the ability to calculate the economic consequences of particular building material or formulation choices in constructed facilities.

PATH TECHNOLOGY SCANNING

PATH has spent considerable time searching outside of the home building industry to identify promising technologies that could help meet the program's goals. Summaries of the findings have been published and widely distributed (see handouts). Dozens of technologies that are potentially applicable to home building have been identified. For example, the U.S. military is involved in research to develop fabric-based materials that can transport power and signals. These types of breakthroughs could have a significant impact on the development of panelized construction for homes by providing highly durable materials that can have combined functions, such as wall coverings and power. On the private sector side, the composite materials industry is now developing materials that can serve as both the structure and the finish surface on a wall, floor, or roof. These are exciting developments. Our challenge is to work with the manufacturing and building communities to realize their potential and bring them into the building process.

PATH TECHNOLOGY ROADMAPPING

The objective of PATH technology roadmapping is to identify technological research in home building and serve as a guide for research investments by government and industry. The roadmaps identify the main areas for research and development that can advance the PATH goals. Roadmapping results are being provided to private sector interests to guide their technology development and their investments in research and development. Through this process, new technologies will be generated and additional research needs will be identified.

PATH initiated the overall roadmapping process during early 2000. Participation to date includes over 300 builders and remodelers, housing manufacturers, material and product suppliers, academicians, researchers, code officials and other stakeholders who identified and prioritized technologies that hold promise for achieving PATH's goals. The result is five specific roadmapping activities that are currently in different stages of development:

—Information Technology to Accelerate and Streamline Home Building
—Whole-House and Building Process Redesign
—Energy Efficiency in Existing Homes
—Technology Roadmapping for Manufactured Housing, and
—Advanced Panelized Construction.

For example in the Advanced Panelized Construction roadmap, an important first step was to identify materials from other industries that are stronger, lighter in weight, and more durable; and that could be used successfully in housing construction. One example is the honey-comb technology which has been used for decades by the composite industry to build airplanes, subway cars, and other types of vehicles because it is strong, lightweight, and durable. Combining this technology with a durable high-pressure laminate finish could lead to the next generation of panels for house construction. The next step is to make the panels more cost effective to produce, and to design for the integration of utilities, such as electric wiring and plumbing.

PATH AND MANUFACTURED HOUSING

Major strides have been made in the area of manufactured home innovation. According to the Congressional "Millennial Housing Commission" report, the manufactured housing industry provides 72 percent of the nation's affordable housing. In the past three years, PATH research has helped develop approaches to eliminate moisture problems (the underlying cause of mold and material degradation), improve energy efficiency by more than 20 percent, increase factory production efficiencies, create more durable foundation systems able to withstand natural disasters, and expand the cost and quality advantages of factory manufacturing to a larger portion of the home building industry. PATH research plays a pivotal role in keeping housing costs under control for low and moderate income buyers.

FIELD EVALUATIONS

There are over 40 PATH field evaluation projects that have been completed, are in progress, or are under development. As you can see by the stars on the map, these projects are distributed across the United States. I personally participated in a field demonstration in Santa Fe that utilized technologies that could greatly benefit housing in the arid western states. In this project we installed a rainwater collection system as well as a graywater reuse system. These systems allowed us to downsize the septic system, fully landscape the lots and even plant a small orchard while saving water.

Another example of PATH's impact is a recently initiated field demonstration taking place on a Marine base in Oahu, working with the University of Hawaii and a military contractor to reduce the cost of steel construction. The U.S. military is particularly dependent on steel framing for their new homes because of the climates in which they typically build. In Hawaii, the Formosan termite has made steel framing a necessity for almost all new housing.

A significant cost barrier inherent in residential steel construction is in fastening. The typical hammer and nails used in wood frame construction is extremely quick and efficient. By contrast, the screws and special fasteners used in steel framing are much more labor intensive and more expensive. One promising category of fastening methods is "clinching". The PATH Technology Inventory describes clinching as a method of joining two pieces of sheet metal by pressing them together into a die that forms a connection. Expensive fasteners such as self-tapping screws or pins are not required with clinching. However, the connections need to be field tested for ease of use by the labor force, laboratory tested for strength and corrosive resistance, and approved by code officials. Current clinching tools may also need to be redesigned for this application.

Although the U.S. military is leading the way, the private sector is quickly following their lead. Hunt Building Company, an El Paso-based military housing contractor, is working with PATH on field tests on military housing. A local production home builder in Hawaii is filling the same role on homes built for the private sector. Both companies are investing significant resources of their own in the clinching demonstration, which can potentially lead to lower construction costs and improved quality. We expect initial results on this project sometime this fall.

CONCLUSION

In summary, the PATH program has had wide reaching impacts. PATH has been consistently praised by the National Academy of Sciences in three evaluation reports. PATH has awarded grants and contract work to over 60 firms including numerous small and minority businesses, universities, manufacturers, and trade associations. PATH has leveraged government funding with private sector investments. And PATH has created an environment of innovation in an industry that must innovate to have a strong future. We request your help and support to make the program continue.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF COUNTIES, U.S. CONFERENCE OF MAYORS, NATIONAL LEAGUE OF CITIES, NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES, AND NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

Mr. Chairman and Members of the Subcommittee, this statement is on behalf of the National Association of Counties, the U.S. Conference of Mayors, the National League of Cities, the National Community Development Association, and the National Association of Local Housing Finance Agencies. We appreciate the opportunity to present our views on fiscal year 2004 appropriations for the Department of Housing and Urban Development, and in particular, the two priority programs for local governments—the Community Development Block Grants (CDBG) and the Home Investment Partnerships program (HOME).

We thank you, Mr. Chairman and Members of the Subcommittee for your continuing support for these priority local government programs. We were especially pleased by the $111 million increase in HOME formula funding included in the fiscal year 2003 omnibus appropriations bill.

Mr. Chairman, local government officials urge you to increase CDBG formula funding in fiscal year 2004 to $5 billion and HOME formula funding to $2.25 billion. These programs work, they make a real difference in people's lives, and it is our sincere hope that they will be funded at levels that reflect the very real community development and affordable housing needs that exist across our country.

WHY CDBG IS EFFECTIVE AND CRITICALLY NEEDED

Now in its 29th year, CDBG is arguably the Federal government's most successful domestic program. CDBG helps communities tackle some of their most serious community development challenges. The CDBG program's success stems from its utility, i.e., providing cities and counties with an annual, predictable level of funding, which can be used with maximum flexibility to address unique neighborhood revitalization needs. Based on the fiscal year 2002 CDBG grantee data from the IDIS system, CDBG provided funding to 187,380 housing units. In addition to providing funding to housing units, the program created or retained over 90,000 jobs principally for low and moderate income persons.

The great success of the CDBG program has come through dedicated practitioners working very hard to ensure good program performance and timely expenditure of funds. As cities face greater demands on staff to monitor subrecipients, undertake good effective program planning, the resources are just not there to get and keep staff properly trained. There have been no CDBG funding available for technical assistance and training at the national level or at the local field office level. Therefore, we ask the Subcommittee to include in this appropriations bill statutory language for a guaranteed source of funding for HUD and interested groups to provide technical assistance and training in much the same way as does the HOME program.

Throughout its history, CDBG has garnered tremendous support from virtually all sectors, public and private. States and local governments have seen modest increases in formula funding which has been well received, however with the completion of the 2000 Census, the subsequent redistribution of funds, and with the new definition of MSA that will be incorporated into the CDBG program in fiscal year 2004, there will likely be an additional 80 to 100 new entitlement cities added to the program If funding for the CDBG formula program remains at its current level, all existing cities in the program will receive cuts. Many cities received substantial cuts resulting in their fiscal year 2003 allocation, resulting from the 2000 Census data. Should formula funding levels main stagnant, with approximately 80–100 new communities to share a shrinking pot, many community development programs will not receive enough funding to continue to operate. Therefore, we the locally elected officials, urge the Subcommittee to provide at least $5 billion in formula grants for CDBG in fiscal year 2004.

HOME INVESTMENT PARTNERSHIPS (HOME) PROGRAM

The HOME Investment Partnerships (HOME) Program is also an effective block grant program; providing affordable, decent, and safe housing to thousands of families across the country. According to cumulative HUD data, since 1992 HOME has helped to develop or rehabilitate over 718,000 affordable homes for low- and very-low income families. Ninety percent of the HOME funds used for rental housing must be targeted to families with incomes at or below 60 percent of the area median. The balance may assist those with incomes up to 80 percent of the median income. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families

with incomes no greater than 30 percent of median. As of the end of February 2003, more than 84 percent of HOME assisted rental housing was benefiting families at or below 50 percent of area median income. Forty nine percent of all home-assisted rental housing (including tenant-based rental assistance) was helping families with incomes at or below 30 percent of area median income.

HOME funds also help low- and very-low income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the down payment and or closing cost assistance in the form of second mortgages necessary to bridge the gap. Since 1992, HOME funds have been committed to 140,170 homeowner units, with an additional 270,258 household receiving homebuyer assistance.

HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, $2.92 of private and other funds has been leveraged since the program's inception. This clearly illustrates the effective and judicious use of HOME funds by participating jurisdictions.

We are concerned that there is an increasing use of set-asides within HOME. We note that the Bush Administration has proposed a new $25 million innovative lead hazard demonstration program within HOME. We prefer the new lead hazard grant program that was funded in the fiscal year 2003 omnibus appropriations bill, aimed at communities with the highest lead hazard abatement needs, to the Administration's HOME set-aside. We support the Administration's proposal to fund housing counseling as a separate program, instead of as a set-aside under the program. We hope that this trend continues with other set-asides under HOME.

We greatly appreciate the increase of $111 million in formula funding for the program in fiscal year 2003. However, with the 2000 Census data, approximately 20 new participating jurisdictions will become eligible to receive HOME funds in fiscal year 2004, thereby eroding this increase in formula funding. We, therefore, urge you to fund the HOME program in fiscal year 2004 at a level of at least $2.25 billion in formula grants.

SECTION 108 AND BROWNFIELDS

We have serious concerns about the Administration's decision to zero out several important economic development tools in the fiscal year 2004 budget proposal, including the Section 108 loan guarantee program and the Brownfields Economic Development Initiative (BEDI) program. These programs fund much-needed investment in our communities, helping to create jobs and reclaim contaminated sites that can be made productive again. The Section 108 program provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. BEDI annually provides $25 million in grants to communities for brownfields projects focused on economic redevelopment. In its fiscal year 2004 budget, the Administration has proposed to shift all responsibility for the redevelopment of brownfields to the EPA. The EPA focuses on assessment and remediation of contaminated sites, not the redevelopment of the site, which is where HUD's expertise lies. We request that the BEDI program remain at HUD and that you follow the Administration's original proposal and fund BEDI at $50 million for fiscal year 2004. We ask you to fund Section 108 at its fiscal year 2003 level.

RENEWAL OF EXPIRING SECTION 8 RENT SUBSIDY CONTRACTS AND BLOCK-GRANTING OF SECTION 8

Mr. Chairman, we commend the Subcommittee and the Congress for fully funding all expiring tenant-based and project-based rent subsidy contracts in fiscal year 2003 as in previous years. We urge you to do the same this year. The need for affordable housing continues to grow as housing prices increase faster than wages for low-income Americans.

We note, too, that the Administration has proposed converting the Section 8 program into a block grant and turning program administration over to the states. We are strongly opposed to this proposal. The Section 8 voucher program is a highly cost-effective, market driven program. Though voucher utilization has become more difficult in recent years, a recent survey by leading public housing and private landlord groups shows that local Section 8 voucher administrators have adapted and utilization rates have gone up 6 percent in the last year. Moreover Section 8 is not only a successful means of providing decent, safe and affordable housing in its own right, but it is also an important lynchpin in supporting a wide variety of other housing programs such as homeless grants, HOPE VI and homeownership. We are also concerned that block granting will result in a reduction in the number of families for which the federal government will provide assistance. We do not believe that

building a larger state bureaucracy is the most effective means of moving Housing Choice Voucher funds to the citizens who need them. We urge the Congress to reject this proposal.

HOMELESS HOUSING FUNDING

Mr. Chairman, we support a funding level of $1.32 billion for homeless housing programs as proposed by the Bush Administration. We have been working with the authorizing committees to craft legislation converting the McKinney Act's homeless housing programs into a pure, formula-driven block grant program, like the CDBG and HOME block grant programs. In order for such a program to give sufficient funds to communities to carry out meaningful projects at the local level, it needs an appropriation of at least $1.3 billion. We support the existing Continuum of Care planning process and would recommend that this process be codified as part of the block grant. We also urge full funding of Shelter Plus Care contract renewals. We also support the Administration's proposed $50 million Samaritan Initiative. This initiative is intended to address the most pressing homeless issue—chronic homelessness—to be joined with $10 million from the Department of Health and Human Services and the Veteran's Administration to fund services, such drug abuse treatment and primary health care for this population.

LEAD HAZARD REDUCTION

According to HUD, approximately 25 million housing units have lead hazards. Of this number, 5.6 million house children under the age of six. At least 1.6 million of these units house low-income families with children under the age of six, the population most at-risk of elevated blood lead levels. This is a serious health problem that must be remedied.

Programs such as CDBG and HOME assist this population with their rehabilitation needs, but these funds can only go so far. We want to thank Congress for providing $50 million for a new lead hazard reduction program that will begin in fiscal year 2004. This program is the first step to providing funding to eradicate lead-based paint from the nation's housing; however, because of the cost of abatement of lead hazards, much more funding is needed. We urge Congress to provide $75 million for this program in fiscal year 2004, the same level as proposed initially by the Senate in fiscal year 2003. We also ask that Congress re-shape the program into a formula-allocated block grant to those areas that are most in need of the funds. A competition is too time-consuming for both grantees and HUD. It also doesn't provide the money to localities in a quick fashion.

PUBLIC HOUSING

We note that the President's budget proposes to zero out the HOPE VI demolition and replacement of severely distressed public housing program. We oppose this recommendation. The HOPE VI program eliminates distressed public housing and replaces it with mixed-income developments. It harnesses the private sector, working in partnership with public housing agencies. Since 1993, the $3.9 billion appropriates for this program has resulted in the demolition of some 54,000 units and another 45,000 are planned for demolition.

The fiscal year 2004 budget also proposes to fund the public housing operating program at $3.57 billion, down from the $3.6 billion appropriated in fiscal year 2003. However, the fiscal year 2003 appropriation had to make up for a $250 million shortfall from fiscal year 2002. This left a shortfall in fiscal year 2003 that will have to be made up in fiscal year 2004. We urge the Subcommittee to provide sufficient additional funding in fiscal year 2004 to solve the shortfall going forward. In addition, with the continued shortfall, there is no opportunity to use operating funds to fund the drug elimination efforts envisioned when that program was terminated two years ago.

ADMINISTRATION'S TAX FREE DIVIDEND PROPOSAL

Though the issue is not before this Subcommittee, we want to advise you of our deep concern over the unintended adverse impact of the Administration's tax-free dividend proposal on two key affordable housing resources—the Low-Income Housing Tax Credit and tax-exempt housing bonds. According to an analysis of the proposal by Ernst & Young, the dividend proposal, if enacted, would result in a loss of 40,000 units annually or 35 percent of the 115,000 currently produced. It would also add 25 to 50 basis points in additional borrowing costs to issuers of tax-exempt bonds, including housing bonds. This is a serious loss of critical housing units at a time of growing needs of households with worst-case housing needs—paying more

than 50 percent of their income for rent or living in substandard housing. We are working with the tax-writing committees to protect the tax credit and bonds from the unintended impact of the proposal as it works its way through the legislative process. We urge the Subcommittee to join us in that effort.

FAITH BASED PROPOSED RULE

The HUD programs administered by local governments have enjoyed a long and wonderful partnership with faith-based entities across the nation. Without the support of these and other non-profit groups, the meals on wheels programs, community center activities, day care and other much needed services would not be part of the daily lives of many of our citizens. HUD's proposed faith-based rule implies that these great partnerships between cities and their faith-based community—that have come to be common place—need federal intervention to ensure greater success. The locally elected officials and the community development and housing practitioners that administer HUD programs want you to know that we greatly support faith-based groups working with us in our communities and that there is no additional incentive required to strengthen the powerful relationships that currently exit.

CONCLUSION

Mr. Chairman, local government officials believe that a strong Federal role in housing and community development programs must continue. Since the Housing Act of 1937, Congress has enunciated, and repeated in subsequent housing acts, that, as a matter of national policy, the Federal government has an obligation to assist states and local governments in providing decent, safe and sanitary housing for lower income households. Perhaps, Congress said it best in a "Declaration of National Housing Policy" included in Section 2 of the Housing Act of 1949:

"The Congress hereby declares that the general welfare and security of the nation, and the health and living standards of its people, require housing production and related community development sufficient to remedy the serious housing shortage, the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible, of the goal of a decent home and suitable living environment for every American family.

We submit to you that, while progress has been made toward this goal, it has not been fully achieved. The Federal government must continue its commitment to this National Housing Policy, backed by the necessary resources with which to continue the battle against neighborhood deterioration and a decaying housing stock."

Mr. Chairman, we look forward to working with you and the Subcommittee in adequately funding HUD's Housing and Community Development Programs for fiscal year 2004. Thank you.

PREPARED STATEMENT OF THE AMERICAN LEGION

Mr. Chairman and Members of the Subcommittee, thank you for the opportunity to submit testimony reflecting the views of the 2.8 million members of The American Legion regarding the Department of Veterans Affairs' (VA) fiscal year 2004 budget request. As veterans' advocates, it is our job to ensure that VA is funded at a level that is adequate to fulfill the mandate "to care for him who has borne the battle, his widow and his orphan."

On April 11, the House and Senate passed the budget resolution which lays out the funding levels for the appropriations of the federal government and it's agencies. Included in this resolution is an understanding that the VA mandatory levels (Compensation and benefit programs) will not be subject to budget offsets in fiscal year 2004. The Senate and House agreed to set the funding level for VA at $63.8 billion in budget authority. The Conference also agreed to provide within that level $30 billion for discretionary spending for fiscal year 2004. This is a $3.5 billion increase from the levels appropriated for 2003, but is slightly less than the Administration's budget request.

The American Legion is adamant that VA is provided full funding at these levels. In the wake of Operation Iraqi Freedom it is clear that VA will have a vital role in providing health care and transitioning programs to our returning service members. The ability of the VA to provide these necessary and earned benefits and programs will be incumbent on the funding provided by Congress.

For over a decade, The American Legion has advocated allowing veterans to spend their health care dollars on the health care system of their choice. The American Legion believes the Veterans Health Administration (VHA) can efficiently expand to

meet the health care needs of the men and women who have honorably served this nation in its armed forces—in war and in peace.

The American Legion believes the level of funding proposed in the fiscal year 2004 budget request may meet the President's goals, but will lead to over 1.2 millions veterans leaving the system. The American Legion also has reservations about the budgetary impact on other aspects of VA operations, to include the Veterans Benefit Administration (VBA).

MEDICAL CARE

The American Legion recommends $24.5 million for direct medical care in fiscal year 2004; however, strongly recommend to add, rather than offset, MCCF and authorize VA to bill, collect, and retain third-party reimbursements from the nation's largest health insurance program—Medicare—for the treatment on nonservice-connected medical conditions on a fee-for-service basis.

VA's integrated health care delivery system is not only the largest health care provider in the nation, but it has established itself as a formidable leader in the health care industry. Veterans receive quality health care and are choosing VA as their health care provider in record numbers. VA is currently struggling to meet their needs and, with VA's proposed fiscal year 2004 budget, it will continue to struggle.

The President's fiscal year 2004 budget request introduces several proposals to generate increased revenues from the pockets of veterans through an enrollment fee, copayments and third-party reimbursements. According to VA, these proposals will reduce the resource demand by $1.3 billion collectively and hopefully encourage 1.2 million veterans to leave the system. The budget request also seeks management savings of over $1.1 billion. This adds up to a $2.4 billion offset to the requested $25.4 billion budget for medical care.

The American Legion is concerned with several of the budget proposals:

—*Limit enrollment.*—VA proposes to continue the suspension of enrollment of new Priority 8 veterans. These veterans have incomes above $24,644 for a single veteran and above the Housing and Urban Development (HUD) geographic means test level, to include noncompensable, 0 percent service-connected veterans. Although these service-connected veterans may seek health care for their service-connected disability, they are prohibited from enrolling for treatment of or prescriptions for any nonservice-connected medical conditions.

The American Legion continues to disagree with this recent decision. We believe denying veterans access to VA health care, particularly while we prepare to go to war, is unacceptable. Many recently separated veterans would fall into this Priority Group. By denying health care to Priority Group 8 veterans, VA is sending the message that these veterans are not welcomed, even if they have the expendable income or private health insurance coverage that VA can bill for the cost of their nonservice-connected medical treatment. In some cases, a simple "zip code" is the difference between being listed as a Priority Group 7 or 8—not their honorable military service.

In order for more veterans to access VA health care, additional revenue streams must be generated to supplement the discretionary funding. The American Legion strongly advocates Congress authorize VA to bill, collect, and retain third-party reimbursements from CMS for treatment of Medicare-allowable, nonservice-connected medical conditions of Medicare-eligible veterans. Since Medicare is a Federally mandated, pre-paid health insurance program, The American Legion believes Medicare-eligible veterans should be allowed to choose their health care provider.

—*Assess an annual enrollment fee.*—VA proposes a $250 annual enrollment fee for non-service-connected (NSC) Priority 7 veterans and all Priority 8 veterans. Priority 7 veterans have incomes above $24,644 for a single veteran and below the HUD geographic means test level, to include noncompensable, 0 percent service-connected disabled veterans. This annual enrollment fee would apply even if the veteran has third-party health insurance that reimburses VA for the treatment of nonservice-connected medical conditions. This annual enrollment fee would apply even if the veteran were willing to make copayments for treatment of nonservice-connected medical conditions, pharmacy, and specialized care (like long-term care). However, this annual enrollment fee does not guarantee timely access to quality health care. According to President Bush and Secretary Principi, these veterans are their primary focus.

The American Legion cannot support this proposal because it is designed to discourage the enrollment of veterans based solely on their income and not their honorable military service. Furthermore, it does not guarantee these veterans

timely access to quality health care. There are Priority Group 7 and 8 veterans with military awards and decorations for wartime service that, for the grace of God, were not seriously wounded.

The American Legion would urge Congress to reject this proposal just as it did the Administration's plan last year to charge Priority Group 7 veterans a $1,500 deductible.

—*Change the veteran's share of outpatient and pharmacy copayments.*—This proposal entails reducing the pharmacy copayment burden for Priority 2–5 veterans, while increasing Priority 7 and 8 pharmacy copayments from $7 to $15. It also increases outpatient primary care copayments from $15 to $20 for all Priority 7 and 8 veterans.

While The American Legion applauds the reduction of the pharmacy copayment for veterans in Priority Groups 2–5, the recent increase in copayments from $2 to $7 was accompanied by a decrease in the outpatient copayment from $50 to $15. The American Legion would rather VA seek reimbursements from CMS for all enrolled Medicare-eligible veterans being treated for nonservice-connected medical conditions, before trying to balance the budget on the backs of Priority Groups 7 and 8 veterans.

—*Require reimbursement for services provided to health maintenance organization and preferred provider organization members.*—This proposal seeks to establish VA as a preferred provider for members of Health Maintenance Organizations (HMOs) and Preferred Provider Organizations (PPOs) and would obligate these organizations to reimburse VA for health care provided to their members.

The American Legion believes this change would help VA increase third-party reimbursements. The fact that VA currently cannot bill HMOs and PPOs is unfair considering VA treats many veterans who belong to these organizations. The American Legion would welcome this change; however, it seem odd to mandate private sector insurance plans to recognize VA as a preferred provider and not mandate CMS to recognize VA as a Medicare provider, especially since VA meets or exceeds most of CMS' own quality performance standards. If CMS' goal is to provide its beneficiaries with the best quality health care, VA should be a recognized Medicare provider. In fact, CMS Director Scully claimed before the Presidential Task Force To Improve Health Care Delivery for Our Nation's Veterans (PTF) that he encourages veterans to go to VA rather than private health care providers.

—*Change the institutional long-term care services provided to veterans.*—This proposal would allow non-institutional, as well as institutional workload, in community and State Home Nursing programs along with VA Nursing to count toward the 1998 capacity level. VA would supposedly expand their total long-term care capacity by increasing non-institutional long-term care.

The American Legion believes the proposal will further stagnate long-term care services. The passage of the Veterans Millennium Health Care and Benefits Act (Public Law 106–117) on November 30, 1999, was the first step toward ensuring a comprehensive long-term care plan for veterans. The American Legion fully supported this insightful decision by Congress, especially with the aging veterans' population. It required the VA to bring the census back to 1998 levels. So far they have failed to do that. VA has the authority to establish copayments for nonservice-connected veterans in need of long-term care—a time in their lives when they and their families desperately need help from VA. The President and the Secretary want to reduce the number of long-term care beds without any recommendations from the PTF or the Capital Assets Realignment for Enhanced Services (CARES). In fact, the CARES process is currently not addressing either long-term care or mental health inpatient needs. The "market plans" currently being developed by each VISN will not be including institutionalized care involving long-term care or mental health. The American Legion cannot accept this recommendation.

MEDICAL AND PROSTHETIC RESEARCH

The American Legion recommends $445 million for medical and prosthetic research in fiscal year 2004.

Two of the biggest challenges facing VA's Medical and Prosthetic Research Program are facility infrastructure and recruitment and retention. Like the rest of VHA's buildings, research facilities are in desperate need of repair. They have been neglected over the years due to budgetary constraints. Currently, R&D have nearly 30 facilities in varying states of disrepair. The condition of these facilities impacts the recruitment and retention of qualified researchers. The ability to maintain a state-of-the-art facility is vital to retaining talented and motivated researchers.

The accomplishments of the VA research program cannot be overstated. The program has been recognized both nationally and internationally for its efforts toward the betterment of veterans' lives and advances in their health care. Without proper funding the program cannot possibly maintain its current level of success. The American Legion believes VA's budget request for $408 million is inadequate.

MEDICAL CONSTRUCTION AND INFRASTRUCTURE SUPPORT

MAJOR & MINOR CONSTRUCTION

The American Legion recommends $320 million for major construction and $240 million for minor construction to make a combined total of $560 million.

Year after year, needed major and minor construction projects are not funded, because the money is just not there. A 1998 study conducted by Price-Waterhouse recommended that VA fund 2 percent to 4 percent of Plant Replacement Value (PRV) per year and to reinvest in new facilities to replace aging facilities. The conclusion of this analysis was that VA's reinvestment rate of .84 percent was significantly lower than the benchmark of 2 percent. That equates to hundreds of millions of dollars that conceivably could be used for major construction projects. Private consultants have been warning for years that dozens of VA patient buildings were at the highest level of risk for earthquake damage or collapse, yet funding continues to be woefully short of what is actually needed to correct this problem. The President's budget request of $422 million falls well short of funds needed to ensure the safety of the nation's veterans.

GRANTS FOR THE CONSTRUCTION OF STATE EXTENDED CARE FACILITIES

The American Legion recommends funding of $115 million for this program.

The State Veterans Home Program is an important adjunct to VA's own nursing, hospital and domiciliary programs. The American Legion believes it must continue, and even expand, its role as an extremely vital asset to VA. This program has proven to be a cost-effective provider of quality care to many of the nation's veterans.

The American Legion recognizes the growing long-term health care needs of older veterans and would like to reemphasize the essential service that the State Veterans' Home Program provides to these veterans. The program is a viable and important alternative health care provider to the VA system.

NATIONAL CEMETERY ADMINISTRATION (NCA)

The American Legion recommends $150 million for the National Cemetery Administration in fiscal year 2004.

The National Cemetery Administration (NCA) honors veterans with a final resting-place and lasting memorials that commemorate their service to the nation. More than two million Americans, including veterans of every war and conflict—from the Revolutionary War to the Gulf War—are honored by burial in VA's national cemeteries. Nearly 14,000 acres of land are devoted to this formidable mission.

The Veterans' Millennium Health Care and Benefits Act (Public Law 106–117) required NCA to establish six new National Cemeteries. Fort Sill opened in 2001 under the fast-track program, while the remaining five, Atlanta, Detroit, South Florida, Pittsburgh, and Sacramento are in various stages of completion.

Maintaining cemeteries as national shrines is one of NCA's top priorities. This commitment involves renovating gravesites by raising, realigning and cleaning headstones and markers. The work that has been done so far has been outstanding however, adequate funding is key to maintaining this very important commitment.

STATE CEMETERY GRANTS PROGRAM

The American Legion recommends $37 million for the State Cemetery Grants Program in fiscal year 2004.

The State Veterans Cemetery Grant Program continues to be a very popular and much needed program administered by VA. This program was designed to assist states in providing gravesites for veterans where NCA is unable to do so. This program is not intended to replace National Cemeteries, but to complement them. Grants for state-owned and operated cemeteries can be used to establish, expand and improve on existing cemeteries.

The State Cemeteries accommodated over 15,000 burials in fiscal year 2001. In light of the aging veteran population and with deaths expected to peak at 687,000 in 2006, it is necessary that this program remain viable. Now is the time to ensure that funding is commensurate with the mission of the program.

VETERANS BENEFITS ADMINISTRATION

The American Legion is gravely concerned by the proposed straight line staffing request for the Veterans Benefits Administration's (VBA) Compensation and Pension Service and for the Board of Veterans Appeals. There are long-term workload demands associated with the current backlog of pending claims that will extend well into fiscal year 2004. VBA acknowledges there will also be a continued influx of new and reopened claims, based on the enactment of expanded benefit entitlements by the 107th Congress, including the Combat Related Special Compensation Pay Program, an expectation of additional presumptive diseases, and recent precedent decisions of the courts.

Despite assertions of improved quality decision making, the number of appeals being filed continues to increase as does the number of appeals requiring further development either by the regional offices or the Board of Veterans Appeals. The American Legion believes these organizations will require additional personnel, if they are to achieve the ambitious service improvement goals promised the nation's veterans and their families in this budget request.

VETERANS BENEFITS ADMINISTRATION LEGISLATIVE INITIATIVES

VBA's net mandatory funding request reflects the enactment of several legislative proposals. These include:

—A two-percent COLA in compensation benefits. The American Legion supports an annual cost-of-living adjustment in disability compensation and DIC benefits.

—Legislation to overturn the decision of U.S. Court of Appeals for the Federal Circuit in Allen v. Principi, which held that VA must pay compensation for alcohol or drug-abuse disabilities, if they are secondary to a service-connected disability. The American Legion is opposed to any effort to eliminate or restrict a veteran's right to compensation for any disability or disabilities that are determined to be secondary to or a manifestation of the service connected disability. VA is responsible for administering the law not making moral judgment concerning what is or is not misconduct, as it did with the issue of tobacco-related illnesses. Such legislation would be an effort to punish certain disabled veterans for their service-related problems.

—Legislation to pay the full rate of compensation to certain Filipino veterans and their survivors. The American Legion continues to support this change in the law to recognize the military service performed by these veterans during World War II.

—Legislation to extend the operations of the Manila VA Regional Office for an additional five years. The American Legion favors the VA's continued presence in the Philippines, in order to provide timely service to these veterans and their families.

—Amend the law to extend the time limit for education benefits for members of the National Guard. Because the National Guard is now such an integral part of the armed forces, The American Legion believes this will be a much needed change in the law.

—Amendment of the Montgomery GI Bill to provide for on-the-job training for certain self-employment training programs. This will assist veterans in taking advantage of additional training through self-employment training programs.

—Legislation authorizing the extension of the Education Advisory Committee.

—Terminate the Education Loan Program. If this program were, in fact, not being utilized as it was originally intended, The American Legion would not object to its termination.

—Convert the Homeless Veterans Guaranteed Transitional Housing Loan Program to grant program. The American Legion has been a strong supporter of the Homeless Veteran Transitional Housing Program. The American Legion would have no objection to making it into a grant rather than a loan guaranty program.

—Elimination of the 45-day rule for Death Pension. The American Legion has sought the elimination of this restriction, since enactment of OBRA 90.

—Authorize entitlement to government grave marker or headstone for a veteran's marked or unmarked grave, effective from November 1, 1990. This will enable the families of thousands of deceased veterans to obtain a government marker or headstone to reflect their honorable service to the nation.

—Authorize the payment of the burial plot allowance to state veterans' cemeteries. The American Legion has long favored this additional support for the State Veterans Cemetery Program.

Under the new budget format, the request for VBA provides for a total of $33.7 billion in mandatory funding for compensation, pension, education, vocational rehabilitation, and other benefit entitlements. Within this total, $26.3 billion will be required for the compensation program, $3.3 billion for the pension program, $1.9 billion for education, and $2.4 billion for the other veterans benefit programs. This represents an overall increase of $9.8 billion, over fiscal year 2003. Compensation benefits will increase by $1.8 billion reflecting the proposed two-percent COLA, additional benefit payments as a result of Allen v. Principi, an increase in diabetes cases, and increases in the net caseload and benefit payments.

Discretionary funding for VBA's nine business lines totals $1.2 billion. While it provides for an additional 17 FTE for the Education Program, which is much needed, The American Legion is deeply disturbed by the lack of any increase in staffing for compensation programs. We believe this will constrain VBA's ability to address the many challenges emerging in fiscal year 2003, which will have profound budgetary and operational implications for the fiscal year 2004 budget.

Given the varied issues that VBA is faced with, it is imperative that Congress critically evaluate the level of discretionary funding requested and whether this will enable the regional offices to operate efficiently and provide timely, quality service that this nation's veterans expect and deserve. Individuals currently on active duty must also be assured that VA will not only be ready and willing to assist them, but have physical capacity to provide them the timely, quality service they expect and deserve, without compromising current operations or benefits programs.

Over the course of fiscal year 2002 and fiscal year 2003, VBA has been able to make substantial progress toward realizing Secretary Principi's goal of a pending case backlog of 250,000 cases with an average processing time of 100 days by the end of September 2003. In March 2002, the regional office backlog peaked with over 423,000 pending cases requiring rating action. 40 percent of these cases were over six months old. There were also 147,000 case requiring some other type of action. Only 12 percent were six months or older. In addition, there were approximately 107,000 cases in appellate status. Of these, over 20 percent were cases that had been remanded by the Board of Veterans Appeals for further required development and readjudication. In human terms, there were over 670,000 claimants waiting and waiting for action on their case. Those with remanded appeals would have been waiting two to three years or longer.

According to VA data, by January 2003, the number of cases awaiting rating action had been reduced to 330,300 with only 32 percent older than six months and the number of cases requiring some other type of action was down to 81,500 but over 28 percent were older than six months. However, the number of cases in appellate status had grown to over 122,000. These statistics give a false impression of improvement. The drop in the claims backlog has been achieved largely at the expense of those whose claims were on appeal at the regional offices. VBA's efforts and resources were focused almost exclusively on pending claims, while appeals, including remands, were virtually ignored, since there was no work credit toward the station's production goals. In response to The American Legion's criticism concerning the lack of action on appeals and the hardship imposed on disabled veterans, regional offices have, within the last several months, begun to address their appellate workload and pending remands, in particular.

The backlog of claims and appeals are, in our view, a symptom of unresolved systemic problems that have for years adversely affected the claims adjudication and appeals process. These problems include frequent decision-making errors, lack of compliance with the VCAA's notice and development requirements, the absence of personal accountability, ineffective quality control and quality assurance, and inadequate training. The current work measurement system does not provide reliable, accurate data upon which to assess VBA's real resource needs. VBA is faced with a serious dilemma. While endeavoring to address these thorny quality-related issues, the regional offices are, at the same time, aggressively trying to process claims faster. From the results, it appears they still have not found a way to successfully balance these competing priorities. The American Legion remains concerned by the effects of VBA's emphasis on production rather than quality decision making, i.e., ensuring full and complete development with a decision that is fair and proper—the first time. This results in cases continuing to churn through the system, for the sake of an artificial goal.

The straight line staffing level requested for fiscal year 2004 is based on the assumption that, with the realization of the Secretary's backlog reduction goal, VBA would be able to more effectively address the many quality-related problems as well other long-outstanding issues. Given past performance, The American Legion believes this is an unrealistic strategy and will not afford VBA the flexibility to cope with current workload demands, let alone some unanticipated contingency.

The American Legion believes that an increase in staffing in the compensation and pension programs for fiscal year 2004 is both prudent and necessary. This reflects the increasingly complex nature of the claims and appeals process, the volume of additional work anticipated in fiscal year 2003–2004, and the ongoing need to rebuild the core adjudication staff to replace the increasing number of experienced decision makers who are retiring within the next one to two years.

APPEALS

Staffing at the Board of Veterans Appeals in fiscal year 2004 will decrease by 3 FTE from the fiscal year 2003 level to 184 FTE. The proposed reduction in personnel is predicated on the expected lower volume of incoming new appeals and returning remands. However, given the number of appeals currently in the system and regional offices' continuing quality problems, The American Legion is concerned that the Board's new Development Program will require additional support both from the Board and from the C&P Service.

Beginning in February 2002, the BVA was given the authority to further develop appeal cases rather than remanding them to the regional office. 15 FTE were assigned to this unit. By the end of fiscal year 2002, of the 17,231 appeals decided, the Board had remanded 3,328 or 19 percent. This figure is somewhat misleading, since, in addition to the regular remands, the Board has undertaken development of over 9,000 cases that would have previously required a remand back to the regional office for further needed development and readjudication. Staffing for this unit is 32 FTE. The goal of the program is to ensure greater attention to full due process and quality decision-making, while providing claimants more timely action on the appeal. However, without a substantial improvement in the quality of regional office decisions, the BVA will have to assume more and more of the regional office's development and adjudication workload, which will require additional staffing resources.

The American Legion is concerned that regional office's focus on speed and production versus quality and propriety is directly contributing to the growth of the appellate backlog, which now tops 123,000 appeals. Each of these cases represents a veteran or a veteran's family who, after many months of waiting, is very dissatisfied with the decision they received on their claim for disability or death benefits. They will wait many more months before their case gets before the Board. In 2002, the average appeals resolution time was 731 days. This is projected to improve to 590 days in fiscal year 2003 and to 520 days in fiscal year 2004.

EDUCATION

The American Legion commends the increased-funding request for educational programs and support staff for the fiscal year 2004 budget. The American Legion deeply appreciates Congress' attempts to provide for a stronger Montgomery GI Bill, (Chapter 30) including an increase in the monthly entitlement rate for active duty members from $900 to $985. However, due to the increased use of Reservists for homeland security and various overseas commitments around the world, there needs to be a significant increase in their monthly entitlement rates that are currently below $300 a month.

The American Legion also acknowledges the proposed increase in benefits to children and spouses of veterans who died of a service-connected disability or whose service-connected total disability is rated permanent, under Chapter 35 of title 38, United States Code. Having a stronger dependent/survivor educational benefit program is necessary to provide the nation with the caliber of individuals needed in today's all volunteer Armed Forces. Without providing incentives, the military of the 21st century will be hard pressed to carry out its mission.

VOCATIONAL REHABILITATION AND EMPLOYMENT

The American Legion is pleased with the funding level requested for the Vocational Rehabilitation and Employment program in fiscal year 2004. The American Legion has always been a strong supporter of the services this program provides eligible service-disabled veterans. The training and education assist disabled veterans in becoming employable and helps them obtain and maintain suitable employment. The American Legion is pleased by the emphasis placed on the new Employment Specialist position as a means of redirecting the program toward the veteran's employment. During this time of economic uncertainty, meaningful employment should never be denied to veterans, especially those with a service-connected disabling condition.

CONCLUSION

Mr. Chairman and Members of the Subcommittee, The American Legion has outlined many issues in this testimony today. We believe all of these issues are important and we are fully committed to working with each of you to ensure that America's veterans receive the entitlements they have earned. Whether it is improved accessibility to health care, timely adjudication of disability claims, improved educational benefits or employment services, each and every aspect of these programs touches veterans from every generation. Together we can ensure that these programs remain productive, viable options for the men and women who have chosen to answer the nation's call to arms.

Thank you for allowing The American Legion the opportunity to submit testimony.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS INTERNATIONAL

NATIONAL SCIENCE FOUNDATION

The National Science Foundation (NSF) Task Force of the Council on Education of the American Society of Mechanical Engineers (ASME International) is pleased to provide comments on the NSF fiscal year 2004 budget request. This portion of the statement represents the views of the NSF Task Force, an interdisciplinary committee of the Council on Education and is not necessarily a position of ASME International as a whole.

ASME International is a worldwide engineering society focused on technical, educational and research issues. It conducts one of the world's largest technical publishing operations, holds some 30 technical conferences and 200 professional development courses each year, and sets many industry and manufacturing standards.

OVERVIEW

The National Science Foundation plays a critical leadership role in directing the nation's non-defense related scientific and engineering research. Through thoughtful and visionary planning, NSF has greatly contributed to the technological superiority that the United States enjoys today. ASME shares NSF's broad-based, cross-cutting vision for basic engineering and scientific research. As such, ASME strongly endorses the Foundation and its efforts to continually improve and expand the "innovative ideas, outstanding people, and cutting-edge tools" that comprise the nation's technological and scientific infrastructure.

The Budget Request for fiscal year 2004 represents a 9.0 percent increase over the fiscal year 2003 Budget Request, but only 3.2 percent over the recent fiscal year 2003 Appropriation. Within this request, funding for the Engineering Directorate would increase to $537 million. NSF continues to include funding for major initiatives or Priority Areas in its budget request. The five standing major initiatives will increase. Information Technology Research will increase to $303 million. Nanoscale Science and Engineering will be raised to $249 million. Increases for Biocomplexity in the Environment to $100 million, Mathematical Sciences to $89 million and for Human and Social Dynamics to $24 million have also been requested. In addition, NSF has identified a new thrust area for fiscal year 2004 called Workforce for the 21st Century for which $9 million in funds have been requested. Though not specifically identified as such, the Math and Science Partnerships (MSP) is essentially a seventh initiative area. This program began in fiscal year 2002 as part of President Bush's No Child Left Behind paradigm for K–12 math and science education.

TABLE 1

[Dollars in millions]

	NSF Agency Wide			Engineering (ENG)		
	Fiscal Year 2003 Request	Fiscal Year 2004 Request	Percent Change	Fiscal Year 2003 Request	Fiscal Year 2004 Request	Percent Change
Total Budget	$5,028.22	$5,481.20	9.0	$487.98	$536.57	10.0
Salaries and Expenses	202.95	225.70	11.2	(1)	(1)	(1)
Inspector General	7.70	8.77	13.9	(1)	(1)	(1)
Administration/Management	.....	.....	.....	6.47	6.90	6.6
Total Program Budget	4,818.02	5,246.73	8.9	481.51	529.67	10.0

TABLE 1—Continued

[Dollars in millions]

	NSF Agency Wide			Engineering (ENG)		
	Fiscal Year 2003 Request	Fiscal Year 2004 Request	Percent Change	Fiscal Year 2003 Request	Fiscal Year 2004 Request	Percent Change
Info. Technology Research	285.83	302.61	5.9	11.17	11.17	0.0
Nanoscale Science & Eng.	221.25	248.99	12.5	94.35	106.85	13.2
Biocomplexity in the Envir.	79.20	99.83	26.0	6.00	6.00	0.0
Mathematical Sciences	60.09	89.09	48.3	0.91	2.91	219.8
Human & Social Dynamics	10.00	24.25	142.5	.....	2.00	(1)
Workforce 21st Century	(1)	8.50	(1)	(1)	.....	(1)
SBIR	.....	.....	.....	83.65	101.15	20.9
Remaining Funds	4,161.65	4,473.46	7.5	285.43	299.59	5.0

NSF Budget overview with and without the initiative areas. Comparisons include both agency-wide and the Engineering Directorate.

[1] Not applicable.

Comparing the fiscal year 2004 Budget Request with fiscal year 2003 is somewhat problematic given the late passage of fiscal year 2003 appropriations covering NSF. For example, the overall 9 percent increase over the fiscal year 2003 Budget Request appears positive and consistent with Congress's goal of doubling NSF's budget in five years beginning with fiscal year 2004. However, the current request is only 3.2 percent more that the recently passed fiscal year 2003 appropriation. For this analysis, comparisons will be made between the fiscal year 2003 and fiscal year 2004 Budget Requests. It is important to note, however, that questions of balance (i.e. balance across the nation's science and technology research and development portfolio, balance between initiative driven research and core programs within NSF, and finally, balance between NSF's traditional basic research mission and its new math and science education mission) are much more critical when one considers a 3.2 percent increase versus a 9 percent increase.

THE TASK FORCE POSITION

The NSF Task Force of ASME's Council on Education continues its strong endorsement of NSF's leadership role in guiding the nation's basic research and development activities. Throughout its existence, NSF has built an outstanding record of supporting a broad spectrum of research of the highest quality, from "curiosity-driven" science to focused initiatives. This record has been made possible only through strict adherence to the independent peer review process. ASME recognizes the importance and timeliness of NSF's initiative areas that address major national needs for the 21st century. However, as will be discussed in the next section, it is not clear that an optimum balance has been achieved.

There are a number of particularly positive items in the fiscal year 2004 Budget Request, beginning with the planned increase in the size of graduate fellowship stipends. Ensuring a continuous stream of well-educated, highly qualified research scientists into leadership positions is critical to the survival and growth of the nation. In this respect, ASME strongly endorses NSF's planned increase in stipends for graduate fellows from $25,000 to $30,000. Making fellowship stipends attractive to the nation's best and brightest students is certainly a positive step. This serves to enhance the nation's pool of science and engineering educators and leaders.

The increase in numbers of graduate fellowships is also especially positive. In comparison to the fiscal year 2003 Budget Request, it appears that, in addition to the 20 percent increase in stipends, there will be a concomitant ~10 percent increase in the number of Fellows supported in fiscal year 2004. NSF is the only federal agency directly chartered to educate graduate students for research and development careers. It is therefore imperative that this be a major priority area in perpetuity. It is interesting to note however that $89.4 million is requested for the Graduate Research Fellowship (GRF) program to support 2,200 students in fiscal year 2004 while $42.5 million for the GK–12 Fellowship program will support less than 900 students. It is not clear that the GK12 program has sufficient "value added" to justify its higher cost per student. Nor is it clear that the correct balance between types of graduate fellowships has been struck. It is critically important that education-based programs do not jeopardize the nation's world leadership in basic research.

In general, the Task Force also supports and applauds activities within ENG. NSF's vision of a committed balance between people, ideas and tools is exemplified

within ENG. It is important to recognize that fundamental sciences and engineering funded by NSF quite frequently spawns next generation technologies. Examples of successes emerging from ENG include development of an artificial retina and a biocapsule for insulin delivery. ENG is also funding work on "pico-newtons", microscopic chains for magnetized particles that may be precursors of materials that will protect buildings from earthquakes.

ASME has strongly supported the nanotechnology initiative since its inception as an NSF emphasis area in fiscal year 2000. In the past three years, funding for this initiative has grown substantially. With a growing record of research and development successes, the transitioning of nano-science and engineering into commercially viable technologies is becoming a pressing challenge for nano-science and engineering. For this reason, it is important that multi-institutional tools be developed in the near term in which access, maintenance and staffing issues have been resolved.

Finally, ASME continues to endorse NSF's participation in K–12 math, science and engineering education initiatives consistent with the agency's broader mandate to lead the nation's research and development enterprise. Most notably, NSF has again included $200 million in its fiscal year 2004 budget request for the Math and Sciences Partnership (MSP) program. The goal of MSP is coupling K–12 and higher education STEM education into a single integrated effort by encouraging universities to adopt STEM into their core missions.

In this technological age, providing the highest quality math, science and technology education to all children should be a national imperative. The Task Force applauds President Bush's No Child Left Behind policy and NSF's role. However, the Task Force cautions that a proper balance' must be struck to preserve the integrity of NSF's fundamental research and development mission.

QUESTIONS AND CONCERNS

Continuing with central themes raised in previous years, the Task Force's key questions and concerns arising from the fiscal year 2004 budget request center on matters of balance. In particular, ASME is concerned with:

—the gross funding imbalance in the federal R&D portfolio,

—inadequate funding levels for existing grants,

—insufficient support for core engineering programs at NSF.

The overall imbalance in the federal R&D portfolio remains a major concern to ASME. The requested funding for NIH this year is almost half of the total non-defense R&D request. Focusing purely on health issues while the nation faces threats from dwindling energy supplies, aging infrastructure and geopolitical instability, to name but a few, is entirely inconsistent with a balanced leadership plan. Even the health science community is concerned that insufficient technology development in related fields may be the greatest impediment to major medical breakthroughs. Failure to adequately support broad, cross-cutting fundamental research inherent to most NSF programs continues to undermine the long-term health and vitality of the nation. As noted earlier, this is particularly nettlesome when considering that the fiscal year 2004 NSF Budget Request actually represents only a 3.2 percent increase over fiscal year 2003 appropriations.

NSF has had considerable success to date in stretching its funds to bridge (i.e. mask) imbalances in the federal R&D portfolio. Indeed, NSF richly deserves the governmental acclaim it has received for its efficiency and impact in managing basic research and development. However, this efficiency is coming at the expense of quality research. The projected median research award size for fiscal year 2004 is estimated to be $90,890 per year for three years. This is in general sufficient to support one graduate student and a senior investigator with only a limited amount remaining to actually conduct the research. An extended period of constant grant sizes has eroded buying power and the ability to adequately support professional development. Further, forming small teams (2–3 senior investigators) to pursue and define major initiative areas, often in interdisciplinary areas, is equally difficult. Thus to truly advance the frontiers of science and technology, significant increases must be made not only to the number of grants, but to the size of each grant as well. By way of reference, NIH's projections for the average size of new competitive research project grants (RPGs) in fiscal year 2004 are $358,300 per year with an average project duration of 3.8 years.

Maintaining a fundamental knowledge base is essential for intelligent and effective response to rapidly evolving technological challenges facing the nation. Current world events, including the heightened awareness of homeland security needs, highlight the impossibility of predicting what scientific and engineering disciplines will be needed in response to future technology challenges. Meeting those needs will

often come from applying state-of-the-art fundamental science and engineering knowledge in new and innovative ways.

However, the record on funding core programs over the past few years has not been strong. Over the past five years, increases in funding for initiative areas have outstripped growth in core programs. That this trend will continue into fiscal year 2004 can be seen in Table I, where requested NSF funding across the entire agency and within ENG are compared with and without funding for the initiative areas. One can clearly see that funding for initiative areas (including the SBIR program) within ENG constitute a full 44 percent of the budget request for ENG. The increase for initiatives exceeds 17 percent. By comparison, Table I shows that funding for the rest of ENG, which will be considered as core programs, will only increase by 5 percent.

A specific example of the unbalanced emphasis on initiative driven activity is the Chemical and Transport Systems (CTS) Subactivity in ENG. The total request for CTS in fiscal year 2004 is $66.2 million representing a $7.26 million or 12.3 percent increase relative to the fiscal year 2003 Budget Request. If one subtracts increases for the initiative programs, totaling $4.88 million, and $4.0 million transferred into ENG "for a new Science and Technology Center (STC) on New Materials for Water Purification", there will be a net decrease of $1.62 million in funds available for core CTS research programs. This is particularly noteworthy because funding for initiatives and the STC will total $36.1 million in fiscal year 2004, over 54 percent of the CTS request.

This discussion, of course, is exacerbated in light of the recent fiscal year 2003 appropriations bill effectively reducing the total requested increase for fiscal year 2004 to 3.2 percent. Continued focus on initiatives at the cost of maintaining a balanced science and technology knowledge base may have unforeseen negative impacts in the future. The issues of balance raised in this statement need to be seriously considered.

SUMMARY

The Task Force continues its enthusiastic support for the National Science Foundation and its leadership in articulating the nation's basic research and development vision. In fiscal year 2004, NSF has requested funding to expand major, cross cutting initiatives addressing pivotal technological issues facing the nation. This includes the nanotechnology initiative strongly endorsed by ASME. Expansion of the graduate fellows programs coupled with increases in stipend levels reinforces NSF's commitment to graduate education (i.e. developing people). The focus on developing people and ideas in general is certainly reflected throughout the ENG directorate's budget request as well. The challenge for this year appears to be maintaining a healthy balance between maintaining world R&D leadership and incorporating K–12 math, science and engineering education and between supporting core programs and expanding key initiatives.

There is great concern over the growing imbalance between life sciences funding and the rest of the nations research and development portfolio. Crises, such as those occurring in the gasoline and power production industries, reflect long term failure to value and support core research focused at advancing the nation's technological infrastructure. In addition, recent events strongly underscore the fact that it is impossible to know what part of the science and technology base will be needed on short notice to respond to rapidly developing opportunities or crises. The current budget plan does not appear to permit NSF to meet key fiscal year 2004 Performance Goals (i.e. Goals III–1 and III–2). Increasing the number and size of its awards with enable NSF to better position itself to fulfill its leadership responsibility in directing the nation's research and development activities.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

The ASME Aerospace Division would like to thank you for this opportunity to comment on the National Aeronautics and Space Administration's fiscal year 2004 budget request. Our statement will specifically address the nation's critical aeronautics research and development programs. This portion of the statement represents the views of the ASME Aerospace Division and is not necessarily a position of ASME International as a whole.

For the past four years, ASME has been working with an Aviation Research and Development Coalition, comprised of 15 leading aerospace, aeronautics and aviation organizations, calling for a renewed national commitment to sustain U.S. leadership in aviation and aeronautics research and technology. Our organizations are extremely concerned that the United States is in grave danger of losing its position

as the world leader in aeronautics and aviation. Our Coalition statement is attached.

Since fiscal year 1998, NASA's aeronautics research budget has been cut in half. Last year, NASA introduced their "Aeronautics Blueprint—Toward a Bold Era of Aviation"—presenting an exciting vision of what could be achieved with additional investments in aeronautics research and development. Yet, even while NASA outlined technologies that the U.S. could invest in that would significantly lower noise, as well as emissions and fuel consumption, and reinvigorate basic and applied research in aeronautics and aviation, their budget was again cut—this time by $58 million in fiscal year 2003. While, NASA's fiscal year 2004 budget reflects a 1 percent increase in aeronautics funding compared to fiscal year 2003, additional funding for aeronautics research over the next five years is projected to be reduced by 4 percent.

According to a recently released report, "The National Economic Impact of Civil Aviation," the total economic impact of civil aviation exceeded more than $900 billion and 11 million jobs to the U.S. economy in the year 2000, roughly 9 percent of the total U.S. gross domestic product. The U.S. aerospace and the air transportation industry has a major economic and employment impact in all 50 states and is a major force of civil, military and space manufacturing and air operations in nearly half of the nation's states.

Decreased federal investment in aviation and aeronautics R&D is destined to weaken the economic competitiveness of the U.S. aviation industry. For the first time ever, Airbus won 50 percent of new aircraft orders during 2002. Our international competitors are well on their way to overtaking us in global air transportation markets. If the U.S. aviation industry is to continue to be a positive contributor to U.S. balance of trade, then we must have the ability to develop the next generation of aircraft that will enable it to compete internationally.

Over the past several years, de-emphasis of long-term aeronautical research at NASA has impaired U.S. universities' ability to maintain vibrant aeronautical engineering programs. The nation is experiencing a diminishing pipeline of qualified aeronautical engineering students at both the undergraduate and graduate levels. Engineers and scientists do not consider aerospace a growth industry.

Allow me to quote from the Aerospace Commission's report:

—"There is a major workforce crisis in the aerospace industry. Our nation has lost more than 600,000 scientific and technical aerospace jobs in the past 13 years."

—"The aerospace workforce is 'aging' and that 26–27 percent of aerospace workers are eligible to retire by 2008. The average of age of production workers is 44 in the commercial sector, 53 in defense and 51 at NASA."

—"In addition, the proportion of workers age 30 or younger dropped by almost two-thirds, from 18 percent in 1987 to 6.4 percent in 1999."

—"U.S. graduates at the bachelor and master degree levels in aerospace engineering and related disciplines have dropped by 47 percent and 39 percent, respectively, since 1990."

This is great cause for alarm. For the past 75 years American universities have provided creative, skilled engineers for national defense and aeronautical commerce. Our educational base has been declining and will continue to erode if we do not nurture and support basic aeronautics research in the United States. Two decades ago, we began to see manufacturing jobs move overseas. Today, we are witnessing white-collar jobs, including engineering, moving offshore as well. Investment in research and development is vitally needed to keep the U.S. on the cutting edge of high value, new technologies, including the development of advanced global air transportation systems. Without this investment, the U.S. will lose its technological edge and will continue to see engineering jobs move offshore.

The United States has been at the forefront of discovery and innovation throughout the history of aeronautics and aviation. Honorable Robert S. Walker, the Aerospace Commission Chair and transition team senior advisor on science, space and technology, stated upon releasing the Commission's report, "A strong aerospace industry is essential to enable the United States to defend itself, compete in the marketplace, maintain a highly skilled workforce, and provide all Americans with the ability to travel safely and securely anywhere in the world."

As we approach the centennial of the Wright Brothers' first flight, it is crucial that the United States re-establish preeminence in aviation and aeronautics research. We urge you to support aerospace as a national priority by providing robust and stable funding for NASA's aeronautics and development programs.

PREPARED STATEMENT OF THE AMERICAN HEART ASSOCIATION

Heart attack, stroke and other cardiovascular diseases remain America's leading cause of death, hospitalizations and a main cause of disability. The 950,000 deaths each year from cardiovascular diseases represent nearly 40 percent of all American deaths.

The American Heart Association, with its 22 million volunteers and supporters, works to reduce disability and death from heart attack, stroke and other cardiovascular diseases. We commend this Committee's support of the Department of Veterans Affairs' Medical and Prosthetic Research program.

STILL NUMBER ONE

Heart attack, stroke and other cardiovascular diseases have been America's No. 1 killer since 1919. Nearly 62 million Americans of all ages suffer from cardiovascular diseases. Hundreds of millions of Americans have major risk factors for cardiovascular diseases—an estimated 50 million have high blood pressure, 42 million adults have high blood cholesterol (240 mg/dL), nearly 49 million adults smoke, more than 129 million adults are obese or overweight and nearly 11 million have confirmed diabetes. As the baby boomers age, the number of Americans afflicted by these often lethal and disabling diseases will increase substantially. Cardiovascular diseases cost Americans more than any other disease—an estimated $352 billion in medical expenses and lost productivity in 2003.

Heart disease and stroke occur at all ages, but they are most common in Americans over age 65—a group that is nearly 12.4 percent of the U.S. population and will be 16.5 percent by year 2020. By 2020, the percentage of veterans over age 65 will be about three times that of the general population. The VA's planning models recognize that its aging patient population demands more care. As the veteran population ages, the number with heart disease and stroke will increase substantially.

HOW YOU CAN MAKE A DIFFERENCE

We advocate for an fiscal year 2004 appropriation of $460 million for direct costs of the VA Medical and Prosthetic Research program and $45 million for research facility improvements. Our recommendation is consistent with that of the Friends of VA Medical Care and Health Research and the Independent Budget, a detailed analysis of VA funding needs developed by four of the major veterans service organizations and endorsed by more than 60 other groups. An appropriation of $460 million would accommodate biomedical research inflation and federal pay increases as well as a major new initiative in deployment health research and expansion in areas such as terrorism, emerging pathogens, special populations, quality improvement, chronic diseases, including heart disease and stroke, and diseases of the brain, including study of rehabilitation of stroke victims. The President's budget of $408 million for direct costs of this vital program represents a 2.7 percent increase. This is inadequate to sustain the current level of effort or to accommodate new initiatives.

The Association challenges our government to significantly increase funding for heart and stroke research supported by the VA Medical and Prosthetic Research program. We commend the VA for establishing a Rehabilitation Research Outcomes Center (REAP) targeting stroke patients. We urge the VA to not only expand this center, but also to augment the REAP on heart disease. These initiatives would help advance the battle against heart disease, stroke and other cardiovascular diseases. Our government's response to this challenge will help define the health and well being of citizens for decades to come. In addition, we recommend $45 million for facilities construction and renovation. The VA has had to defer almost $350 million of major and minor construction repairs on its aging research infrastructure. Delaying these renovations impairs the quality of VA medical research and threatens the VA's ability to recruit and retain first-class investigators.

INSUFFICIENT VA RESOURCES DEVOTED TO HEART AND STROKE RESEARCH

The VA Medical and Prosthetic Research program plays an important role in heart and stroke research and deserves the strong support of Congress. In fiscal year 2002, VA support for heart research was $23.8 million (still below the high of fiscal year 2000), accounting for only 4 percent of the fiscal year 2002 VA's Medical and Prosthetic Research budget. In fiscal year 2002, VA-supported stroke research represented $7.7 million or 2.1 percent of the research budget. We are concerned that insufficient money is being devoted to America's No. 1 killer—heart disease—and our No. 3 killer—stroke. Both are major causes of permanent disability.

VA HEART AND STROKE RESEARCH BENEFITS ALL AMERICANS

The VA Medical and Prosthetic Research program is dedicated to "discovering knowledge and creating innovations that advance the health and care of veterans and the nation." While the primary purpose of the VA health care system is the provision of quality health care to eligible veterans, VA-supported research contributes to the quality of care by bringing talented and dedicated physicians into the VA system. In a recent survey, 62 percent of researchers indicated that they would not work in the VA without research opportunities. VA-supported research discoveries benefit veterans, science and the world's health.

VA cardiovascular research is an integral part of the effort. VA cardiovascular researchers include nationally recognized, distinguished scientists and several Nobel Laureates. The VA supported Ferid Murad, M.D., 1998 Nobel Prize winner for research demonstrating the role of nitric oxide in regulating blood pressure. American Heart Association volunteer Gerald DiBona, M.D., was awarded the prestigious VA Middleton Award in 1995 for internationally recognized research on kidney and cardiovascular diseases.

The Medical Research Service component of the VA Medical and Prosthetic Research program supports basic and clinical research, mainly investigator-initiated peer reviewed studies. It provides funds for support of VA-based faculty members (M.D.s or Ph.D.s) at various stages in their careers and research equipment. VA investigators provide core faculty support at major medical schools affiliated with VA institutions. This small but internationally recognized, highly competitive research program in fiscal year 2002 supported 3,167 investigators at 115 VA-supported facilities.

VA heart and stroke research is largely clinical. Hence, the VA is a major contributor to clinical research, playing a unique role because of its ability to immediately translate research findings into practice. VA research has produced landmark results and revolutionized treatment in heart disease and stroke. You and your family have benefited from VA heart and stroke research. Cutting-edge examples follow.

—*Heart Attack Diagnosis.*—VA Researchers developed a simple, inexpensive blood test that can rule out heart attack within 90 minutes with 100 percent accuracy, reducing critical care admissions 40 percent and general hospital admissions 20 percent.

—*Aspirin and Angina.*—An estimated 6.6 million Americans suffer from angina (chest pain) due to insufficient blood supply to the heart. In another landmark study, VA research found that aspirin cuts deaths and heart attacks by 50 percent in patients suffering from unstable angina.

—*Angioplasty Benefits.*—In 2000, more than 1 million angioplasty procedures were performed in our nation to restore blood flow to the heart by widening narrowed arteries. VA research was the first to evaluate angioplasty. Results showed that after undergoing angioplasty, patients suffered less pain and can exercise longer than those taking only medication. Another study found clot-busting drugs had similar results to angioplasty for heart attack survivors at savings of $3,000 per patient. Annually, over 150,000 people are candidates for clot-busting drugs, according to the VA.

Heart Failure

—*Heart Failure Drugs.*—A VA study, which has revolutionized heart failure treatment, showed that heart medications can enhance the heart's pumping ability and keep patients suffering from heart failure alive and living more productive lives.

—*Heart Failure Diagnosis.*—VA researchers developed a first-ever blood test that emergency department doctors use to diagnose heart failure in 15 minutes. More than 1,200 hospitals nationwide use this test, which offers an option to exams, x-rays, stress tests and echocardiography to diagnose heart failure. Conventional tests often require a hospital stay.

—*High Blood Pressure.*—An estimated 50 million Americans have high blood pressure, the most critical stroke risk factor and a major cause of heart attack and heart failure. VA research has confirmed private sector statistics demonstrating that physicians increase the dose of antihypertensive medicines in only 25 percent of patients. These patients, many who had their blood pressure monitored, were poorly controlled. An inexpensive computerized reminder system helps doctors manage patients and cuts cost by reducing use of calcium channel blockers. As a result of the VA-developed comprehensive model of psychosocial and cultural factors on poor blood pressure control, health care providers now incorporate the patients' social and medical environments into the treatment regimen. More aggressive blood pressure management will reduce heart attacks

and strokes. Challenging long-held beliefs, VA researchers showed that malfunctioning kidneys are an important cause of high blood pressure, rather than the result of high blood pressure.

—*Cholesterol.*—An estimated 11 million veterans are at increased risk of heart disease due to high cholesterol levels, according to the VA. A groundbreaking VA-supported clinical trial found that daily use of the drug gemfibrozil raises HDL cholesterol, the "good" cholesterol, by 6 percent, reduces coronary heart disease risk by 22 percent and stroke risk by 31 percent. Results could mean cost savings because gemfibrozil is cheaper than statin drugs. This is the first study to show significant reduction in risk of major cardiovascular diseases by raising HDL, the "good" cholesterol, lowering triglycerides and not changing LDL, the "bad" cholesterol. VA research showed the effectiveness of cholesterol screening to determine levels of HDL and LDL—even in patients older than age 65. Another study found that soy protein added to a low-fat diet lowers cholesterol in those with moderately high cholesterol levels.

—*Irregular Heartbeat Treatment.*—An estimated 2 million Americans suffer from atrial fibrillation, the most common irregular heartbeat, which causes more than 75,000 strokes a year. VA researchers corrected atrial fibrillation using the "Maze Procedure," with a hand-held radiofrequency probe to "draw" ablation lines on the inside of the atria while the heart is exposed. Previously, the "Maze Procedure" was performed by cutting the atrium into multiple sections and then stitching it back together—a lengthy and high risk procedure. Another study of atrial fibrillation showed that digoxin was not effective in controlling heart rate when used alone. However, when digoxin was combined with a beta-blocker, patients achieved almost perfect heart rate control. These results will enhance treatment for atrial fibrillation and reduce stroke risk.

Stroke

—*Stroke Survivor Improvements.*—Stroke is a major cause of permanent disability and America's No. 3 killer. VA studies have produced therapies to enhance quality of life for survivors. Researchers have created a software program to assess and treat the stroke-related speech disorder aphasia. They have also shown that strenuous exercise can benefit stroke survivors who are paralyzed on one side of their body, and have developed a rehabilitation procedure to restore arm movement. Researchers have also identified seven pathways associated with motor recovery from stroke, allowing more precise predictions about functional recovery. In another study, VA researchers implanted electrodes in leg muscles of stroke patients and used sophisticated software to electronically stimulate muscles. VA researchers were the first to demonstrate that robot-assisted therapy is more effective than conventional treatment in restoring upper limb movement.

—*Psychoeducational Program for Stroke Family Caregivers.*—Most stroke survivors are helped in the recovery process by a family caregiver, usually the spouse. A pilot study testing a program to reduce physical and psychological demands on family caregivers found this intervention reduced depression and caregiver burden and better prepared them for their role. Initial results found that a telephone intervention may be as helpful as the in-home program. Execution of this program could have vital results for family caregivers of many of our 4.7 million stroke survivors.

HEART AND STROKE RESEARCH CHALLENGES AND OPPORTUNITIES FOR VA

Research advances have been made possible by congressional support of the VA Medical and Prosthetic Research program. Thanks to research, more Americans survive their heart attack or stroke. But, while more Americans are surviving, heart attack is still the single largest killer in the United States and stroke remains the No. 3 killer. The disability caused by heart attacks and strokes requires costly medical care and loss of productivity and quality of life. Clearly more work is needed if we are to win the fight against heart disease and stroke. These challenges create abundant research opportunities to advance the battle against heart disease and stroke. Examples of on going VA research are highlighted below.

—*Heart Failure.*—Nearly 5 million Americans suffer from heart failure, a major cause of hospitalization of Americans age 65 and older. A VA study is comparing the effects of three anti-clotting therapies (aspirin, warfarin or clopidogrel) in heart failure patients. Another study is creating a large DNA bank of sufferers to examine the genetic basis of heart failure. A third study, the first large scale, international, randomized clinical trial, is evaluating the effects of digitalis, a 200-year old treatment, in preventing heart failure deaths.

—*Inflamed Arteries.*—Many heart attacks and strokes are the end result of atherosclerosis or hardening of the arteries, the disease process that causes obstructed blood vessels. VA-supported research has shown that inflammation may cause atherosclerosis and may also cause previously stable atherosclerotic plaques in arteries to become unstable, which can lead to a heart attack or stroke. Scientists have identified large numbers of receptors in heart blood vessels that attract the blood cells that cause inflammation. If researchers can create a way to block that receptor, progression of atherosclerosis might be prevented.

—*Heart Attack.*—An estimated 1.1 million Americans suffer a heart attack each year. VA research is assessing cost-effective ways to diagnose patients at risk of heart attack without costly invasive procedures, including a computer analysis of the heart's electrical signals during exercise and a new scoring system in treadmill tests. They are examining long-term outcome and risk factors for heart attack sufferers, for those who have heart attack during surgery and for those who have heart bypass surgery. Researchers have identified a molecular marker that may help predict heart attack. They are studying if attacks can be prevented by increasing levels of a protein that stimulates blood vessel growth and helps repair damaged tissue. Findings could save money, improve health and reduce surgery.

—*Angioplasty.*—In the first study of its kind, the VA COURAGE trial is comparing the effectiveness of angioplasty with medical therapy versus aggressive medical therapy alone in patients with heart disease. The results of this study could revolutionize treatment of heart disease. In 2000, more than 1 million angioplasty procedures were performed to restore blood flow to the heart by widening narrowed arteries.

—*Heart Bypass Surgery.*—In 1999, VA doctors performed nearly 6,000 coronary artery bypass surgery procedures. VA researchers are comparing two coronary artery bypass surgical procedures—standard coronary artery bypass surgery using a cardiopulmonary bypass machine, versus surgery while the heart is still beating, without requiring the bypass machine, to assess, among other outcomes, how cognitive function is affected.

—*Stroke.*—Stroke strikes about 700,000 Americans each year, leaving about 1 in 4 survivors permanently disabled. Researchers found restricting use of limbs unaffected by stroke can help patients recover use of affected limbs more quickly and fully. Progress in deciphering language of the brain's motor cortex could lead to new technology that may reconnect damaged areas or communication pathways of the brain and may restore lost function after a stroke. Researchers are studying genetic susceptibility to carotid atherosclerosis, a major cause of stroke. A REAP will use an innovative approach to understanding stroke and its often-debilitating effects, drawing on medical research, exercise physiology and rehabilitation medicine. This REAP will also serve as a unique training vehicle for early-career stroke researchers.

The Medical Research programs highlighted below are of interest to the American Heart Association.

—*Investigator-Initiated Studies.*—During fiscal year 2002 this program constituted an estimated 73 percent of the Medical and Prosthetic Research appropriated budget. These investigators comprise the core of all VA research and provide the preceptorship for career development awardees.

—*Cooperative Studies.*—In fiscal year 2000 this program supported an estimated 38 clinical trials. The VA offers a unique opportunity for cooperative studies due to close linkage among hospitals. These studies provide a mechanism by which research on the effectiveness of diagnostic or therapeutic techniques can achieve statistically significant results by pooling data on patients from a number of VA hospitals. The Cooperative Studies Evaluation Committee evaluates proposals developed by teams of clinicians and biostatisticians. The VA has supported landmark clinical trials in the cardiovascular field (e.g. high blood pressure treatment and coronary artery bypass surgery).

—*Career Development Awards.*—Applications for these awards are reviewed both locally and by the VA Central Office. In response to the Research Realignment Advisory Committee's suggestion to rejuvenate this program, a renewed emphasis began in fiscal year 1997 for the VA's Medical Research Service, Health Services Research and Development Service and, for the first time, Rehabilitation Research and Development Service. This resulted in 188 Career Development Awards in fiscal year 2002.

—*Rehabilitation Research and Development Service.*—Dedicated to improving the quality of life of impaired and disabled veterans through a full range of re-

search, this intramural program has been very important to veterans suffering from heart disease, stroke and other cardiovascular diseases.

ACTION NEEDED

Investment in medical research will lead to future returns. These include continued decreases in death rates from heart attack, stroke and other cardiovascular diseases, reduced federal outlays for hospital and long-term care, a well-trained cadre of medical researchers and a healthier society. Consistent with the Friends of VA Medical Care and Health Research and the Independent Budget, we advocate an fiscal year 2004 appropriation of $460 million for direct costs of the Medical and Prosthetic Research program. This will allow maintenance of fiscal year 2003 initiatives and implementation of new initiatives, including continuation of research momentum in heart disease and stroke and maintenance of VA's vital role in this field. We urge the VA to expand a Rehabilitation Research Outcomes Center, targeting stroke patients, and augment the REAP into heart disease and stroke to advance the fight against heart disease, stroke and other cardiovascular diseases—America's No. 1 killer and a cause of permanent disability. Also, we recommend $45 million for facilities construction and renovation to enhance VA research and help recruitment and retention of quality investigators.

PREPARED STATEMENT OF THE AMERICAN PUBLIC POWER ASSOCIATION

The American Public Power Association (APPA) is the national service organization representing the interests of over 2,000 municipal and state-owned utilities in 49 of the 50 States (all but Hawaii). Collectively, public power utilities deliver electricity to one of every seven electric consumers (about 40 million people), serving some of the nation's largest cities. However, the vast majority of APPA's members serve communities with populations of 10,000 people or less.

We appreciate the opportunity to submit this statement outlining our fiscal year 2004 funding priorities within the VA–HUD Subcommittee's jurisdiction.

ENVIRONMENTAL PROTECTION AGENCY: ENERGY STAR PROGRAMS

According to data compiled the Environmental Protection Agency (EPA), its Energy Star program helped save American businesses and consumers more than $5 billion and substantially reduced greenhouse gas emissions (the equivalent of the emissions released by 10 million cars) in the year 2000.

Energy Star is a voluntary partnership program pairing EPA with businesses and consumers nationwide to enhance investment in underutilized technologies and practices that increase energy efficiency while at the same time reducing emissions of criteria pollutants and greenhouse gases. In particular, APPA member systems across the country have been active participants in a subset of the Energy Star program called "Green Lights." The Green Lights program encourages the use of energy efficient lighting to reduce energy costs, increase productivity, promote customer retention and protect the environment.

APPA appreciates the support of both the Administration and Congress for the programs encompassed by Energy Star and supports their continued robust funding.

ENVIRONMENTAL PROTECTION AGENCY: LANDFILL METHANE OUTREACH PROGRAM

APPA supports EPA's Landfill Methane Outreach Program (LMOP) and encourages the Subcommittee to continue its support as well. The Landfill Methane Outreach Program helps to partner utilities, energy organizations, states, tribes, the landfill gas industry and trade associations to promote the recovery and use of landfill gas as an energy source.

Landfill gas is created when organic waste in a landfill decomposes. This gas consists of about 50 percent methane and about 50 percent carbon dioxide. Landfill gas can be captured, converted, and used as an energy source rather than being released into the atmosphere as a potent greenhouse gas. Converting landfill gas to energy offsets the need for non-renewable resources such as coal and oil, and thereby helps to diversify utilities' fuel portfolios and to reduce emissions of air pollutants from conventional fuel sources.

As units of local and state governments, APPA's member utilities are uniquely poised to embark on landfill-gas to energy projects. EPA's LMOP facilitates this process by providing technical support and access to invaluable partnerships to our members and the communities they serve.

COUNCIL ON ENVIRONMENTAL QUALITY

APPA supports the Administration's request of $3.23 million for fiscal year 2004 for the White House's Council on Environmental Quality (CEQ). Public power utilities have experienced a general lack of consistency in federal government regulation, particularly involving environmental issues. While additional layers of government should be avoided, a central overseer can perform a valuable function in preventing duplicative, unnecessary and inconsistent regulation. CEQ is responsible for ensuring that federal agencies perform their tasks in an efficient and coordinated manner.

Again, we appreciate your consideration of our priorities for the VA–HUD Subcommittee's fiscal year 2004 appropriations.

PREPARED STATEMENT OF THE COALITION FOR EFFECTIVE NATIONAL SERVICE

Mr. Chairman and Members of the Committee, the members of the Coalition for Effective National Service, a membership organization composed of national nonprofit grantees of the Corporation for National and Community Service, thank you for the opportunity to submit testimony. We thank you for your leadership and commitment to national service. It is because of your vision and leadership that more than 300,000 AmeriCorps members in the last decade have dedicated themselves to serving the nation and their communities.

We are now almost two years removed from the tragedy of September 11, 2001. Yet in many ways, that awful time looms over us. According to the noted social scientist Robert Putnam "in the aftermath of September's tragedy, a window of opportunity has opened for a civic renewal that occurs only once or twice a century." In spite of this window and in spite of President Bush's leadership, we have made limited progress in realizing the President's goal of a nation of

". . . citizens, not spectators; citizens, not subjects; responsible citizens, building communities of service and a nation of character."

This is a wonderful, measurable goal that if met, will truly transform America for the better. We believe that by growing AmeriCorps, fully funding the challenge grant program, and eliminating the "cap" on national nonprofits we can create a comprehensive national service movement that generates community volunteers, reinvigorates citizenship and democracy and sparks a new culture of service, citizenship, and responsibility in the United States.

This has been a difficult year for AmeriCorps. The enrollment "pause" and the confusion surrounding the National Service Trust have seriously disrupted programs at the local level. In his fiscal year 2003 budget, President Bush called for an increase in funding to support 25,000 additional AmeriCorps members, but program funds were reduced and are now at their lowest level since 1994.

In his fiscal year 2004 budget, the President again calls on Congress to increase the size of AmeriCorps. We urge you to honor the President's request.

IN ORDER TO GROW AMERICORPS, WE WILL HAVE TO DRAMATICALLY EXPAND THE OPPORTUNITIES FOR AMERICANS TO SERVE

AmeriCorps is a proven program that works. Expanding by 25,000 members a year will be a terrific first step towards providing many more opportunities for Americans to serve, and we should continue to grow the program from there. Every American should be challenged and given the opportunity to serve. Many proven programs, such as Habitat for Humanity, YouthBuild, Jumpstart, Teach for America, the National Association of Service and Conservation Corps, City Year, are ready to go to scale and need only the resources to do so.

Since 1994, more than 300,000 AmeriCorps members have produced significant results-meeting critical needs in education, public safety, health and human services, and the environment in every state across the nation. The following examples are just a few of the contributions made by AmeriCorps members over the past nine years:

—Students tutored by AmeriCorps members improved their reading performance more than the gain expected by the typical child at their grade level;
—Established, expanded, or operated 46,000 safety patrols;
—Served more than 1 million at-risk youth in after-school programs;
—Provided food, clothing, and other necessities to more than 5 million homeless people;
—Provided job or career counseling to more than 550,000 people;
—Immunized more than 1 million people;

—Helped more than 650,000 seniors to live independently; and,
—Recruited, trained, or supervised more than 2.5 million community volunteers to help non-profits meet important community needs.

More specifically, examples of the impact of national nonprofits include:

—Teach For America participants have taught more than 1 million students in low-income communities throughout America since the inception of AmeriCorps;
—City Year has engaged more than 700,000 citizens of all ages in service around the country;
—Jumpstart has prepared more than 10,000 pre-schoolers from low-income families to be ready to read when they start school;
—The National Association of Community Health Centers has supported health care services to more than 350,000 residents of medically underserved areas;
—Habitat for Humanity built more than 11,000 homes;
—Public Allies has placed more than 1,000 future leaders in almost 600 partner organizations, served 300,000 people, and engaged 30,000 community volunteers; and,
—In 2001–2002, AmeriCorps members serving with the Youth Volunteer Corps of America recruited almost 5,200 Youth Volunteers for service-learning projects, an additional 5,000 to implement community service projects, and worked with 518 community partners.
—The National School and Community Corps has engaged more than 125,000 urban students in grades K–12 in programs during school, after school, and in the summer resulting in increased student achievement and attendance, reduced youth violence, and improved school climates.
—In 2001–2002, Northwest Service Academy AmeriCorps members and the volunteers they generated cleared 380 acres of non-native invasive plants, planted almost 175,000 native trees, plants, and shrubs, restored more than 1,700 miles of trail and provided environmental education to 36,000 students and community members.
—Over the past five years CLEARCorps members have protected more than 2,500 children by controlling lead hazards in the homers and have educated more than 75,000 parents and community members on the causes and prevention of childhood lead poisoning.
—Since 1995, approximately 600 bilingual AmeriCorps members serving with the Association of Farmworker Opportunity Programs have trained almost 300,000 members of farmworker families in pesticide safety. Serving in 23 states, and often working with local health clinics and churches, they have provided free environmental health training to growers, some of whom own family farms.
—In 2002 members of the National Association of Service and Conservation Corps enrolled more than 24,000 people, provided 18.3 million hours of service to their communities, and mobilized more than 11,000 community volunteers who contributed an additional 1.8 million hours of service.

All of this great work has been made possible by the federal government, not in running the programs, but in providing the resources and the umbrella organization to get this valuable work done.

There are now more than 800 AmeriCorps programs nationwide, including 42 fully stipended ones operated by national nonprofits that are laying the foundation for a much more comprehensive system for national service. Other national nonprofits operate large Education Award Programs. With expanded resources and an increase in the quantity and quality of service opportunities for Americans, we believe that service can become a common experience for every American and that we can realize President Bush's powerful vision.

Both the Commission on National and Community Service, established by President George H.W. Bush, and the Corporation for National and Community Service, established by President Clinton, took an innovative approach to developing national service in America. Rather than creating one single federal national service program, they recognized that national service is about citizenship; it should come from the bottom up, and the federal government should play the role of catalyst, resource provider, standard setter, promoter, and umbrella. Our programs respond to local needs.

We need to continue to nurture an environment in which investment, growth, and best practices are encouraged. The end result will be high quality, cost-effective programs that meet real needs. This environment can be stimulated by leveraging investment from all sectors and stakeholders and by recognizing the unique contribution of national nonprofit AmeriCorps programs to the entire movement.

FEDERAL INVESTMENT IS A POWERFUL CATALYST FOR DEVELOPING A COMPREHENSIVE SYSTEM OF NATIONAL SERVICE

Federal investment in national service, beginning with the administration of President George H.W. Bush in 1992, has allowed our organizations to grow to their current scale, serving communities all over the country. Federal investment hasn't displaced private investment; rather it has stimulated it, and national nonprofit programs have matched every dollar invested by the federal government through the Corporation for National and Community Service with private sector support, foundation funds, and fee-for-service work.

National service programs across the country leverage significant private sector funds, and have the capacity to do much more. In a 1999 survey, each AmeriCorps program was found to be involved with an average of 2–3 businesses. Programs like Public Allies match their federal monies 2:1, leveraging resources from partner nonprofit organizations that benefit from their services, and raising other contributions from individuals, foundations, and corporations.

National service programs also leverage considerable state and local public sector funds. AmeriCorps has benefited school systems, in particular. School systems inn Atlanta, Philadelphia, Chicago, Oakland, and dozens of other cities have invested in AmeriCorps because its members are skilled, enthusiastic, dedicated, and provide important services as tutors, mentors and after school and summer counselors.

The Coalition for Effective National Service enthusiastically supports President Bush's proposal to fund the challenge grant provision in the National and Community Service Act. A strategic use of federal matching fund challenge grants will leverage federal dollars and unleash private philanthropy to help established programs with proven track records to provide opportunities for young people to serve in many more American communities. We urge you to fully fund this initiative in fiscal year 2004.

NATIONAL NON-PROFITS ARE A STRONG AND EFFICIENT DELIVERY VEHICLE FOR NATIONAL SERVICE

National nonprofits that operate AmeriCorps programs have a unique role to play in the national service universe. Known as National Directs, these programs provide quality control and expertise, engage national companies as sponsors, and achieve economies of scale through centralized "back office" operations. However, in the spirit of experimentation and devolution, Congress placed a "cap" upon National Direct funding in 1997, shrinking it from 33 percent to about 17 percent of total AmeriCorps program funds in fiscal year 2002. Because we are convinced that National Directs are crucial to promoting innovation, quality, replication, and sustainability in the national service field we urge you to eliminate this limitation.

National Direct AmeriCorps programs operate in every state in the country. They share the following characteristics: they participate in a highly demanding national competitive process in order to receive funds from the Corporation for National and Community Service, they oversee operating sites in multiple states, and they are frequently housed within major national and international nonprofit organizations, such the American Red Cross and Habitat for Humanity. Others stand alone.

National Directs have significant advantages that enable them to play a key role in building a comprehensive system and infrastructure for national service in America. They bring significant resources to the national service field including: the ability to build strong infrastructures, deeply committed Board members, developed business practices, skilled professionals, programs tested and implemented on a national scale, and the potential to partner with national companies and foundations on important projects and initiatives. National Direct programs include:

—Teach for America, an independent nonprofit operating in 20 regions nationwide, which places outstanding recent college graduates in under-served urban and rural public schools to teach for two years;

—Habitat for Humanity AmeriCorps, housed within Habitat for Humanity International and operating in eighteen states, which builds and renovates houses with low-income families;

—Youthbuild USA AmeriCorps, of Youthbuild USA, operating in 23 states, which recruits disadvantaged youth to construct low-income area housing and "rebuild their neighborhoods as they rebuild their lives";

—Jumpstart for Young Children, Inc. which pairs federal work-study college students with preschool children struggling in early learning programs in four states;

—Community HealthCorps, operated by the National Association of Community Health Centers in fourteen states, the District of Columbia, and Puerto Rico

which provides culturally appropriate preventive and primary health care to medically underserved populations and communities; and

—National Collaboration for Homeless Veterans, operated by the United States Veterans Initiative, which provides services to homeless veterans to connect them with housing, employment, and treatment services and to help them successfully reintegrate into society.

Quality control.—Like successful franchises, National Direct AmeriCorps programs create replicable service models to adapt to any area. National Direct programs do not start from scratch; they establish new programs on the basis of years of experience building local community relationships and uniting local resources, and they work with local leaders to establish new sites. National Direct operating sites work with their respective State Commissions, lending resources, attending trainings and program director meetings, and ensuring that program funders are recognized in the state's portfolio. In addition, about twenty parent organizations for National Direct operating sites also receive funding through some State Commissions. Often, working with local champions such as CEOs and mayors, national nonprofit programs have begun operations in a new locality with national direct funding and then have been brought into the State portfolio by the State Commission through the competitive stream.

Expertise.—National Direct programs support community-based organizations by delivering federal resources while taking on the bureaucratic reporting and administration that go with it. Public Allies, for example, has placed AmeriCorps members in 550 community-based organizations in seventeen regions across the country to date; 93 percent of those organizations report strengthened capacity such that they will sustain the projects and relationships developed by their members.

National reach.—National Directs have the potential to leverage investment on a large scale. For example, Cisco Systems, Compaq Computer Corporation, MFS Investment Management, and the Timberland Company have each committed more than $1 million to the City Year AmeriCorps program because of its national reach. Sponsorship for national nonprofits is of significant interest to multi-state corporations because it meets their employees' and customers' interests in serving in more than one location. Furthermore, sponsorship in one city by nationally recognized corporations and foundations frequently influences potential sponsors in another city. These are dollars that would not otherwise be leveraged by local service programs. National Directs have a unique capacity to enlarge the share of philanthropic dollars spent on service.

Cost-effectiveness.—Because National Directs centralize standard operations, significant economies of scale and sustainability can be achieved. Centralized financial administration, such as single payroll and budget services, single audits, single legal representation, a shared line of credit, or a shared national endowment can sharply reduce costs per site. Standardized communications protocol leads to effective brand management, targeted research, and central evaluation, allowing reports on aggregate data from across the country. Also, national programs can quickly leverage and build upon local innovation. Best practices can be quickly and efficiently communicated across operating sites, shared corps recruitment and human resources systems leverage multiple applicants, and alumni have an instant cross-country network.

Demonstrable impact.—National Directs are able to aggregate their results on a large scale and unify a range of service activities from multiple programs through a focused mission. Lines of accountability for service outcome are that much easier to control, and results are easier to collect. Below are some examples:

—Teach for America reports that 96 percent of principals rated their members as excellent or good in terms of achievement, orientation, and drive to succeed; 97 percent would absolutely hire their members again;

—In 2001, members serving with the National Collaboration for Homeless Veterans provided more than 10,000 homeless individuals, of which nearly 6,500 were homeless veterans, with services including: intake, case management, group support, legal services, transportation, and housing;

—Over a three-year period, Community Health Center members provided a "medical home" for 27,644 residents of medically underserved areas, provided 47,266 patient encounters to improve health care utilization and cost effectiveness (including understanding benefits, doctor instructions and follow up), and generated 23,631 referrals to link patients with other health and social services.

Whether operated by national nonprofits, community- and faith-based organizations, universities, state and city departments, or foundations, AmeriCorps programs work. It is time to take national service to the next level through challenges to the private sector, increased resources, and restoration of the historical role for National Directs.

As Americans, we now have a historic, and perhaps unique, opportunity to call all Americans to give back to their communities. We look back at the Greatest Generation with admiration and reverence because they overcame the Great Depression and fought a world war for freedom and democracy. Today, while we fight a global war on terrorism there are still great challenges here at home. We must capitalize on this moment in our history to challenge each and every citizen to answer the call to serve our nation and we must build a system of national service that enables them to do so. If we build that system, every generation of Americans will become a Greatest Generation, because they will rise to serve causes larger than themselves. The moment is here, but it is brief. It is up to us, working together, to secure national service for the next generation of young people and all Americans.

The Coalition again thanks you for your leadership, your example, and your commitment to making service to community and country an opportunity for all Americans.

PREPARED STATEMENT OF TEACH FOR AMERICA

Mr. Chairman, Senator Mikulski and Members of the Subcommittee, thank you for the opportunity to submit testimony regarding the President's fiscal year 2004 budget proposal to provide $3 million for Teach For America. Mr. Chairman and Senator Mikulski, I applaud your commitment to national service and desire to help AmeriCorps realize its full potential. Thanks to your leadership and the work of this Subcommittee, Teach For America corps members have reached more than one million students in under-resourced school districts since the inception of AmeriCorps.

I would like to take this opportunity to discuss Teach For America and our current growth plans. I will also focus on the $3 million line item in the President's fiscal year 2004 budget and explain why it is critical to Teach For America's ability to grow to scale.

As you know, Teach For America is the national corps of outstanding recent college graduates of all academic majors who commit two years to teach in urban and rural public schools and become lifelong leaders in the effort to ensure that all children in our nation have an equal chance in life. We are a private, national nonprofit organization, as well as one of the original AmeriCorps programs. Our teachers receive a salary from their local school district as well as education awards through AmeriCorps. These education awards can be used for graduate level education courses necessary to obtain teacher certification, to pay back qualified student loans, or for future education. Mr. Chairman and Senator Mikulski, since these awards are such a valuable asset for Teach For America corps members, I want to let you know how much I appreciate your recent efforts to provide adequate funding in the National Service Trust for education awards.

Since 1990, when I founded Teach For America, our organization has grown from 500 corps members teaching in 5 regions to what will soon be 3,500 corps members teaching in 20 regions during the 2003–2004 school year. Teach For America corps members are having an impact throughout our nation, from St. Louis to Baltimore, and from New Mexico's Navajo Nation to the Rio Grande Valley in South Texas.

TEACH FOR AMERICA MEETS CRITICAL NEEDS

Our mission is to build a movement to eliminate the educational inequality that exists in our country today. By the age of nine, children in low-income areas are already three grade levels behind in reading ability (Source: National Center of Education Statistics, 2000). As these children progress in the educational system, this achievement gap only widens, to the point that a child who grows up in a low-income community is seven times less likely to graduate from college than a child growing up in a more privileged area (Source: Education Trust, 1998).

Our corps members help close the achievement gap for the students they reach during their two-year commitment. At the same time, they gain insight and added commitment that shapes them into an important leadership force, working from inside of education and from other sectors, for long-term change.

OUR PROGRAM

We recruit the most highly sought-after college graduates of all academic majors, career interests, and backgrounds from leading colleges and universities. We then select corps members who demonstrate records of achievement and leadership, as well as a commitment to expanding opportunity for children in low-income areas.

Admission to Teach For America is highly selective, with approximately 15 percent of our applicants gaining admission to the corps. Of our 2002 corps members,

89 percent held leadership positions on their campuses or in their communities. They earned average SAT scores of 1310 and average GPAs of 3.5. In addition, 38 percent of corps members are people of color.

This year, 15,700 young people applied for only 1,900 slots as first year teachers. At many top schools, Teach For America is considered one of the most prestigious post-graduate opportunities. This year, 19 percent of Spelman's senior class applied to the corps. And at top, larger universities, Teach For America attracted significant portions of the student body: 5 percent of Yale and Princeton seniors applied, as did 4 percent of seniors at Michigan and Harvard. All are competing for the opportunity to teach in America's neediest schools.

Corps members are selected into Teach For America if they demonstrate strong leadership characteristics such as achievement orientation, critical thinking, personal responsibility for success, and the ability to influence and motivate others, as well as high expectations for students and families in low-income communities and the desire to work relentlessly toward this particular mission.

Those selected attend a summer training institute where corps members teach in local public summer schools and participate in a full afternoon and evening schedule of professional development activities. We aim to ensure that corps members internalize the overarching approach utilized by the most successful teachers in urban and rural areas; and that they gain skills in instructional planning and delivery; building a strong classroom culture; literacy development; and teaching the specific content-area and grade-level they will be teaching.

Following the institute, corps members assume teaching positions in school districts in 20 urban and rural areas. They are clustered in schools and receive extensive ongoing support and professional development through Teach For America and through local teacher education programs.

Following their two-year commitments, corps members can remain in teaching (and about 60 percent teach for at least a third year). We expect that they will ask themselves how they can have the greatest possible impact on the challenges they and their students experienced during their two years, and we provide a network of resources and support that they can tap into as they continue working in educational and social reform throughout their lives.

IMMEDIATE IMPACT ON COMMUNITIES AND STUDENT ACHIEVEMENT

Our success in recruiting and preparing exceptional classroom teachers has led education policy makers to highlight our impact on disadvantaged communities. Reflecting on his tenure as Superintendent of the Houston Independent School District, Secretary of Education Rod Paige noted, "Every year, our best teachers came from Teach For America."

In a study released in August 2001, researchers at the Center for Research on Education Outcomes (CREDO) at Stanford University compared the impact of Teach For America corps members in Houston on their students' achievement to that of other teachers. Researchers found that the students of corps members, compared with students of other new teachers, achieved greater or equal gains on standardized tests in every subject and every grade level.

Another way we evaluate corps member impact is through a bi-annual survey of principal satisfaction conducted by Kane, Parsons & Associates, Inc., an independent research firm. In the spring 2001 survey by Kane, Parsons & Associates, principals credit Teach For America teachers as having positive effects on their schools and on student achievement. Almost four out of five principals reported that corps members are more effective than their other beginning teachers. An average of over ninety percent of these principals rated corps members as good or excellent on 22 indicators of effective teaching, including:

—96 percent—Achievement orientation and drive to succeed;
—94 percent—Knowledge of the subject matter;
—98 percent—Ability to think logically and critically;
—92 percent—Integrating into the school community; and
—93 percent—Assuming responsibility for student achievement.

LONG-TERM IMPACT

Teach For America is building a force of leaders and citizens with a lifelong commitment to addressing the issues they witness during their two years of service. Education Week, a leading national journal of K–12 education, profiled Teach For America's alumni in an article titled "Most Likely To Succeed" and called Teach For America a "leader-making machine."

According to a survey conducted in the fall of 2002, our alumni are deeply influenced by their Teach For America experience:

—Nationally, 63 percent of our alumni are working full-time in education, 37 percent as K–12 teachers and 26 percent as administrators, in higher education, education-related non-profits and other positions in the field of education; and
—Both within and outside of the education field, 79 percent of alumni have been influenced in their career decisions by their desire to expand opportunities in low-income neighborhoods, and 84 percent of alumni participate in civic activities motivated by this same desire.

Even more striking is the extent to which Teach For America alumni have already assumed leadership in the broader effort to improve education—they are running many of the most highly acclaimed charter schools in the country; they are turning around major urban schools as principals; they are winning some of the highest accolades teachers can win (as state and city teachers of the year); they are serving on school boards and advising Governors and Members of Congress on education policy; and they are leading model education reform, public health and economic development initiatives.

TEACH FOR AMERICA NEEDS INCREASED FUNDING TO GROW TO SCALE

Teach For America is in the midst of a 5-year expansion plan to more than triple the size of its teacher corps. Before this expansion effort, Teach For America had just over 1,000 teachers in 13 communities and a budget of under $10 million. In 2004, Teach For America will have nearly 4,000 corps members in at least 21 sites and will need to raise a budget in excess of $30 million. At that scale, Teach For America teachers will reach more than 300,000 public school students every day in this country's lowest-income neighborhoods.

Seventy-five percent of our funding comes from private sources, much of it from the local communities where our teachers teach. We have a highly diversified base of more than 2,000 private donors from all over the country. Top donors include Don and Doris Fisher's Pisces Foundation; the Broad Foundation; the Walton Family Foundation; the New Schools Venture Fund; Wachovia Corporation; and AT&T.

To raise our expanded budget, we must significantly increase our private funding base while growing our federal funding proportionately. With adequate federal funding, we can expand to reach more communities and engage more recent college graduates while continuing to provide highly qualified teachers for America's neediest classrooms. The Corporation for National and Community Service's $3 million fiscal year 2004 budget line item would allow us to maintain our current ratio of federal to private funding and enable us to execute our growth plan.

CONCLUSION

I hope you will agree that we have demonstrated all the characteristics of an exemplary AmeriCorps program: we recruit talented young people into competitive positions in critical areas of public need; we have a significant impact in the communities we serve; we influence the civic commitment and career path of our corps members; and we leverage our public support for significant private resources. As we continue our efforts to more than triple in size and reach hundreds of thousands of children each year, we seek your support so that Teach For America can expand its scale and impact. Mr. Chairman and Members of the Subcommittee, we hope you will support the President's request for $3 million for Teach for America in the fiscal year 2004 budget.

PREPARED STATEMENT OF THE AMERICAN THORACIC SOCIETY

The American Thoracic Society (ATS) is pleased provide our recommendations for programs in the Department of Veterans Affairs (VA) medical and prosthetic research program and the Environmental Protection Agency.

The ATS, founded in 1905, is an independently incorporated, international education and scientific society which focuses on respiratory and critical care medicine. The Society's members help prevent and fight respiratory disease around the globe through research, education, patient care and advocacy. The Society's long-range goal is to decrease morbidity and mortality from disorders and life-threatening acute illnesses.

Lung disease is a significant health problem in the U.S. Lung disease is the third leading cause of death in the U.S.—responsible for one in every seven deaths. More than 35 million Americans suffer from a chronic lung disease. Lung diseases cost the U.S. economy an estimated $144.9 billion annually in direct and indirect costs. Lung disease represents a spectrum of chronic and acute conditions that interfere with the lung's ability to extract oxygen from the atmosphere, protect against envi-

ronmental and biological assaults, and regulate a number of vital metabolic processes. Lung diseases include: chronic obstructive pulmonary disease (COPD—which includes emphysema and chronic bronchitis), lung cancer, tuberculosis, pneumonia, influenza, sleep-disordered breathing, pediatric lung diseases, occupational lung diseases, sarcoidosis, asthma, acute lung injury and severe acute respiratory syndrome (SARS).

DEPARTMENT OF VETERANS AFFAIRS

VA Research Medical and Prosthetic Research Program

The American Thoracic Society strongly supports the VA research program. The VA research program is a valuable tool for attracting and retain top-notch physicians to VA system. The VA research program also is an important source of training support for VA physicians. The VA research program also supports state-of-the-art research that is leading to better treatment and cures for all Americans. Most importantly, the VA research program is good for veterans. The research and training programs are focused on the unique needs of veterans.

We applaud the Bush Administration and Department of Veterans Affairs Secretary Anthony J. Principi for recognizing the invaluable contribution VA research makes to deliver high quality care for veterans and toward improving the health of veterans and the nation. However, the proposed $10.6 million (2.7 percent) increase in the direct costs of the program is inadequate to sustain the current level of effort or to accommodate new initiatives.

The Friends of VA Medical Care and Health Research (FOVA), a coalition of 82 medical, research, physician, academic, patient advocacy and Veterans organizations committed to quality care for veterans an fiscal year 2004 appropriation of at least $460 million for the direct costs of the VA research program and $45 million for research facility improvements. The ATS supports the FOVA recommendations for fiscal year 2004.

The $460 million allows overall growth of $63 million (16 percent) over fiscal year 2003. An increase of this size is justified by the need to accommodate biomedical research inflation and federal pay increases as well as a major new initiative in deployment health research and expansion in areas such as terrorism, emerging pathogens, special populations, quality improvement, chronic diseases and diseases of the brain. We urge to the Subcommittee to support continued, steady growth in the annual appropriation.

VA Research Facility Renovation

Separate from its recommendations for the VA research appropriation, FOVA also recommends the Committee to address the increasingly urgent need for improvements in VA's research facilities by recommending a specific allocation of $45 million for these needs. The ATS strongly supports FOVA recommendations for research facilities improvements.

The ATS notes that the House VA–HUD subcommittee designated $25 million for minor construction research facility improvements in the fiscal year 2003 VA–HUD bill. However, appears that conferees for the fiscal year 2003 Omnibus Appropriations legislation reduced the total minor construction budget to $15 million and did not make reference to funds available for research space rehabilitation.

Despite having top-notch researchers, the VA system has a sub-par physical infrastructure for supporting research. Substandard facilities make VA a less attractive partner in research collaborations with affiliated universities; reduce VA's ability to leverage the research and development (R&D) appropriation with other federal and private sector funding; and make it difficult to attract cutting edge researchers, both clinician investigators and laboratory scientists, to pursue careers in the VA. Facility R&D Committees regularly disapprove projects for funding consideration because the facility does not have the necessary infrastructure and has little prospect of acquiring it.

Under the current system, research must compete with other medical facility and clinical needs for basic infrastructure and physical plant support. Unfortunately, the minor construction appropriation is chronically inadequate to meet facility needs for clinical improvements much less research upgrades, and year after year the list of urgently needed research repairs and upgrades grows longer. The VA has identified 18 sites in urgent need of minor construction funding to upgrade their research facilities. These sites, plus the many facilities with smaller, but no less important needs, provide more than sufficient justification for an appropriation of $45 million specifically for research facility improvements.

The ATS strongly encourages the Subcommittee on Veterans Affairs to support a fiscal year 2004 appropriation of at least $460 million for the direct costs of the VA research program and $45 million for research facility improvements.

ENVIRONMENTAL PROTECTION AGENCY (EPA)

Nearly all lung diseases are impacted by air pollution. How well or poorly our lungs perform is contingent on the quality of air around us, making the impact of air pollution inescapable. Air pollution remains a primary contributor to a high prevalence of respiratory diseases.

For nearly 40 years, the ATS has conducted scientific, public health and educational programs to fight air pollution and to improve the quality of the air we breathe. We remain strong supporters of the Clean Air Act and its amendments. We can attest to the significant impact that the Clean Air Act has had in improving the quality of our nation's air.

However, much remains to be done. It is estimated that millions of Americans live in counties that do not meet current Clean Air Act health-standards, including our Nation's Capitol. EPA reports estimate that 170 million Americans live in areas that expose them to unsafe levels of ozone and particulate matter.

Research has shown that air pollution is causing the premature death of literally thousands of people each year due to complications from exposure to air pollution.

The Administration's Clear Skies Proposal

Despite its appealing name, the Administration's Clear Skies proposal will increase air pollution in the U.S. The proposal would delay the implementation of emissions standards and increase the overall amount of pollution released from industrial facilities. Enforcement of the existing Clean Air Act laws will reduce air pollution in the U.S. faster than the Administration proposal. Beyond delaying implementation and increasing total emissions, the Administration proposal would deny state authority to take action to address air pollution.

We recommend the Subcommittee to transfer the $7.7 million Administration Clear Skies budget proposal to EPA implementation and enforcement of the existing Clean Air Act standards.

EPA Enforcement

The ATS is encouraged that the Administration has proposed an increase in the EPA enforcement budget. However, we would note that cuts in the 2002 budget have eliminated over 100 positions from the EPA enforcement and compliance activities. A strong EPA enforcement program is needed to ensure all Americans can breath clean air.

We are pleased that the President's budget restores the 100 FTE enforcement positions cuts in the previous budget, however, we note that federal enforcement activities are still 100 positions FTE short of what is needed to adequately protect our nation's environment and health.

EPA Asthma Research

The ATS is pleased that EPA has launched an asthma research program. The medical community has long known that air pollution can exacerbate existing asthma. In fact, a recent study published in the February 2, 2002 issue of Lancet showed a relationship between exposure to high levels of ozone and the development of asthma in children.[1] Additional research is needed to confirm and define the links between air pollution and asthma. The EPA Asthma Research programs will identify:

—pollutants that contribute to the induction and exacerbation of asthma, such as air toxics, byproducts of combustion, aerosols, indoor allergens and environmental tobacco smoke;
—susceptibility factors that contribute to asthma: genetics, prior health problems, socioeconomic status, residence and exposure history; and
—risk assessment and risk management of environmental pollutants relevant to asthma.

The ATS recommends the Subcommittee provide $12 million for the EPA Asthma Research program.

NAAQS Research

The ATS strongly supports the EPA National Ambient Air Quality Standards (NAAQS) research program. The NAAQS research program provides valuable infor-

[1] R. McConnell, et.al., Asthma in Exercising Children Exposed to Ozone: A Cohort Study, Lancet, Feb. 2, 2002, p.386–391.

mation about the health effects of exposure to polluted air. The NAAQS also help develop the monitoring and pollution control technology that will ultimately lead to cleaner air of all of America.

We recommend a $50 million increase in the EPA NAAQS research program.

Fine Particulate Matter and Ozone

Recent studies have confirmed the significant adverse impact that existing levels of smog and fine particles have on lung health. Two recent studies have made clear the need to proceed with enforcement of the health-based Clean Air standard established 1997. The Lancet study, referenced before, establishes a link between ozone and the development of asthma.[2] A second study published in the March 6, 2002 edition of the Journal of the American Medical Association establishes a correlation between exposure to fine particulate air pollution and increased mortality from lung cancer and cardiopulmonary diseases.[3] Despite the growing body of evidence that air pollution plays a direct role in causing lung disease, the EPA has yet to implement the new, more protective standards finalized in July 1997.

As the members of the Subcommittee know, the state of the 1997 fine particulate matter and ozone rules had been tied up in courts until recently. In March 2002, the U.S. Court of Appeals ruled that the 1997 standards were a proper exercise of EPA's power. Now that all legal barriers have been removed, it is time EPA began enforcing its 1997 health-based Clean Air Act standards.

The ATS urges the Subcommittee to provide EPA with the resources to expeditiously implement and enforce the 1997 health-based standards.

New Source Review

We are extremely concerned about Administration initiatives to weaken the Clean Air Act and undermine the enforcement of the law. In particular, we are concerned about the effort to undercut the Clean Air Act's New Source Review Program. New Source Review (NSR) is a simple concept, made extremely complicated by those who want to avoid complying with the law. Simply stated, the NSR program requires facilities that undergo modification that significantly increase emissions to install pollution control equipment. If the facility does not increase pollution, NSR does not apply. This program only applies when pollution increases. The NSR program is reducing pollution and is saving lives this year and every year. Legislative proposals promising greater air pollution reductions are no substitute for NSR. Such proposals must be implemented in concert with NSR, just as the current acid rain reduction program is. The public demands cleaner air and this program provides substantial public health benefits.

We urge the Subcommittee to resist efforts by the Administration to weaken the implementation or enforcement of the EPA New Source Review program.

Tier 2 and Heavy Duty Vehicles Standards

In 1999, the EPA established new tailpipe and gasoline standards for cars, light trucks, minivans and SUVs. The EPA also established new limits on sulfur in gasoline. When fully implemented, this program would be the equivalent of taking 164 million cars off the road. EPA calculates that the final rule will prevent as many as 4,300 deaths, more than 10,000 cases of chronic and acute bronchitis, and tens of thousands respiratory problems a year.

In 2000, EPA established new emission standards for heavy-duty vehicles and diesel fuel. These standards provide dramatic pollution reduction. As a result of this program, each new truck and bus will be more than 90 percent cleaner than current models. The clean air impact of this program will be dramatic when fully implemented. This program will provide annual emission reductions equivalent to removing the pollution from more than 90 percent of today's trucks and buses, or about 13 million vehicles.

We encourage the Subcommittee to provide EPA the resources necessary to proceed with implementation and enforcement of the Tier 2 and Heavy-Duty Vehicle Standards.

Ozone Depleting Gases Transition

The ATS supports the work of the EPA and the Food and Drug Administration (FDA) to complete the transition process of removing ozone-depleting gases from the U.S. market place as called for the Montreal Protocol. One of the few remaining uses of ozone deleting gases is chlorofluorocarbon (CFC) propelled drugs used to treat asthma and chronic obstructive pulmonary disease. Last year, the FDA pub-

---

[2] Ibid.

[3] C. Pope, et.al., Lung Caner, Cardiopulmonary Mortality, and Long-term Exposure to Fine Particulate Air Pollution, JAMA, March 6, 2002, p. 1132–1141.

lished criteria for reviewing essential use exemptions for CFC propelled medications as non-ozone depleting drug formulations became available.

The ATS, in conjunction with the American Lung Association and several other physician and patient organizations, has filed a citizen petition asking the FDA to end the essential use exemption for CFC propelled albuterol sulfate—a drug used to treat asthma and other obstructive lung diseases. Currently, there are two manufacturers who produce a non-ozone deleting formulation of albuterol sulfate. A third manufacturer is seeking FDA approval of its non-ozone depleting formulation of albuterol sulfate. Data from the U.S. and European markets has proven the new formulations to be safe and effective.

We encourage the EPA to work with the FDA and the Department of State to develop a position to achieve adoption of a Protocol decision this year that deems albuterol non-essential for developed countries by 2005 and takes other steps to bring timely and effective closure to the Protocol's essential use exemption.

In conclusion, lung disease is a growing problem in the United States. It is America's number three killer, responsible for one in seven deaths. The ATS requests Congress' continued support for the VA and the EPA research programs to enable the pulmonology and critical care medicine community to continue with its efforts to find better ways to treat and prevent lung disease.

PREPARED STATEMENT OF THE AMERICAN LUNG ASSOCIATION

The American Lung Association is pleased to offer this testimony to the Committee on Appropriations Subcommittee on Veterans, Housing and Urban Development and Independent Agencies on the programs of the Environmental Protection Agency. The American Lung Association, established in 1904, is one of the nation's oldest voluntary health organizations. The American Lung Association is committed to fighting lung disease and promoting lung health.

Lung disease is the third leading cause of death in the U.S.—responsible for one in every seven deaths. More than 35 million Americans suffer from a chronic lung disease. These diseases cost the U.S. economy an estimated $144.9 billion annually. Lung disease represents a spectrum of chronic and acute conditions that interfere with the lung's ability to extract oxygen from the atmosphere, protect against environmental and biological assaults, and regulate a number of vital metabolic processes. We are talking about diseases that are very familiar—such as asthma, emphysema, chronic bronchitis, lung cancer, tuberculosis, pneumonia, and influenza—and others, which are much less well known. Lung disease touches virtually every American.

Lung diseases are made worse by air pollution. How well or poorly our lungs perform depends on the quality of air around us, making the impact of air pollution inescapable.

For nearly 40 years, the American Lung Association has conducted scientific, public health and educational programs to fight air pollution and to improve the quality of the air we breathe. We remain strong supporters of the Clean Air Act and its amendments. We can attest to the significant impact that the Clean Air Act has had in improving the quality of our nation's air.

However, much remains to be done. EPA's own estimates show that over 170 million people live in areas with unhealthy levels of smog and soot based on current standards. We know people living in these areas suffer air pollution-related asthma attacks, are hospitalized for aggravated lung disease, lose days at work, school and play, and even face an early death.

Research has shown that air pollution is causing the premature death of literally thousands of people due to complications linked to air pollution exposure.

ADMINISTRATION'S AIR POLLUTION LEGISLATION

The Administration's air pollution legislation, known as Clear Skies, will weaken the Clean Air Act and severely undermine efforts to curb air pollution. The plan will not reduce power plant emissions enough to clean the air or protect the nation's health. In fact, timely enforcement of the current Clean Air Act will provide greater pollution reductions sooner than the Administration's bill.

Unfortunately, the Administration is currently focused on attempts to avoid implementation of existing clean air regulations. The Administration's proposal, which would not be fully implemented for more than two decades, would delay reaching important clean air goals even further. The plan preempts state authority to aggressively pursue clean air for their citizens. Indeed, air pollution clean-up plans needed to meet public health standards for smog and fine particles issued in 1997 are still years away.

The American Lung Association strongly encourages the Subcommittee to redirect the $7.7 million proposed to fund Clear Skies into implementing the ozone and fine particle standards.

FEDERAL ENFORCEMENT FUNDING

We are pleased to see that the President's budget has proposed an increase for Environmental Protection Agency enforcement. The $21 million increase will add 100 positions. Unfortunately, due to previous cuts, the enforcement program is still down 100 positions from the fiscal year 2001 proposed level. We have much cleaner air today than we did in 1970 because of EPA's ability to enforce the law. Without strong continued federal leadership, the quality of our nation's air will suffer.

The American Lung Association strongly encourages the Subcommittee to increase the enforcement and compliance program to restore all the positions that have been eliminated.

ASTHMA RESEARCH STRATEGY

Last fall, the American Lung Association joined EPA Administrator Whitman to announce the release of the EPA Office of Research and Development's Asthma Research Strategy. The Asthma Research Strategy will guide EPA research efforts to address the significant issues of exposures, effects, risk assessment and risk management of environmental pollutants relevant to asthma.

The Asthma Research Strategy will address the following issues:

—pollutants that contribute to the induction and exacerbation of asthma, such as air toxics, byproducts of combustion, aerosols, indoor allergens and environmental tobacco smoke;

—susceptibility factors that contribute to asthma: genetics, prior health problems, socioeconomic status, residence and exposure history; and

—risk assessment and risk management of environmental pollutants relevant to asthma.

We were pleased that the Administration requested an additional $1 million for children's asthma research in this year's request bring the total request to $6.2 million.

The American Lung Association strongly encourages the Subcommittee to double the investment in children's asthma research to $12.4 million.

AMBIENT AIR RESEARCH

The American Lung Association strongly supports the EPA National Ambient Air Quality Standards research program. This research program provides valuable information on the health effects of exposure to polluted air. This research is essential for the development of the most cost effective strategies and technologies needed for protecting public health from air pollution.

The American Lung Association recommends a $50 million increase in the EPA National Ambient Air Quality Standards research program.

VEHICLES STANDARDS

This year, EPA will propose new standards for non-road diesel engines. Commonly referred to as heavy equipment, this category includes vehicles used in a variety of applications in construction and agriculture. We expect EPA to propose emissions standards and fuel standards for these vehicles that are comparable to the new standards for on road heavy-duty vehicles and fuels. This rule will save thousands of lives each year. This proposal builds on EPA's previous initiatives to clean up heavy-duty diesel trucks and buses and cars, light trucks and SUVs. We expect this program to provide even greater benefits than the on-road rule. The American Lung Association strongly supports this EPA initiative that will bring tremendous air quality and public health benefits. Some have suggested that EPA reopen the widely supported rule for on road heavy-duty trucks and buses. The American Lung Association strongly urges EPA to move ahead with the new non-road rulemaking without reopening the on-road rule.

The American Lung Association encourages the Subcommittee to provide EPA the resources necessary to proceed with non-road rulemaking and finalize the rule as soon as possible.

NEW SOURCE REVIEW

We are extremely concerned about Administration initiatives to weaken the Clean Air Act and undermine the enforcement of the law. In particular, we are concerned about the effort to undercut the Clean Air Act's New Source Review program. New Source Review, also known as NSR, is a simple concept, made extremely com-

plicated by those who want to avoid complying with the law. Simply stated, the NSR program requires facilities that undergo modification that significantly increase emissions, to install pollution control equipment. If the facility does not increase pollution, New Source Review does not apply. The NSR program is reducing pollution and saving lives this year and every year. Legislative proposals promising the potential of greater air pollution reductions in the years to come are no substitute for this effective clean-up program.

The American Lung Association urges the Subcommittee to resist efforts by the Administration to weaken the implementation or enforcement of the EPA New Source Review program.

FINE PARTICULATE MATTER AND OZONE

On March 26, 2002, the D.C. Circuit of the United States Court of Appeals rejected the last of the industry challenges to the National Ambient Air Quality Standards issued by the EPA in July 1997 for PM 2.5 (fine particles) and 8-hour levels of ozone smog. After a five-year delay caused by specious industry litigation, we expect EPA to treat implementation of these standards as a matter of great urgency. We urge this committee to ensure that the agency does so.

EPA's review of the health standards is once again overdue. The review of the National Ambient Air Quality Standards for Ozone and Particulate Matter was supposed to be completed by July 2002. It is critical that the EPA devote sufficient resources to complete the timely review of the health based air pollution standards.

The American Lung Association urges the Subcommittee to direct EPA to complete the timely review of the ambient air quality standards.

MDI TRANSITION

The American Lung Association is continues to work with the EPA and the Food and Drug Administration (FDA) to complete the transition process of removing ozone depleting substances from the U.S. market place as called for the Montreal Protocol. One of the few remaining uses of ozone depleting substances are CFC propelled drugs used to treat asthma and chronic obstructive pulmonary disease. Last year, the FDA published criteria for reviewing essential use exemptions for CFC propelled medications as non-ozone depleting drug formulations became available.

The American Lung Association, in conjunction with several of physician and patient organizations, has filed a citizen petition asking the FDA to end the essential use exemption for CFC propelled albuterol sulfate—a drug used to treat asthma and other lung diseases. Currently, there are two manufacturers who produce a non-ozone depleting formulation of albuterol sulfate. Data from the U.S. and European markets have proven the new formulations to be safe and effective.

The American Lung Association encourages the EPA to work with the FDA and the Department of State to develop a position to achieve adoption of a Protocol decision this year that deems albuterol non-essential for developed countries by 2005 and takes other steps to bring timely and effective closure to the Protocol's essential use exemption. We believe this action is an important step to fulfill the U.S. commitment to phase-out all uses of ozone-depleting substances.

The American Lung Association urges the Subcommittee to support the transition process to remove ozone-depleting gases.

The American Lung Association thanks the Subcommittee for consideration of its views. We look forward to working with you to further promote and protect the health of the American public.

PREPARED STATEMENT OF THE ASSOCIATION OF MINORITY HEALTH PROFESSIONS SCHOOLS

Mr. Chairman and members of the subcommittee, thank you for the opportunity to express the views of the Association of Minority Health Professions Schools (AMHPS).

I am Dr. John E. Maupin Jr., President of Meharry Medical College in Nashville, Tennessee and President of AMHPS. AMHPS is an organization which represents twelve (12) historically black health professions schools in the country. Combined, our institutions have graduated 50 percent of African-American physicians and dentists, 60 percent of all the nation's African-American pharmacists, and 75 percent of the African-American veterinarians.

AMHPS has two major goals: 1) to improve the health status of all Americans, especially African-Americans and other minorities; and 2) to improve the representation of African-Americans and other minorities in the health professions. We are

working toward achieving this goal by seeking to strengthen our institutions and fortify other programs throughout the nation that will improve the role of minorities in the provision of health care and research.

AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY

Congress created the Agency for Toxic Substances and Disease Registry (ATSDR) to implement the health-related sections of law that protect the public from hazardous wastes and environmental spills of hazardous substances. The mission of ATSDR is to serve the public by using the best science, taking responsive public health actions, and providing trusted health information to prevent harmful exposures and illness related to toxic substances.

ATSDR works in partnership with Environmental Protection Agency, the Centers for Disease Control and Prevention, and the National Institute of Environmental Health Sciences to carry out its public health activities. Since the September 11th attacks, ATSDR has worked with other federal, state, and local agencies to respond to the enormous aftermath of this tragedy. Approximately, one-fourth of the agency's 430 employees were directly involved in the response to 9/11 at some time during fiscal year 2002.

ATSDR is performing critical work in the field of environmental and toxicological studies that has a profound impact on public health. In order to carry out the level of activity that is called for in its mission statement, AMHPS recommends an appropriation of $95 million for ATSDR in fiscal year 2004, an increase of $12.2 million over fiscal year 2003.

THE ATSDR/AMHPS COOPERATIVE AGREEMENT ON ENVIRONMENTAL HEALTH AND TOXICOLOGY RESEARCH

In 1992, ATSDR identified a need for enhanced information on 38 hazardous substances. Through a cooperative agreement between ATSDR and the Minority Health Professions Foundation (MHPF), the historically black health professions schools that I represent are engaged in research on twelve of these priority hazardous substances. They include:

—Lead
—Mercury
—Benzene
—Cadmium
—Benzo (a) pyrene
—Flouranthene
—Trichlorocthylene
—Toluene
—Zinc
—Manganese
—Chlordane
—Di-n-butylphthalate

The productivity of this research program is evidenced by the number of publication and scientific presentations made by the funded investigators. To date, more that 55 manuscripts reporting the finding of the various research projects have been published in peer-reviewed and prestigious scientific journals. These journals include: Brain Research, Neurotoxicology, Journal of Neurochemistry, and Environmental Health Prospectives.

Moreover, investigators have made more than 120 presentations at national and international scientific meetings, including the annual meeting of the Society of Toxicology, the Experimental Biology meeting, the International Congress of Toxicology meeting, and the International Society of Psyschoneuropharmacology meeting. Finally, the AMHPS/ATSDR Cooperative Agreement has contributed significantly to the training of students in toxicology and environmental health. Annually, more than 30 students, both graduate and undergraduate, are actively involved in the research program.

Mr. Chairman, AMHPS and ATSDR are completing ten years of successful research. We expect to continue with a new cooperative agreement in fiscal year 2003. In addition to basic toxicological research, the new cooperative agreement will focus on: 1) translation of environmental science into environmental medicine and public health practice; 2) development of a surveillance system to track disease, disability and dysfunction among targeted populations in communities of concern, and 3) investigations of the role of the environment in eliminating racial/ethnic health disparities.

Traditionally, the AMHPS/ATSDR research partnership has been supported by ATSDR at a level of $4 million a year. For fiscal year 2004, we encourage the sub-

committee to support this important collaboration by directing $4 million within the ATSDR budget for the cooperative agreement.

Thank you very much for the opportunity to present the views of the Association of Minority Health Professions Schools.

PREPARED STATEMENT OF THE EZ/EC FOUNDATION CONSORTIUM

I am Janet Levy, Executive Director of the EZ/EC Foundation Consortium. The Consortium is a partnership of ten foundations formed in 1997 to support successful implementation of the Empowerment Zone/Enterprise Community Initiative and to help others learn from the work of EZ/EC sites. Our foundation members have included the Annie E. Casey Foundation, Cleveland Foundation, East Bay Community Foundation, Ford Foundation, Greater Kansas City Community Foundation, William and Flora Hewlett Foundation, Robert Wood Johnson Foundation, W.K. Kellogg Foundation, John D. and Catherine T. MacArthur Foundation, and Rockefeller Foundation.

We appreciate this opportunity to respond to a request by the Empowered Communities Caucus to submit for both Senate and House Appropriations Committee consideration some insights about the Round II Empowerment Zones, based on effective approaches to community revitalization that the philanthropic sector has gained through its work over the past decade. Our experience points, in particular, to the importance of complementing incentives designed to create employment opportunities with strategies that help people prepare for and perform well in those jobs and that address other aspects of healthy community life. We also have learned of the important contribution to sustained success that comes from engaging all parts of the community in a strong partnership, a process that rarely is easy but which promises rich rewards to those who dedicate the required effort.

These insights bear directly on an issue that is before the Subcommittees—whether continued grant-funded strategies are necessary to complement tax incentives in achieving successful and sustainable revitalization. Tax incentives are a promising mechanism for encouraging businesses to expand employment opportunities. But these mechanisms are not designed to nor can they support the workforce development, quality of life, and engagement strategies that, as we indicate above, are an essential complement in a revitalization effort. These latter strategies require a direct outlay of dollars. By assuring the availability of grant funds which can be used for these purposes—whether for programming itself or to leverage even greater commitments of funds from state and local government and the nonprofit and philanthropic sectors—the federal government both secures and enhances the investment it is making through the provision of tax incentives. Based on our experience, we firmly believe that a combination of incentives and grants are the most promising route to achieve the laudable objectives of the EZ/EC Initiative.

FOUNDATION-SPONSORED COMMUNITY REVITALIZATION EFFORTS

The Consortium's member foundations, as well as many others, have a substantial history of commitment to low-income communities and of investment in efforts to revitalize areas of deep, persistent poverty.

Beginning about a decade ago, these foundations launched a new generation of such efforts. Among the most notable in terms of their contribution to the current state of knowledge about community revitalization have been the Casey Foundation's New Futures, Rebuilding Communities and current Neighborhood Transformation and Family Development Initiative, the Ford Foundation's Neighborhood and Family Preservation Initiative, and the Rockefeller Foundation's Community Planning and Action Program.

These experiments helped form the basis of new thinking about how best to challenge poverty and provide poor communities and their residents with greater economic opportunity and an improvement in the overall quality of life. Rather than focusing on fixing an isolated problem, such as housing, they considered the community as a whole. A vibrant community which supports its families and nurtures its children, offers jobs, decent and affordable housing, safety, good quality schools and outside-school opportunities for children and youth, and special supports when crises occur that threaten well-being. Effective revitalization likewise needed to be multifaceted, incorporating simultaneous and coordinated efforts to address economic opportunity, the skills and capacities of the community's residents, quality of life issues such as crime, and strengthening of the community's social fabric.

These foundation-sponsored experiments also took the position that how decisions are made about programmatic content may be as important as the content itself. On the one hand, acknowledging the unique understanding each community has of

its particular assets, opportunities and needs, the foundations gave their local partners a great deal of latitude in selecting the specific programmatic strategies they would pursue. But at the same time, the foundations pushed for a new kind of local decisionmaking, which would engage a broad range of stakeholders and would specifically encourage serious and consequential participation by residents of the targeted areas.

From these experiments emerged guiding principles for the revitalization approach that came to be known as "community-building":

—Significant and sustainable revitalization requires simultaneous and coordinated economic development, investment in a community's human capital, and help to strengthen the social fabric of the community.

—Successful, sustainable revitalization requires harnessing the knowledge, resources, capacity and commitment of all those with a stake in the well-being of the community—the public sector, the private sector, the nonprofit sector, and the residents.

—Successful, sustainable revitalization is not a quick process. It takes time and patience first to do the planning and build the partnerships that provide a solid foundation, and then to attract the jobs and implement the many projects that will be needed to counter what often have been many years of deteriorating conditions.

PHILANTHROPY AND THE EZ/EC INITIATIVE

No matter how ambitious the efforts of the philanthropic sector to improve conditions in low-income communities, the resources of that sector could never come close to addressing the true scope of need. Therefore, foundations were heartened at the renewed commitment of the federal government reflected in the EZ/EC Initiative, especially because that commitment was grounded in the principles of sound community-building cited above.

The philanthropic sector's experience was tapped even at the design stage of the EZ/EC Initiative, when the Carnegie Corporation convened a seminar for federal officials in which foundation executives, staff and experts shared the knowledge gained through a decade of experimentation. As the Initiative unfolded, foundations invested locally in the development of applications and then in implementation. Because it was the only entity trusted by the many diverse stakeholders, one community foundation even agreed to serve as the lead entity for the local effort.

Complementing these individual actions, a group of foundations formed the EZ/EC Foundation Consortium to support successful implementation of the Initiative and to help others learn from the work of the sites. Our work has included various forms of technical assistance to sites, with special emphasis on peer exchange. Most recently, for example, we convened a meeting of Round I and Round II EZ directors, giving them an opportunity to share experiences and ideas on topics such as the use of tax incentives, ways to measure and report results, and ways to sustain accomplishments over time. We also have produced or have under development a variety of publications. Some give an overview of the EZ/EC Initiative in ways that complement publications by the federal government and researchers—for example, presenting photographs by young people that show how the Initiative is affecting their families and communities. Other publications under development will explore in some depth particular aspects of the Initiative, such as strategies to promote broad participation and the use of tax incentives by sites.

LESSONS FROM THE WORK OF EZ/EC SITES

The Consortium has been a partner with and student of the work of EZ/EC sites since the early days of implementation. This work is a rich source of lessons that will be valuable guides for Round III Empowerment Zones and Renewal Communities, as well as for future efforts to revitalize distressed communities.

Most relevant for the immediate purposes of this Subcommittee, the long experience of the Round I sites in particular offers specific insights about the combined and complementary contributions to be made by both tax incentives and flexible federal grants. Those communities had the benefit of assured funding throughout the ten-year designation. Their experience suggests that tax incentives that are designed well and marketed effectively can be an important tool to foster economic revitalization of distressed communities, especially with respect to large businesses. But, just as economic development itself is not enough to achieve and sustain the deep-reaching change that is needed, so too is it important to complement tax incentives with resources through which critical areas beyond economic development can be addressed.

Federal grant dollars have been essential in allowing EZ/EC sites to pursue valuable components of revitalization such as:

—*Helping people prepare for, obtain and perform well in the jobs made available through economic development activities.*—Some community residents begin with the experience and personal wherewithal to take advantage of expanding economic opportunity on their own. But, for many others, help in developing a resume and presenting oneself to a potential employer, or in acquiring the skills that employers are seeking, or in overcoming barriers to employment may be essential. With federal grant dollars, EZ/EC sites have been able to address not just job development, but also workforce development, offering the pre-employment, connection to work, and on-the-job services that have helped many community residents take advantage of expanding opportunities to achieve real change in economic well-being.

—*Addressing key quality-of-life issues that affect a community's ability to attract and retain businesses and to nurture strong and healthy families.*—Businesses care about the financial "bottom line," which potentially is aided by tax incentives, but they also care about the environment in which they operate. A low crime rate assures safety and security for their workers and their physical plant. The ability of workers to find child care and help when crises arise reduces absenteeism and turnover that detract from a business's financial success. Young people who are getting a good education and developing their talents through positive activities stay out of trouble and promise businesses a strong and capable workforce in the future. EZ/EC sites have used federal dollars, sometimes directly for programming but more often to leverage major contributions from other sources and better coordination of existing services, to reduce crime, expand the availability and quality of child care, and offer children and youth healthy and productive ways to spend their time. At Detroit's Family Place and Louisville's Nia Center, families can readily find the services that once were scattered and difficult to access. In the Rio Grande Valley, a decrepit facility that lacked even running water has been replaced by a brand new Boys and Girls Club built with the aid of an Empowerment Zone challenge grant. At the United Teen Equality Center, developed with leadership from the Lowell Enterprise Community, adolescents of diverse ethnicities and backgrounds no longer face conflict on the streets, but now gather in a place that nurtures cooperation and positive growth.

—*Bringing all stakeholders together in effective partnerships that allow each group to tap its particular strengths to contribute to overall success.*—A community's residents, government, business, and nonprofit organizations all have a stake in revitalization efforts and the community's well-being. And each group brings assets to a potential effort—dollars to spend, the promise of new jobs, an understanding of the market that is created by a community's history, conditions, and desires. But each group also brings its own frame of reference, experiences, and operating style, and these must be woven together to shape a collaborative venture that can pursue an ambitious and complex agenda. These are not easy partnerships to form and sustain, and not all EZ/EC sites have been successful. But for those that have effectively used federal dollars to build the capacity of the community and to help the diverse voices find common ground in a shared vision for success, we see not only near-term progress but also a foundation of ongoing leadership. Village Centers in Baltimore and Community Trust Boards in Philadelphia, for example, are vehicles through which community residents have gained an understanding of economic development and which now provide a forum where developers, residents, and government can combine their assets to foster continuing expansion of economic opportunity and improvement in the community's quality of life for years to come.

In summary, the experience of the philanthropic sector with community revitalization efforts and the Consortium's observations of the EZ/EC Initiative to date point strongly to the importance of working simultaneously on multiple fronts—expanding economic opportunity, investing in the community's human capital, and strengthening the community's social fabric. To do so requires vehicles as varied as the strategies. Tax incentives are one tool. But equally important are flexible dollars through which issues other than economic development can be addressed. For this reason, we believe that the success of Round II Urban Empowerment Zones likely will rest in substantial measure on their ability to draw on the full range of benefits which were envisioned when they were created.

PREPARED STATEMENT OF THE NATIONAL SERVICE-LEARNING PARTNERSHIP

The National Service-Learning Partnership calls upon Congress to include young people in citizen service by increasing the Federal investment in Learn and Serve America.

I am Anthony Welch, Chair of the Board of Directors of the National Service-Learning Partnership. With more than 3,000 organizational and individual members, the Partnership is the nation's largest leadership organization devoted to strengthening service-learning. The Partnership urges you to increase funding for the Learn and Serve America program administered by the Corporation for National Service.

Youth Citizen Service.—In his inaugural address, President George W. Bush challenged Americans to be "citizens, not spectators" and to help build "communities of service and a nation of character." More recently, noted education historian, Dr. Diane Ravitch, noted that, "We must teach students to appreciate and defend our democratic institutions." During this time of great national purpose, we cannot overlook young people's eagerness to serve. In order to do so, however, they need the kind of opportunities and support that the educational method, service-learning, provides. The National Commission on Service-Learning, chaired by former Senator John Glenn, called service learning "the single best way to educate young people for active citizenship in a democracy." Service-learning offers unique support for the American commitment to public schooling as a necessity for creating an informed citizenry.

Service-learning.—Service-learning is a powerful form of service in which students design projects to meet community needs as part of their academic and civic studies. Using service-learning, elementary school students tutor younger students, and both improve their mastery of essential literacy skills. Math students make calculations that persuade the local authorities to install a traffic light near their schools so as to reduce accidents at a dangerous corner. History students research the local heroes identified on plaques in their community and share what they have learned at the annual Memorial Day ceremony. Language arts students hone their writing skills by organizing a campaign to reduce bullying on their school buses.

Service-learning offers students such as these the kind of balanced education Americans want for students, according to a poll conducted in the fall of 2000 by Roper Starch Worldwide. Americans believe that service-learning can help prepare young people for work, citizenship, and lifelong learning. Furthermore, service-learning elicits the kind of engagement with learning that reinforces students' motivation to learn. When students apply new knowledge and skills to real challenges outside the classroom, they are far less likely to ask their teachers "Why do I have to learn this?"

Prevalence of service-learning.—One third of public school students participate in service-learning. Most of this activity is supported by local resources. However, since former President George H.W. Bush signed the National and Community Trust Act of 1990, an important grant program under that law, Learn and Serve America, has engaged nearly 10 million students in serving others and their communities. Currently, 50 states and territories receive funds from Learn and Serve America, the only Federal program dedicated to promoting and supporting service-learning. Nearly 1.5 million students each year are involved in grassroots initiatives that address local concerns, and about 80 percent of each state's formula grant goes directly to support for school-community partnerships.

Impact of Service-Learning.—In addition to being a cost-effective, service-learning works. A growing body of scholarly research and other evaluations demonstrate that when well implemented, service-learning improves students' academic achievement, civic engagement, preparation for the world of work, and responsible behavior. Alan Melchior of Brandeis University estimates that each dollar invested in service-learning returns $4 in investment in the community. Service-learning research has identified many ways in which service-learning improves students' civic and academic engagement while strengthening their communities.

—*Service-learning promotes youth civic engagement.*—Service-learning is one of the most effective ways for young people to practice the habits of civic responsibility. Scholars from universities across the United States have found that students engaged in high quality service-learning projects showed an increase in the degree to which they felt aware of community needs, believed that they could make a difference, and were committed to service now and later in life. For instance, a study by Dr. James Younis at Catholic University and Dr. Miranda Yates at Brown University found that high school students who participated in service-learning are more likely to be engaged in a community organi-

zation and are more likely to vote 15 years after their participation in the program than those who did not participate.

—*Service-learning supports students' academic achievement.*—When rigorous study in academic disciplines is linked with serious work on real needs, students' motivation for learning increases. Students participating in service-learning have better grades and rates of attendance, as well as improved attitudes to school.

—*Service-learning strengthens communities.*—Community-based organizations can do more with the help of students engaged in service-learning. Furthermore, community members who participate in service-learning see youth as valued resources and positive contributors to community.

The Need for Federal Action in the Fiscal Year 2004 Appropriations Cycle.—Within the Corporation for National and Community Service, Learn and Serve America serves the most participants. Despite a record of success, Learn and Serve America funding has remained essentially flat for the past 10 years. Increasing the Federal investment in Learn and Serve America will give a larger proportion of younger Americans the support they deserve to answer the national call to serve neighborhood and nation.

Partnership asks for Increased Learn and Serve America Funding.—The Partnership asks this subcommittee to increase funding for service-learning through an incremental increase of $18 million during fiscal year 2004: $12 million to increase funding for grants made to K–12 schools, tribes, and community-based organizations as part of the Learn and Serve program and $6 million to increase designated resources for technical assistance for Learn and Serve America grantees, including preparing practitioners to link service-learning to the teaching of history, civics, and civic education.

A Time to Preserve and Protect Democracy.—Citizen service is for all of us. High-quality service-learning should become a core element of the educational experience of every elementary, middle, and high school student in the United States. By offering service-learning, policymakers, educators, and parents open the door to a multifaceted education so that students may walk through it to become better citizens, better learners, and better workers.

PREPARED STATEMENT OF THE ALLIANCE TO SAVE ENERGY

INTRODUCTION

My name is David Nemtzow. I am the President of the Alliance to Save Energy, a bi-partisan, non-profit coalition of business, government, environmental, and consumer leaders dedicated to improving the efficiency with which our economy uses energy. Senators Charles Percy and Hubert Humphrey founded the Alliance in 1977. The leadership of the Alliance is also a partnership between the private sector and government chaired by Senator Byron Dorgan (D-ND) and co-chaired by Dean Langford the former CEO of Osram Sylvania. Over seventy companies currently participate in the Alliance's Associates program and with your permission Mr. Chairman I would like to include for the record a complete list of the Alliance's Board of Directors and Associates. This list includes the nation's leading energy efficiency firms, electric and gas utilities, and other companies committed to promoting sound energy use.

Thank you for the opportunity to testify regarding the energy-related components of the Environmental Protection Agency's (EPA) fiscal year 2004 budget request. Specifically, I respectfully urge you to significantly increase your support for the EPA's Energy Star program. The Energy Star program is an entirely voluntary program that yields significant economic returns to our nation's consumers while generating considerable environmental benefits for our nation—all through energy efficiency.

The Alliance has a long history of advocating for, as well as researching and evaluating, federal efforts to promote energy efficiency. While many of these efforts include laws passed by this Congress and federal regulations and standards issued pursuant to those laws, we especially applaud efforts that rely on cooperative partnerships between government and business and between the federal and state governments, and not just government mandates. EPA's climate programs are entirely voluntary and address the national goals of broad-based economic growth, environmental protection, national security and economic competitiveness at the same time. The EPA's Energy Star program is a shining example of such a program. The Climate Protection Division at EPA which operates the Energy Star program works closely with the private sector manufacturers, retailers, building owners, and energy

service providers, as well as state and local governments, non-profits, and other organizations to promote energy efficient products and buildings. And they do it extremely well—for every tax dollar spent by the Energy Star program, $75 or more of energy savings are returned. Last year alone, Americans with the help of Energy Star saved enough energy to power 15 million homes and avoid the greenhouse gas emissions from 14 million cars—all while saving over $6 billion.

ENERGY EFFICIENCY AS A VALUABLE ENERGY RESOURCE

Mr. Chairman, over the past 30 years, energy efficiency has met more of the country's energy needs than any other single domestic energy resource. Energy efficiency is a significant and valuable resource. Furthermore, energy efficiency measures are powerful and dynamic policy tools through which prices, supply, and emissions can be radically adjusted. While the Alliance to Save Energy believes that an effective energy policy must include a combination of measures that provide electricity, heating fuel, and motor fuel to Americans, it also believes that we must first go after the resource that is cheapest, can be delivered most quickly, and can stand up to all environmental scrutiny—that resource is energy efficiency.

Energy efficiency gains have significantly improved the way we use energy. The U.S. economy grew nearly five times faster than did energy use from 1973 to 2001. A refrigerator sold today uses about 70 percent less energy than one built in the early 1970s. Since 1973, energy efficiency has saved the nation 27 quadrillion Btus (quads) of energy annually, more than one-fifth of total consumption, and about $150 billion each year. The energy efficiency industry has become a vibrant part of the American economy. More than 5,000 companies provide energy-saving equipment and services, contributing over $10 billion and a quarter-million jobs to our economy each year.

But despite these new technologies and the integration of energy efficiency into the nation's energy policies and economy, we have barely scratched the surface of energy efficiency's potential. Technologies that dramatically increase the efficiency of electric distribution lines, lighting systems, air conditioning and refrigeration, and other products are moving out of laboratories. It seems that every year technological developments bring more and better measures at our disposal to reduce electricity demand, make homes more energy-efficient, and go further on less gasoline. But Mr. Chairman, we must make sure that we are able to maximize these resources.

HOW ENERGY STAR CAPITALIZE ON THIS RESOURCE

Mr. Chairman, EPA's Energy Star program has proven to be an extremely effective way for this nation to capitalize on the potential of energy efficiency as a resource. In fact, over the last decade, Energy Star successfully promoted the use of advanced technologies that are quite common today such as power management systems for office equipment, LED traffic lights, and low standby energy use. The President's National Energy Plan even recommends that the Energy Star program be expanded to include schools, retail buildings, health care facilities, and homes, and that the Energy Star labeling program be extended to cover more products. And, Mr. Chairman, the President Bush has publicly declared his strong support of the program.

Energy Star's voluntary partnership program—which includes Energy Star Buildings, Energy Star Homes, Energy Star Small Business, and Energy Star Labeled Products—works by removing marketplace barriers to existing and emerging technologies, resulting in faster deployment of energy efficient technology into the residential and commercial sectors of the economy.

Rather than providing financial subsidies or tax breaks, Energy Star develops voluntary partnerships and provides clear, reliable information to the public. The Environmental Protection Agency is uniquely qualified to operate these voluntary programs in the public interest with the confidence of market participants. The program has proved successful in providing information on technology opportunities, generating awareness of energy efficient products and services, and educating consumers about life cycle energy savings so that consumers can make informed purchases. In fact, the Energy Star label is a nationally recognized label for energy efficiency, used by many (including retailers and utilities) to promote efficiency. According to the EPA, as of 2002, the label has achieved more than forty percent awareness among the public.

Providing the catalyst for many businesses, state and local government institutions, and consumers to invest in energy efficiency, Energy Star helps overcome market barriers through brand recognition, information, and positive publicity. Because Energy Star takes a strategic approach to energy management, it can produce twice the savings—savings for the environment and for consumers.

ABOUT THE ENERGY STAR PARTNERSHIPS

Energy Star is composed entirely of voluntary partnerships, and they have grown since the early 1990s to include thousands of partnerships with product manufacturers, private and public building owners and operators, homebuilders, small businesses, utilities, and retailers. The sheer number of these partnerships is a testament to the fact that energy efficiency delivers "pollution prevention at a profit."

Energy Star serves broad constituencies across every state in the country. Energy Star includes over 1,250 manufacturing partners of over 35 different product categories, who make and market over 18,000 different models of Energy Star qualified products. Energy Star assists over thousands of small businesses with their efforts to maximize the energy efficiency of their facilities. Energy Star's work with partners further advances the education of energy efficiency and the reduction in energy consumption. For example, by working with builders, Energy Star helps the customers of those builders make smart decisions—decisions that will save the consumer money and the country pollution—for as long as the home is standing. To date, more than 3,000 builders have built over 100,000 Energy Star-qualified homes, locking in financial savings for homeowners of more than $26 million annually. The Energy Star Building Partnership currently represents 17 percent of the U.S. building floor space.

Recently, the Alliance to Save Energy asked many of Energy Star's partners if they would support our request for a significant increase in funding for these important programs. The response was remarkable. Over 650 businesses, from large businesses like Merrill Lynch & Co., Inc., the Target Corporation, and Exxon Mobil to smaller businesses like Target Aluminum, Inc. and Thomas Homes, Inc. (in Bridgeton, MO and Dunkirk, MD, respectively) and even schools such as the Howard County Public School System in Maryland pledged their support for these important programs. Each member of the Subcommittee will receive a copy of this letter with the list of businesses. With your permission Mr. Chairman I would like to include for the record a copy of this letter.

Lowe's Companies, Inc., another company that has pledged their support for increased funding of the program, also recently committed to increasing nationwide sales of Energy Star qualified products in by twenty percent in 2003. While saving their customers money with reduced utility bills, Lowe's will also helped to reduce the emissions of greenhouse gases.

Energy Star proves that environmental protection can not only be achieved without harming the economy, but also that such protections can act to boost consumer savings and economic growth. Energy Star provides the catalyst for many businesses, state and local government institutions, and consumers to invest in energy efficiency, which in turn yields multiple private and public benefits. It does this by providing access to information, improving brand recognition, and reporting positive publicity. This voluntary partnership program reduces pollution through cost-effective measures; promotes economic growth by stimulating investment in new technology; and helps ensure the reliability of our electric system by reducing peak demand.

INVESTMENTS IN ENERGY STAR PAY BACK FOR YEARS

While consumers who purchase Energy Star-labeled products save through the life of the product, product manufacturers get the economic boost and incentives from the purchases of these products. According to EPA, consumers and businesses saved more than $6 billion in 2002 alone by investing in energy-efficient technologies. In addition, EPA predicts cumulative net energy bill savings for consumer and businesses of $85 billion through 2012.

Pollution savings are as dramatic as the financial savings. EPA estimates that emissions reductions averaging more than 35 million metric tons of carbon equivalent (MMTCE) per year between now and 2012 were locked in last year based on actions already taken by EPA's Climate Protection program's voluntary partners. Because many of the investments in energy-efficient technology promoted by Energy Star offer a life of ten years or more, these investments will continue to deliver economic and environmental benefits through 2012 and beyond.

The Energy Star program seeks to influence those capital investment decisions in a way that helps individual purchasers save money while simultaneously helping the nation meet its clean air and greenhouse gas emissions-reduction goals. All of this through voluntary participation in Energy Star, and the voluntary, market-based choices made by thousands of partners and millions of American consumers. No regulations, no government mandates.

MUCH HAS BEEN ACCOMPLISHED, BUT HUGE POTENTIAL REMAINS UNTAPPED

As noted earlier, Mr. Chairman, Energy Star ensures American consumers have access to information about the energy efficiency of the products they consume. However, Energy Star does not cover all products. The Alliance to Save Energy agrees with the President's National Energy Plan that notes, "energy efficiency would be further promoted if the Energy Star program were expanded to a broader range of products." We believe, Mr. Chairman, that the Energy Star program should have the appropriate resources to do just that.

While the Energy Star program has thus far made significant reductions in greenhouse gas emissions, opportunities to use energy efficiency to further eliminate pollution and cut energy bills remain untapped. Over 85 percent of the major air emissions in the U.S. are attributable to energy consumption. Furthermore, American families and businesses spend over $700 billion each year on energy bills according to the Energy Information Administration. As successful as the Energy Star programs have been, these programs could accomplish much more. According to EPA, a typical homeowner could save roughly thirty percent per year on their energy bills by using Energy Star-labeled products. Imagine how much Americans could save with the help of a stronger, even more effective Energy Star program.

Unfortunately, these important programs have received a virtual level funding request for the past three years, even as the number of products and manufacturers in the Labeling program has greatly expanded, and the number of partners in the Buildings, Homes, and Small Business programs have soared.

Appropriations to the Energy Star program go directly to fund the underlying research, program implementation, and technical assistance to partners. These funds are hugely leveraged through EPA's thousands of voluntary partnerships with product manufacturers, home builders, state and local government institutions, commercial building owners, and small businesses. For every federal dollar spent on these programs, EPA can show an average of $75 or more in energy bills savings and $15 in private sector investment in energy efficient technology, reductions in greenhouse gas emissions of 1.0 metric ton of carbon equivalent, and an addition of over $60 to the economy.

RECOMMENDATIONS

Mr. Chairman, I hope that I have helped to demonstrate the extensive value of EPA's Energy Star program. The Energy Star program has proven to be an extremely effective way to capitalize our nation's resource of energy efficiency and successfully make use of energy efficiency's ability to enhance energy security, reduce pollution, and provide economic value at the same time.

The Alliance to Save Energy would like to respectfully recommend the Subcommittee take the following actions to best maximize the successful efforts of EPA's Energy Star program.

—Last year, the Senate provided a $6.4 million increase in funding for this program over the fiscal year 2002 levels. Unfortunately, this was omitted in Conference. However, both the Senate and Omnibus report marks the first time the Energy Star program and its funding have been mentioned in a VA–HUD appropriations report. I strongly encourage the committee to again make its funding intent for the program clear with report language.

—In addition, due to the multiple benefits of the Energy Star program, I respectfully request a significant increase in funding for the program from the fiscal year 2003 levels of $49.8 million.

CONCLUSION

Over the past decade, the Energy Star programs have demonstrated their effectiveness by achieving great savings in the nation's collective energy bill and in energy-related pollution. They are well-run, they are cost-effective, they have consistently exceeded their goals, and they have the support, even explicit endorsement of businesses across the country.

While there are many demands on the countries financial resources, I respectfully urge greater support to what works. Energy Star has proven tremendously cost-effective and it can deliver even greater benefits to the nation with increased funding resources. Increasing funding for these programs in fiscal year 2004 is a high-return investment for the nation's economy and environment.

Thank you for the opportunity to testify.

PREPARED STATEMENT OF THE AMERICAN ASSOCIATION OF NURSE ANESTHETISTS AND ASSOCIATION OF VA NURSE ANESTHETISTS

The American Association of Nurse Anesthetists (AANA) is the professional association that represents over 28,000 certified registered nurse anesthetists (CRNAs) across the United States. The Department of Veterans Affairs (DVA) currently employs over 530 full time CRNAs with less than 50 representing contract or part time employees. We appreciate the opportunity to present our testimony to the subcommittee and to offer recommendations on ways to improve the retention and recruitment of CRNAs in continuing to provide access to quality of care for our nation's veterans.

BACKGROUND INFORMATION ABOUT CRNAS

In the administration of anesthesia, CRNAs perform the same functions as physician anesthetists (anesthesiologists) and work in every setting in which anesthesia is delivered including hospital surgical suites and obstetrical delivery rooms, ambulatory surgical centers, health maintenance organizations, and the offices of dentists, podiatrists, ophthalmologists, and plastic surgeons. Today CRNAs administer approximately 65 percent of the anesthetics given to patients each year in the United States. They are masters prepared and meet the most stringent continuing education and recertification standards in the field, helping make anesthesia 50 times safer now than 20 years ago according to the Institute of Medicine's 1999 Report, "To Err is Human." CRNAs are also the sole anesthesia provider in at least 70 percent of rural hospitals, which translates into anesthesia services for millions of rural Americans. In addition, CRNAs are the sole anesthesia providers in twenty percent of the VA facilities.

CRNAs have been a part of every type of surgical team since the advent of anesthesia in the 1800s. Until the 1920s, anesthesia was almost exclusively administered by nurses. In addition, nurse anesthetists have been the principal anesthesia providers in combat areas in every war the United States has been engaged in since World War I. Most recently, 364 CRNAs have been deployed to the Middle East to ensure military medical readiness during the "Operation Iraqi Freedom". Data gathered from the U.S. Armed Forces anesthesia communities' reveal that CRNAs have often been the sole anesthesia providers, both at home and while forward deployed. For decades CRNAs have staffed ships, isolated U.S. Bases, and forward surgical teams without physician anesthesia support. The U.S. Army Joint Special Operations Command Medical Team and all Army Forward Surgical Teams are staffed solely by CRNAs. Military CRNAs have a long proud history of providing independent support and quality anesthesia care to military men and women, their families and to people from many nations who have found themselves in harms way. CRNAs also provide anesthesia services in the medical facilities of the Department of Defense, the Public Health Service, the Indian Health Service, the Department of Veterans Affairs, and countless other public and private entities.

One of the differences between CRNAs and anesthesiologists is that prior to anesthesia education, anesthesiologists receive medical education while CRNAs receive a nursing education. However, the anesthesia part of the education is similar for both providers, and both professionals are educated to perform the same clinical anesthesia services. CRNAs and anesthesiologists are both educated to use the same anesthesia procedures and techniques in the provision of anesthesia and related services.

CRNAs continue to provide the same standard of quality care in the administration of anesthesia as their MDA counterparts. That is why patient outcome data has consistently shown that there is no difference in outcomes between these two providers. With CRNAs administering approximately sixty-five percent of the anesthetics given to patients each year in the United States, the Institute of Medicine reported in their 1999 Report "To Err is Human" that anesthesia is fifty times safer now than twenty years ago.

The practice of anesthesia is a recognized specialty within both nursing and the medical professions. Both CRNA's and anesthesiologists administer anesthesia for all types of surgical procedures; from the simplest to the most complex, either as single providers or in a "care team setting".

Patients are just as safe receiving their anesthesia care from CRNAs or physician anesthesiologists, working individually, or from CRNAs and anesthesiologists working in anesthesia care teams. An April 2003 study titled, "Surgical Mortality and Type of Anesthesia Provider," analyzed the effect of different types of anesthesia providers on the death rates of Medicare patients undergoing surgery. According to the study, surgical death rates were essentially the same whether anesthesiologists

or nurse anesthetists provided the anesthesia individually or worked together in anesthesia care teams.

INCLUSION OF AAS UNDER THE VA HEALTH SYSTEM: WHERE IS THE OVERSIGHT?

The VHA Handbook 1123 on Anesthesia Service expired on March 31, 2003, with a new draft to be finalized shortly. In 2002, the Anesthesiology Field Advisory Committee for the Veterans Administration made revisions and changes to the March 27, 1998 VHA Handbook 1123 through a collective method of meetings and conference calls. Proposals for changes were brought to the committee as a whole to ensure that any revisions considered would be discussed and voted on. Again, the directive for the Anesthesiology Field Advisory Committee is to ensure the best possible care in anesthesia for our veterans.

It is the understanding of AANA and AVANA that as of March 3, 2003 the latest revisions of the VHA Handbook 1123 were not approved in collective manner. Further, we were informed that Dr. Michael J. Bishop, MD, Director VA Headquarters Anesthesia included some revisions without committee approval. Specifically, Dr. Bishop included a new provider anesthesiologists assistants (AAs) under section (5) Local Facility Anesthesia Personnel marked (e) Ancillary Personnel in the VHA Handbook 1123 "Anesthesia Services".

We are concerned that there was no proper oversight to include AAs, especially since there are no national qualification standards under Title 38 or pay category under Title 5 for AAs. Before the inclusions of AAs were made in the VHA Handbook 1123, were any "quality of care studies" on the safety record of AAs performed? How can VA simply allow AAs to practice in their facilities if AA's have "no scope of practice" within the Federal Government system? It seems apparent to us that until a study is conducted on AA's practice, and financial impact, they should not become a new provider in the VA system.

There is little known about the practice of AAs, since they are not recognized providers of anesthesia in all 50 states. Further, only five states provide separate licensure for AAs (Alabama, Georgia, New Mexico, Ohio, and South Carolina). If most of the country does not recognize the AA practice, why should VA have AAs practice in a national arena on our men and women who have served in the military? The VA health system should continue to hold the highest standard of health care for the men and women who have served in our armed services. Therefore, we request that there is appropriate congressional oversight to include new providers under the VA system.

The scope of training for AAs is severely limited. For example, the Emory program in Georgia does not provide clinical instruction in the administration of regional anesthesia. The AA curriculum is characterized by training that allows them to "assist" the anesthesiologist in technical functions. By contrast, nurse anesthetists are capable of high-level independent function and receive instruction in the administration of all types of anesthesia including general and regional anesthesia, conscious sedation, and monitored anesthesia care. The ability to make independent judgments and provide multiple anesthetic techniques are critical to meeting an array of patient and surgical needs. AAs have a very limited scope of practice, as they are required by law to administer anesthesia only under the close supervision of an anesthesiologist. Since AAs must work under the close supervision of an anesthesiologist, they cannot act independently and quickly in an emergency situation. Immediate and independent action is required when providing anesthesia, especially for those patients in the VA health system. In addition, AAs will not resolve the anesthesia provider shortage within the VA because there is already an increased demand for anesthesiologists.

NURSE ANESTHESIA PROVIDER SHORTAGE: HOW THIS COMMITTEE CAN HELP

While both types of health professionals can provide the same or similar services, it costs the Department of Veterans Affairs (DVA) significantly less to retain CRNAs because they draw a significantly lower salary than their physician counterparts. It is in the best interest of the DVA, and this Committee, to implement policies and to support initiatives that assist in the effort to maintain adequate numbers of CRNA employees in the DVA. Therefore, this Committee can greatly assist in the effort to attract and maintain essential numbers of CRNAs in the DVA by their support of competitive salaries and nurse anesthesia education programs.

The current employment scenario for CRNAs and the DVA is complicated by the national nurse anesthesia provider shortage. The number of nurse anesthetist vacancies increased 250 percent from 1998–2001, according to CRNA managers' surveys. Health professions staffing firms report CRNA recruitment rising by up to tenfold from 1997–2000, making nurse anesthesia the second most recruited health

professional specialty. In addition, this is compounded by the baby boom generation approaching retirement. As the number of Medicare-eligible Americans climbs, it compounds the number of surgical procedures requiring anesthetics. The solution is to increase funding for our nurse anesthesia schools, which are currently at capacity.

As of the fall of 2002, the VA system had approximately forty to fifty CRNA vacancies. This is compounded by the number of CRNAs between the ages of fifty-two and fifty-four in the VA system that will be eligible for retirement by 2006, which is greater than fifty percent of the current work force. The DVA will not be able to keep up with the recruitment of CRNAs to meet the growing needs of the older veteran patient population at this rate. This workload will be exacerbated as the VA health system becomes the back up health system for the to the military medical system due to the military involvement in the war in Iraq. Therefore, this Committee can greatly assist in the effort to increase the number of CRNAs practicing in the VA through the support of nurse anesthesia education programs.

The DVA is also looking for innovative ways attract nurse anesthetists to work in their facilities through educational opportunities. The DVA proposed a nurse anesthesia program beginning June 2004 with both the military and VA at Ft. Sam Nurse Houston Anesthesia program in San Antonio, TX. The pilot program would create ten openings for VA registered nurses (RNs) to apply to and attend a graduate program in nurse anesthesia at Ft. Sam Houston. After, their didactics are completed these student would do their clinical training at accredited VA facilities. Bridging the two programs would cost the VA program money in the short term, but savings in the long term with these CRNAs obligated to practice in the VA for two to five years after their board certification. This is similar to the Department of Defense anesthesia programs, where officers receiving a nurse anesthesia education, are obligated to serve in the military for an obligated four-year pay back. The cost to run the program the first year would be $450,000 including both set up and administrative costs. After wards, the cost would be $300,000 annually to continue to educate ten VA RNs to become nurse anesthetists. Both funding for student CRNAs and a faculty director are required to making this pilot program a success. Funding support for a VA nurse anesthesia program in conjunction with the Army nurse anesthesia program at Ft. Sam Houston, San Antonio, TX is one viable solution to both educating and employing CRNAs within the Veterans' health system.

LOCALITY PAY AND RETENTION BONUS

One thing that consistently attracts and maintains good employees is an attractive salary. Competitive salaries would assist the DVA with retention of cost-effective CRNAs to provide anesthesia services for our nation's veterans. But providing competitive salaries for employees can be an ongoing battle, especially in the face of restricted budgets. This is where this Committee can help, by providing adequate funding for personnel through the locality pay adjustments, which are currently not competitive with the private market.

If salaries cannot stay competitive in the face of a national nursing shortage, then the DVA will surely continue to face a shortage of CRNAs. Historically, the cost to correct such a problem has been steep. The DVA faced a severe shortage of CRNAs once before in the early 1990s, which was moderately corrected with the implementation of a locality pay system in 1991. In 1992, Congress expanded the authority of the local medical directors and allowed them to survey an expanded area to determine more competitive average salaries for CRNAs, which boosted pay and morale. Implementation of this expanded authority helped assist the DVA in making great leaps in retention and recruitment of CRNAs at that time, but times have changed. Due to the nationwide shortage of CRNAs over the last few years, salaries have increased in the private sector to stay competitive in employing CRNAs. This means that the DVA locality pay system is no longer competitive with the private sector, with new nurse anesthetist graduates choosing not to work in the VA health system.

In a recent national survey conducted by Ms. Laura Cohen, the chief nurse anesthetist at the local New Orleans VA, showed only one of the hospitals surveyed had a competitive new graduating starting salary. The response rate for the VA CRNA salary survey was 76 (60 percent) of the 124 sites that employ CRNAs. Therefore the numbers only apply to those 76 stations, but it was felt that these stations are representative of the situation that exists regarding VA CRNA salaries. The results showed that our national average for both entry level pay and senior positions fall several thousand dollars below the national average. In some locations new graduate starting salaries are as much as $30,000 below the community. This is caused by the low pay categories for Nurse I/Step I to Nurse 4/Step 4, but also the fact

that many station directors for VA facilities continue to use locality surveys at their discretion without the input of CRNA staff or disregard the results completely in the locality surveys.

According to the CRNA Qualifications Standards, a new graduate CRNA should come into the VHA at Nurse I/Step 1. The results found that only one station could easily recruit a new graduate at the intended starting salary and 14 stations had beginning salaries that might be able to recruit, depending on location. Thus, a minimum of 61 stations and a maximum of 75 stations could not recruit a new graduate CRNA. Most stations facing this situation are bringing in a new graduate CRNAs at a much higher step in Nurse I to be competitive in the local market. This practice, while attractive to the new graduate, does nothing for retention of the current CRNA workforce with years of service and little hope of a salary increase.

This same analysis revealed that 29 stations (39.1 percent) have Nurse III salaries that reach the federal maximum. The rest of the stations (61.9 percent) require Nurse IV, which can only be reached by the Chief Nurse Anesthetist, before the federal maximum salary of $126.5 thousand can be attained. Raising the Nurse I/Step 1 to the current market value and increasing the federal maximum salary would not only increase recruitment but also help greatly to retain the CRNAs already employed and continue the high standards of anesthesia care that the VA health system demands for the veteran population.

Finally, creating a structure for recruitment and retention bonuses to help VA facilities attract and retain CRNAs. The VA needs to establish a bonus system for CRNAs, similar to the military structure for incentive special pay, to stay competitive in the marketplace.

We strongly encourage this Committee to continue their role in facing this nursing shortage head on, by providing adequate funding for personnel. With the current shortage of nurse anesthetists, we must insure competitive salaries and education funding to retain and recruit high quality, cost-effective anesthesia providers. We look forward to working with this committee to ensure that veterans have continued access to quality health care at the VA.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR ENGINEERING EDUCATION

On behalf of the American Society for Engineering Education Engineering Deans Council (EDC), I would like to express appreciation for the opportunity to present written testimony on fiscal year 2004 appropriations for the National Science Foundation. I request that my testimony be made part of the record of the hearings on the fiscal year 2004 NSF budget. The Engineering Deans Council of the American Society for Engineering Education (ASEE) is the leadership organization of more than 300 deans of engineering in the United States. ASEE is a non-profit association established in 1893 and dedicated to the improvement of engineering and engineering technology education.

I want to begin by thanking the subcommittee Members for their commitment to a strong budget for the National Science Foundation. The NSF plays a vital role in supporting and advancing basic research in science and engineering and in developing the human capital needed to advance science and technology. Funding levels for the agency greatly impact engineering educators, as well as the country as a whole.

I want to thank Chairman Bond and Senator Mikulski for their leadership and persistence in advocating doubling the National Science Foundation's budget and their strong and continuing support for good budgets for the agency. I also want to extend the thanks of all the Engineering Deans Council to all of the other Members of the subcommittee for their support for doubling the NSF budget. The NSF Authorization Act of 2002 provides for doubling the NSF over a 5 year period. This Act represents a major milestone for the NSF and for the scientific community, because it authorizes increasing the budget of the NSF from its fiscal year 2002 level of approximately $4.8 billion to the level of $9.8 billion in fiscal year 2007.

For the fiscal year 2004 NSF budget, the EDC recommends an increase of $1.09 billion above the fiscal year 2003 level of $5.3 billion, to provide the agency with a budget of $6.39 billion, the funding authorized in the 2002 law.

At the outset I want to express the strong support of the Engineering Deans Council for the new 5-year Workforce for the 21st Century Initiative under which all the NSF directorates will be partnering in an integrated research and education effort to address science and engineering workforce needs.

The NSF occupies a unique position, with the ability to influence the economic strength of the nation through research and innovation. Basic research funded through the NSF opens the doors for further discoveries that can advance medical

care; improve communications equipment, and continue to create better civilian and military security systems. In the current climate of increasing global economic competition and a heightened need to protect our citizens and infrastructure, strong support of the NSF serves a vital national interest.

Science and technology have become a core component of economic strength and competitiveness. The NSF brings special expertise to the task of identifying and promoting the basic science and engineering research that underlies the United States' world economic leadership. A growing chorus touts the importance of this kind of federal engagement with science and technology, including Federal Reserve Chairman Alan Greenspan, the Council on Competitiveness, and Business Week, among many others. As Chairman Greenspan said in 2002, "there is just no question that if you're going to have technology as the base of your economy, which we do, research is crucial."

NSF is the sole federal agency charged with the important task of funding a broad range of research, spanning a wide variety of disciplines including basic science, engineering, mathematics, and computing. It provides necessary financial and intellectual support for scientists working on groundbreaking research, much of which will lead to innovations that could impact any number of emerging technologies. While NSF accounts for less than 4 percent of total federal research and development spending, the agency supports almost half of the non-medical basic research at American colleges and universities. In the field of engineering, NSF provides nearly one third of all federal support for basic research and has contributed to important developments such as computer-aided design, fiber optics, biotechnology, advanced composite materials, and magnetic resonance imaging (MRI). Renewing support for research and equipment will allow the nation to take advantage of the opportunities presented by these new technologies, creating further economic opportunities and improving overall quality of life.

NSF-sponsored research has led to many of the current developments in the area of homeland security. Recent NSF projects ranging from the study of the ecology of infectious diseases to the Scholarship for Service program, which trains students in information security, help bolster our nation's ability to prevent and respond to terrorist attacks. "The scientific and engineering community is aware that it can make a critical contribution to protecting the nation from catastrophic terrorism," Lewis M. Branscomb, emeritus professor, John F. Kennedy School of Government, said in a 2002 National Academies of Science report.

The benefits of a strong science investment are evident as the men and women of our armed forces respond to unprecedented threats to U.S. national security. Because of its superiority, much of it brought about by investments in S&T, this nation's military is successfully waging war against terrorism. In this new environment, characterized by unforeseen and unpredictable threats, maintaining and enhancing technological superiority will become even more imperative.

Across all fields, NSF support for research produces first-rate results on modest levels of investment. NSF-supported work is exceptionally well managed, and attracts additional funding from outside sources on a regular basis. For example, an additional $86 million in support from industry, other federal agencies, universities, and ten states leveraged NSF support for the Engineering Research Centers program. The agency has a diverse, responsive, results-oriented staff, efficient business processes that take advantage of staff knowledge and technology resources, and state-of-the-art business tools and technology. NSF has exceptional business practices, and won the only "green light" given out in the Office of Management and Budget's Executive Branch Scorecard report in December 2001. OMB Director Mitchell Daniels said that the NSF deserves to be strengthened, noting, "NSF is one of the true centers of excellence in the government where 95 percent of the funds that taxpayers provide goes out on a competitive basis directly to researchers pursuing the frontiers of science at a very low overhead cost." NSF"s management successes include doubling its budget between 1990 and 2000 while simultaneously decreasing the number of employees at the agency.

Much of NSF"s work looks beyond technological innovation by engaging new generations of students to aid in discoveries while gaining valuable skills that help prepare them for the cutting-edge research of the future. Many NSF grants require undergraduate students to be involved in performing federally funded research. K–12 teachers are invited to join in summer research programs at MIT's radio Haystack Observatory, and then are able to develop lesson plans that integrate modern scientific concepts and real life research processes. The NSF"s Math and Science Partnership Program extends improved science education into classrooms by uniting local school districts with the faculties of nearby colleges and universities. NSF also helped to sponsor "Deans Summit II: Fostering Campus Collaborations," earlier this

year. The meeting catalyzed the formation of many partnerships between engineering and education deans to improve K–12 science and mathematics education.

Engaging students in science from their pre-kindergarten education through college will help endow growing generations of Americans with the skills and interests necessary both to maintain U.S. leadership in economic, health, and military fields, as well as to function as citizens in an increasingly technology-driven society. A vibrant engineering education enterprise benefits civic, economic and intellectual activity in the country. Engineering graduates learn to integrate scientific and engineering principles to develop products and processes that contribute to economic growth, advances in medical care, enhanced national security systems, ecologically sound resource management, and many other beneficial areas. As a result, students who graduate with engineering degrees bring highly prized skills into a wide spectrum of sectors in the American workforce. Some conduct research that results in socially or economically valuable technological applications. Others produce and manage the technological innovations said to account for one-third to one-half of growth in the American economy. Still more bring advanced analytical abilities and knowledge of high technology to fields as diverse as health care, financial services, law, and government. Within all of these groups, the diversity of engineering graduates' backgrounds and viewpoints contributes to their ability to achieve the advances in innovation, productivity, and effectiveness that make them valuable contributors to the American workplace. As former Presidential Science Adviser Neal Lane observed: "Chief executive officers of American industry say that the biggest threat to U.S. competitiveness in the next century is a shortage of technologically skilled workers. Those future scientists and engineers must come out of the nation's universities and colleges. The surest way to leave the United States vulnerable to this threat is to cut funding for the NSF."

Engineering graduates in particular bring highly prized skills into all sectors of the American workforce. The most advanced carry on the research that pays off in many surprising ways. Other engineering graduates produce and manage many of the technological innovations said to account for one-third to one-half of the recent growth in the American economy. Still others bring advanced analytical abilities and knowledge of high technology to fields as diverse as health care, financial services, law, and government. In the Addendum immediately following my testimony, I have attached additional documentation of the many ways NSF support is promoting engineering education and research at U.S. colleges and universities. This wealth of human capital owes much of its capacity to strategic NSF support for engineering education.

A succession of predictable, sizable increases to the NSF budget will permit even greater development of human resources. In addition to the Math and Science Partnership initiative, NSF programs have become important vehicles for broadening the participation of under-represented groups such as minorities and women in the fields of science, math, and engineering. Through programs like the Experimental Program to Stimulate Competitive Research (EPSCoR), NSF works to strengthen the research and development infrastructure of many rural and low-population states. Consistent growth in the NSF budget will permit the allocation and coordination of the activities needed to promote the broadest possible development of science, mathematics, and technology skills among all Americans.

A $1.09 billion increase for the NSF budget will enhance the value of the agency's other cross-cutting initiatives. New funding for multidisciplinary mathematics research will enhance the transfer of results and applications from mathematics and statistics research to science and engineering disciplines, expanding the cadre of researchers trained in both mathematics and science. Dynamic interdisciplinary work across engineering and science disciplines promises startling advances in, for example, medicine, manufacturing, and communications. The assurance of steady resources over extended periods of time for high-risk, high-reward endeavors—such as research in nanotechnology, biocomplexity, and high-speed computing—would greatly enhance their prospects for success. As Harold Varmus, former Director of the National Institutes of Health and currently President of the Memorial Sloan-Kettering Cancer Center, has said, "it is crucial that leaders of science agencies be able to anticipate several years of steady growth during periods of expansion. These agencies make multi-year awards and are responsible for training and research infrastructure, as well as the operational costs of doing research." In an increasingly interdependent research system, the NSF is uniquely situated to initiate and promote productive exchanges across the full range of scientific and engineering disciplines.

Thank you for the opportunity to testify. The Engineering Deans Council would be pleased to respond to any questions from you and your staff.

Securing Laptops.—As more and more sensitive information is carried on government laptop computers, theft or loss of these laptops becomes an issue of national importance. Zero Interaction Authentication (ZIA) technology developed by the University of Michigan with NSF support provides a way of automatically encrypting sensitive information on a computer when it is removed from the proximity of its authorized user. The technology combines a high level of security with a low level of user dependence to create a practical and easily implemented layer of protection.

Modeling Buildings in 3-D.—Researchers at the University of Virginia and the University of North Carolina are developing technology to build extremely detailed three-dimensional computer models of the real world using laser rangefinders and digital cameras. The project, funded by the National Science Foundation, partners academic researchers with the FBI to investigate forensic scanning of crime scenes, the Thomas Jefferson Foundation to examine laser scanning for historical preservation, and with the New Orleans Museum of Art to explore virtual tourism using the resulting 3-D computer models.

Improving Structural Engineering.—Lehigh University's ATLSS Center is one of 15 major experimental installations linked through the internet to make up the George E. Brown, Jr. Network for Earthquake Engineering Simulation (NEES) project. This project, funded in part through the NSF, involves ATLSS scientists in experimentation to improve the seismic design and performance of the nation's civil and mechanical infrastructure systems. Researchers from the ATLSS Center were recently involved in conducting inquiries into the collapse of the World Trade Center.

Detecting and Fighting Breast Cancer.—Researchers at the University of Wisconsin-Madison, funded in part by the NSF, are developing non-invasive techniques for early stage breast cancer detection, monitoring, and treatment. Breast carcinomas significantly scatter microwaves, so an array of antennas sequentially transmits a low-power, ultra-short microwave pulse into the breast and collects the backscatter signal. The group hopes to adapt space-time signal processing algorithms for detecting and localizing small malignant lesions.

Creating Higher Strength Steel.—The use of higher strength steels in automobiles is an economical way to reduce oil consumption and increase safety. Unfortunately, the use of higher strength steels is hindered by changes in other properties of the steel that increase with strength. Changes in processing and steel composition, being studied by researchers at Seattle University through a grant from NSF, will result in large savings of energy and other resources for the manufacturing sector and safer, more fuel efficient vehicles for consumers.

Touching Virtual Objects.—Researchers at Georgia Tech are working with a grant from the NSF to develop "Virtual Clay", a new type of computer device that will allow users to see and feel a virtual 3-D surface. The device will not only be able to display a surface for the user to feel and touch, but it will also be able to be molded by the user and the resulting surface can be reproduced within the computer model. Potential applications range from design, scientific data visualization, and arts for use by the visually impaired.

Reconfiguring Manufacturing Systems.—The NSF Engineering Research Center for Reconfigurable Manufacturing systems designs and studies equipment for the next generation of manufacturing facilities. In 2002, engineers at the University of Michigan unveiled the worlds' first full-scale reconfigurable machine too- an important step to designing more flexible and efficient factories for the future. Factories built around reconfigurable manufacturing technology will be able to respond to market demand more quickly, ultimately offering consumers more product choices at lower prices.

Improving Airport Baggage Security.—A three-year NSF grant awarded in September 2001 is funding an examination of the nation's aviation security system. A University of Illinois professor of engineering is developing operations research models for aviation security operations and performing a computational analysis of algorithms for designing aviation security systems. The models will help security personnel target more quickly and accurately potential risks that might be lurking in baggage, passenger manifests, service routines, and other operations related to air traffic.

Water Contaminant Removal.—Scientists at Penn State University are working to alleviate a common type of water contaminant called perchlorate which has been detected in the water supplies of approximately twelve million people, and has proved difficult to remove through conventional water treatment technologies. Penn State researchers are investigating biological treatment of perchlorate where microbes reduce the contaminant to innocuous oxygen and chloride. The commercial effect of

this would be to save large amounts of money, which has been currently ear-marked for water purification to be used for both future development and current residential and commercial usage.

PREPARED STATEMENT OF THE HUMANE SOCIETY OF THE UNITED STATES

On behalf of our over 7 million members and constituents, The Humane Society of the United States (HSUS) appreciates the opportunity to submit testimony regarding fiscal year 2004 appropriations for the Environmental Protection Agency (EPA). We wish to thank the Subcommittee for directing the EPA to spend $4,000,000 for the research, development, and validation of non-animal, alternative chemical screening and prioritization methods. Prioritizing funding for non-animal test methods is a critical step, encouraging the EPA to promote and support these more humane, often faster, less expensive, and more scientifically sophisticated procedures. We wish to commend the Subcommittee for improving federal regulatory decision-making processes on chemical safety and for helping to reduce needless animal suffering. Our testimony for fiscal year 2004 focuses on the EPA's Office of Research and Development (ORD) and the agency's Endocrine Disruptor Screening Program (EDSP).

The EDSP is the largest of several chemical testing programs administered by the EPA. These programs will collectively subject millions of animals to suffering and death in painful toxicity tests. Indeed, the EDSP itself is perhaps the largest government-sponsored animal testing program in history. Yet without the Subcommittee's intervention, the EPA's ORD budget has no identifiable program to develop alternative tests that can replace, reduce, or refine existing animal-based tests. We are still not seeing sufficient commitment from EPA to provide the initial investments needed to produce alternatives (or batteries of alternatives) to address issues such as the Endocrine Disruptors. Eli Lilly and Company eliminated its cat test for glucagon, replacing it with an alternative test, and calculated that it was saving $1 million a year as a result of the new test. However, it cost Eli Lilly $2 million to develop and validate the alternative. There will be a need for similar up-front investment by the EPA.

The EPA, moreover, is not taking full advantage of an existing interagency committee with expertise in assessing new testing methods to evaluate their acceptability for regulatory use. The Interagency Coordinating Committee on the Validation of Alternative Methods (ICCVAM) is the federal government's focal point for assessing the validation and regulatory acceptability of new test methods. The EPA is a participating member of ICCVAM and was very involved in developing and approving the ICCVAM structure. Yet the EPA is bypassing the ICCVAM's review mechanism for many of the new tests in its EDSP, instead relying on in-house assessments. This move has worried many animal protection advocates as well as other stakeholders.

The HSUS respectfully urges this Subcommittee to request that the ORD establish a substantial program to research and develop alternative methods (as it already committed to do for the High Production Volume chemical testing program but has not yet pursued), and that the EPA take full advantage of ICCVAM's expertise in evaluating new testing methods of multi-agency interest.

RESEARCH AND DEVELOPMENT OF ALTERNATIVE TESTING METHODS AT EPA'S ORD

The ORD budget in recent years has been approximately $500 million. Within these appropriations, it has been nearly impossible to identify funding by the ORD for non-animal alternative testing methods to meet EPA's specific needs in new testing programs. We believe that innovative non-animal alternative testing technologies would benefit from research and development funding. Therefore, we respectfully request that at least $10 million either from the existing budget or over and above the President's budget request be appropriated for research, development and validation of non-animal, alternative testing methods. Given the potential long-term benefits of such investment in alternatives development, it is surprising to us that the EPA is not already actively pursuing this approach. Activities funded by these allotments should be designed in consultation with the Office of Pollution Prevention and Toxic Substances.

It would be appropriate for this funding to be targeted at testing methods with direct application to recent and new EPA testing programs, which include the EDSP, High Production Volume (HPV) chemical testing program, and the Voluntary Children's Chemical Evaluation Program (VCCEP). For example, there is a specific rat neurological development test that is widely regarded as inadequate but is still being proposed as one of the battery of tests under the VCCEP.

The HSUS also asks that the Subcommittee require the EPA to submit a report to the Subcommittee by March 30, 2004 regarding expenditures and plans for additional expenditures for fiscal year 2004 funds under the EDSP.

The request for $10 million represents approximately 2 percent of ORD's total budget, a modest but nonetheless significant commitment by EPA to alternative test methods. The HSUS would like to emphasize that, in making this request, we believe this course of action would also be in the best interests of human and environmental safety.

THE ENDOCRINE DISRUPTOR SCREENING PROGRAM (EDSP)

Under the 1996 Food Quality Protection Act (FQPA) and the Safe Drinking Water Act Amendments, Congress mandated that EPA determine whether certain substances may have an effect in humans that is similar to an effect produced by a naturally occurring estrogen, or such other endocrine effects as EPA may designate. The congressional mandate came as a response to public concern that exposures to synthetic chemicals in the everyday environment may be adversely affecting the endocrine systems of wildlife and humans, thereby causing reproductive and developmental anomalies.

In response to Congress' mandate, the EPA formed the Endocrine Disruptor Screening and Testing Advisory Committee at the close of 1996. This entity devised the testing framework for the EDSP. Currently, the proposed EDSP testing scheme consists of a battery of 16 tests designed to assess the toxicity of up to 80,000 chemicals. These tests are largely animal-based. Some scientific estimates have projected that between 600,000 and 1.2 million animals will be killed for every 1,000 chemicals tested.

Animal protection organizations and members of the public have serious concerns about the process by which the proposed EDSP tests will be evaluated. The FQPA stated that all screens and tests used in the EDSP should be properly validated, to ensure their relevance and reliability for assessing endocrine disruption. The proposed EDSP testing methods are all either new or revised for new endpoints, and therefore each should be evaluated for the EDSP as a matter of sound science. The natural entity to conduct this evaluation is the ICCVAM. Since its creation in 1994, the ICCVAM has benefited EPA and many other federal agencies, as well as research entities, by successfully evaluating the validity of new and revised testing methods (alternatives included) that have cross-agency relevance.

In December of 2000, Congress upgraded ICCVAM from an ad hoc committee to a standing body, thereby solidifying its crucial role. It is clear that ICCVAM can provide a standardized assessment of the validity and regulatory acceptability of all EDSP tests and screens. This would be particularly appropriate given the level of interest in these methods by other federal agencies such as the Food and Drug Administration and other national and international organizations, including the Organization for Economic Cooperation and Development.

However, EPA has developed a bifurcated validation plan for the EDSP that calls upon its own Science Advisory Board (SAB)/Science Advisory Panel (SAP) to review all the animal-based tests and screens, while asking the ICCVAM to review only the non-animal testing methods. This approach has many observers worried that the animal-based methods will be evaluated using lower standards than the non-animal methods. In addition to qualms voiced by animal protection advocates, the Advisory Committee on Alternative Toxicological Methods (ACATM) for the National Toxicology Program passed two unanimous resolutions questioning the EPA's plan and supporting the mission of ICCVAM. The Committee's primary concern was that both in vitro and in vivo methods be subjected to the same rigorous peer review and validation process to ensure the highest likelihood of acceptance by the regulatory agencies, the scientific community and the public.

The HSUS strongly urges the Subcommittee to call on the EPA to use ICCVAM's expertise to assess the validity and regulatory acceptability of all EDSP tests and screens, with appropriate fiscal support from the EPA. Furthermore, ICCVAM should collaborate with EPA's SAB/SAP to avoid any unnecessary delay in the program. Among other things, ICCVAM's review of the EDSP testing methods can serve to ensure that proper consideration is granted for the replacement, reduction, and refinement of the use of animals in these proposed tests and screens.

CONCLUSION

The HSUS respectfully requests that the VA–HUD Appropriations Subcommittee provide funding to the EPA with the direction that the ORD expand its research and development activities to include alternative methods. We also urge the Subcommittee to ensure that any new or revised testing methods with multi-agency or

international interest be evaluated through the Congressionally-established ICCVAM for sound science and consistency with the replacement, reduction, or refinement of animal use.

Finally, The HSUS requests language in the report accompanying the fiscal year 2004 VA–HUD and Independent Agencies Appropriations bill stating that no funds for the EPA may be used for the purpose of assessing data from an animal-based testing method when a non-animal test for the desired endpoint has been validated/accepted by the OECD or its member nations. This request will ensure that the EPA not only honors its stated concern for animal welfare, but also honors its international commitments to the latest scientific methods.

PREPARED STATEMENT OF THE AMERICAN PSYCHOLOGICAL SOCIETY

Mr. Chair, Members of the Committee: Thank you for this opportunity to present the views of the American Psychological Society (APS) on the fiscal year 2004 appropriations of the National Science Foundation (NSF). I am Alan Kraut, Executive Director of APS. We are a 15,000-member organization of scientists and academics, most of whom are located in colleges and universities across the country. The NSF supports many members of the American Psychological Society, and much basic research in our field could not exist without NSF funding.

—As a member of the Coalition for National Science Funding (CNSF), APS strongly supports CNSF's recommendation of $6.39 billion for the National Science Foundation in fiscal year 2004.

—Within the NSF Budget, we ask the Committee to fully fund the President's request for the Social, Behavioral and Economic Sciences (SBE) Directorate.

THE NATION'S PREMIERE BASIC RESEARCH ENTERPRISE

CNSF's recommendation for fiscal year 2004 is based on the level of funding authorized for NSF in HR 4664, passed in the 107th Congress and signed by the President. This level of funding is the first step toward a much-needed doubling the Nation's premiere basic research enterprise. NSF is the primary funding source of non-medical basic research conducted at colleges and universities in the United States. Last fall, Congress passed an historical authorization bill for NSF, supporting a schedule of increases in NSF's budget from the fiscal year 2002 level of $4.79 billion to $9.84 billion in fiscal year 2007. The basic science community now turns to you, the appropriators, and asks you to make this authorization a reality.

Both Congress and the Administration have expressed a high degree of confidence in NSF's mission and its efficient management of resources. The House Committee on Science made a clear case clear for the importance of basic science to our progress as a nation. As Chairman Boehlert noted, "NSF-supported research [is] integral to progress in priority areas such as health care and national security, among others," could not be more accurate. He also noted, "Science and technology have the potential to cure numerous domestic and global social ills—disease, poverty, hunger, cultural isolation and environmental degradation, just to name a few." But perhaps most relevant is this final statement by Mr. Boehlert: "Advances in science and technology do not come cheap, or without focused effort." The increase that you and your colleagues in the Senate provided for NSF in fiscal year 2003, and the increase that we are recommending in fiscal year 2004, are important steps in offsetting the comparative underfunding that has characterized NSF's budget in the past several years. The scientific community is grateful for your support and it is our hope that you will continue to endorse the much-needed expansion of NSF's budget.

THE SOCIAL, BEHAVIORAL AND ECONOMIC SCIENCES (SBE) DIRECTORATE

Within the NSF budget, we ask the Committee to continue its history of support for behavioral and social science research at NSF. This Committee was instrumental in encouraging NSF to establish its Social, Behavioral, and Economic Sciences (SBE) Directorate a decade ago, and over the years has encouraged many of the initiatives coming out of that directorate. The fiscal year 2004 budget request to Congress contains a 10.8 percent increase for SBE, which would bring it to $211.7 million. (And of course to the extent that you appropriate funds for NSF above the requested amount, we ask that the SBE directorate share proportionately in such increases.)

In fiscal year 2003 the President proposed a 6.3 percent increase for SBE. Unfortunately, when the dust settled, SBE received an increase of only 3.9 percent over fiscal year 2002. We are concerned about this shortfall, given the enormous potential of behavioral science to address many critical issues facing the Nation. To offset the previous year's underfunding, the SBE directorate received the largest proposed

increase of any directorate in 2004. We ask this committee to fully fund the President' budget request for SBE in fiscal year 2004.

Before addressing specific activities of the SBE directorate, I first want to provide a brief overview of basic psychological research, to give you an idea of the scope and breadth of the field that I represent.

An Overview of Basic Psychological Research: Programs and initiatives that involve psychological science are our best chance to solve the enigma that has perplexed us for so long: How does the human mind work and develop? APS members include thousands of scientists who conduct basic research in areas such as learning, cognition, and memory, and the linked mechanisms of how we process information through visual and auditory perception. Others study decision-making and judgment; mathematical reasoning; language development; the developmental origins of behavior; and the impact of individual, environmental and social factors in behavior. The basic psychological research conducted by APS members has implications for a wide range of applications, including designing technology that incorporates the perceptual and cognitive functioning of humans; teaching math to children; improving learning through the use of technology; developing more effective hearing aids and speech recognition machines; increasing workforce productivity; and ameliorating social problems such as prejudice or violence. While this is a diverse range of topics, all of these areas of research are bound together by a simple notion: that understanding the human mind, brain, and behavior is crucial to maximizing human potential. That places these pursuits squarely at the forefront of several of the most pressing issues facing the Nation, this Congress, and the Administration.

Progress and investments in psychological science will not simply lead us to a better understanding of how humans think, decide, evaluate, and adapt. It will lead us to revolutionary advances in our powers to predict, detect, and prevent. In this time of uncertainty, where we can come to rely so heavily on technology to keep us safe and confident, we must turn to cognition in order to maximize this technology. An understanding of how people process information will enable us to design technology and computers that fit our needs and make us comfortable when using them. The potential for advances would be limitless.

HIGHLIGHTS OF SBE INITIATIVES

Turning now to the SBE Directorate, I'd like to highlight some of its programs. These initiatives exemplify SBE's essential leadership on the cutting-edge frontiers of research, and they illustrate the important work that will only flourish if adequately funded.

Cognitive Neuroscience Initiative.—Theoretical work in behavioral science has greatly advanced our understanding of the basic mechanisms underlying memory, emotion, learning, and other psychological and cognitive processes. Recognizing the potential contributions of neuroscience to these and related areas, the directorate has added funds to these programs for the express purpose of bringing more neuroscience perspectives to bear on these topics, and to map these psychological mechanisms onto the physical dimensions of the brain. Cognitive neuroscience, within the last decade, has become an active and influential discipline, relying on the interaction of a number of sciences, including cognition, neurology, neuroimaging, physiology and others. The cross-disciplinary aspects of this field have spurred a rapid growth in significant scientific advances. Research topics examined under the program so far have included sensory processes, higher cognitive functions, language, learning, memory, and the list goes on. Cognitive neuroscientists are able to further clarify their findings by examining developmental and transformational aspects of these phenomena across the lifespan.

NSF, with the right support, will have the ability to link advances in human thought and behavior to the natural and social sciences. Now, with brain imaging and other non-invasive techniques, we are poised to confirm and extend these theories through studies of the living brain. The Cognitive Neuroscience program solicits innovative proposals aimed at advancing an understanding of how the human brain supports thought, perception, affect, action, social processes, and other aspects of cognition and behavior. Scientists from a range of areas will be able to test theories about normal brain functioning; assess the behavioral consequences of brain damage; and reach new levels of understanding of how the brain develops and matures, in terms of both structure and function. The program is particularly interested in supporting the development of new techniques and technologies for recording, analyzing, and modeling complex brain activity.

On a related note: A stable, long-term commitment to the study and development of new technology ensures continued advances in all fields, including our own dis-

cipline of psychological science, which is part of the broader behavioral and social science research enterprise. Emerging fields, such as behavioral genetics and cognitive neuroscience—which employ the latest in imaging and computing technology to unlock the mysteries of the mind and the origins of behavior—are examples of where gains in technology are necessary if we are to see a return on our investment in science. In addition, addressing human factors in the design of technology is essential; advances in technology will be severely undermined unless we incorporate what we know about perception, learning and memory, and other behavior-based processes that people draw on when using technology. Advances in science and technology will not only make the U.S. a world leader in many arenas, but will also contribute to better homeland security and a stronger economy.

Developmental and Learning Sciences.—This initiative supports studies that increase our understanding of cognitive, social, and biological processes related to children and adolescents' learning in a variety of settings. Additional priorities are the support of research on learning and development that incorporates multidisciplinary, multi-method, microgenetic, and longitudinal approaches. This program will lead to the development of new methods and theories, and assess peer relations, family interactions, social identities, and motivation. It examines the impact of family, school, and community resources, as well as assesses adolescents' preparation for entry into the workforce; and investigates the role of demographic and cultural characteristics in children's learning and development. The results of this initiative will add to our basic knowledge of children's learning and development and, ultimately, will lead to better educated children and adolescents who grow up to take productive roles as workers and as citizens.

NSF's Children's Research Initiative.—Recognizing that a combination of perspectives—cognitive, psychological, social, and neural—is needed to fully understand how children develop and how they acquire and use knowledge and skills, the SBE directorate supports new interdisciplinary research centers that will focus primarily on integrating traditionally disparate research disciplines concerned with child development. Known as the Children's Research Initiative (CRI), this program is bringing together such areas as cognitive development, cognitive science, developmental psychology, linguistics, neuroscience, anthropology, social psychology, sociology, family studies, cross-cultural research, and environmental psychology, to name only some of the relevant disciplines.

Psychology researcher Stephen J. Ceci, of Cornell University, who is also an APS Fellow, leads one of the CRI's four research centers. The Cornell Institute for Research on Children will conduct rigorous multi-disciplinary research on issues of significance to children and their families. Specifically, the center will commission national teams of the nation's most distinguished developmental scientists to study policy relevant questions, and to create a consensus position for dissemination to the public. Ultimately, this project will place science-based information in the hands of Congress and other policymakers. On a different front, the North Carolina Child Development Research Collaborative is preparing to launch an interdisciplinary longitudinal study of early childhood, aimed at examining linguistic, emotional and intellectual changes from birth to school entry. The focus is on the individual in the context of social relationships. These two centers are just a sampling of what the CRI can accomplish. Over 80 proposals for new studies were received last fall, and this spring will see another round of competition for collaborative projects and more centers.

The initiatives I just described are in the Division of Behavioral and Cognitive Science. Basic behavioral science supported by this division traditionally has included research in cognition, perception, language, development, emotion/affect, and social psychology. SBE's other main component, the Division of Social and Economic Sciences, also supports a substantial amount of basic psychological science. Examples of research topics being addressed in that division include: human dimensions of global change, group and individual decision making, risk management, and human factors. Research in these areas has the potential to increase employee and organizational productivity, improve decision making in critical military or civilian emergency situations, and inform the public policymaking processes across a range of areas.

CROSS-CUTTING BEHAVIORAL INITIATIVES

The Science of Learning.—How people think, learn and remember is a core area of interest at NSF. Known as the science of learning, this field draws from a variety of research topics across psychology, such as brain and behavior, learning, memory, perception, social psychology, and development. The basic challenge for both the

science and education communities is this: How can we apply and extend our knowledge of how people think, learn and remember to improve education?

Last year, as this program was in the planning stages, we asked for your support. In the fiscal year 2003 appropriations report, you stated, "the Committee recognizes that investment in basic, multidisciplinary research on learning is crucial to both successful educational reform and effective workforce development. In this regard, the Committee's recommendation includes support for the NSF Science of Learning Centers." We thank you for your support last year, and we ask that you continue to support this program in fiscal year 2004.

NSF's Science of Learning program has two broad goals: improving our understanding of the learning process, and transferring that understanding into application. We have the knowledge base and a critical mass of top-flight scientists to help solve the educational and learning issues that have been identified by the government as high priorities. But getting that knowledge into the classroom is going to require a multi-disciplinary, multi-agency effort. This will be facilitated via investigations in human-computer interactions, cognitive psychology, cognitive neuroscience, and other activity related to child learning and cognitive development. Through the establishment of three or four multi-disciplinary Science of Learning Centers, NSF will for the first time attempt to focus the full range of science and research onto a scientific workforce objective. These centers will also provide a research base for the President's Math and Science Partnership.

Human and Social Dynamics.—NSF's newest priority area, Human and Social Dynamics, will support multi-disciplinary approaches to better understand the causes and impact of social change, as well as to increase understanding of behavior and the human mind. This new priority area will expand knowledge of the cognitive and social structures that create and define change. Decision making under uncertainty and enhancing human performance are just two examples of topical areas that will be addressed in the early stages of this effort.

One of the biggest challenges facing behavioral scientists is the better understanding of everyday human performance and action, and how such performance is influenced by rapid change. NSF is currently seeking research proposals that will examine this challenge. Research on cognition, development, behavior, emotion and language is converging with advances in biology, engineering, and technology. This convergence can be used to illustrate how we can improve performance in the face of rapid change. The early stages of research in this new area will enhance our fundamental understanding of basic research on human performance in the behavioral sciences, and will strengthen the links between this research and other relevant scientific communities, especially biology, engineering, and information technology. This priority area seeks to refine our knowledge about decision-making, risk, and uncertainty, and then take this new knowledge and translate it into improved decision-making techniques. Now more than ever, we live in a world where science such as this cannot afford to fail.

In closing, I want to note that building and sustaining the capacity for innovation and discovery in the behavioral and social sciences is a core goal of the National Science Foundation. We ask that you encourage NSF's efforts in these areas, not just those activities I've described here, but the full range of activities supported by the SBE directorate and by NSF at large. Your support in fiscal year 2004 will help NSF lay the groundwork for this long-overdue emphasis on these sciences.

Thank you again for the opportunity to appear before you to present our recommendations. I would be pleased to answer questions or provide additional information.

LIST OF WITNESSES, COMMUNICATIONS, AND PREPARED STATEMENTS

Page

Alliance to Save Energy, Prepared Statement of 566
American Association of Nurse Anesthetists and Association of VA Nurse Anesthetists, Prepared Statement of 570
American Astronomical Society, Prepared Statement of 471
American Chemical Society, Prepared Statement of 504
American Heart Association, Prepared Statement of 543
American Indian Higher Education Consortium, Prepared Statement of 472
American Legion, Prepared Statement of 531
American Lung Association, Prepared Statement of 558
American Psychological Society, Prepared Statement of 579
American Public Power Association, Prepared Statement of 547
American Rivers, Prepared Statement of 518
American Society for Engineering Education, Prepared Statement of 573
American Society for Microbiology, Prepared Statement of 476
American Society of Mechanical Engineers International, Prepared Statement of 538
American Society of Plant Biologists, Prepared Statement of 510
American Thoracic Society, Prepared Statement of 554
Ashby, Cornelia M., Director, Education, Workforce and Income Security Issues, General Accounting Office, Prepared Statement of 293
Association of American Universities, Prepared Statement of 506
Association of Local Air Pollution Control Officials, Prepared Statement of 521
Association of Minority Health Professions Schools, Prepared Statement of 560

Benson, Eric, Acting Under Secretary for Memorial Affairs, Department of Veterans Affairs 75
Boesz, Christine C., Inspector General, National Science Foundation 221
Prepared Statement of 246
Statement of 245
Bond, Senator Christopher S., U.S. Senator from Missouri:
Opening Statements of 1, 75, 141, 221, 271, 351
Questions Submitted by..... 38, 104, 180, 257, 266, 315
Brodsky, Lewis C., Acting Director, Selective Service System, Prepared Statement of 451
Brown, Tony T., Director, Community Development Financial Institutions Fund, Department of the Treasury 325
Prepared Statement of 330
Statement of 328
Brownlee, Honorable Les, Under Secretary of the Army and Acting Assistant Secretary of the Army (Civil Works), Department of the Army—Civil, Prepared Statement of 424
Burns, Senator Conrad, U.S. Senator from Montana, Questions Submitted by..... 55, 110
Byrd, Senator Robert C., U.S. Senator from West Virginia, Questions Submitted by 72

Calaveras County Water District, Prepared Statement of 468
Campbell, William H., Assistant Secretary for Management, Department of Veterans Affairs 75
City of St. Helena, California, Prepared Statement of 461

Page

Clutter, Mary, Assistant Director for Biological Sciences, National Science Foundation 221
Statement of 257
Coalition for Effective National Service, Prepared Statement of 548
Colwell, Rita R., Director, National Science Foundation 221
Prepared Statement of 236
Statement of 234
Consortium of Social Science Associations (COSSA), Prepared Statement of 502
Cooper, Vice Admiral Daniel L., (USN Ret.), Under Secretary for Benefits, Department of Veterans Affairs 75
Craig, Senator Larry, U.S. Senator from Idaho:
Questions Submitted by..... 262, 398
Statements of..... 147, 388

Davenport, Linda, Acting Deputy Director for Policies and Programs, Community Development Financial Institutions Fund, Department of the Treasury 325
DeWine, Senator Mike, U.S. Senator from Ohio:
Questions Submitted by..... 59, 399
Statement of 357
Dollar, the Honorable Dennis, Chairman, National Credit Union Administration, Prepared Statement of 403
Domenici, Senator Pete V., U.S. Senator from New Mexico, Questions Submitted by 56, 111, 202, 263, 269
Donohue, Kenneth, Inspector General, Department of Housing and Urban Development 1
Statement of 32
Doris Day Animal League, Prepared Statement of 492

EZ/EC Foundation Consortium, Prepared Statement of 562

Falk, Henry, M.D., M.P.H., Assistant Administrator, Agency for Toxic Substances and Disease Registry, Department of Health and Human Services, Prepared Statement of 417
Fleet Reserve Association, Prepared Statement of 485

George, J. Russell, Inspector General, Corporation for National and Community Service 271
Prepared Statement of 287
Statement of 285
Gianni, Gaston L., Jr., Inspector General, Office of Inspector General, Federal Deposit Insurance Corporation, Prepared Statement of 427
Great Lakes Indian Fish and Wildlife Commission (GLIFWC), Prepared Statement of 457
Griffin, Richard, Inspector General, Department of Veterans Affairs 75
Guillermin, Michelle, Chief Financial Officer, Corporation for National and Community Service 271

Harkin, Senator Tom, U.S. Senator from Iowa, Questions Submitted by..... 129, 347
Herrling, Major General John P., USA (Ret), Secretary, American Battle Monuments Commission, Prepared Statement of 440
Humane Society of the United States, Prepared Statement of 577
Hutchison, Senator Kay Bailey, U.S. Senator from Texas:
Prepared Statement of 356
Statement of 354

Johnson, Senator Tim, U.S. Senator from South Dakota:
Prepared Statements of..... 83, 223
Questions Submitted by..... 134, 265, 348
Jones, Owen, Deputy Director for Management and Chief Financial Officer, Community Development Financial Institutions Fund, Department of the Treasury 325
Joslin Diabetes Center, Prepared Statement of 499

Kohl, Senator Herb, U.S. Senator from Wisconsin, Question Submitted by 401
Kramer, Honorable Chief Judge Kenneth B., U.S. Court of Appeals for Veterans Claims, Prepared Statement of 413

Page

Lac du Flambeau Band of Lake Superior Chippewa Indians, Prepared Statement of 455
Lazar, Ellen, Executive Director, Neighborhood Reinvestment Corporation, Prepared Statement of 444
Leahy, Senator Patrick J., U.S. Senator from Vermont:
Prepared Statement of..... 8, 149
Questions Submitted by..... 70, 216
Statement of 148
Lenkowsky, Les, CEO, Corporation for National and Community Service 271
Prepared Statement of 278
Statement of 276
Liu, Michael, Assistant Secretary, Public and Indian Housing, Department of Housing and Urban Development 1
Statement of 27

Mangano, Philip, Executive Director, Interagency Council on Homelessness, Department of Housing and Urban Development 1
Statement of 37
Marburger, John H., III, Director, Office of Science and Technology Policy, Executive Office of the President 221
Prepared Statement of 229
Statement of 227
Martinez, Mel, Secretary, Department of Housing and Urban Development 1
Prepared Statement of 12
Statement of 9
Mehan, G. Tracy, III, Assistant Administrator, Office of Water, Environmental Protection Agency 141
Remarks Delivered to the EPA Forum on Closing the Gap: Innovative Responses for Sustainable Water Infrastructure 168
Merritt, Carolyn W., Chairman and Chief Executive Officer, U.S. Chemical Safety and Hazard Investigation Board, Prepared Statement of 408
Metropolitan Water Reclamation District of Greater Chicago, Prepared Statement of 466
Mickey Leland National Urban Air Toxics Research Center, Prepared Statement of 494
Mikulski, Senator Barbara A., U.S. Senator from Maryland:
Prepared Statements of..... 145, 327
Questions Submitted by..... 59, 115, 138, 205
Statements of..... 6, 80, 144, 222, 274, 353

National Association of Counties, Prepared Statement of 528
National Association of Local Housing Finance Agencies, Prepared Statement of 528
National Community Development Association, Prepared Statement of 528
National Council for Science and the Environment, Prepared Statement of 512
National League of Cities, Prepared Statement of 528
National Service-Learning Partnership, Prepared Statement of 565
Northwest Indian Fisheries Commission, Prepared Statement of 480

O'Keefe, Sean, Administrator, National Aeronautics and Space Administration 351
Prepared Statement of 365
Statement of 357

PATH Industry Steering Committee, Prepared Statement of 524
People for the Ethical Treatment of Animals (PETA), Prepared Statement of 497
Poling, Susan A., Associate General Counsel, General Accounting Office, Prepared Statement of 293
Principi, Anthony J., Secretary of Veterans Affairs, Department of Veterans Affairs 75
Prepared Statement of 88

Quinault Housing Authority, Quinault Indian Reservation, Prepared Statement of 482

Reid, Senator Harry, U.S. Senator from Nevada, Questions Submitted by 136
Roswell, Robert H., M.D., Under Secretary for Health, Department of Veterans Affairs 75

Page

Santa Clara Valley Water District, San Jose, California, Prepared Statement of 465
Shelby, Senator Richard C., U.S. Senator from Alabama, Statement of 356
Society for Neuroscience, Prepared Statement of 509
State and Territorial Air Pollution Program Administrators, Prepared Statement of 521
Stevens, Senator Ted, U.S. Senator from Alaska, Statement of 382

Teach For America, Prepared Statement of 552

University Corporation for Atmospheric Research (UCAR), Prepared Statement of 489
Upper Mississippi River Basin Association, Prepared Statement of 463
U.S. Conference of Mayors, Prepared Statement of 528

Washington Suburban Sanitary Commission, Prepared Statement of 470
Washington, Warren M., Chair, National Science Board, National Science Foundation 221
Prepared Statement of 241
Statement of 240
Weicher, John C., Assistant Secretary, Housing, and Federal Housing Commissioner, Department of Housing and Urban Development 1
Statement of 32
Whitman, Christine Todd, Administrator, Environmental Protection Agency ... 141
Prepared Statement of 152
Statement of 150
Remarks to the National Water Infrastructure Forum 166

SUBJECT INDEX

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

	Page
Accountability	315
Additional Committee Questions	315
Administration Earmarks	311
America's Promise	322
Audit of the Trust	289
Audits of State Commissions	288
Board of Directors	314
"Challenge" Grants	317
Challenge Grant Proposals	311
CNCS Senior Leadership	306
Cost Accounting System	318
Education Trust:	
Enrollments	305
Model	308
Establishment of Evaluation Section	287
Financial Model: Large Cap, Mid Cap, IPOs	313
Fiscal Year 2003 Appropriations	280
Fiscal Year 2004:	
Budget Request	280
Challenge Grant Request	310
Investigation of the Trust	290
Legislative Reforms	284
Leveraging More Volunteers	319
Literacy	320
Management of the Trust	305
Management Reforms	279
Multiple Federal Funding Sources	323
National Service Trust Audit and Investigation	288
New Policies Established, but Additional Changes may be Needed	298
Outreach to Organizations that Serve Immigrant Populations	314
Performance:	
Measures	316
Of America's Promise	322
Preliminary Observations on the National Service Trust and AmeriCorps	293
Reauthorization	319
Recommendations	292
Relationship with Freedom Corps	309
Review of the Corporation's Alternative Personnel System	287
Sustainability	317
Three Factors Contributed to the Need to Suspend AmeriCorps Enrollments	296
USA Freedom Corps	315

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Additional Committee Questions	38
Asset Control Area Demo	36
Asset Control Areas	47
CDBG Formula Funding	52
Communities Served Under Brownfields	66
Elimination of the Rural Housing and Economic Development Program	55
Embracing High Standards of Ethics, Management, and Accountability	22
Empowerment Zones	73

Page

Ensuring Equal Opportunity in Housing 21
Faith-Based Organizations 33, 42
FHA 35
  Multifamily and Single Family Contractor Accountability 48
  Single Family Mortgage Insurance 46
Financial Management and Information Systems 55
Fiscal Year 2003 Technical Assistance for Homeless Assistance Grant Program 64
Fraud 31
GAO High Risk—FHA Single Family Insurance 46
GSE Oversight 59
Housing Assistance for Needy Families (HANF) 11, 26, 38, 67
  Funding Proposal 66
Hiring 25
Home Program 10
Homeless:
  Assistance 53
  Funds in Burlington 70
HOPE VI 11, 28, 69
Housing Opportunities for Persons with AIDS (HOPWA) 60
  Renewed Grantees 60
Increasing Homeownership Opportunities 13
Interactive Web-Based Lead Database 69
Interagency:
  Council on Homelessness 37
  Investment in Childhood Lead Poisoning Reduction 70
ITAG/OTAG 52
Lack of Affordable Housing 46
Management Issues 12
Mark-to-Market 54
Metropolitan Statistical Area 57
NAHASDA Funding 58
National Homeless Data Analysis Project 64
Native American Housing Block Grants 54
Neighborhood Networks 65
New Lead-Based Paint Abatement Program 59
New York Disaster Assistance Funds 52
Outreach and Technical Assistance Grants 59
Promoting:
  Decent Affordable Housing 15
  Home Ownership 10
  The Participation of Faith-based and Community Organizations 22
Public Housing:
  Capital Fund 44
  Elderly/Minimum Rent 30
  HOPE VI 43
  Operating Fund 33, 72
  Operating Funding 41
  Reinvestment Loan Guarantee Initiative 34
Puerto Rico Public Housing Authority 54
Reserves 67
Rural Housing and Economic Development Program 52
Samaritan Initiative 56
Section 8 27
  Certificate Fund 39
  Project-Based Assistance 53
  Rental Subsidy Overpayments 41
Section 811 Housing for the Disabled 56, 58
Severely Distressed Public Housing 69
Staffing 45
Strengthening Communities 18
Study on Voucher Utilization 68
Technical Assistance in CDBG 64
Unused Budget Authority 67
Voucher Utilization 67, 68

Page

DEPARTMENT OF THE TREASURY

DEVELOPMENT FINANCIAL INSTITUTIONS FUND

Additional Committee Questions 347
CDFI Fund Programs Overview 333
Management and Operations 331
President's Fiscal Year 2004 Budget 331

DEPARTMENT OF VETERANS AFFAIRS

Additional Committee Questions 104
Antipsychotic Drug Zyrexa 114
Burial 92
Capital Asset Realignment for Enhanced Services (CARES) 90, 106
Claims Processing 108, 113
  Waiting Times 120
Collections 107, 119
Community-Based Outpatient Clinics 111
Copayment Increases 118
Cost-share Proposals 104
Enrollment Fee 95
Fiscal Year 2004 Budget Request Summary 84
Fort Howard 126
Gulf War Lesson 96
Health Care Quality Management and Patient Safety 109
Homeland Security 127
Homeless:
  Spending 108
  Veterans 113
Homelessness 107
Long Term Care 123
Management Improvements 92
Mandatory Spending for Health Care 109
Medical:
  And Prosthetic Research 90
  Research 139
Medical Care 88
  Waiting Lines 120
Patient Safety in Medical Research 124
Physician:
  Assistant Advisor 128
  Time and Attendance 122, 138
Prescription Drugs 106
Priority 7 and 8 Veterans 115
Questions Submitted to the:
  Department of Veterans Affairs 104
  Inspector General 138
Raising of Copayments 100
Suspension of Priority 8 Enrollment 87
Transitional Housing 129
$250 Enrollment Fee 118
Veterans' Benefits 91
Waiting List(s) 86, 100, 105

ENVIRONMENTAL PROTECTION AGENCY

A Commitment to Reform and Results 155
An Integrated Approach to System Management 160
Additional Committee Questions 179
Advance Information Security and Communication 174
Aging Water Infrastructure 186
Approval Process for Genetically Engineered Crops 190
Arsenic Cost 185
  Rural Communities 186
Arsenic Standard 157
  EPA:
    Facilitation 185
    Funding for Communities 202

Page

Arsenic Standard—Continued
Legislative Assistance ... 203
Better Protected Land ... 153
CAFO Rule Implementation ... 178
CAFOs Rule:
New Mexico Producers ... 204
Region 6:
General Permit ... 204
Versus National Rule No. 1 ... 203
Versus National Rule No. 2 ... 204
Children's Health Report & Clear Skies ... 219
Clean Air: Protecting Public Health ... 210
Clean Water SRF:
President's Request ... 156
Proposed Reduction ... 158
Reduction ... 180
Cleaner Air ... 152
Clear Skies ... 207
Budget Request ... 206
Funding Request ... 207
Legislation Dependent ... 206
Legislation Enactment ... 207
Mercury MACT ... 209
Clear Skies Act vs. Clean Air Act ... 208, 217
Combined and Sanitary Sewer Overflows ... 156
Commit to Strong Environmental Enforcement ... 174
Concentrated Animal Feeding Operations ... 190
Core Water Programs ... 205
Cost Estimates of Sanitary Sewer Overflows ... 157
CSO and SSO Infrastructure ... 180
U.S. Cities ... 181
CWSRF and DWSRF Oversight ... 194
Elizabeth Mine ... 175, 216
Enforcement ... 155
EPA's:
Evaluation ... 216
Fiscal Year 2004 Plans ... 215
Fiscal Year 2004 Budget ... 216
GAO's Evaluation Recommendation ... 215
Personnel by Activity ... 214
Fiscal Year 2004 Budget ... 215
Proposed Cuts ... 214
Vacancies ... 215
Enhance Preparedness and Response ... 174
Enhancing Strong Science ... 154
Ensuring Safe Food ... 155
Financing Infrastructure Investment ... 162
Fiscal Year 2004 Budget Proposal ... 218
Global Pollution ... 194
Ground Zero Air Statements ... 193
Homeland Security ... 154, 172, 173, 192
Chemical Companies ... 193
Research ... 174
Hudson River Dredging Delay ... 191
Interstate Transport of Air Pollution ... 210
Lake Champlain ... 219
Mercury Emissions ... 175, 217
MTBE Contamination Issue ... 189
New Cancer Risk Guidelines for Children ... 191
New Corn Pest Control ... 190
New Source Review ... 188
Improvement Rules: Petitions for Review Filed ... 188
NO_X and SO_2 Reductions ... 209
Oversight and Accountability ... 201
Prioritizing Water Needs with Arsenic Standard ... 187
Promote Safer Chemicals and Strengthen Laboratories ... 173
Protect:
Ambient and Indoor Air Environments ... 173

Page

Protect—Continued
Drinking Water and Wastewater Facilities 173
Public Education 164
Purer Water 153
Quality Environmental Information 155
Quality Trading Program: Increased Pollution 213
Safeguard EPA Personnel and Infrastructure 174
Ship Scrapping 214
Disposing of Ships 213
International Conditions 214
SRFs—State Priorities 178
St. Louis—Attainment Status 179
Suggestions Discussed by Forum Participants for:
Financial Responses 165
Managerial Responses 165
Technological Responses 166
Summary of Discussions From the Closing the Gap: Innovative Solutions for America's Water Infrastructure Forum 159
Superfund:
Funding:
Recoveries 188
Responsible Parties 187
Versus CWSRF Funding 187
President's Request 177
State Control 188
The Role of Pricing 163
TMDL 189
Status of Rule 177
Water Infrastructure 193, 206
Needs 180
Gap:
Conference 205
Funding Cut 205
Water and Sewer Funding 205
Water Quality Trading Program:
Caps 211
Monitoring Trades 212
Permit Levels 212
Sensitive Areas 212

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF SCIENCE AND TECHNOLOGY POLICY

Agency Budget Highlights 230
Fiscal Year 2004 OSTP and Federal R&D Budget 229
Interagency Initiatives 231
Managing the Federal Research Budget 233
Math and Science Partnerships 267
National Aeronautics and Space Administration (NASA) 231
National Science Board Budget 253
Office of Science and Technology Policy 221
Plant Biotechnology:
Education 255
Research in the Developing World 266
Priority Setting for Major Research Facilities 266
Questions Submitted to the Office of Science and Technology Policy 266
Tech Talent 268
The President's Fiscal Year 2004 R&D Budget 229
2004 NSF Budget: Increment of Increase 250

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

Academic Programs 384
Additional Committee Questions 398
Anticipating A Return to Flight 367
Associated Universities Research Associates (AURA) 395
Audited Financial Statements 364

Page

Aviation Security Initiative 362
Beyond Einstein Initiative 362
Biological and Physical Research Programs 400
Budget Restructuring 363
Climate Change Research Initiative 362
Columbia Recovery Effort Update 358
Commercial Technology and Commercial Space Product Development Programs 401
Communications, Navigation and Surveillance (CNS) System 401
DOD/FAA/NASA Task Force 383
Education Initiative 363
Establishing Our Blueprint 368
Explorer Program 390
Fiscal Year 2004 Budget Request 357, 360, 367
Hubble Space Telescope 394
  Anniversary 360
Human Research Initiative 361
Human Resource Challenges 364
Implications of Suspension of Shuttle Flights 366
Innovative Technology Transfer Partnerships (ITTP) 400
Integrated:
  Budget Performance 364
  Financial Management System 364
  Space Transportation:
    Plan 363
    Program 389
ISS's Resupply Missions 385
Launch Technologies—NASA/DOD 390
Linking Investments to Strategic Plan 370
Microgravity Research Program 396
National Airspace System Transformation Augmentation 362
Next Generation:
  Launch Technology Program 401
  Turbine Engines 399
Nuclear Power Propulsion 397
Optical Communications Initiatives 361
Orbital Space Plane 385, 392
President's Budget Request 387
Project Prometheus 360, 392, 399
Propulsion Research 391
Pursuing Critical New Opportunities 370
Quiet Aircraft Technology Acceleration 362
Recruiting and Retention 393
Return to Flight 386
Shuttle Costs 384
Small Explorer Mission (SMEX)/Mission of Opportunity 390
Space Station Research Priorities 397
Strengthening Our Foundation 369
Ultra-Low Power Electronics Technology 398

NATIONAL SCIENCE FOUNDATION

Additional Committee Questions 257
Additional Funds Investments 251
  Examples of 252
Antarctic Infrastructure Planning 248
Award Administration 249
Business Analysis Plan 259
Engineered Vaccinations 256
Experimental Program to Stimulate Competitive Research (EPSCoR) 262, 265
Formula-driven Funding Increases 264
Human and Social Dynamics Priority Area 253
Intergovernmental Personnel Act Appointments 261
Large Facility Management Issues: Progress 254
Legal Counsel for the National Science Board 258
Major Research Equipment and Facilities Construction:
  For Fiscal Year 2004 258
  Program 259

Page

Management of Large Infrastructure Projects 247
Math and Science Partnership (MSP) Program 261
National Radio Astronomy Observatory (NRAO) 264
National Science Board Budget 253
National Science Digital Library 265
NSF Funding Priorities 257
NSF/USAID Collaboration 257
Open Meetings of the National Science Board 259
Plant Biotechnology Education 255
Proposed Reduction for the Science, Technology, Engineering, and Mathematics Talent Expansion Program (STEP) 265
Research Infrastructure Improvement Awards 262
Research Instrumentation and Infrastructure 263
Science, Technology, Engineering, and Mathematics Talent Expansion Program (STEP) 262
Strategic Management of Human Capital 250
2004 NSF Budget: Increment of Increase 250
Use of EPSCoR State Faculty in Merit Review Process 263

○