[COMMITTEE PRINT]

HOUSE OF REPRESENTATIVES
COMMITTEE ON THE BUDGET

VIEWS AND ESTIMATES

OF

COMMITTEES OF THE HOUSE

(With Additional, Dissenting, and Minority Views)

ON THE

CONCURRENT RESOLUTION ON THE BUDGET FOR FISCAL YEAR 2012

SUBMITTED PURSUANT TO SECTION 301(d) OF THE CONGRESSIONAL BUDGET AND IMPOUNDMENT CONTROL ACT OF 1974

MARCH 2011

Serial No. CP–1

Printed for the use of the Committee on the Budget

U.S. GOVERNMENT PRINTING OFFICE

65–255 CC WASHINGTON : 2011

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) 512–2104 Mail: Stop IDCC, Washington, DC 20402–0001

AUTHENTICATED U.S. GOVERNMENT INFORMATION GPO

COMMITTEE ON THE BUDGET

PAUL RYAN, Wisconsin, *Chairman*

SCOTT GARRETT, New Jersey
MICHAEL K. SIMPSON, Idaho
JOHN CAMPBELL, California
KEN CALVERT, California
W. TODD AKIN, Missouri
TOM COLE, Oklahoma
TOM PRICE, Georgia
TOM McCLINTOCK, California
JASON CHAFFETZ, Utah
MARLIN A. STUTZMAN, Indiana
JAMES LANKFORD, Oklahoma
DIANE BLACK, Tennessee
REID J. RIBBLE, Wisconsin
BILL FLORES, Texas
MICK MULVANEY, South Carolina
TIM HUELSKAMP, Kansas
TODD C. YOUNG, Indiana
JUSTIN AMASH, Michigan
TODD ROKITA, Indiana
FRANK C. GUINTA, New Hampshire
ROB WOODALL, Georgia

CHRIS VAN HOLLEN, Maryland,
Ranking Minority Member
ALLYSON Y. SCHWARTZ, Pennsylvania
MARCY KAPTUR, Ohio
LLOYD DOGGETT, Texas
EARL BLUMENAUER, Oregon
BETTY McCOLLUM, Minnesota
JOHN A. YARMUTH, Kentucky
BILL PASCRELL, JR., New Jersey
MICHAEL M. HONDA, California
TIM RYAN, Ohio
DEBBIE WASSERMAN SCHULTZ, Florida
GWEN MOORE, Wisconsin
KATHY CASTOR, Florida
HEATH SHULER, North Carolina
PAUL TONKO, New York
KAREN BASS, California

PROFESSIONAL STAFF

AUSTIN SMYTHE, *Staff Director*
THOMAS S. KAHN, *Minority Staff Director*

CONTENTS

	Page
Committee of the House:	
Agriculture	1
Armed Services	9
Education and the Workforce	21
Energy and Commerce	46
Financial Services	73
Foreign Affairs	93
Homeland Security	113
House Administration	132
Judiciary	136
Natural Resources	157
Oversight and Government Reform	182
Permanent Select Committee on Intelligence	204
Rules	205
Science and Technology	209
Small Business	245
Transportation and Infrastructure	275
Veterans' Affairs	306
Ways and Means	317
Joint Economic Committee	325

FRANK D. LUCAS, OKLAHOMA,
CHAIRMAN
BOB GOODLATTE, VIRGINIA,
VICE CHAIRMAN
TIMOTHY V. JOHNSON, ILLINOIS
STEVE KING, IOWA
RANDY NEUGEBAUER, TEXAS
K. MICHAEL CONAWAY, TEXAS
JEFF FORTENBERRY, NEBRASKA
JEAN SCHMIDT, OHIO
GLENN THOMPSON, PENNSYLVANIA
THOMAS J. ROONEY, FLORIDA
MARLIN A. STUTZMAN, INDIANA
BOB GIBBS, OHIO
AUSTIN SCOTT, GEORGIA
STEPHEN LEE FINCHER, TENNESSEE
SCOTT R. TIPTON, COLORADO
STEVE SOUTHERLAND II, FLORIDA
ERIC A. "RICK" CRAWFORD, ARKANSAS
MARTHA ROBY, ALABAMA
TIM HUELSKAMP, KANSAS
SCOTT DESJARLAIS, TENNESSEE
RENEE L. ELLMERS, NORTH CAROLINA
CHRISTOPHER P. GIBSON, NEW YORK
RANDY HULTGREN, ILLINOIS
VICKY HARTZLER, MISSOURI
ROBERT T. SCHILLING, ILLINOIS
REID J. RIBBLE, WISCONSIN

U.S. House of Representatives
Committee on Agriculture
Room 1301, Longworth House Office Building
Washington, DC 20515–6001

(202) 225–2171
(202) 225–0917 FAX

COLLIN C. PETERSON, MINNESOTA
RANKING MINORITY MEMBER
TIM HOLDEN, PENNSYLVANIA
MIKE McINTYRE, NORTH CAROLINA
LEONARD L. BOSWELL, IOWA
JOE BACA, CALIFORNIA
DENNIS A. CARDOZA, CALIFORNIA
DAVID SCOTT, GEORGIA
HENRY CUELLAR, TEXAS
JIM COSTA, CALIFORNIA
TIMOTHY J. WALZ, MINNESOTA
KURT SCHRADER, OREGON
LARRY KISSELL, NORTH CAROLINA
WILLIAM L. OWENS, NEW YORK
CHELLIE PINGREE, MAINE
JOE COURTNEY, CONNECTICUT
PETER WELCH, VERMONT
MARCIA L. FUDGE, OHIO
GREGORIO KILILI CAMACHO SABLAN,
NORTHERN MARIANA ISLANDS
TERRI A. SEWELL, ALABAMA
JAMES P. McGOVERN, MASSACHUSETTS

NICOLE SCOTT,
STAFF DIRECTOR
KEVIN J. KRAMP,
CHIEF COUNSEL
ROBERT L. LAREW,
MINORITY STAFF DIRECTOR

March 15, 2011

The Honorable Paul Ryan, Chairman
House Committee on the Budget
309 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and clause 4(f) of House Rule X, we are providing below the recommendations of the Committee on Agriculture with respect to the suite of policies within the Committee's jurisdiction. The Committee on Agriculture appreciates this opportunity to share its views and estimates for the Fiscal Year 2012 budget cycle.

The Committee on Agriculture is dedicated to ensuring that the Federal Government continues to promote policies and risk management tools that will keep American agriculture and rural communities strong and our citizens healthy and safe. We also know that this country is facing a fiscal crisis that if not addressed will not only harm the agricultural sector and rural America but the country as a whole. The Committee on Agriculture wants to be part of the solution.

A majority of the Committee's agenda this year will fall into two categories, oversight of regulations that affect jobs and the economies of rural communities and preparation for writing the 2012 Farm Bill. The main component of the farm bill preparation will be an "audit" or inventory of all policies under the Agriculture Committee's jurisdiction, including those relating to nutrition, commodities, conservation, crop insurance, trade promotion, rural development, credit, research, forestry, and energy. This audit along with field hearings and hearings in Washington with affected groups will establish the framework with which the Committee will make decisions on which programs to prioritize and which programs need to be eliminated or consolidated.

In addition to the inventory of existing policies, the Committee is planning aggressive oversight of a number of Federal actions, proposed rules and regulations. Potential rules dealing with Atrazine, spray drift, and dust regulation—to name only a few—may adversely affect production agriculture and the communities and businesses they support. Regulations appear to be promulgated in spite of negative real-world economic consequences which will undermine U.S. producers in providing the world's safest, most abundant, most affordable food and fiber supply in the world.

As the Budget Committee prepares the budget resolution for FY12, the Committee thinks it is important to note the budget reductions that programs under our jurisdiction have experienced both recently and over the past several years. For example, an administrative renegotiation of the Standard Reinsurance Agreement reduced the CBO baseline for agriculture by $6 billion. Additionally, we now know that these cuts relative to 2011 alone will result in more savings than original estimates because of what appear to be record crop insurance sales that are occurring right now for the upcoming spring crop season. The Agriculture Committee believes these cuts should be taken into account in the context of budget reconciliation or other deficit reduction actions.

The Appropriations Committee also has cut mandatory agriculture spending over the last seven years. These cuts have come largely to conservation, rural development, trade, research, and energy policies, and total $7.5 billion from Fiscal Years 2003 to 2010. Though these cuts did not go to deficit reduction, it is important to note that again the agriculture budget was cut substantially.

In contrast to many other Federal mandatory programs, spending on farm policy has actually declined significantly. Funding for farm policy, including crop insurance, over the last five years averaged $12.9 billion per year, a 28 percent reduction from the 2002-2006 average of $17.9 billion, and a 31 percent reduction from the 1997-2001 average of $18.8 billion. It is also important to note the traditional Title I commodity programs have consistently come under their projected CBO budgets since 2002.

One part of the agriculture budget that has seen increases is the Supplemental Nutrition Assistance Program (SNAP) where spending has tripled over the last ten years. Given the economic downturn and high unemployment which has left many Americans with few options, an increase in nutrition assistance spending is to be expected. In fact, in 2001 there were 17.3 million SNAP (called Food Stamps at the time) recipients. That figure rose to 23.8 million in 2004, 28.2 million in 2008 and stands now at 44.3 million recipients for 2010.

But much of the cost increase has come through government action as opposed to the kind of macroeconomic forces that naturally result in increased subscription. The 2008 Farm Bill made a number of changes that increased benefits and participation at a cost of nearly $10 billion over ten years. Also, the American Recovery and Reinvestment Act of 2009 (ARRA) included an across the board increase in benefits provided under the SNAP, which effectively replaced the increase in SNAP benefits that occurs based on

annual food price inflation indexing at a cost of $60 billion. SNAP accounts for approximately 74 percent of USDA's budget.

These stimulus-related SNAP benefits have seen cuts as they were utilized as a pay-for in the last Congress to fund such varying programs as education jobs, Medicaid and childhood nutrition. SNAP funding was reduced by $11.9 billion in P.L. 111-226 and by $2.5 billion in P.L. 111-296. The remaining added benefits created by ARRA will terminate on November 1, 2013. The Committee will review whether this added benefit should continue or should go toward deficit reduction.

As noted earlier, environmental regulations have become extremely costly and burdensome. Many of our conservation programs are designed to help producers come into compliance with those regulations. If this Congress is successful in lowering the cost of compliance by reining in the overzealous EPA, the Committee will review conservation programs to see if conservation benefits are being administered as efficiently as possible under current fiscal and regulatory conditions.

In closing, some may argue that the current agriculture economy and farm prices, are strong and therefore now would be a good time to cut our agriculture policies even further—but this conclusion ignores lessons from history. The agriculture economy is highly cyclical. When record-high prices fall—which they inevitably will do—having sound farm policy in place is vital not just for producers but for the entire national economy. In addition, it is important to note that while high prices have lead to a 51 percent increase in gross cash income in agriculture over the past nine years; this has been met by an increase in cash expenses of 57 percent. In sum, recent high prices have not made the family enterprises that make up our farm sector any less vulnerable—indeed it has just raised the stakes in what is still an exceptionally risky business.

It bears mentioning that during some of the worst economic times in the last fifty years, production agriculture served as a catalyst for economic growth. As was reported by the Federal Reserve, "rural America is leading the U.S. economic recovery," just as it did through the last recession. Last year alone, U.S. farmers and ranchers produced $354 billion of goods after spending $195 billion to purchase inputs, made $60 billion in rent payments, paid $25 billion in wages to employees, and spent $15 billion in interest and financing. In addition to these direct contributions to the economy, over 21 million jobs are rooted in U.S. agriculture, with 8,000 jobs relying on every $1 billion in agricultural exports.

While agriculture and its related industries constitute 4.6 percent of U.S. Gross Domestic Product (GDP), the farm safety net now constitutes less than one-quarter of one percent of the Federal budget and roughly 13 percent of USDA's budget.

Addressing the current budget crisis is of utmost importance. It is important to note, however, that there will be an estimated 9 billion people on the planet by the year 2050. To meet worldwide demand for food, we will need to double production while using less water and land. Farmers and ranchers support our economy and help keep us healthy and secure. While worldwide food prices have continued to climb and in spite of high farm

prices, Americans on average still spend less than 10 percent of their disposable income on food.

We realize the dire fiscal situation this country is in and we hope this Committee does not see the current budget situation as a burden, but instead as an opportunity to make our agriculture programs more efficient while allowing farmers and ranchers access to risk management tools. The audit, field hearings, and hearings here in D.C. will give the Committee the information needed to write a farm bill that is more efficient, streamlines and consolidates programs that are duplicative, and makes signup for producers less burdensome.

We are grateful for your consideration of the views we have presented and look forward to providing assistance in preparation of a responsible budget resolution.

Sincerely,

Frank D. Lucas
Chairman

Collin C. Peterson
Ranking Minority Member

Congress of the United States
Washington, DC 20515

March 17, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
309 Cannon House Office Building
Washington, DC 20515

The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
B-71 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan and Ranking Member Van Hollen,

As Members of the Committee on Agriculture, we write to provide additional views to the Committee's Views and Estimates that were considered and adopted by the Committee on March 15, 2011. We appreciate the opportunity to provide these additional views.

We recognize the fiscal challenges facing our nation and the need to focus on long-term solutions to reducing the nation's deficit. Although there are significant mandatory programs that fall within the jurisdiction of the Committee on Agriculture, the fact is that most of the deficit reduction solutions do not fall within the Committee's jurisdiction. The Views and Estimates filed by the Committee correctly make the case that cuts absorbed by the Committee over the past years should be taken into account as the Committee on Budget begins its work. However, we are concerned that the nutrition discussion included in these Views and Estimates predetermines the Committee on Budget's actions and that these views may erroneously advocate for cuts in the Supplemental Nutrition Assistance Program (SNAP). As the Committee on Budget begins work on the Fiscal Year 2012 budget resolution, we hope you will consider all of the programs that fall within the jurisdiction of the Committee on Agriculture, including the need for and the fiscal impact of these programs. Singling out SNAP for cuts, whether for deficit reduction or not, is not only bad policy, it is harmful to our economy and to those who rely on SNAP for assistance with feeding their families during difficult economic times. Deficit reduction should not result in increased hunger and poverty and we believe that any budget framework the Committee on Budget pursues should incorporate the basic principle of improving our budget outlook while protecting our most vulnerable citizens from harm.

SNAP is a safety-net program that allows low-income individuals and families to purchase food for themselves and their families. As a true safety-net program, SNAP literally has saved millions of lives over the life of the program. Like other farm programs, including the Title I programs, SNAP is counter-cyclical. This means that SNAP usage increases during times of need. In other words, SNAP usage increases when wages fall or unemployment rises and it decreases when wages rise and unemployment falls.

The increase in the number of SNAP beneficiaries over the past ten years means there has been an increase in SNAP spending over that period. As the Committee's Views and Estimates

PRINTED ON RECYCLED PAPER

points out, the number of people relying on SNAP nearly tripled from 2001 to 2010. Specifically, 27 million more people relied on SNAP in 2010 than in 2001. Put another way, the increase in number of people relying on SNAP over that ten year period was more than the number of people using SNAP in 2001 alone. However, we know that an improving economy will result in reduced unemployment and increased wages, leading to a reduction in SNAP participation. The Congressional Budget Office (CBO) projects that unemployment will continue to fall, reaching 5.4% in 2016. Further CBO projections show that, with a 5.4% unemployment rate, SNAP enrollment will drop from 44 million people now to 40 million individuals in 2016 and, by 2021, will drop by another almost 10 million people to 30.5 million. If the economy rebounds faster than CBO projections, the counter-cyclical design of SNAP will result in a faster reduction of SNAP enrollments.

Unfortunately, the economy has not yet fully recovered from the recent downturn and millions of individuals and families continue to struggle, often with hunger and poverty. According to the Census Bureau, 43.6 million people lived in poverty in 2009, an increase of 3.7 million over 2008. Most experts expect that poverty figures will be even higher for 2010 and may take several years to improve given the sustained high rates of unemployment.

Despite these increases in poverty, we did not experience similar rises in hunger and food insecurity from 2008 to 2009. While overall hunger has been at unacceptable levels for far too long, we attribute the stable rates of food insecurity during a period of rising poverty to the important investments made through ARRA in SNAP and other programs. Those critical investments helped to buffer some of the negative impacts of the recession. The SNAP provisions under ARRA provided a boost of 13.6% in the maximum SNAP benefit. As a result, individuals on the program received about $20 more per month in 2009 as a result of the increase provided in ARRA. This means families who were struggling with losing their jobs or saw their incomes reduced through no fault of their own had a little more money for groceries because of ARRA. In addition, these provisions were among the most, if not the most, effective forms of stimulus included in ARRA. Approximately 80 percent of SNAP benefits are used within two weeks of receipt and 97% are spent within a month. Economist Mark Zandi, an advisor to Senator John McCain's presidential campaign, said that an increase of one dollar in SNAP results in $1.86 in economic activity.

The temporary improvements enacted under ARRA will be terminated on November 1, 2013 because of provisions included in P.L. 111-226 and P.L. 111-296. This termination means that, according to the CBO baseline, a family of four will see their monthly SNAP allotment reduced by $86 on November 1, 2013 simply because these ARRA funds were arbitrarily terminated. Such an arbitrary and abrupt reduction in the monthly allotment, especially when combined with rising food prices, means families will struggle with their food budgets and may be forced to eat less nutritious food, eat less food overall, and in some cases go without food altogether. Any further reductions in the remaining ARRA funds allocated to SNAP will exacerbate the challenges low-income families will face with the upcoming November 1, 2013 reduction in the SNAP allotment.

In addition to the temporary investments made in SNAP through ARRA, important improvements to SNAP were made in the 2008 farm bill. The farm bill included $2.3 billion over five years in improvements to SNAP, primarily aimed at partially restoring benefit cuts enacted in 1996, as well as improving the program for seniors and working families. It is important, however to assess these investments in context. The important improvements made in the program came after the deep and devastating benefit cuts enacted in 1996.

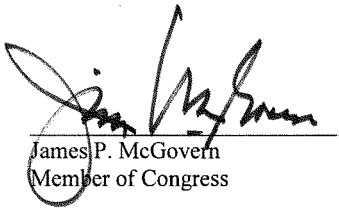
Even with the investments in SNAP from the 2008 farm bill, household benefits for a typical family once the temporary ARRA increase has expired will be lower than they would have been had the 1996 cuts not been enacted. Given the extraordinary need in our country and the incredible success of the SNAP program, SNAP should not be singled out for cuts, whether for deficit reduction or for other purposes.

It is also important to note that SNAP is one of the most efficiently run programs in the federal government. The Government Accountability Office (GAO) has found that the national payment error rate reported for SNAP – a combination of states' overpayments and underpayments – is at a record low of 4.36%. This is a 56% decline over the ten-year period of 1999 to 2009. It is unquestionable that SNAP is more efficient and better run than at any other time in the history of the program. We recognize the need for further improvement and we look forward to working within the Committee on Agriculture's structure toward continued improvement in SNAP oversight and a further reduction in national payment error rates. We would like to see a further reduction in the national rate of food stamp trafficking, which has declined from 3.8 cents per dollar in 1993 to 1 cent per dollar during the years 2002 to 2005, and we look forward to working with both USDA and the Committee on Agriculture to further reduce both the national payment error rate and the national rate of food stamp trafficking.

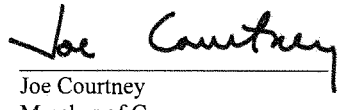
Again, we recognize the need to focus on reducing the deficit and the need for vigorous oversight of all programs that fall under the jurisdiction of the Committee on Agriculture. Like other programs in the Committee's jurisdiction, SNAP has not been immune from spending cuts. We remain concerned that the Committee on Budget may inaccurately interpret that the Committee on Agriculture's Views and Estimates are directing the FY 2012 Budget Resolution to reduce SNAP benefits and to use those reductions for deficit reduction. We believe this is a matter best left to the Committee on Agriculture, the committee of jurisdiction.

Thank you for your attention to these additional views. We look forward to working with you and with the Members of the Committee on Budget on these important issues.

Sincerely,



James P. McGovern
Member of Congress



Joe Courtney
Member of Congress

Peter Welch
Member of Congress

Chellie Pingree
Member of Congress

Joe Baca
Member of Congress

David Scott
Member of Congress

Gregorio Sablan
Member of Congress

Terri Sewell
Member of Congress

Marcia Fudge
Member of Congress

HOWARD P. "BUCK" McKEON, CALIFORNIA, CHAIRMAN
ROSCOE G. BARTLETT, MARYLAND
MAC THORNBERRY, TEXAS
WALTER B. JONES, NORTH CAROLINA
W. TODD AKIN, MISSOURI
J. RANDY FORBES, VIRGINIA
JEFF MILLER, FLORIDA
JOE WILSON, SOUTH CAROLINA
FRANK A. LoBIONDO, NEW JERSEY
MICHAEL TURNER, OHIO
JOHN KLINE, MINNESOTA
MIKE ROGERS, ALABAMA
TRENT FRANKS, ARIZONA
BILL SHUSTER, PENNSYLVANIA
K. MICHAEL CONAWAY, TEXAS
DOUG LAMBORN, COLORADO
ROB WITTMAN, VIRGINIA
DUNCAN HUNTER, CALIFORNIA
JOHN C. FLEMING, M.D., LOUISIANA
MIKE COFFMAN, COLORADO
TOM ROONEY, FLORIDA
TODD RUSSELL PLATTS, PENNSYLVANIA
SCOTT RIGELL, VIRGINIA
CHRIS GIBSON, NEW YORK
VICKY HARTZLER, MISSOURI
JOE HECK, NEVADA
BOBBY SCHILLING, ILLINOIS
JON RUNYAN, NEW JERSEY
AUSTIN SCOTT, GEORGIA
TIM GRIFFIN, ARKANSAS
STEVEN PALAZZO, MISSISSIPPI
ALLEN B. WEST, FLORIDA
MARTHA ROBY, ALABAMA
MO BROOKS, ALABAMA
TODD YOUNG, INDIANA

COMMITTEE ON ARMED SERVICES

U.S. House of Representatives

Washington, DC 20515–6035

ONE HUNDRED TWELFTH CONGRESS

ADAM SMITH, WASHINGTON
SILVESTRE REYES, TEXAS
LORETTA SANCHEZ, CALIFORNIA
MIKE McINTYRE, NORTH CAROLINA
ROBERT A. BRADY, PENNSYLVANIA
ROBERT ANDREWS, NEW JERSEY
SUSAN A. DAVIS, CALIFORNIA
JAMES R. LANGEVIN, RHODE ISLAND
RICK LARSEN, WASHINGTON
JIM COOPER, TENNESSEE
MADELEINE Z. BORDALLO, GUAM
JOE COURTNEY, CONNECTICUT
DAVE LOEBSACK, IOWA
GABRIELLE GIFFORDS, ARIZONA
NIKI TSONGAS, MASSACHUSETTS
CHELLIE PINGREE, MAINE
LARRY KISSELL, NORTH CAROLINA
MARTIN HEINRICH, NEW MEXICO
BILL OWENS, NEW YORK
JOHN R. GARAMENDI, CALIFORNIA
MARK S. CRITZ, PENNSYLVANIA
TIM RYAN, OHIO
C.A. DUTCH RUPPERSBERGER, MARYLAND
HANK JOHNSON, GEORGIA
KATHY CASTOR, FLORIDA
BETTY SUTTON, OHIO
COLLEEN HANABUSA, HAWAII

ROBERT L. SIMMONS, II, STAFF DIRECTOR

March 18, 2011

The Honorable Paul Ryan
Chairman, Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to section 301(d) of the Congressional Budget Act of 1974, and clause 4(f) of rule X of the Rules of the House of Representatives, we are forwarding to you our views regarding the national defense budget function (050) for fiscal year 2012 (FY12).

Budget Overview

The President's FY12 budget requests $578.1 billion in discretionary budget authority for national defense. Of this total, $553.0 billion is for the Department of Defense (DOD), $18.1 billion is for the Department of Energy's defense activities, and $7.0 billion is for other defense-related activities. The President's budget also includes $6.8 billion in mandatory budget authority.

In addition to the base budget request, as required by Section 1008 of the John Warner National Defense Authorization Act for Fiscal Year 2007 (Public Law 109-364), the President's budget for FY12 includes a separate request of $117.8 billion for war-related expenditures in support of ongoing military operations in Afghanistan and Iraq, presented again this fiscal year as Overseas Contingency Operations (OCO).

The DOD's $553.0 billion base budget focuses on current operations while attempting to modernize for possible future conflicts. In the aggregate, the Department states that a price growth factor of 1.5 percent is incorporated in the FY12 figures. Therefore, real (program) growth, when comparing the DOD requests for FY11 and FY12, is actually decreasing by approximately 0.7 percent.

During a January 6, 2011 press conference, Secretary Gates announced that DOD identified approximately $178 billion in overhead efficiencies and other savings within its five-

year base budget. Of this amount, roughly $100 billion would be reinvested in high priority defense capabilities and used to meet operating expenses, and about $78 billion would be applied to reducing the deficit. As a result, the future years defense program (FYDP) accompanying the President's Budget Request for FY12 reflects a top-line reduction across the five year period from FY12 through FY16 when compared to last year's FYDP.

Addressing Waste and Inefficient Programs in the Defense Budget Function

As members of the Armed Services Committee, we share your concerns about our nation's economic growth. Last year, Admiral Mike Mullen, our nation's highest ranking military officer, said the most significant threat to our national security is our national debt. The strength of our national defense is directly related to the strength of the American economy. In the middle of two wars, we are faced with a fiscal crisis that is undermining economic recovery, endangering future growth, and imperiling the government's ability to provide the necessary resources for the brave men and women of our military to achieve American strategic objectives.

The Armed Services Committee is responsible not only for ensuring that the United States military has the capabilities required to preserve our national security, but also to ensure that the Department of Defense is operated efficiently and with fiscal discipline in order to maximize the return on taxpayers' investments. To that end, the committee will conduct oversight of the organization and management of the Department of Defense, its business operations, and the means by which the Department acquires goods and services. The committee will review programs identified in GAO report 11-318SP, *Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue*, which discusses a number of areas where opportunities exist to avoid unnecessary redundancies, and to ensure the Department maximizes the use of its limited federal dollars.

Acquisition programs that no longer represent the best value for the taxpayer, due to a changing security environment, mismanagement, or the time required to deliver a useful capability to the warfighter, will be re-evaluated by the committee as part of the annual defense authorization process. In particular, pursuant to clause 2(d)(1)(F) of rule X of the Rules of the House of Representatives, the committee will consider recommendations made by the Secretary of Defense to cancel the Expeditionary Fighting Vehicle, the Non-Line of Sight Launch System, the Surfaced-Launched Advanced Medium Range Air-to-Air Missile, adjust procurement quantities for the Excalibur 155mm Precision Guided Munition, and closely monitor the progress of the delayed short take-off and vertical landing variant of the Joint Strike Fighter.

The committee will also continue to review the Department's efforts to implement the Financial Improvement and Audit Readiness (FIAR) plan to correct the weaknesses in its financial statements and monitor closely the interdependencies between FIAR and the hundreds of millions of dollars being spent on business systems modernization programs that the Department has proposed to address its financial management problems.

In addition, the committee will consider proposals for savings within DOD, including:

- $34 billion in proposed efficiencies over five years within the Department of the Air Force. Among those proposals are: (1) consolidating two air operations centers in the U.S. and two in Europe; (2) consolidating three numbered Air Force staffs; (3) reducing fuel and energy consumption within the Air Mobility Command; (4) improving depot and supply chain business processes to sustain weapons systems; and (5) reducing the cost of communications infrastructure by 25%.

- $29 billion in savings over five within the Department of the Army. These include: (1) reducing manning through the elimination of unneeded task forces and consolidating six installation management commands into four; (2) saving on military construction costs by sustaining existing facilities; and (3) beginning the consolidation of the service's email infrastructure and data centers.

- $35 billion in savings over five years for the Department of the Navy. Measures include: (1) reducing manpower ashore and reassigning personnel to seagoing assignments; (2) using multi-year procurement to save on the purchase of new airborne surveillance, jamming, and fighter aircraft; (3) disestablishing staffs for submarine-, patrol aircraft-, and destroyer-squadrons, plus one carrier strike group staff; and (4) disestablishing the headquarters of the Second Fleet and transferring its primary training function to Fleet Forces Command in Norfolk.

- $54 billion in proposed efficiencies across other elements of the Department, which will: (1) consolidate information technology data centers and move to a more secure enterprise system; (2) cut the size of the staff support contractor cadre by 10% per year for three years; (3) trim the size of the civilian workforce; (4) reorganize intelligence activities; (5) eliminate over 100 of roughly 900 general and flag officer positions and 200 of about 1,400 civilian executive positions; (6) disestablish the Office of the Assistant Secretary of Defense for Network Intelligence and Information, the Business Transformation Agency, and the Joint Forces Command and transfer their essential functions to other organizations; (7) reduce excess force structure in Europe (beginning in 2015, or thereafter, in consultation with NATO allies); and (8) eliminate nearly 400 internally-generated reports.

While the committee may not ultimately support each of these proposals, it is clear that the Department of Defense has been proactive in identifying savings that could be applied to higher priority investments for force structure and modernization.

Shortfalls in the Current Budget Request

In its document *Long-Term Implications of the 2011 Future Years Defense Program* (FYDP), the Congressional Budget Office (CBO) expressed its opinion on the FY12 level of funding as requested by the Department in February 2010. In the aggregate, CBO determined that to execute the programs requested in FY12, the FYDP was understated by $2.8 billion. CBO's projections also included the freeze on civilian pay raises, which were not part of the FY11 FYDP, therefore an additional $1 billion discrepancy exists between the CBO estimate and

the FYDP baseline. Across the timeline from FY12-FY15, $41 billion was identified as necessary to execute projected FYDP programs. Incorporating the freeze of civilian pay raises, the total discrepancy reaches close to $50 billion. As we discuss our views of the current budget request, we must acknowledge that the baseline from which the FY12 request was developed was flawed.

We believe that given the spectrum of threats to our national security, the diverse missions performed by our military, and the funding required for reset from current contingency operations, the budget request is below the minimum level necessary to support our national security requirements. The reductions identified by DOD, at the direction of the Office of Management and Budget, are not strategic in nature, causing shortfalls in current readiness levels and investment in future military capabilities. Force structure and personnel decisions are not being make from a strategic perspective, as the 2010 Quadrennial Defense Review (QDR) did not identify a specific and clear force-planning construct to provide a basis for future budget requests.

This committee believes that the 050 budget category requires an increase to the current budget request of $7 billion in FY12, and $44 billion throughout the FY12-16 timeline to support critical shortfalls and underestimated economic assumptions within the President's request. Of these significant shortfalls, we would like to bring the following to your attention.

Force Structure

The committee is very concerned that the reductions in Army and Marine Corps manpower, totaling 47,000, programmed in the FYDP are premature, both from a national security strategy standpoint and for the potential impact on the time between deployments – dwell time – experienced by members of the Armed Forces. The programmed cut of 27,000 personnel in the Army's strength and the 20,000 reduction in the Marine Corps' manpower would save approximately $6 billion total for FY 2015 and 2016, according to the Department of Defense. The manpower reductions were imposed by the Department without any substantive analysis by either the Army or Marine Corps with regard to their future force structure or manpower requirements. Neither the 2010 QDR nor the 2011 National Military Strategy assumed this reduced force structure. The projected force reductions are based on a near term assumption that the combat commitment in Afghanistan would be significantly reduced by the end of 2014. It remains unclear to the committee what the level of forces in Afghanistan would need to be reduced in order to allow the force reduction to begin. Nor is it clear to the committee what longer-term conditions were analyzed, assumed or implied by the Department in recommending the reductions.

The Marine Corps recently completed a force structure review, concluding that it would be imprudent for that service to take the full 20,000 reduction programmed into the FYDP. Rather, the Marine Corps supports a reduction of about 15,000. Even if the committee would accept that recommendation as prudent, there remains at least a $500 million dollar funding shortfall in the Marine Corps' FYDP.

The Army has only recently begun its detailed analysis to determine whether the programmed cut of 27,000 should be taken. Results from that review may very well show a need for smaller reductions. If conditions and assumptions do not emerge to allow for the reduction of forces at the funding levels as programmed in the FYDP, the Department will be forced to reallocate up to $6 billion from other critical programs in order to maintain viable force levels to execute the national military strategy. This does not bode well for the military preparedness of the nation.

The committee has heard repeatedly over the past several years from the Secretary of Defense and senior level service leaders that achieving an individual dwell time ratio of a 1-to-3 was critical to maintaining the health of the active component Army and Marine Corps and their families. Both the Army and Marine Corps are still struggling to achieve the goal of 1-to-3 ratio of deployed time versus home station time and appear to be resigned that a ratio of 1-to-2 is the best that can be achieved at the current level of forces committed to Combatant Commanders' requirements. According to the Chairman of the Joint Chiefs testimony, the Army will not achieve a 1-to-2 dwell ratio until sometime in 2012. With the programmed reduction for the Army and Marine Corps in FY15 and FY16 there is real concern that the services will abandon achieving the 1-to-3 dwell, break promises to the members of the Armed Forces and their families, and be compelled with a smaller force to return to the disabling, debilitating dwell of less than 1-to-2 when actual world conditions turn out to be more demanding than envisioned by Department and service planners.

For these reasons, the committee requests that current Army and Marine Corps end strengths be maintained over the FYDP proposed in the FY 12 budget request.

Missile Defense

Last year, we increased funding for missile defense in recognition that the budget request was insufficient to implement the Administration's myriad missile defense commitments as outlined in their 2010 Ballistic Missile Defense Review. These commitments included the improvement of our homeland defense capabilities, implementation of the new phased adaptive approach for missile defense in Europe, expanded missile defense inventories, increasing testing, strengthening international efforts with allies such as Israel, Japan, and in NATO, and continuing research and development in areas such as directed energy technology that have the potential to lower the cost per intercept. Since then, the nuclear and missile programs of Iran and North Korea have continued to expand, and China has fielded a "carrier killer" ballistic missile. Additionally, recent testimony and information provided by Department officials confirmed increasing readiness shortfalls of the Aegis radar system, a key element of the Administration's European missile defense approach, and the impending shortfall in operations and sustainment resources for the Patriot air and missile defense system. Despite these increasing missile defense needs, the FY12 budget request for the Missile Defense Agency reduces its outyear funding by $2.6 billion as compared to last year.

National Nuclear Security

Our nation's nuclear weapons are perhaps the ultimate guarantor of U.S. security; NATO calls them "the supreme guarantee of the security of the Allies." They provide a deterrent to would-be aggressors and assure the over 30 allies and partners that rely on U.S. extended deterrence. However, as observed by the bipartisan Strategic Posture Commission, led by former secretaries of defense William Perry and James Schlesinger, our nuclear weapons infrastructure is "decrepit." The nation's nuclear weapons laboratory directors, in correspondence to our committee, further highlight warhead aging and other recently identified problems that complicate their ability to certify the safety, security, and reliability of the stockpile. Addressing these concerns, the Administration made a significant commitment to the modernization of our nuclear stockpile and infrastructure in its 2010 Nuclear Posture Review and over the course of the New Strategic Arms Reduction Treaty (START) debate in the Senate. After two decades of underfunding, there is strong bipartisan support for the increase in funding necessary to implement modernization. However, this is a long-term effort and requires the sustained commitment of the Administration and the Congress.

We remain concerned, however, that the funding for these activities were not handled as security spending within H.R. 1 because the agency bearing this responsibility—the National Nuclear Security Administration (NNSA)—falls under the Department of Energy (DoE) and was subject to the same non-security spending reduction guidance as the rest of DoE. It is clear that NNSA is a security function. As Secretary Gates told our committee last month in testimony, NNSA "is incredibly important, and it clearly is intimately tied to our national security and should be regarded as part of the security component." If H.R. 1 passes as currently written, NNSA would require $312 million in additional funds in FY12 to restore the shortfall from FY11. Furthermore, as the Administration promised to Congress, the NNSA FY12 budget request includes an additional $568.0 million over the FY11 requested level to continue the implementation of nuclear modernization, nuclear security, and naval nuclear propulsion plans. We believe it is important that the FY12 budget resolution clarify NNSA's budget as security spending and support this request. We cannot allow this work to be deferred any longer without increasing the risk to the safety, security and reliability of our nuclear deterrent.

Projection forces shortfalls

With respect to force projection acquisition programs for the Departments of the Navy and Air Force, the committee is concerned that high-profile programs such as the Air Force's new bomber program and the Navy's OHIO-class ballistic missile submarine replacement may not be realized within currently planned cost and schedule constraints. Furthermore, the committee remains concerned that the Department's cost-efficiency initiatives and affordability goals may result in platforms that may not meet validated warfighting requirements. The Navy's shipbuilding plan remains overly optimistic in regards to budget authority required necessary to achieve the minimum 313-ship battle force inventory. The minimum required inventory is also likely to increase above 313 ships due to the added operational requirements for anti-piracy and sea-based missile defense. The Congressional Budget Office estimated, in its May 2010 report, that the Navy's 30-year shipbuilding plan for attaining 313 ships is on average underfunded by

approximately $1.0 billion per year in the FYDP. The committee is also concerned with the Department's decision to terminate the Expeditionary Fighting Vehicle without having a clear path forward in meeting future amphibious mobility requirements and having not completed a cost-benefit analysis to explore alternatives to meet these requirements.

Strike Fighter Forecasted Shortfall

The validated strike fighter inventory requirement to support the current National Defense Strategy is 3,240 aircraft, of which 1,200 are primary mission Air Force aircraft, 800 are test, training, back up aircraft inventory, and attrition reserve, 820 are in the Navy and 420 are in the Marine Corps. The Air Force believes that targeted actions are required to address capability and capacity gaps which include F-22 modernization, F-35 acquisition, legacy service life extension program and modernization and investments in preferred weapons capabilities. For wartime planning, the Navy has a validated requirement for 10 aircraft carrier air wings (CVW) containing 50 strike fighter aircraft each, manned by squadrons from both the Navy and the Marine Corps. However, due to budgetary constraints, the Navy maintains a wartime planning force structure of 44 strike-fighters per CVW, but only provides the necessary resources to maintain each at approximately 39, due to efficiencies (what the Navy terms as "productive ratio") that are achieved through aircraft sharing amongst Navy CVWs.

Based upon information provided by Defense officials to committee staff on February 15, 2011, the Air Force anticipates a shortfall of about 32 aircraft in the FY13-15 timeframe, while the Navy anticipates a shortfall of about 65 aircraft in the FY18-19 timeframe. Recent delays in the F-35 program have required the Air Force to fund a structural sustainment program for F-16 blocks 25 to 32 so that those aircraft can achieve a service life extension from 8,000 to 10,800 hours. These delays have also caused the Navy to adjust their strategy and procure an additional 41 F/A-18E/F aircraft and to extend the life of 150 F/A-18A, B, C and D aircraft from 8,000 to 10,000 hours. If current generation aircraft were purchased to restore the fighter shortfall, the acquisition cost would be estimated at $7.3 billion.

Readiness of our Armed Forces

While deployed Army forces have, in most cases, the equipment, personnel, and training they require for their missions, this deployed readiness comes at the expense of non-deployed Army units. The active Army's total O&M request of $79 billion represents a $10 billion decrease (8%) from FY11 requested levels. The base budget requests an $837 million increase over FY11 for depot maintenance; however, it should be noted that this increase in base funding represents a shift from the OCO to the base for enduring depot maintenance reset requirements. Further, the FY12 O&M request does not reflect additional, deferred maintenance from FY11 as a result of a lengthy Continuing Resolution (CR). For example, the Army may have to reduce funding for three Brigade Combat Teams returning from deployments to Iraq and Afghanistan, leading to reductions in training for these units. In addition, Army depot maintenance may have to be deferred, impacting Blackhawk, Kiowa Warrior and other platforms.

The Department of the Navy's O&M budget request for FY12 reflects an $11.7 billion decrease from the FY11 requested level. The Navy's base budget funds ship operations well below the Navy's peacetime readiness requirements based on the continuing assumption that overseas contingency operations will reduce training and routine deployment opportunities. The top line for Marine Corps O&M decreased slightly in FY12, from $9.7 billion in FY11 to $9.5 billion in FY12. Further, the FY12 O&M request does not reflect additional deferred maintenance from FY11 as a result of a lengthy CR. For example, the Navy may have to defer 34% of its ship maintenance availabilities, 70 airframes and 290 engines in aviation depot maintenance.

The request for Air Force O&M reflects a programmatic decrease of 2% as compared to the budget from the FY11 request. The base budget funds weapons system sustainment and depot maintenance at only 70%. Detrimental effects on equipment as a result of high operations tempo include engine and structural fatigue, deterioration, corrosion, and increased rates of component failures. The funding reduction from FY11 levels will undoubtedly result in lower standards of service, to include such services as police, fire, chaplain and other community support for airmen and their families. Further, the FY12 O&M request does not reflect additional deferred maintenance from FY11 as a result of a lengthy CR. Like the other services, the Air Force may have to defer facilities, sustainment, restoration and maintenance leading to sub-optimal living quarters and base operations.

In addition to operational impacts relating to programmatic shortfalls, the committee has concerns regarding the economic assumptions made by the Department. Specifically, over the last three months the Department has changed its perspective on fuel prices. Once considering reducing the fuel rates during the fiscal year, now the Department has expressed concern whether sufficient funds are available in FY11 to sustain working capital fund operations. The FY12 budget request assumed a fuel rate based on a crude oil price of $88.84 per barrel. If market unrest continues and crude oil prices continue to rise, the Department will not have the wherewithal to support increased fuel rates entering the next fiscal year. The Department has identified a market trend towards $101.52 per barrel. At that rate, the working capital fund would have insufficient funds to sustain operations, would require an additional $2.8 billion by FY12 to return to a 7-day operational cash balance, and would need to adjust future fuel rates to recover the cost of fuel throughout the FYDP.

Funding discussion summary

As discussed above, this committee has significant concerns regarding a number of programs and economic assumptions which would place our servicemembers at risk. Program growth percentages used in budget committee discussions will reflect a continuing resolution figure as a baseline for FY11. We can agree that that the nominal increase from FY11 to FY12 of $10 billion is sufficient to carry forward the needs of the military. However, as the baseline increases, so should the relative future impacts of those increases. If the FY11 Defense appropriation is passed at the current levels as they reside in H.R. 1 of $533 billion, or $7 billion above the CR position, there should be a commensurate increase in FY12 funding at a similar level. Increasing the FY12 funding position by $7 billion and $44 billion through the FY12-16

timeframe would ensure a smooth transition from one fiscal year to the next, move towards resolving the programmatic and economic concerns mentioned above, ease the Department's concerns on pricing fluctuations such as fuel, and provide our servicemembers with a steady funding stream from which they can carry out the duties of defending our nation as described to them in our Constitution.

This committee should not jeopardize the security of the nation by accepting across-the-board cuts to national defense without regard to the inherent strategic risks. As Secretary Gates eloquently put it, "that's math, not strategy." Please assist us to allow for the general discussion of programmatic needs for the defense and security of our nation. We will demonstrate fiscal discipline through the execution of our oversight plan to ensure that all funds within the national defense budget function have been spent effectively, and work to strive for efficiencies throughout the national defense budget function.

In closing, we appreciate the opportunity to express these views on behalf of the Committee on Armed Services. We look forward to working with you and the members of the Committee on the Budget to construct a budget plan that reflects our commitment to meet emerging threats and secure our national defense.

Sincerely,

Howard P. "Buck" McKeon

Howard P. "Buck" McKeon
Chairman

cc: The Honorable Chris Van Hollen

HPM:jas

HOWARD P. "BUCK" McKEON, CALIFORNIA, CHAIRMAN
ROSCOE G. BARTLETT, MARYLAND
MAC THORNBERRY, TEXAS
WALTER B. JONES, NORTH CAROLINA
W. TODD AKIN, MISSOURI
J. RANDY FORBES, VIRGINIA
JEFF MILLER, FLORIDA
JOE WILSON, SOUTH CAROLINA
FRANK A. LoBIONDO, NEW JERSEY
MICHAEL TURNER, OHIO
JOHN KLINE, MINNESOTA
MIKE ROGERS, ALABAMA
TRENT FRANKS, ARIZONA
BILL SHUSTER, PENNSYLVANIA
K. MICHAEL CONAWAY, TEXAS
DOUG LAMBORN, COLORADO
ROB WITTMAN, VIRGINIA
DUNCAN HUNTER, CALIFORNIA
JOHN C. FLEMING, M.D., LOUISIANA
MIKE COFFMAN, COLORADO
TOM ROONEY, FLORIDA
TODD RUSSELL PLATTS, PENNSYLVANIA
SCOTT RIGELL, VIRGINIA
CHRIS GIBSON, NEW YORK
VICKY HARTZLER, MISSOURI
JOE HECK, NEVADA
BOBBY SCHILLING, ILLINOIS
JON RUNYAN, NEW JERSEY
AUSTIN SCOTT, GEORGIA
TIM GRIFFIN, ARKANSAS
STEVEN PALAZZO, MISSISSIPPI
ALLEN B. WEST, FLORIDA
MARTHA ROBY, ALABAMA
MO BROOKS, ALABAMA
TODD YOUNG, INDIANA

COMMITTEE ON ARMED SERVICES

U.S. House of Representatives

Washington, DC 20515–6035

ONE HUNDRED TWELFTH CONGRESS

ADAM SMITH, WASHINGTON
SILVESTRE REYES, TEXAS
LORETTA SANCHEZ, CALIFORNIA
MIKE McINTYRE, NORTH CAROLINA
ROBERT A. BRADY, PENNSYLVANIA
ROBERT ANDREWS, NEW JERSEY
SUSAN A. DAVIS, CALIFORNIA
JAMES R. LANGEVIN, RHODE ISLAND
RICK LARSEN, WASHINGTON
JIM COOPER, TENNESSEE
MADELEINE Z. BORDALLO, GUAM
JOE COURTNEY, CONNECTICUT
DAVE LOEBSACK, IOWA
GABRIELLE GIFFORDS, ARIZONA
NIKI TSONGAS, MASSACHUSETTS
CHELLIE PINGREE, MAINE
LARRY KISSELL, NORTH CAROLINA
MARTIN HEINRICH, NEW MEXICO
BILL OWENS, NEW YORK
JOHN R. GARAMENDI, CALIFORNIA
MARK S. CRITZ, PENNSYLVANIA
TIM RYAN, OHIO
C.A. DUTCH RUPPERSBERGER, MARYLAND
HANK JOHNSON, GEORGIA
KATHY CASTOR, FLORIDA
BETTY SUTTON, OHIO
COLLEEN HANABUSA, HAWAII

ROBERT L. SIMMONS, II, STAFF DIRECTOR

March 18, 2011

The Honorable Paul Ryan
Chairman, Committee on the Budget
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

I am writing to express views and estimates alternative to those submitted by Chairman McKeon in accordance with section 301(d) of the Congressional Budget Act of 1974 and clause 4(f) of Rule X of the Rules of the House of Representatives, regarding the national defense budget function for fiscal year 2012 (FY12). There is no doubt that our country faces extensive national security challenges. The military is actively waging two wars, in Afghanistan and Iraq, and performing various missions responsive to global threats and emergencies. Like Chairman McKeon, I am committed to maximizing the military's preparedness for, and effectiveness in, meeting the full spectrum of present and future challenges, just as I am committed to the courageous men and women who sacrifice daily to make that effectiveness a reality through their service. Moving forward, we must ensure that we honor these commitments by fulfilling our duty to provide the Armed Forces with the proper resources, policies, and flexibility to excel.

I am mindful, however, that the foundation of our national defense is a strong and vibrant economy. We are presently confronted by concerning economic conditions, deficit spending patterns, and exorbitant debt. A healthy economy is a national security priority, and budgeting in a tough economic climate demands a comprehensive approach that includes greater fiscal discipline. Savings can certainly be realized within the defense budget. Consequently, I cannot advocate increasing the top-line allocation for the national defense budget function above and beyond the requested amount. The President's budget request sets responsible boundaries within which the Congress may activate savings without compromising military effectiveness. I agree with Secretary Gates' view that "not every defense dollar is sacred and well-spent, and that more of nearly everything is simply not sustainable." We must invest wisely in national security.

The base budget request for FY12 includes approximately $578.1 billion in discretionary budget authority and roughly $6.8 billion in mandatory budget authority for the national defense

budget function. Of the discretionary budget authority: $553 billion is apportioned to the Department of Defense (DOD) for military activities; $18.1 billion is allotted to the Department of Energy for atomic energy defense activities; and $7.0 billion is reserved for other defense-related activities. The President's budget request also includes $117.8 billion in discretionary budget authority to support continuing overseas contingency operations (OCO) conducted primarily in Afghanistan and Iraq. The amount requested for the DOD, inclusive of OCO funding, comprises an estimated 18.3% of total requested budget authority and an estimated 54% of total requested discretionary budget authority for FY12. The total amount requested for the national defense budget function for FY12 approximates $702.8 billion.

The DOD's future years defense program (FYDP) supports a gradual deceleration in real growth and an eventual flattening of the defense base budget over a five-year period. It does not comprise a series of precipitous cuts. Moreover, the material effect of tighter budgeting on the defense establishment will be buffered through the realization of cost savings and overhead efficiencies. Secretary Gates announced on January 6 that the DOD has identified approximately $178 billion in potential savings and overhead efficiencies over the FYDP. Roughly $100 billion of that total amount would be reinvested in high-priority military programs or used to meet key operating needs, and about $78 billion would be committed to reducing the deficit. The OCO budget request of $117.8 billion for FY12 represents a 26% decrease from the FY11 request of $159.3 billion, which is generally attributable to reduced operational demands in Iraq.

Together, the President's budget request and the efficiencies identified by the DOD and its component services offer the Congress a solid basis for cost-effective planning and fiscal decision-making. They offer ample allowance for current and future military requirements with a baseline from which additional savings may be derived as a result of close congressional scrutiny. Spending defense dollars wisely involves budgeting to sound military strategy, rather than strategizing to arbitrary budgetary goals.

As we enter the FY12 budget cycle, we should be conscious of any adverse budget implications on: military end strength and ground force structuring; shipbuilding; tactical aircraft production; research, development, testing, and evaluation prioritizations; nonproliferation efforts; the nuclear weapons modernization program; missile defense; non-deployed unit readiness; and commodity purchases. We should contemplate budgeting for additional efforts to benefit service members, retirees, survivors, and dependents. In the past, we have incrementally advanced important benefit programs, including expanded eligibility for a special survivor indemnity allowance to those spouses whose member died on active duty and enhanced retirement programs for certain reserve officers, warrant officers, and military technicians. More can be done to support service members and their families. Current objectives include extending retirement benefits to certain Selected Reserve members and eliminating the offset for survivors who are entitled to both the Survivor Benefit Program and Dependent and Indemnity Compensation. We should also be sensitive to the fiscal burdens and complications that the DOD and other federal agencies have absorbed while operating under a continuing resolution in FY11. According to the DOD, that situation's uncertainties foster operational limitations and inefficiencies, programmatic disruptions, and unbudgeted incidental costs. These adverse effects may have a cascading impact on national defense budgeting for FY12 and beyond.

To offset costly priorities, we should target savings wherever they make sense. The United States outspends every other country in the world on defense, and the U.S. defense budget, inclusive of war costs and other supplemental needs, has more than doubled since 2001. According to *The Economist* magazine, the United States budgets as much for defense as "the world's next 20 highest military spenders combined." We can very likely realize greater cost-saving efficiencies by working more closely with our allies and by reconfiguring our forward strategic postures in Europe and the Pacific. We should scrutinize the military's requirements validation process to ensure that actual needs are represented and that unnecessary or wasteful programs are eliminated. Expensive programmatic failures, such as the Army's Future Combat Systems, which cost approximately $18 billion prior to its termination, the Army's Comanche helicopter program, which cost roughly $8 billion prior to cancellation, the Navy's Presidential helicopter (VH-71) program, which cost about $2.9 billion, and the Air Force's Transformational Communications Satellite (TSAT), which consumed roughly $3.2 billion, poignantly highlight the potential for systemic improvement. We can also look to glean savings by implementing reform efforts to streamline the lengthy, and often tortuous, defense acquisition process, by negotiating more cost-effective contracts, and by reducing our reliance on contractors.

As we strive to reduce deficit spending, to begin paying down the national debt, and to further enabling economic recovery, I ask that you accept the President's budget request, as supported by the DOD's efficiencies initiative, as the appropriate standard for making your national defense budget function allocation for FY12. It provides a balanced platform for maintaining military effectiveness from which justifiable savings may be garnered.

Thank you for your consideration of these alternative views. I look forward to working closely with you and your colleagues on the Budget Committee in crafting a budgetary approach that responsibly addresses our national defense needs.

Sincerely,

Adam Smith
Ranking Member

cc: The Honorable Chris Van Hollen

MAJORITY MEMBERS:

JOHN KLINE, MINNESOTA, Chairman

THOMAS E. PETRI, WISCONSIN
HOWARD P. "BUCK" McKEON, CALIFORNIA
JUDY BIGGERT, ILLINOIS
TODD RUSSELL PLATTS, PENNSYLVANIA
JOE WILSON, SOUTH CAROLINA
VIRGINIA FOXX, NORTH CAROLINA
DUNCAN HUNTER, CALIFORNIA
DAVID P. ROE, TENNESSEE
GLENN THOMPSON, PENNSYLVANIA
TIM WALBERG, MICHIGAN
SCOTT DESJARLAIS, TENNESSEE
RICHARD L. HANNA, NEW YORK
TODD ROKITA, INDIANA
LARRY BUCSHON, INDIANA
TREY GOWDY, SOUTH CAROLINA
LOU BARLETTA, PENNSYLVANIA
KRISTI L. NOEM, SOUTH DAKOTA
MARTHA ROBY, ALABAMA
JOSEPH J. HECK, NEVADA
DENNIS A. ROSS, FLORIDA
MIKE KELLY, PENNSYLVANIA
[Vacant]

COMMITTEE ON EDUCATION
AND THE WORKFORCE
U.S. HOUSE OF REPRESENTATIVES
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6100

MINORITY MEMBERS:

GEORGE MILLER, CALIFORNIA,
Senior Democratic Member

DALE E. KILDEE, MICHIGAN, Vice Chairman
DONALD M. PAYNE, NEW JERSEY
ROBERT E. ANDREWS, NEW JERSEY
ROBERT C. "BOBBY" SCOTT, VIRGINIA
LYNN C. WOOLSEY, CALIFORNIA
RUBÉN HINOJOSA, TEXAS
CAROLYN McCARTHY, NEW YORK
JOHN F. TIERNEY, MASSACHUSETTS
DENNIS J. KUCINICH, OHIO
DAVID WU, OREGON
RUSH D. HOLT, NEW JERSEY
SUSAN A. DAVIS, CALIFORNIA
RAUL M. GRIJALVA, ARIZONA
TIMOTHY H. BISHOP, NEW YORK
DAVE LOEBSACK, IOWA
MAZIE K. HIRONO, HAWAII

March 18, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
309 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and clause 4(f) of House Rule X, enclosed please find the budget views and estimates for fiscal year 2012 for the Committee on Education and the Workforce, with minority views and estimates attached.

If you have any questions, please contact me at your convenience.

Sincerely,

John Kline

John Kline
Chairman

Committee Views and Estimates for Fiscal Year 2012
Committee on Education and the Workforce
112th Congress, 1st Session
March 18, 2011

As it considers the budget for Fiscal Year (FY) 2012, the Committee on Education and the Workforce is mindful of the significant challenges facing America's students and workers.

Despite ever-increasing federal funding, far too many schools fail to prepare students for success in the 21st century. Unsustainable federal spending and record debt levels have created an atmosphere of uncertainty that has depressed investment and job creation, and as a result, nearly 14 million Americans are out of work. The American people are rightly alarmed by Washington's out-of-control spending spree, and they understand a world-class education system and economic prosperity cannot simply be bought or regulated into existence.

The Committee will advance fiscally responsible reforms that provide every child across the nation access to the highest quality education and free every worker to pursue the American Dream. In this time of worldwide economic instability and soaring federal deficits, fiscal responsibility is of the utmost importance We must urgently call for the reduction of wasteful government spending and bureaucratic federal mandates.

The President's budget proposal for FY 2012 raises serious questions about our shared commitment to fiscal responsibly. The Committee is particularly concerned that the President's budget denies the reality of the financial crisis we face; instead of making commonsense spending cuts, the President's proposal will continue to lead our country into even deeper debt. The Committee believes we need a new direction. We have heard the economists' repeated warnings that we cannot encourage job growth until we end this trend of unsustainable federal spending. The Committee is focused on policies that will promote the fiscal discipline our economy desperately needs, foster innovation and job creation, and spur American competitiveness.

The Committee on Education and the Workforce oversees programs that impact Americans of every age and economic level. Education and workforce policies are vital to the success of our country and the future prosperity of our citizens. Advancing meaningful reforms in both arenas will be key to reenergizing our economy and preparing America's workers for 21st century challenges. We must work to improve the nation's education system by restoring local decision making, empowering parents, letting teachers teach, and protecting taxpayers. The American workforce can become more productive and innovative by promoting education and job training for high-demand fields, eliminating red tape bureaucracy, and removing barriers between business and education. These priorities form the foundation of the Committee's agenda in the 112th Congress.

EDUCATION PRIORITIES

All students should receive a high-quality education that will prepare them to succeed in college and in the workforce. Now more than ever, our nation's students must graduate high school and college with the skills necessary to compete in the rapidly changing global economy.

However, the Committee recognizes the tough budgetary realities that exist. The budget of the U.S. Department of Education and the role of the federal government in education have grown significantly over the last 45 years with negligible improvement in academic achievement. Our commitment to education should never be measured in the amount of money that the federal government spends; it should be measured by the quality of our programs and policies.

The Obama Administration seems to recognize the importance of strengthening the nation's elementary and secondary schools. Unfortunately, by asking for a more than 10 percent increase in the Department of Education's budget for FY 2012, they fail to acknowledge current budgetary challenges.

The Administration calls for fiscal discipline, highlighting its efforts to eliminate 13 wasteful programs and consolidate others into more efficient funding streams. However, underneath this rhetoric lies billions of dollars in hidden costs and increases to federal programs with little substantive effort to get our fiscal house in order. While the consolidation or elimination of any program is a step in the right direction, more must be done. The U.S. Government Accountability Office (GAO) recently released a report identifying 82 separate programs designed to improve teacher quality across 10 federal agencies. This demonstrates that the Administration could have done more in eliminiations and consolidations. Frankly, this budget proposal is a missed opportunity.

The Committee respectfully offers the following recommendations for consideration by the Committee on the Budget as it prepares its FY 2012 budget resolution:

Strengthening K-12 Education through Accountability and Parental Empowerment

In his State of the Union address in January, the President called on Congress to reform our nation's elementary and secondary laws. He called for them to be more flexible and more focused on what is best for students. The Committee agrees. State and local leaders are already promoting innovative solutions to improve student achievement and accountability. The Committee believes the federal government should reduce its interference in the day-to-day operations of our schools and free these education reformers to succeed. As the Committee works to determine the appropriate federal role in education, it will remove burdensome reporting requirements, eliminate inefficient federal education programs, and give states and school districts more flexibility in how they utilize funds to best educate their students.

Reforming Elementary and Secondary Education

The Elementary and Secondary Education Act (ESEA) – last reauthorized as the No Child Left Behind Act (NCLB) – supports the efforts of states and school districts to narrow the academic

achievement gap between disadvantaged students and their peers. The law ended the practice of masking the performance of low-income children compared to their more advantaged peers and provided parents, teachers, principals, and superintendents important data on the academic achievement of students and schools. For those students trapped in low-performing schools, the law offered unprecedented opportunities for parental empowerment, allowing parents, especially those with children in schools not making annual progress toward academic achievement, the opportunity to move their students to higher performing elementary and secondary schools.

NCLB is not perfect, and it has created significant challenges. The law's one-size-fits-all approach of holding all schools accountable for student performance has created an overly complicated accountability system. Many states and school districts struggle to comply with the law's requirements. The central goal of making all students proficient in reading and math by the end of the 2013-2014 school year is unattainable, raising questions as to whether all schools will be labeled "in need of improvement" and subject to escalating federal interventions in three short years. As state and local education leaders push for dramatic reforms to improve schools, expand charter schools, and improve teacher tenure practices across the country, NCLB seems outdated and unable to adjust to the real world challenges of improving student success. The Committee believes that state and local school districts must be given additional flexibility to design systems for accountability, assessment, and school improvement that best meet the unique needs and priorities of their students.

Nine years after passage of NCLB, our country's education system continues to falter. Nationwide, only 69 percent of students earn their high school diplomas and approximately 1.3 million students do not graduate from high school on time each year. Of those who do earn their diplomas, many lack the skills they need to be successful in college or the workforce. It is clear that current federal education policy is not working. The Committee believes it is time to reevaluate the proper role of the federal government in education and get out of the way of meaningful state and local reforms.

The Administration's plan for reauthorizing ESEA would integrate the reforms included in the American Recovery and Reinvestment Act such as the Race to the Top program, into federal education law. Those reforms include: (1) supporting college- and career-ready standards by requiring states to adopt common or national standards and assessments to access funds; (2) improving teacher equity by requiring teachers and principals to be "highly effective;" (3) using data to improve instruction and requiring states to link student performance to teacher evaluations; and (4) improving low-performing schools using one of four turnaround models.

While the Committee appreciates the Department of Education's efforts to promote charter schools and teacher performance pay, it is opposed to the Administration's decision to tie funding to a more intrusive federal role in education For example, the Race to the Top program includes more than 100 new requirements states must meet in order to compete for the program. The Administration also limited state and local flexibility by proposing prescriptive requirements to turn around the lowest-performing schools through mandated "turnaround models" that involve firing the principal of the school (a requirement that proves unworkable in rural areas).

The Committee will work to fix the problems that states and school districts have encountered under NCLB through a fair, flexible, and locally focused approach. In an effort to reduce the federal footprint in elementary and secondary education, the Committee will restore local decision-making to states, school districts, and parents and encourage flexibility for states and school districts' use of federal funds. This will allow states and school districts to focus on local priorities. The Committee believes parents should have the primary role in making decisions for their children's education and will strive to give them the options and the resources they need to make good decisions. The Committee will continue to support the growth and success of high-quality charter schools and the freedom to educate children at home. We are committed to being good stewards of taxpayers' money and will work to eliminate education programs that are duplicative and ineffective.

Continuing the Successful DC Opportunity Scholarship Program

The Committee is determined to encourage educational choices for parents, allowing them to send their children to higher performing public or private schools if their current school fails to provide a high-quality education. Empowering parents with more options is a key component in the fight to provide students with a quality education.

The DC Opportunity Scholarship program, created in 2003, has allowed thousands of students in the District of Columbia to attend the school of their choice. If not for this critical program, more than 85 percent of students who receive scholarships would be forced to attend some of the District of Columbia's lowest performing schools. The average family income for scholarship students is approximately $24,300. Scholarships of up to $7,500 per student per school year are provided to the children of low-income families so they can attend a participating nonpublic elementary or secondary school in the District of Columbia. The program is a lifeline to those families whose children are trapped in low-performing and failing schools.

The Committee is dismayed by the Administration's decision to eliminate the DC Opportunity Scholarship Program. By cutting this program, the Administration has decimated parental options and denied students access to a high-quality education in the nation's capital. The Committee strongly advocates the reversal of this move. As such, we strongly urge the Committee on the Budget to provide full funding for this valuable program.

Making Special Education a Priority

The Committee maintains the federal government must keep its commitment to states, school districts, parents, and students with disabilities when it promised to fully fund special education. In 1975, Congress passed the Individuals with Disabilities Education Act (IDEA) and committed that states would receive 40 percent of the excess cost of special education. To date, Congress has not come close to meeting that funding requirement. The President's FY 2012 budget proposal includes $11.7 billion for the Grants to States (Part B) program, an increase of $200 million over last year's level. This funding level would maintain the federal contribution toward meeting the excess cost of special education at 17 percent of the national average per pupil expenditure.

While it may be a difficult task to fully fund IDEA in light of the nation's current budgetary constraints, the Committee is troubled that the Administration creates new federal education programs instead of meeting the current funding commitment under IDEA, a program beneficial to all school districts. For example, the Administration's budget request for the Department of Education creates five new elementary and secondary programs, totaling approximately $1.9 billion. This new funding could have been used to increase Part B funding, reducing the federal mandate on states and school districts all across the country.

Reducing Burdensome Regulations Overwhelming States and School Districts

The Committee recognizes the federal government is active in most facets of public education. Despite providing a relatively small percentage of all elementary and secondary education funding, the federal role has grown significantly with the passage of laws like NCLB, IDEA, and the Carl D. Perkins Career and Technical Education Act. The federal government often ties federal funding to acceptance of its rules and regulations. States and local schools that accept federal funds are required to meet certain requirements, many of which are burdensome, costly, and duplicative. The requirements perceived to be the most important, and usually the most onerous, are typically incorporated into larger education programs.

As the federal role – and federal spending – in education has increased, so has the number of rules and regulations. This has forced many school districts and schools to hire new staff to handle the increased paperwork burdens required to stay in compliance with these mandates. Currently, states and school districts work 7.8 million hours each year collecting and disseminating information required under Title I of NCLB. The expense of complying with the data collection costs our states and school districts more than $235 million a year. The burden on schools is tremendous and should serve as a wake-up call to Congress and the Administration as we work to reduce unnecessary regulations that inhibit innovation at the state and local level. The Committee supports federal efforts to protect taxpayer dollars. However, federal mandates should never act as a roadblock to promoting success in our nation's classrooms.

Expanding College Access, Ensuring the Integrity of Federal Financial Aid

The United States has one of the most diverse higher education systems in the world. With more than 6,100 institutions of higher education eligible to participate in the federal student aid program across the country, students have the unique ability to find a school – online or on-ground, rural or urban, public or private, two-year or four-year - that best suits their individual needs. The Committee strongly supports federal policies that guarantee student choice and allow the country's diverse higher education system to flourish.

Ending Harmful and Job-Destroying Regulations

The Committee strongly opposes recent regulatory actions that threaten college access and put academic decisions in the hands of bureaucrats. The Administration's insistence on moving forward with a regulation to define "gainful employment" under the Higher Education Act targets the proprietary (or private) sector and will destroy jobs and stifle local economic development. Proprietary colleges are an important part of our nation's higher education system.

Their efforts to prepare students for a variety of careers are essential to meeting the President's goal of leading the world in college graduation rates by 2020. These colleges have the ability to adapt to the needs of the local workforce and develop key career programs that will encourage job growth.

On February 18, 2011, the Committee led a strong bipartisan effort to stop this job-destroying regulation. The House of Representatives adopted an amendment to H.R. 1, the Full Year Continuing Appropriations Act of 2011, by a bipartisan vote of 289 to 136, to prohibit the Department of Education from implementing its gainful employment regulation. While the Committee acknowledges the existence of "bad actors," federal policy should focus on providing students and families with the information they need to choose a high-quality college.

The Committee also has concerns with the recent "program integrity" regulations that were released last year to create a federal definition of a "credit hour" and put additional parameters around the authorization powers of states. The credit hour regulation will stifle innovation and prevent institutions from experimenting with new modes and methods of student learning. Developing a method for measuring a credit hour and assigning hours to programs are key functions for institutions of higher education, not federal bureaucrats.

Additionally, the Committee opposes program integrity regulations that will force states to change their laws or adjust long-standing policies, as well as requirements imposed on institutions offering their services through an online platform. Through these regulations, institutions with online programs may have to be authorized in every state, even if the institution is only serving a few students from any particular state. Certain institutions will start scaling back their operations or stay out of particularly burdensome or rural states, where the education of a few students will not be worth the hassle of complying with disparate state laws.

The American people have demanded their government foster an environment for economic growth and job creation. However, the Administration's efforts to regulate higher education will be detrimental to the nation's workforce and its ability to compete in the global economy. The Committee intends to thoroughly examine the unintended consequences of these regulations and will work to ensure institutions of higher education can operate without unnecessary red tape from Washington.

Putting Pell Grants on a Path to Stability

The Committee plans to rein in the runaway cost of the Pell Grant program to ensure it remains available to students who need it most. Funding for the Pell Grant program has tripled over the last five years and is expected to cost approximately $41 billion in FY 2012 – an amount equal to the total discretionary budget figure of all other K-12 and higher education programs run by the Department of Education. Over the last several years, Congressional Democrats and the Obama Administration have irresponsibly expanded the Pell Grant program beyond its original intent, making financial promises to students that American taxpayers simply cannot afford to keep.

The Pell Grant program is on an unsustainable path. Instead of making tough choices about changes to the program, the President's budget proposal adds to the burden by claiming

additional mandatory "savings" to mask the true cost of the Pell Grant program. This budget proposal utilizes scoring gimmicks to take credit for additional "savings" through the creation of a "new" loan program that will force the federal government to borrow billions more from our nation's bondholders to finance the program, significantly adding to the national debt.

The Committee supports the Pell Grant program as the foundation of our nation's commitment to assist low-income students in accessing higher education. Further, the Committee is determined to put the Pell Grant program back on the path to long-term fiscal stability, enabling millions of low-income students to pursue their dream of a postsecondary education.

Assessing True Taxpayer Costs for Student Loans

The Committee believes budget gimmicks that have masked the cost of federal student loan programs for decades should not be allowed to continue. Instead, we urge the Committee on the Budget to examine reforms that will clearly illustrate the taxpayer costs associated with the federal student loan programs.

During the debate on the Student Aid Fiscal Responsibility Act (SAFRA), the Congressional Budget Office (CBO) determined that the supposed savings from eliminating the Federal Family Education Loan (FFEL) program decreased dramatically when market-risk is taken into account. Since that time, CBO, the President's National Commission on Fiscal Responsibility and Reform, and the Pew-Peterson Commission on Budget Reform have all recommended the incorporation of fair-value accounting into federal guarantee and loan programs. The Committee believes that incorporating market risk, as was done in assessing the costs of the Temporary Asset Relief Program (TARP), is a more accurate and fiscally responsible way to account for the government's liabilities in programs such as the Federal Direct Loan program.

WORKFORCE PRIORITIES

Working to Repeal the New Health Care Law and Ensure Lower Health Care Costs

The Committee continues to support fiscally responsible efforts to lower the costs of health care and insurance coverage for all Americans. Since most Americans obtain their health coverage through their employer, we remain concerned that rising health care costs continue to place significant strains on businesses, employees, and families, making it increasingly difficult to access quality, affordable health insurance. The Committee is concerned that the new health care law, the Patient Protection and Affordable Care Act of 2010 (PPACA), fails to "bend the cost curve" in health care and will likely exacerbate the problem of rising health care costs. Further, the Committee is also concerned that many Americans will not be able to keep their employer-provided coverage under the new law and will be forced to obtain government-subsidized coverage, which would ultimately increase costs to taxpayers.

With these concerns in mind, the Committee will examine the extent to which the PPACA inflicts unnecessary financial and administrative burdens on individuals and job creators. Of particular concern are a variety of insurance coverage mandates that drive up the cost of

coverage as well as the mandate that all employers with more than 50 employees provide government-approved health insurance coverage or pay a $2,000 per-employee penalty. Also worrisome is the fact that most employers will be unable to qualify for the PPACA provision that was intended to "grandfather" employer health plans in existence on March 23, 2010 and exempt them from the costly new coverage mandates. Accordingly, many American workers will see significant and costly changes in their employer-provided coverage.

The Committee will continue to investigate the new health care law and remains staunch in its opposition to this government takeover of the health care system. We maintain that this law creates a fiscally irresponsible entitlement program and imposes massive new taxes, penalties, and regulations on Americans. The Committee will also conduct comprehensive oversight of the Administration's efforts to implement the law, and oppose regulatory efforts that increase burdens on businesses and workers. Further, the Committee continues to offer and support sensible proposals to lower the cost of health care and increase access to affordable health insurance coverage, such as Small Business Health Plans, that would reduce financial pressures on employers, workers, and their families.

Monitoring and Assessing the Family and Medical Leave Act

The Committee intends to review the requirements of the Family and Medical Leave Act (FMLA), examining areas where this law has worked as intended and where it may have failed to do so. The Committee will focus efforts on oversight of both pre-existing and new FMLA leave provisions and will support efforts, legislative and otherwise, to ensure that the FMLA accurately reflects the needs of the 21st century workplace. At the same time, the Committee will be vigilant with respect to proposals that would impose costly and onerous new burdens on employers, particularly those that would mandate paid leave.

In particular, the Committee notes that the Obama Administration has requested $23 million for the U.S. Department of Labor's State Paid Leave Fund to support competitive grants to states that establish paid leave programs. It is not clear how this fund would be created or funded. It is also unclear how this helps businesses create more jobs; in fact, this would likely make it more expensive to for employers to hire new workers.

Promoting Retirement Security

The Committee is working to strengthen the retirement security of American workers by protecting existing pensions, cutting regulatory burdens, and increasing opportunities for retirement savings. The Committee supports the continuation of a strong, voluntary, and portable private-sector pension structure. This involves fighting against proposals that would take away or limit workers' 401(k) retirement accounts and proposals that would increase the costs of such accounts through burdensome regulations and increased liability and litigation. Finally, the Committee supports fiscally responsible efforts to ensure the continued viability of the defined-benefit pension structure.

The Committee will scrutinize proposals included in the President's budget that would require employers to establish new individual retirement accounts for their workers and give the Pension

Benefit Guaranty Corporation (PBGC) the authority to determine premium amounts required of defined-benefit pension plan sponsors. Specifically, the Committee will guard against efforts to utilize this vague and undefined proposal to address budget concerns which, while legitimate, should not determine important policy changes affecting the future retirement security of American workers.

Improving Job Training and Employment Services

The Committee is dedicated to improving job training opportunities for Americans by streamlining unnecessary bureaucracy, eliminating duplicative programs and fostering economic development.

The nation's primary assistance for unemployed and underemployed workers is provided through the Workforce Investment Act of 1998 (WIA). Congress passed WIA to reform the nation's job training system and to provide states and local areas with the tools they need to provide worker training through One-Stop centers. WIA was signed into law more than a decade ago and has been up for reauthorization since the end of FY 2003. The Committee is concerned that the President's budget request does not include a proposal to update and reauthorize this program. Instead of reauthorizing WIA, the President's budget proposes to redirect a portion of the funding provided to state and local One-Stop Career Centers to new federally administered grant making programs. The Committee is also concerned by the Department's increasing emphasis on unproven federal grant programs, including the Green Jobs Innovation Fund, to meet the needs of America's unemployed and underemployed workers. The Committee continues to advocate using state and local One-Stop Career Centers to provide all job training programs and services and will consider measures to support a dynamic, results-oriented job training system that can effectively serve job seekers and workers in need of retraining.

Recently, the GAO released a report entitled, *"Multiple Employment and Training Programs: Providing Information on Colocating Services and Consolidating Administrative Structures Could Promote Efficiencies."* The report found 47 federal programs spread across nine agencies that spend approximately $18 billion on employment and training services. Almost all of the federal employment and training programs provide comparable services to similar populations and overlap with each other. The Committee on Education and the Workforce has jurisdiction over 33 of these programs and is committed to consolidating these funding streams to simplify program administration and create more efficient programs at the state and local levels. Other Congressional committees, however, have authority over the remaining 14 programs, a number of which are larger in scope and budget than those run by the Department of Labor. The Committee urges the Committee on the Budget to direct all Congressional committees with jurisdiction over job training programs to eliminate duplication so the nation's workforce development system can respond quickly and effectively to the changing needs of employees and job seekers.

Updating the Fair Labor Standards Act

Numerous hearings held by the Committee over the past several years have demonstrated the need to update the Fair Labor Standards Act of 1938's (FLSA) regulatory scheme. Responding

to the need for reform, the Bush administration undertook a historic initiative to update the regulatory scheme and ensure the regulations reflect the intent of Congress and the realities of the 21st century workforce. The updated regulations have provided a catalyst for compliance and helped ensure that the law is more relevant for today's workforce. In addition, the changes have helped clarify workers' rights to overtime, assisted employers in determining how to pay their employees, and assisted the Department of Labor in its enforcement of these important workplace protections. The Committee believes the Department of Labor should continue efforts to utilize a combination of targeted enforcement, technical assistance, and education to encourage compliance under the FLSA.

In addition, as the Committee continues its focus on ways for employers to provide more family-friendly workplaces, the Committee will place a high priority on looking at ways to eliminate impediments within the FLSA that prevent employers and employees from working out mutually beneficial and innovative arrangements regarding compensation and flexibility in work schedules. Working families face a host of challenges when trying to balance the competing needs of home and work. That is why the Committee supports legislation that would modernize federal labor laws to give workers more flexibility through the use of "comp time," also known as 'family time," which allows workers the option of taking paid time off in exchange for working overtime hours. Conversely, the Committee will continue to oppose job-destroying proposals to mandate benefits and taxes on employers during periods of high unemployment.

Protecting Workplace Democracy

The Committee remains determined to protect employee and employer rights under the National Labor Relations Act (NLRA) and ensure union transparency and democracy. To that end, the Committee will be vigilant with respect to the National Labor Relations Board and will oppose efforts or actions undertaken by the Board that are meant to tip the scales of balance in labor-management relations. For those employees who choose to join a union, the Office of Labor-Management Standards (OLMS) plays a critical role in holding union leadership accountable to rank-and-file members. The Committee will continue to scrutinize the performance of OLMS in this regard and will support measures that will improve union transparency and accountability overall. In addition, the Committee notes that even as the President's budget requests additional funding for federally directed grant making programs, OLMS is the only enforcement agency at the Department of Labor for which no increase was included in the FY 2012 budget proposal. The Committee is concerned that the President's budget instead expects OLMS to do more with even less enforcement staff than it had in FY 2010. Finally, the Committee will focus its legislative attention on NLRA reforms that promote job growth, while ensuring employees have the right to choose whether or not to join a union.

Reforming the Federal Employees' Compensation Act

The Obama administration has proposed a number of reforms aimed at improving the operation of the Federal Employees' Compensation Act (FECA) program. The reforms would incorporate the best practices of many state workers' compensation programs, improve return to work procedures, streamline claims processing, and update benefit levels. The Committee shares the Administration's interest in updating and improving the workers' compensation program for

federal employees, and believes the Administration should work toward achieving a balanced reform of the program while ensuring the program is responsive to the needs of injured federal employees.

Enhancing Workplace Health and Safety

The Committee remains dedicated to ensuring the health and safety of all American workers. To that end, we support workplace safety and health policies that incorporate both proactive safety programs and appropriate enforcement of existing workplace safety laws. In the coming year, the Committee will examine the efficacy of current workplace safety regulations and enforcement in addition to promoting cooperative programs between employers, employees and the federal government.

Occupational Safety and Health Administration

The Committee has made clear its concern about the punishment-based approach in the Occupational Safety and Health Administration's (OSHA) regulatory agenda. An enforcement-only approach does little to protect workers before they are injured on the job. The Committee will closely scrutinize the punitive proposals and actions undertaken by the agency.

The Committee is encouraged that the Administration's budget proposal recognizes the need for cooperative safety programs and reinstates funding for the Voluntary Protection Program (VPP). However, OSHA must ensure that any new regulatory proposals consider the impact on small businesses, and that steps are taken to avoid unworkable one-size fits-all safety programs. The Department of Labor's statistics demonstrate that occupational injury and illness rates have declined every year since 2003. Achieving the right mix of cooperative programs and enforcement is the only way to ensure that trend continues.

Mine Safety and Health Administration

Over the last year, the Mine Safety and Health Administration (MSHA) has undertaken a number of actions intended to improve mine safety, including the issuance or proposal of several new regulatory initiatives, expanded mine inspections, and more aggressive legal and enforcement activities. While these efforts are welcome, the Committee remains concerned by the extent to which the agency is fully and effectively utilizing its current regulatory, legal, and enforcement tools. Recent reports indicating problems related to the training and performance of MSHA field personnel are particularly troubling. The Committee will continue to examine and evaluate the agency's performance, and will give careful consideration to any regulatory or legislative proposal that may be needed to enhance MSHA's ability to fulfill its obligation to better protect American miners.

CONCLUSION

The Committee on Education and the Workforce believes the federal budget is a statement of priorities. The fiscal challenges we face as we prepare the FY 2012 budget are daunting, but those challenges must not deter our commitment to reform. The Committee stands ready to work

with the Committee on the Budget and the Obama Administration to enact fiscally responsible reforms on behalf of students, workers, and retirees.

John Kline
Chairman

Democratic Views and Estimates for FY 2012
Committee on Education and the Workforce
112th Congress, 1st Session
March 17, 2011

In the 112th Congress, the Committee Democrats will continue to focus on strengthening and expanding the middle class. While the economy has been improving and the last Congress enacted a number of critical laws in support of job creation and a fair and sustainable economic recovery, much work remains to be done for American students, workers, and families. Committee Democrats will both protect progress already made in education and labor policy and continue to pursue needed reforms in these areas, including by working with the Majority where possible.

While Committee Democrats are hopeful there are opportunities to work together on many issues, much of the Majority's views appear premised on a flawed understanding of our fiscal and economic situation. For example, the Majority ignores the role played by Wall Street's risky speculation in housing markets in wrecking the economy. Likewise, the Majority ignores the role played by unpaid-for tax cuts for the rich and unpaid-for wars in bloating the national debt. The Majority also fails to account for the impact on the economy of decades of wage stagnation and the consequent explosion in household debt. Accordingly, in many areas, the Majority has pressed for a return to the very tried and failed policies that created the current fiscal and economic crisis. Such policies weaken the middle class, while benefiting the powerful and well-connected. Yet America's economic strength has long been derived from its strong middle class. To put the economy on a sustainable recovery and improve our international competitiveness, laws and programs that support the middle class must be strengthened, not attacked. Cutting programs for the poor, those who aspire to join the middle class, will not spur the economy or significantly reduce the debt. Weakening the rights of workers or denying them their fair share of the rewards of their own productivity depresses economic activity and does not create jobs. These kinds of economic and budgetary policies paralyzed the U.S. economy and led to nearly 700,000 private sector jobs being lost during the eight years of the Bush administration. Committee Democrats believe we need to be fiscally responsible and support economic growth. We are encouraged that, under Democratic leadership, private employers have added 1.5 million jobs in the last 12 months. Committee Democrats will oppose any efforts which threaten economic growth and the progress we have made. Neither a sustainable economic recovery nor a balanced budget can be achieved on the backs of working people or the poor or vulnerable. Our country faces many unmet needs. Committee Democrats believe we must invest in our country and our people.

EDUCATION

Reforms to the American education system are urgently needed. The vast majority of our students are not prepared to meet the demands of the global economy. American students rank 25th in math, 14th in reading, and 17th in science among other industrialized countries. Internationally, the United States has fallen from first to ninth place in college graduates. While our top 10 percent of students remain competitive with their peers internationally, we fall flat when it comes to educating poor and minority students. Each year, approximately 1.3 million

students, more than half of whom are students of color, will not graduate from high school with their peers as scheduled, costing the nation more than $337 billion in lost wages. More than one in five high school graduates do not meet the minimum standards required for enlistment in the U.S. Army. As employers are demanding a more qualified workforce than is available, it is clear that our economy will not be strong until the education of all students is an unwavering priority. Committee Democrats believe that graduating more students with the skills to compete in a global economy is critical to both educational goals and long-term economic policy.

The Elementary and Secondary Education Act (ESEA)

The President has called on Congress to rewrite the Elementary and Secondary Education Act (ESEA)/No Child Left Behind (NCLB), and we must work together to answer that call. We must continue to pursue the goal established by NCLB to educate every child and to shine a bright light on achievement gaps. The persisting achievement gap is a threat to the country's competitiveness, our economy and even our national security. Through the rewrite of this critical civil rights law, we believe we must maintain strong accountability for how *all* students perform and ensure all students have access to a college and career ready education. At the same time we must provide flexibility to states and districts to improve their schools based on the needs of their students, schools, and communities.

To support such an effort, we must continue to focus on the core education programs, including Title I and Title II, that are critical to educating the most disadvantaged while also funding programs in the most efficient ways and providing districts with increased flexibility to support the needs of their students. This year, Committee Democrats are committed to continuing our bipartisan work to help make the necessary changes so that all students are on the pathway to success.

Higher Education

The increasing cost of obtaining a postsecondary education and the resulting student loan debt for students and families continue to be major concerns for the Committee Democrats. In recent years, the weakened economy and state budget cuts have shifted the burden of higher tuition prices to college students and their families. The average in-state tuition and fees at four-year public colleges and universities have risen by almost 8 percent, when adjusted for inflation, over the last year. The average student now graduates from a public college with $19,800 in total student loan debt. As we are asking students and taxpayers to shoulder more financial burden to attend higher education, institutions of higher education should be held to high standards of integrity and accountability. Additionally, states are an important partner in ensuring a robust higher education system, and states should, even in this current economic environment, continue to significantly invest in higher education and student aid.

During the 110th and 111th Congresses, the Committee Democrats were dedicated to ensuring that all students had access to an affordable college education through the passage of the Higher Education Opportunity Act, the College Cost Reduction and Access Act, the Ensuring Continued Access to Student Loans Act, and the Student Aid and Fiscal Responsibility Act. Through these Acts, the Committee invested more than $60 billion in Pell Grants, $3 billion in Historically

Black Colleges and Universities and Minority Serving Institutions, $3 billion in additional programs to increase students' access to a higher education, and made student loans more affordable and manageable to repay.

Of particular importance to the Committee Democrats is a continued commitment to the Pell Grant program. This program serves as the foundation for securing the Federal goal of equal access to postsecondary education for all qualified students. Next year, 9.4 million students will rely on the Pell Grant to afford a college education; a number that has grown considerably in recent years in large part due to the economic downturn. It is particularly imperative during these economic times to continue our commitment to this program. During the last two Congresses, the Committee Democrats supported efforts to increase the maximum Pell Grant a student is eligible for from $4,050 to $5,550 - an increase of $1,500. It is imperative that future policies continue this commitment to our nation's students and recognize that the Pell Grant is a critical cornerstone to higher education access. The Committee Democrats do not support initiatives, such as that included by the Majority in the recent continuing resolution, H.R. 1, to dramatically cut the maximum award.

The Individuals with Disabilities Act (IDEA)

Committee Democrats remain committed to meeting the developmental and educational needs of young children and students with disabilities. The President's budget proposed a modest increase of $200 million for elementary and secondary special education programs and a $50 million increase for the infant and toddler program, which would maintain the federal share for special education at approximately 17 percent. Committee Democrats will continue to fight for federal investment in the education of children with disabilities and full funding of IDEA. Through IDEA, all students with disabilities have the right to access the general education curriculum, and Committee Democrats will work to provide schools with adequate resources to support the free appropriate public education guaranteed by IDEA to children with disabilities so that every child has the opportunity to succeed. In addition, Part C of IDEA helps identify developmental delays in infants and toddlers through screenings and provides intervention services that can have a lifelong impact to improve the quality of life for children and their families and limit the need for special education and medical services later. As Democrats of the Committee, we are committed to funding and supporting this extremely important federal program.

Early Education

Committee Democrats believe that high quality early learning opportunities are integral to education reform. Science has clearly demonstrated that children's experiences in the first five years of life have a lasting effect on their learning, health and behavior. Research shows that the achievement gap evident in elementary school begins prior to school entry and can even be seen at 9 months of age. High quality early learning programs provide a key opportunity to help all children arrive at kindergarten with the skills they need to succeed in school and in life. While recent Republican proposals impose massive cuts to the Head Start program that would remove 218,000 low income children and families from the program, and close more than 16,000 Head Start and Early Head Start classrooms across the country, Committee Democrats believe

investing in Head Start is crucial to ensuring our children have a solid foundation for success. We also believe that additional strategic investments in early learning, such as the Early Learning Challenge Fund, passed by the House of Representatives in the 111th Congress and proposed by the President in his FY12 budget, which will increase the number of children in high quality early learning settings, are a critical educational investment in this country's future.

Children's Safety

PREVENTING HARMFUL RESTRAINT AND SECLUSION IN SCHOOLS

The Keeping All Students Safe Act, passed by the House in the second session of the 111th Congress, was the first national effort to address the troubling problem of seclusion and restraint in our schools. This bill would establish minimum safety standards in schools and increased transparency, oversight and enforcement to prevent future abuse. An investigation by the U.S. Government Accountability Office found hundreds of allegations that children have been abused, and some even died, as a result of misuse of restraint and seclusion in public and private schools, often at the hands of untrained staff. Unlike hospitals and other medical and community-based facilities that receive federal health funding, there are currently no federal laws addressing restraint and seclusion in schools. Committee Democrats remain committed to enacting the necessary reforms to ensure the safety of children and teachers.

PROTECTING STUDENT ATHLETES FROM CONCUSSIONS

Concussions among student athletes are an alarmingly problem that demands immediate attention. According to recent estimates, up to 3.8 million Americans sustain concussions annually, and the injury is particularly common among children and adolescents. High school football alone reports 100,000 concussions each year. The U.S Government Accountability Office study found that the prevalence of concussions in high school athletics is underestimated. Without proper management, students are at risk of prolonging their recovery, and their success in school and in life may suffer. During a series of hearings in the 111th Congress, witnesses testified about the academic effects of concussions and emphasized the need to improve recognition and response to these injuries both on and off the field. The Protecting Student Athletes from Concussion Act sets minimum safety standards for concussion management in public schools across the country. Committee Democrats believe this legislation is urgently needed to keep student athletes safe on the field and thriving in the classroom.

PROTECTING STUDENTS FROM SEXUAL AND VIOLENT PREDATORS

The Protecting Students from Sexual and Violent Predators Act, passed by the U.S. House of Representatives during the 111th Congress by a vote of 314 to 20, would help prevent registered sex offenders and criminals convicted of crimes against children from working in schools. This legislation would require public schools to conduct comprehensive background checks for every employee and prohibits hiring or retaining anyone who has been convicted of certain violent crimes, including crimes against children, crimes involving rape or sexual assault, and child pornography. The legislation responded to concerns from a recent U.S. Government Accountability Office report that identified instances of individuals with histories of sexual

misconduct working in schools. Committee Democrats believe every parent should know their children are safe from sexual predators at school, and we will continue to pursue legislation that prevents children from being put in unsafe school environments.

STOP CHILD ABUSE IN RESIDENTIAL PROGRAMS FOR TEENS

Tens of thousands of U.S. teenagers attend private and public residential programs that are intended to help them with behavioral, emotional, mental health, or substance abuse problems. Investigations conducted by the U.S. Government Accountability Office during the 110th Congress uncovered thousands of cases and allegations of child abuse and neglect since the early 1990's at teen residential programs. As a result of patchwork oversight at the state level, children at some of the programs have been subject to abuse and neglect with little or no accountability. The Stop Child Abuse in Residential Programs for Teens Act, which passed the U.S House of Representatives twice with bipartisan support in the 110th and 111th Congresses, protected teenagers attending residential programs from physical, mental, and sexual abuse, and increased transparency to help parents have information that let them make safe choices for their children. Committee Democrats remain committed to making the reforms necessary for protecting the well-being and civil rights of youth in residential programs.

LABOR

During the first session of the 112th Congress, Committee Democrats will continue to work to: promote workers' rights; improve workplace safety; conduct oversight on the enforcement of labor laws; help workers balance the demands of work and family; and look for ways to build upon the Affordable Care Act (ACA). After billions of dollars of unfunded tax breaks, worker training and protection programs are being asked to sacrifice. Committee Democrats believe if there are sacrifices to be made, they should be shared.

The Right to Organize and Collectively Bargain

The right to organize and collectively bargain is a fundamental human right, as recognized by the International Labour Organization of which the U.S. is a member, and a right long-enshrined in federal law for American workers. Workers deserve a voice on the job. Empowering workers to bargain for better wages and working conditions is essential for maintaining a strong middle class and a strong democracy. In recent months, the right of workers to organize and collectively bargain has been under escalating assault in the House of Representatives and across the country. States are pursuing bills to eliminate or restrict the collective bargaining rights of public sector employees, roll back prevailing wage laws, prohibit project labor agreements, and impose right-to-work-for less. During this Congress, the Republican majority has already made attempts to roll back the rights of American workers. They have proposed to: (1) close down the National Labor Relations Board; (2) cut construction workers' pay on government projects; and (3) ban federal project labor agreements. Each of these efforts failed representing a victory for America's middle class. The Majority's attempts to weaken worker rights will widen the gap between rich and poor and weaken the American economy. Committee Democrats are committed to protecting and strengthening the rights of American workers and believe they are essential to this country's economic recovery and international competitiveness.

Job Training

Access to job training opportunities is essential for unemployed workers. The recession resulted in the decline of some industries while others that require far different skills experienced growth. In order to compete for jobs in these sectors, workers must be able to access training. Committee Democrats are committed to ensuring that our nation's workforce development system meets the needs of the country's workers. Now more than ever, sufficient funding must be provided to prepare adult, youth, and dislocated workers for jobs in emerging industries, which often require advanced training and education. Still, the Majority has proposed severely reducing investments in the workforce system, cutting roughly $2.97 billion in funding. This cut represents 100 percent of the funding for WIA Adult, Dislocated Worker, and Youth programs in Program Year 2011, which begins in July of this year. If enacted, these cuts would force many states and local areas to reduce or eliminate job training and employment services and would eventually lead to the shutdown of our nation's 3,000 one-stop centers. The Majority notes the recent GAO report that found significant overlap amongst training programs. Committee Democrats support better coordination of programs, but are dedicated to resisting cuts to critical workforce development programs and to giving workers the skills and training they need as the economy starts to recover.

Health Care

Last year, the *Affordable Care Act* (ACA), including the Health Care and Education Reconciliation Act was signed into law. The law provides that all Americans will have access to quality, affordable health care for the first time in this country's history. It does this while reducing the deficit by $210 billion over 10 years and over a trillion dollars over 20 years. The health law came at a time when health care costs were skyrocketing and employers and families could no longer afford the status quo. While the ACA will not be fully implemented until 2014, millions of Americans are already experiencing its benefits. In the first months of the 112th Congress, Republicans have made repeated attempts to repeal and defund the law without putting forth any effective alternative proposal. They have made it clear that their only priority is to repeal the law and are unwilling to work with Democrats on any improvements to it.

As a result of the Affordable Care Act, over a million young adults are now eligible for health coverage under their parent's plan, nearly 16 million Americans are no longer vulnerable to a rescission of their insurance coverage, 165 million people can no longer be subjected to restricted annual or lifetime limits and up to 129 million Americans who may have a pre-existing condition have access to coverage through a high risk pool and starting in 2014 cannot ever be denied coverage. The law also promotes fairness and transparency in the insurance market. Insurance companies will now be required to spend 80 to 85 percent of premiums on benefits and publicly justify large premium increases. Insurance companies that spend too much on administrative costs and profits will be required to provide rebates to consumers. The Department of Health and Human Services estimates that approximately 3 million individuals purchasing coverage in the individual market could receive rebates of about $164 per enrollee. In the small group market, HHS estimates that one million enrollees could receive rebates on average of $322 per enrollee.

Employers are also benefiting from the law. Small businesses are seeing lower health care costs as a result of the law's small business tax credit. As a result, more small businesses are offering health care. Last year, employers offering health care with between 3-9 employees rose from 46 percent to 59 percent. In addition, over 5,000 employers are taking part in the law's retiree reinsurance program which according to the Department of Health and Human Services has helped to benefit more than 4.5 million Americans. The law is also helping millions of seniors by lowering their prescription drug costs and providing access to an annual wellness visit and preventative care at no cost.

The Affordable Care Act includes provisions which at one time had strong Republican support, including health insurance exchanges, small business health care tax credits, consumer protections such as extending coverage to dependents, prohibiting insurance company rescissions, and prohibiting annual and lifetime coverage limits. However, instead of working with Democrats to improve the law or proposing an alternative health reform policy, the Majority has focused only on repeal. According to the Congressional Budget Office, repealing the Affordable Care Act would increase the deficit by $210 billion and slightly increase employer-sponsored premiums. Insurance companies could once again deny coverage to or discriminate against a child due to a pre-existing condition, drop someone's health care because they are sick or hit a lifetime limit and insurance companies would once again be able to spend more money on profits and administrative costs and less on actual care. Committee Democrats believe the Affordable Care Act is a critical first step in reforming this nation's health care system and will fight all efforts by the Majority to repeal these long overdue reforms.

Retirement Security

In recent months, the Republican attack on middle class workers and programs has extended to undermining retirement security programs. The American way of life depends on good schools, good jobs, affordable housing, affordable health care, and the ability to accumulate retirement income for one's senior years. Here too, programs that have been developed over decades and provided retirement security to millions of people are being threatened by the Republican majority. Social Security is the strongest retirement program covering over 50 million seniors, disabled Americans and their families and is funded for more than 25 years. However, some in the Majority continue to press for Social Security reductions that would force Americans to work longer and receive reduced future benefits. These proposals are short-sighted as most Americans have no other retirement savings and, as found by the Center for Economic Policy Research, approximately 1/3 of all jobs require physical exertion limiting work durations.

Social Security was never intended to be the sole source of workers' retirement income. Private pensions were intended to supplement Social Security's final salary replacement rate of 20% for higher income earners and 40% for middle income earners. Traditional defined benefit pensions cover 20 million workers and 20 million retirees. These plans were well funded before the recession and many employers struggled to maintain funding during the recession. Committee Democrats will continue to monitor funding levels to make sure employers can fulfill the pension promises made to workers. In addition, over 50 million workers are covered by defined contribution pensions, typically known as 401(k) plans. These plans primarily rely on employee contributions and employees bear the risk of poor investment selection and high fees. Employers

are supposed to act in the workers' best interests in maintaining these plans. In recent years, however, research has found a number of problem areas, including lack of fee transparency, excessive reliance on inappropriate target date retirement funds, and widespread conflicts of interest in the provision of plan services. The Department of Labor has taken preliminary steps to improve out-dated regulations and address new areas of concern. However, the Majority has not committed to strengthen these programs or expand them to the millions of workers who have no assets other than Social Security. Committee Democrats will work with the Department to provide needed guidance to employers and employees to improve retirement security.

Guestworker Programs

Committee Democrats are committed to protecting job opportunities for U.S. workers, ending abuse of foreign guest worker programs and eliminating the adverse effects such abuse has on U.S. workers' terms and conditions of employment. On January 19, 2011, the Employment and Training Administration published a Final Rule amending the regulations addressing the calculations used to set wage rates for H-2B workers. The new rule ensures that H-2B wage rates protect against adverse effects on U.S. workers. The Committee notes that additional reform of the H-2B temporary non-agricultural worker program is on the Department's regulatory agenda and urges the Department to make the additional necessary reforms to end abuse in this program. Additional reforms are required to ensure that these programs, and the foreign labor recruiting that supplies these programs, are just and fair.

Employment Standards – Wage and Hour Protection

Wage theft, which includes the misclassification of workers, is a widespread problem in the United States. Staff and resources committed to wage and hour enforcement have diminished over many years. To address this issue, the Wage and Hour Division has hired 250 new investigators. Committee Democrats remain committed to ensuring that there is a greater emphasis on effective enforcement of the law, which includes a commitment to adequate funding, staffing, and training of investigators and other enforcement staff in the field as well as greater outreach and communication with communities and vulnerable populations. Committee Democrats strongly support the President's proposal to create a new multi-agency Misclassification Initiative that will strengthen and coordinate Federal and State efforts to enforce labor violations that result from the misclassification of employees as "independent contractors," a practice that costs taxpayers at least $3-4 billion each year in lost federal income and employment tax revenue. Committee Democrats will also continue to examine legislative solutions to the problems of wage theft and misclassification.

Work and Family

Working parents continue to be the norm in the United States and continue to struggle to balance work and family responsibilities. During good and bad economic times, parents and their children periodically need workplace flexibility to deal with predictable and unexpected family and medical needs. Congress has not enacted significant work and family protections since the enactment of the Family and Medical Leave Act of 1993, the first bill signed by President Bill Clinton. Millions of workers have benefited from the law's family and medical leave

protections. Since its passage, many studies and proposals have been put forth to provide additional protections such as paid sick leave, paid parental leave and related types of work-family friendly legislative policies. Committee Democrats will continue to advocate for federal proposals to enhance family and medical leave support programs for working families. Workers should not have to choose between their jobs and their families. Family friendly policies benefit both workers and employers.

Mine Safety and Health Administration (MSHA)

Committee Democrats support the increases provided in the President's request to ensure that MSHA has adequate resources to meets its statutory mandate to inspect every underground mine four times per year and every surface mine at least twice per year. Additional funding must be provided to implement recommendations from the Inspector General to improve the timeliness of laboratory analysis of rock dust samples, to support the investigation of the Upper Big Branch mine explosion, and to support reforms to the Pattern of Violations rules and modernize efforts to prevent black lung disease. The FY 12 budget request properly added $33 million for MSHA and the Office of the Solicitor to reduce the massive and growing backlog of 19,000 contested cases before the Federal Mine Safety and Health Review Commission (FMSHRC). This backlog, which was inherited by the Obama Administration, has hobbled MSHA's efforts to impose enhanced sanctions on those operators who are endangering miners' safety. While the President's request will permit MSHA to reduce the backlog for the first time since 2004, Republican budget proposals freeze funding at FY 10 levels, which would cause the backlog to skyrocket to more than 30,000 cases by 2014. Committee Democrats will continue to push for greater protections for miners across this country.

Occupational Safety Health Administration (OSHA)

OSHA's mission, as defined in its authorizing legislation, is to assure so to the extent possible, every working man and women in the nation safe and healthful working conditions. Committee Democrats support OSHA's request to provide modest increases in resources for enforcement, compliance assistance to employers and new standards. OSHA is developing standards to protect workers from combustible dust explosions, to encourage employers to have programs to find and fix hazards, and to reduce occupational exposure to beryllium, silica, diacetyl and airborne transmissible diseases. OSHA partially funds 26 state OSHA plans through matching funds, which should be increased each year to keep pace with inflation. OSHA's budget, for the first time, provided a line item for investigating the 2,500 whistleblower complaints its receives each year, and responsibly includes additional funds to implement 4 new whistleblower provisions that were included in food safety, health care, financial reform and maritime safety laws. Republican budget proposals passed in the House would endanger workers and leave whistleblowers hung out to dry by slashing thousands of OSHA inspections, cutting funding to 26 state OSHA plans, and even shuttering OSHA's web site. These cuts shrink the enforcement staff at OSHA to 1974 levels, even though 28 million more workers are covered by federal OSHA today compared with 1974. Committee Democrats will continue to work to ensure that the health and safety of this country's workforce is protected.

National Institute for Occupational Safety and Health (NIOSH)/Centers for Disease Control

NIOSH performs critical scientific and technical research to support mine safety and occupational safety, implements the 9/11-World Trade Center medical monitoring and health care program, and provides scientific support for estimating occupational radiation exposures under the Energy Employees Occupational Illness Compensation Program Act. Committee Democrats are deeply concerned that the agency's successful Agriculture, Fishing and Forestry (AFF) program and the Education Resource Center programs were eliminated in the budget request without a valid justification, and believe funding should be restored in the FY 12 budget.

Federal Mine Safety and Health Review Commission (FMSHRC)

FMSHRC provides administrative and appellate review of disputed mine safety enforcement cases and adjudicates employee retaliation cases under the Federal Mine Safety and Health Act of 1977. Following a series of mine accidents in 2006 and 2007, MSHA increased its enforcement efforts. In the three years since then, mine operators increased the percentage of contested citations from 7% to 26% of all citations issued, however commensurate resources were not provided to deal with the increased number of adjudicated cases. FMSHRC's backlog of cases has grown from 2,100 to 19,000 cases. Committee Democrats support FMSHRC's $22.4 million request which will allow it reduce the number of contested cases for the first time since 2004, by adding Administrative Law Judges (ALJs) and modernizing its information systems. Republican budget proposals would allow the backlog to skyrocket by freezing funds at FY 10 levels. This would enable mine operators to continue to game the system by delaying penalties and evading stronger sanctions for chronic violators who endanger miner safety. Committee Democrats will work to ensure that this small agency is able to perform its critical functions to protect miner safety and vindicate the rights of those who blow the whistle on mine safety.

Federal Employee Compensation Act (FECA)

While Committee Democrats support elements of the Administration's proposal to modernize the Federal Employee Compensation Act, reforms should not shift the costs of a workplace injury from the federal employer to the injured worker, inasmuch as FECA is the employee's exclusive remedy. Modernization should ensure that injured workers receive full due process, including judicial review, and should eliminate the use of questionable assessment methods for determining disability, such as the 6th edition of the American Medical Association Guides for Permanent Impairment.

Employment Standards Administration – Office of Labor-Management Standards (OLMS)

OLMS serves the critical function of protecting union members' rights. Over the last two years, the Department of Labor has worked to rebalance agency resources in more efficient and effective ways that maintain strong enforcement and oversight activity at OLMS while increasing capacity in other offices in dire need of resources. The Obama Administration has been more efficient in using resources to monitor union elections: in 2010 OLMS conducted 145 investigations compared with an average of only 127 investigations. Likewise, the Department has had 130 indictments and convictions in the last fiscal year compared with an average of only

119 in fiscal years 2006-2009. Committee Democrats will continue to work to ensure resources benefit workers' welfare and effectively serve the purpose of the Labor Management Reporting and Disclosure Act.

Equal Employment Opportunity Commission (EEOC)

The Equal Employment Opportunity Commission (EEOC) plays a critical role in promoting equal opportunity in the workplace and enforcing federal laws prohibiting employment discrimination. Committee Democrats remain concerned about persistent reports of case backlogs that leave workers vulnerable to discrimination. Particularly during these difficult economic times, it is critical that the EEOC have the ability to combat discrimination and retaliation in the workplace and protect workers on the job. Committee Democrats believe the federal response to workplace discrimination should be timely and effective, and the EEOC budget and the use of its budget should be designed to accomplish that goal. Committee Democrats also believe discrimination is bad for business and a hindrance to economic growth and will continue to press for workplace nondiscrimination protections for all Americans and for restoring civil rights promises eroded by the courts.

National Labor Relations Board (NLRB)

The National Labor Relations Board administers federal labor law for much of the private sector, including enforcing employees' fundamental human rights to organize and collectively bargain. Committee Democrats are deeply concerned by the Republican majority's recent efforts attacking the Board. The Majority attempted but failed to defund the agency entirely for the remaining fiscal year. However, the Republican majority's recent continuing resolution, H.R. 1, passed in the House severely cuts the Board's budget and represents funding that is below FY 03 levels. As a result, it would strip away the rights and protections workers and employers are afforded under the National Labor Relations Act. Specifically, the cuts in the Majority's budget proposals would force the agency to furlough all of its employees and effectively shut down the office for nearly half of the remaining fiscal year. The Board would be unable to investigate election petitions, hold workplace elections, and settle or adjudicate election-related disputes. Employers, unions, and individual workers with cases pending before the Board would have to wait even longer for a decision – until the Board's funding is restored – creating more uncertainty for businesses and families. Finally, workers who are unfairly fired or intimidated for exercising their right to join together and speak out on labor conditions would have no recourse to justice. These cuts would threaten the viability of the National Labor Relations Act, the federal mechanism for enforcing workers' rights in a changing 21st Century economy. Committee Democrats will continue to vigorously fight for the rights of workers and push for long overdue labor law reforms to ensure workers are free to exercise their rights to organize and collectively bargain for a better life.

GEORGE MILLER
Senior Democratic Member

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED TWELFTH CONGRESS

Congress of the United States
House of Representatives
COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6115

Majority (202) 225–2927
Minority (202) 225–3641

March 18, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
309 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan:

Pursuant to clause 4(f) of Rule X of the Rules of the House of Representatives and section 301(d) of the Congressional Budget Act of 1974, as amended, I am transmitting the views and estimates of the Committee on Energy and Commerce on the President's budget for fiscal year 2012.

As is the custom of my Committee, the Minority will be transmitting their views under separate cover.

Should you have any questions about this submission, please direct them to the Committee's General Counsel, Mr. Jim Barnette, at extension 5-2927.

Sincerely,

Fred Upton
Chairman

cc: The Honorable Henry A. Waxman, Ranking Member

Attachment

Views and Estimates on the President's Budget For Fiscal Year 2012

Submitted by:

The Honorable Fred Upton, Chairman
Committee on Energy and Commerce
March 18, 2011

Introduction

Clause 4(f) of Rule X of the Rules of the House of Representatives for the 112th Congress and section 301(d) of the Congressional Budget Act of 1974, as amended, require each standing committee of the House to submit to the Committee on the Budget (1) its views and estimates with respect to all matters to be set forth in the Concurrent Resolution on the Budget for the ensuing fiscal year (FY 20012) which are within its jurisdiction or functions, and (2) an estimate of the total amounts of new budget authority and budget outlays resulting therefrom, to be provided or authorized in all bills and resolutions within its jurisdiction which it intends to be effective during that fiscal year.

On February 14, 2011, President Obama submitted to Congress his proposed budget for fiscal year 2012 (the budget). The Committee on the Budget has requested that committees submit their Views and Estimates by March 18, 2011. The following represents the Committee on Energy and Commerce's views and estimates on the President's budget and its requests for additional budget authority beyond the requests contained therein.

Consumer Protection

National Highway Traffic Safety Administration (NHTSA)

The President's budget proposes to shift the funding of NHTSA's vehicle safety programs from General Funds to the Transportation Trust Fund. This shift has been proposed before and soundly rejected. The Committee insists that this funding mechanism would be inappropriate given the importance of these safety programs. Vehicle safety monies are used to fund the creation of vehicle safety standards, defect investigations, compliance and enforcement efforts and other important vehicle safety programs. The proposed shift would require NHTSA safety programs to compete with other highway trust fund projects. Given the uncertainty of the Trust Fund Cash flows and shortfalls in recent years, the Committee believes that the funding of these important programs should continue to be considered separately.

Separately, the Administration proposes to increase NHTSA's Vehicle Safety Research program by nearly $40 million dollars. The Committee does not find justification for the proposed increase. Specifically, the Committee has concerns that the proposed increases are consumed by Administrative Expenses while Research and Analysis receives no increase. The Committee fails to understand how these proposed allocations will improve vehicle safety.

Energy

Department of Energy

Overview. The President's proposed FY2012 budget request for the Department of Energy (DOE) is $29.5 billion, an increase of 11.8 percent, or $3.1 billion from FY2010

appropriation levels. While the Committee supports many of the Department's national security and civilian programs, we believe such an increase in requested funding raises questions in view of the nation's current fiscal and employment outlook.

Energy Efficiency and Renewable Energy. The 2012 budget request for the Office of Energy Efficiency and Renewable Energy (EERE) is $3.2 billion dollars, a 44 percent increase over current FY2010 funding levels. While the Committee supports the development of renewable and alternative energy sources, the Committee has concerns about the costs and deployment of many renewable energy sources, about transmission-related and other infrastructure issues, and about such large expenditures in the current constrained economic climate.

Nuclear Energy. The 2012 budget includes a request for $380 million for research and development, in addition to investments in supportive infrastructure. The Department also seeks to promote nuclear power through the Loan Guarantee Program by requesting up to $36 billion in additional loan guarantee authority in FY2012. While we support such actions, we do not support the Administration's concurrent actions to shutdown the statutorily mandated Yucca Mountain program. DOE alone has expended more than $13.5 billion on the civilian nuclear waste program since 1983, including funds to support the Yucca Mountain application, complete the NRC's complex pre-licensing proceeding, and comply with the NRC's strict licensing requirements.

To withdraw the application and defund the program will deprive Congress and the American public of important information that would be developed by the NRC's expert determination on the application. Moreover, we believe that the Administration's actions will set back the U.S. nuclear waste management and disposal program by decades, potentially undermine the expansion of nuclear power in the United States, waste billions of dollars in stranded costs and past taxpayer investment, increase additional taxpayer liabilities, and raise national security, environmental cleanup, and other issues.

Fossil Energy. The President requests $521 million for the Office of Fossil Energy – a 44.5 percent, or $418 million decrease, from FY 2010 funding levels. We note specifically the Administration's request to reduce funding for fossil energy research and development. Fossil fuels constitute 80 percent of the nation's energy consumption and are critical to meeting our current and future energy needs and to power a growing economy. Continued exploration and development of our nation's fossil fuel resources depends on technology that minimizes environmental impacts and maximizes efficiency. The U.S. economy requires energy in all its forms yet the President's budget fails to recognize the importance that oil, gas, and coal have in our national energy portfolio.

The President also seeks to repeal the credit for oil and gas produced from marginal wells; the deduction for costs paid or incurred for any tertiary injection used as part of a tertiary oil recovery method; the ability to claim the domestic manufacturing deduction against income derived from the production of oil, gas, and coal; and expensing the exploration and development costs for coal. Such actions will undermine domestic oil and gas exploration and production at a time when the nation seeks to become less, not more, dependent on foreign imports of oil and gas, and would adversely affect U.S. employment in those sectors. While this repeal is projected

by the President to result in $3.6 billion in "tax savings" in FY 2012, the repeal would likely result in the outsourcing of production and/or lost royalty revenues from decreased domestic production. Further, such measures would effectively result in new energy taxes to be passed on to consumers, in the form of higher prices for energy, goods and services.

HOMESTAR. The President also supports pursuing the passage of the HOMESTAR legislation to provide rebates of $1000 to $3000 per household to encourage investment in energy efficient appliances, building mechanical systems and insulation, and whole-home energy retrofits. The budget proposes $5.7 billion associated with home energy retrofit rebate program. We oppose pursuit of such a costly program at this time given the nation's fiscal outlook and growing deficits, as well as the presence of existing programs, both public and private, which encourage and require energy efficiency product development and adoption.

Strategic Petroleum Reserve. The President requests a $500 million non-emergency sale of oil from the Strategic Petroleum Reserve (SPR). This decision depends on Congressional approval, and we oppose selling oil from the SPR for either budgetary reasons or to alter markets. The SPR should be used only in the case of severe supply disruptions – not for other purposes.

Nuclear Regulatory Commission

Overview. The NRC's proposed FY2012 budget is $1.038 billion, a $28.7 million decrease below its FY2010 funding levels. NRC recovers approximately 90 percent of its budget from fees assessed to NRC licensees or applicants, and estimates that $909.5 million will be recovered from NRC fees and licensees.

High-Level Waste Repository Program. In its budget request, NRC zeros out resources for the closeout of the Yucca Mountain repository review. For the reasons stated above, we strongly oppose the defunding of, and actions related to the shutdown of, this statutorily mandated program.

Environment

Environmental Protection Agency

The President's overall FY2012 budget request for the Environmental Protection Agency (EPA) is $8.973 billion, a $1.511 billion increase over the amount appropriated for fiscal 2008. For programs within the jurisdiction of the Committee on Energy and Commerce (Committee), we believe that $6.012 billion, the amount appropriated for 2008, just prior to the stimulus spending in the American Recovery and Reinvestment Act of 2009 (Recovery Act), is ample for EPA to carry out its core mission. Including the Recovery Act funding, the total enacted FY09 appropriations for EPA were nearly double the level Congress enacted for FY2008; the FY10 enacted level was 38 percent higher than the enacted level in FY08.

The Agency has a dedicated cadre of capable career employees who manage the science, programmatic, and enforcement functions of EPA to ensure that most standards are science-

based and that enforcement remains consistent. However, the Committee harbors concerns with EPA's overall spending, management, and regulatory culture, as well as with the policy priorities reflected in the 2012 proposed budget Many of EPA's actions, including its budget proposal, evince an ambition to impose a national agenda on individuals, families, and communities, regardless of the accomplishments of states, local governments, or private entities. In view of the Federal deficit, EPA should avoid creating new programs and new ways to spend money and instead focus resources on those core responsibilities explicitly outlined in Federal law regarding the remediation of pollutants and contaminants in order to protect human health.

Below is a brief discussion to highlight our concerns with EPA's management, regulatory culture, and certain spending priorities.

Agency Management Overview

The day-to-day management of EPA appears adrift. EPA's own Inspector General reported that EPA needs better agency-wide control over staff resources. In April 2010, EPA withdrew its "Position Management and Control Manual." In response, the Inspector General stated, "Without an Agency-wide position management program, EPA leadership lacks reasonable assurance that it is using personnel in an effective and efficient manner to achieve mission results." This lack of EPA resource management and accountability undermines the Committee's confidence that the dollars appropriated to EPA are spent efficiently.

EPA's regulatory actions reflect a culture of indifference to the real-life economic concerns of American citizens and taxpayers. EPA has pursued an aggressive program of enormously expensive regulations. Some of these are new; others reconsider previously promulgated final rules. But in too many instances, these regulatory actions are not mandated by Federal statutes. Examples of these unnecessary regulatory actions with profoundly adverse economic impacts include the proposal to regulate coal combustion by-products under Subtitle C of the Resource Conservation and Recovery Act and EPA's proposal to reconsider the costly 2008 National Ambient Air Quality Standards for Ozone. EPA's promulgation of greenhouse gas regulations under the Clean Air Act imposes upon many sectors of the U.S. economy costly permitting requirements. While EPA's greenhouse gas "Tailoring Rule" temporarily shields some operators from some of these permitting requirements, the Tailoring Rule is not supported by the plain language of the Clean Air Act.

EPA indifference extends even to the views of Congress and the President. In January, 2011, the President issued Executive Order 13563, requiring that regulations promote economic growth, innovation, competitiveness, and job creation. The Order further requires Federal agencies to employ the least burdensome tools for achieving regulatory ends, taking "into account benefits and costs, both quantitative and qualitative." When the EPA Administrator appeared before our Committee to defend the Agency's budget, she was given ample opportunity, through oral and written testimony and through answering questions for the record, to explain what steps she would take to conform EPA's rulemaking to the President's new Executive Order. She has failed to identify any steps at all.

Citizens from across the United States continuously alert the Committee to additional examples of EPA regulatory actions that inhibit job opportunities and drive up the cost of doing business while yielding no net environmental benefits. EPA must be reined in and refocused on its core mission. This starts with EPA's fiscal 2012 budget.

Specific Spending Programs

Global Warming and Clean Air Act Programs. The President requests $1.13 billion for the development and implementation of greenhouse gas (GHG) and Clean Air Act standards and programs. This includes $252.8 million to address climate change which represents increased spending of approximately $56 million over levels enacted in fiscal year 2010.

The Committee has significant concerns about the cumulative cost and job implications of EPA's development and implementation of its global climate regulations as well as a number of other recent or pending major rulemakings under the Clean Air Act. Specifically, one concern is how EPA plans to use the appropriated funds to develop emissions standards for GHG emissions from various diverse source categories, given that no emissions control technology for GHGs currently exists. An additional concern is that these standards introduce regulatory uncertainty into the economy and hold the potential to undermine economic growth, eliminate jobs in the United States, and encourage relocation of companies overseas. The manufacturing and industrial sectors, particularly energy intensive and trade exposed industries, face severe international competitiveness challenges from EPA's GHG regulations.

Sustainable and Healthy Communities. The President requests $171 million for this new initiative without clear statutory authority. The language in the budget justification materials that addresses this new program is vague. However, it seems to constitute a kind of urban planning on a national scale. We think urban planning is done best at the local level, and accordingly, we see no compelling need for this initiative in the face of record Federal deficits.

Drinking Water Grants. The President requests $990 million for the Drinking Water State Revolving Loan Fund (DWSRF) grants, pursuant to Section 1452(m) of the Safe Drinking Water Act (SDWA). DWSRF grants assist states in capitalizing their own drinking water loan fund programs to help drinking water systems comply with the mandates of the SDWA. The President's request is a $150 million increase over fiscal 2008 as enacted.

EPA further proposes setting aside 10 percent of the DWSRF for projects, or portions of projects, that include green infrastructure, water or energy efficiency improvements, or other environmentally innovative activities. In cases where these "green" features may enhance the economics, the set-aside is not needed. But if the extra project features are economically unjustified, the "green" requirement should not form a basis for favoring one project over another. Many smaller water systems are community operated with constrained budgets and critical system needs. Accordingly, the Committee believes that this proposed "green" requirement and the extra cost burden it places on the overall DWSRF are unwarranted.

EPA's Homeland Security Activities. EPA is the lead federal agency for coordinating the security of U.S. drinking water systems, and plays a role in early warning monitoring and decontamination associated with potential attacks using biological, chemical, and radiological contaminants. The President requests $53.326 million for EPA's homeland security activities. Completion of several critical water security projects, enabled the President to propose a decrease of $49.494 million below the FY2010 appropriated level.

Brownfields. The President requests $174.9 million for "Brownfields." Brownfields are real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. For fiscal 2012, EPA appears to be linking Brownfields grants to other EPA promoted "sustainability" initiatives. Instead, the Committee believes EPA should step back and examine which Brownfields projects could be undertaken without Federal funding and not use Federal monies for those projects. The Committee also believes that EPA should not take the Brownfields program in new policy directions absent specific statutory authority. EPA, like all Federal agencies, should not intervene where state and local organizations and governments can, and should, identify and solve local problems.

Dedicated Trust Funds. The Committee on Energy and Commerce has programmatic jurisdiction over two EPA programs for which the President proposes legislation to extend or reinstate Federal taxing authority. The committee opposes these new or extended taxes – connected with the CERCLA/Superfund program and the leaking underground storage tank (LUST) program – because they are unnecessary.

CERCLA Superfund. EPA's management of the Superfund program fails to support the President's proposed reinstatement of the Superfund tax. If reinstated, the tax would be levied on certain industrial sectors, regardless of whether they polluted, to fund orphan site cleanups. EPA should first focus all Superfund spending on the subaccounts that go directly into dirt-moving cleanup before proposing more tax increases on the American economy.

LUST Program. The President's budget proposes to extend the LUST consumer excise tax on gasoline. However, the balance of the LUST Trust Fund already exceeds $3 billion. The annual interest accruing on the Trust Fund alone appears, from the budget documents provided, to exceed the President's request of $112.5 million for the LUST program in 2012. Accordingly, the Committee fails to see the need to extend the LUST consumer excise tax.

Health Care

In FY2008, the total program level spending for discretionary programs within the Department of Health and Human Services (HHS) was $76 billion. The President's FY2012 budget requests $93 billion for discretionary programs within HHS, an increase of over 22 percent. These increases are unsustainable and the Committee believes the discretionary program spending should return to FY2008 levels.

The Committee supports the President's request to eliminate earmarked projects. However, the Committee remains concerned that rather than applying the savings associated with reducing earmarks to deficit reduction, the budget redirects the savings to increased spending in other areas.

Health Care Law Implementation

The President's budget proposal includes several requests for implementation of the Patient Protection and Affordable Care Act (PPACA) and Health Care and Education Reconciliation Act, and outlines several mandatory spending provisions contained within these laws.

The budget requests a $1 billion increase for discretionary program management administration at the Centers for Medicare and Medicaid Services (CMS) (a 30 percent increase), presumably intended to fund PPACA implementation efforts at the Office of Consumer Information and Insurance Oversight (OCIIO). When created last year, OCIIO reported directly to the Secretary of HHS. However, earlier this year, OCIIO was moved within CMS. The Committee questions why an office responsible for regulating private insurance would be moved to an agency whose mission is to oversee public entitlement programs. The Committee also questions why a move that HHS claims will provide for operational "efficiencies" has contributed to a 30 percent higher funding request.

The Committee also has deep concerns that the decision to move OCIIO will obscure how HHS spends money to implement PPACA. As noted by OMB spokesman Kenneth Baer, "[PPACA] is built on top and interwoven with existing statutes and authorities, and it would be extremely difficult to separate or disaggregate the impact of that on the budget." The Administration's purposeful decision to move OCIIO within CMS clouds the ability for the Committee to conduct proper oversight.

The President's request also includes a more than four-fold increase for the Assistant Secretary of Public Affairs (ASPA) ($19.9 million for FY2012 from $4.8 million in FY2011). HHS justifies this increase for the office in part because it is "designed to help Americans understand and access their benefits and information under the law." While there is a four-fold budget increase for ASPA, an additional $28 million is requested elsewhere for "consumer support activities" and $38 million requested for the operation of healthcare.gov for a total of $85.9 million. The Committee rejects the need for such sharp increases in taxpayer funding to finance a public relations campaign for the new health care law.

The Committee is also troubled about the mandatory spending included in PPACA that circumvents the annual appropriations process through providing the Secretary direct access to Treasury funds. For example, the President's budget outlines an appropriation of "such sums as necessary" for state grants to facilitate the purchase of qualified health plans in the Exchanges. As confirmed by Secretary Sebelius in testimony before the Health Subcommittee, there is no monetary limitation to the appropriation, and the Secretary has the discretion to determine the size of the appropriation. Recent statements by CMS suggest this fund may be used to supplement states facing budget difficulties, partly because of burdensome Medicaid maintenance of effort requirements imposed by PPACA.

Community Living Assistance Services and Support Program (CLASS)

The Community Living Assistance Services and Support Program (CLASS) is a federally administered voluntary long-term care insurance program established in Section 8002 of PPACA. The Administration on Aging (AOA) has been designated by the Secretary as the lead agency in implementing the CLASS program. The President's FY2012 budget requests $120

million to implement the CLASS program. Included in that sum is $13.4 million for the development of an information technology infrastructure to begin enrollment in the CLASS program. In addition, the program request includes $93.5 million to educate employers about how to enroll their employees and to inform individuals about how to enroll directly in the CLASS program. Finally, the request includes $2 million for the Board of Trustees and Advisory Committees and $11.1 million for staffing and administrative overhead to cover the cost of growing the AOA team by at least 30 individuals.

The Committee is concerned by the level of funding requested for program implementation especially in the absence of more details on the program's proposed enrollment process, benefit plans, and premiums. The Committee remains concerned, after reviewing both internal and external analysis, that the program is unsustainable and a significant liability risk for the Federal budget.

Medicaid and Children's Health Insurance Program (CHIP)

The Medicaid program is a shared responsibility between Federal and state governments to provide medical assistance to low-income individuals, including children, the aged blind, and/or disabled, and people who meet eligibility criteria under the old Aid to Families with Dependent Children (AFDC) program. Others receive Medicaid through waivers and amended state plans with somewhat higher income eligibility limits. The federal share of Medicaid outlays is expected to be $269 billion in FY2012. This is a $7 billion (2.5 percent) decrease below FY 2011 spending, mainly due to the end of the temporary increase in the Federal Medical Assistance Percentage (FMAP) match rate for states which expires at the end of June. PPACA extended funding for CHIP through FY2015, and the President's FY2012 budget requests $9.981 billion for CHIP and the Child Enrollment Contingency Fund.

The Committee remains deeply concerned that the fiscal pressure faced by states and the flexibility necessary for those states to sustain their Medicaid programs were not properly addressed in the President's FY2012 budget. While the Committee appreciates the Administration's attempt to reduce fraud, waste and abuse in the Medicaid program, the Committee remains concerned that many of these proposals do not do enough to reduce the Federal deficit or help both the Federal government and states handle the unsustainable growth of the Medicaid program. Of the eight Medicaid-specific program integrity proposals outlined in the President's FY2012 budget, only three of those proposed initiatives actually carry savings for the Federal government in the first year and four of the eight proposals produce no savings at all over the ten-year budget window.

Medicare

The current Medicare physician payment system, based on the Sustainable Growth Rate (SGR) formula for updating the Medicare fee schedule has resulted in negative annual updates since 2002. Following multiple years of delayed fee cuts without payment system reform, physicians face a 30 percent reduction in their fees by the end of this year.

The President's FY2012 budget request proposes to continue the zero percent update, again delaying the pending cuts, this time for two years. The budget estimates that the cost of this two year delay will be $54.4 billion. The budget proposes to pay for the cost of this two year

delay with offsets totaling $62 billion over the next ten years, including savings on quality improvement and system integrity that may not be realized. The budget should include proposals for reforming the Medicare payment system for physicians or it should account for the true cost of not implementing the current payment cuts, an estimated $370 billion.

The budget proposes spending $800 million for FY2012 and $10 billion from FY2011 to FY2019 to fund and test new delivery and payment models at CMS for a new Center for Medicare and Medicaid Innovation (CMMI). The CMMI, created under PPACA, gives the CMS Administrator broad discretion to spend these funds and there remain concerns that the program lacks accountability.

Independent Payment Advisory Board (IPAB)

The Committee opposes further appropriations for the IPAB. While the IPAB will recommend ways to slow Medicare spending, they are directed by statute to use spending targets pegged to the economy's growth rate which will drive provider reimbursement below Medicaid levels. Under the five-year exemption negotiated by hospitals, the board has very few options to reduce spending other than reducing payments to doctors and reducing reimbursement for drugs, either of which could have a negative impact on beneficiary access to care. The IPAB recommendations automatically become law; the Committee opposes funding the IPAB, supports its repeal, and believes its creation abdicated Congress' role to an unelected board.

Food and Drug Administration (FDA)

The President's budget requests a total of $4.36 billion for the FDA. This amount is $987 million higher than the total FDA budget for FY2011 and includes increases of $634 million in current industry user fees, $60 million in user fees that would require a change in law and $380 million in new budget authority. The Committee has concerns with adding $380 million in new budget authority when our nation faces a $1.6 trillion budget deficit.

The budget also proposes reducing the period of exclusivity for follow-on biologics to seven years from the current twelve years. This reduction would decrease incentives for research and innovation, which would hurt job creation and patients. The current twelve years of exclusivity received overwhelming Energy and Commerce Committee support during the 111th Congress as the Committee voted 47-11 to support the policy. The Committee opposes the President's call for a reduction in exclusivity and questions why the Administration would advocate for a policy that would deter research and innovation, especially when our nation has such high unemployment and patients suffer from decreasing access to life-saving and life-improving treatments. Ironically, the budget includes additional support for biomedical science at the NIH; funding that is unnecessary when the private market has sufficient incentives for research and innovation.

The budget also proposes to prohibit certain patent settlements between generic and brand name drug manufacturers. By prohibiting these settlements, the proposal removes incentives for generic drug companies to challenge patents by prohibiting a generic drug company from accepting anything of value from the patent holder in settlement other than an "early entry date" for the marketing of a generic drug. It is clear that the proposal will cause patients to have to wait longer for more affordable drugs. The Committee opposes the

President's proposal and questions why the budget would propose policies that could cause patients to pay more for their prescription drugs during such a difficult economic time.

Centers for Disease Control and Prevention (CDC)

The President's budget requests $111.2 million in funds to eradicate polio worldwide. That request represents an increase of approximately $10.7 million over the FY 2010 budget. As of March 2011, 1,292 cases of polio had been reported in twenty countries. There is an international effort organized by the World Health Organization (WHO) to eliminate the disease. Although the Committee supports international efforts to eradicate polio, it is important for the federal government to prioritize spending.

Agency for Healthcare Research and Quality (AHRQ)

The President's budget requests $390 million for the AHRQ. This request includes $366 million in Public Health Service (PHS) Evaluation Funds and a transfer of $24 million from the Patient-Centered Outcomes Research Trust Fund (PCORTF) as directed in PPACA. Although direct funding is reduced, the agency is likely to be funded indirectly through the $24 million transferred from the PCORTF. The Committee is uncertain of AHRQ's role within the Department as much of AHRQ's activities and mission overlap with other agencies and offices within the Department, like the CDC, National Institutes of Health, or the Assistant Secretary for Planning and Evaluation.

Patient-Centered Outcomes Research Institute

The Patient-Centered Outcomes Research Institute (PCORI) is also to be funded through the PCORTF. Funding streams come from general revenues, an annual two dollar fee per-Medicare-beneficiary transferred from the Medicare Trust Fund, and an annual two dollar fee per-covered-life assessed on private health plans, including self-insured plans. The Medicare Trust Fund transfer and annual fee on private health plans does not take effect until 2013. By 2015, total annual funding for PCORI will reach nearly $500 million. PCORI will award research grants and will give preference to AHRQ and NIH. It is unclear how the Institute will be held to account for its actions and spending.

Health Resources and Services Administration (HRSA)

The President's budget requests a 16 percent increase in program management spending for HRSA over the FY2011 budget. The Committee opposes such a large increase at a time when we should be asking federal agencies to decrease their program management budgets.

The President's budget requests $50 million for facilities and equipment to renovate and increase the number of School-Based Health Centers (SBHCs). These funds, which have already been appropriated, cannot be used for personnel or to provide health services. From FY 2009-2011, $1.5 billion in funds were available to HRSA for facility improvements at Community Health Centers (CHCs) including SBHCs through the stimulus bill. Additionally, $1.5 billion in mandatory funding created under PPACA remains available to HRSA for construction of CHSs,

including SBHCs. Providing $50 million in additional funds for the construction of SBHCs is duplicative and unwarranted when funds are limited and the nation's debt is soaring. In addition, the Committee does not understand why the President's FY2012 budget fails to request the grants necessary to staff these clinics.

The 340B Program was established by Section 602 of the Veterans Health Care Act of 1992 (P.L. 102-585). The program requires drug manufacturers to provide discounts or rebates to a specified set of HHS-assisted programs and hospitals that meet the criteria in the Public Health Service Act and the Social Security Act for serving a disproportionate share of low income patients. The President's FY2012 budget request includes $10 million to expand the 340B program, an increase of $8 million above FY2011. Of the total requested, $5 million is funded through a new cost recovery fee, which will be collected from the covered entities. In FY2010, 14,400 covered entity sites are expected to have registered for the 340B Program. The 340B Program is expected to continue experiencing a three percent growth per year. The Committee remains deeply concerned with the integrity of the 340B program and its rapid expansion. We look forward to reviewing the General Accounting Office's pending report on the program, which, as outlined in PPACA, will determine whether the 340B program should be expanded and whether 340B income is being used by covered entities to further program objectives.

Health Information Technology (IT)

The President's budget requests $78 million, an increase of 28 percent over the FY2011 budget for the Office of the National Coordinator for Health Information Technology (ONC) to accelerate the adoption of health IT. The justification for such a large increase in funding is unclear as is the specific purpose for the funds.

Prevention and Public Health Fund

The President's budget requests $1 billion in funds from the Prevention and Public Health Fund (PPHF) as created by Section 4002 of PPACA to be used for prevention and public health programs. These funds will be used by several agencies in HHS. The majority of funds ($752 million) would be used for prevention efforts at the CDC to promote information for action, improve health detection, and prevent leading causes of death. In addition, PPHF will provide funding for programs at HRSA and the Substance Abuse and Mental Health Services Administration. The Secretary of HHS has sole authority to determine how these funds are used.

Prevention and public health are critically important to an overall strategy of improving health and reducing health care costs. In the next ten fiscal years, $17.75 billion in advanced appropriations will be available to the Secretary through this Fund. The Committee is deeply concerned that the PPHF provides the Secretary the ability to fund programs beyond the level specified by the Congress and these concerns are exacerbated due to the fact that spending from the fund is not offset by an overall reduction in the HHS discretionary budget.

Personal Responsibility Education Programs (PREP)

The President's budget requests $75 million from PPACA for Personal Responsibility Education Programs (PREP). The purpose of the program is to educate youth on both abstinence and contraception for the prevention of pregnancy and Sexually Transmitted Infections (STIs). The program must also address at least three of the mandated adult preparation subjects: healthy relationships; adolescent development; financial literacy; parent-child communication; educational and career success; and, healthy life skills.

The Committee believes that PREP duplicates two other programs in the Office of the Assistant Secretary for Health. One is a new discretionary grant program to support evidenced-based pregnancy prevention approaches in the Office of Adolescent Health. This program received $110 million from the Prevention & Public Health Fund. The other program is the Adolescent Family Life Program (Title XX) which received $16.7 million in the FY2011 budget.

The Committee is also concerned that many of the subjects taught in these programs are duplicative of other federally funded prevention programs designed to reduce high-risk teenage behavior. Programs to prevent overeating, reckless driving, gang membership, unemployment, and criminal activities are already funded through HHS and the Departments of Education, Labor, Transportation, and Justice and are offered to the same teens that will participate in PREP.

Communications and Technology

The Universal Service Fund and Other Overlapping Subsidy Programs

The Universal Service Fund (USF) currently costs consumers approximately $8 billion per year and consists of four sub-funds. The "high-cost" fund costs approximately $4.3 billion per year, more than three times the $1.3 billion cost in 1997. The schools and libraries fund costs $2.4 billion per year. The low-income fund is designed to subsidize poorer households, and currently costs $1.4 billion per year, up from $800 million approximately two years ago. The rural health fund subsidizes tele-health programs and costs $100 million per year. Carrier contributions, which are passed through to consumers, are set at a level to cover USF spending. As a result, the contribution rate passed through to consumers changes quarterly with the size of the fund. The fund should be reformed because it now amounts to a 15 percent surcharge on subscribers' long-distance bills and distorts competition in the phone market.

Legislation signed into law in 2005 exempted USF programs from the application of the Anti-Deficiency Act (ADA) until December 31, 2006. Since then, Congress has continued to shield USF programs from the ADA with a series of one-year exemption extensions. The most recent legislative extension lasts until December 21, 2012. The USF programs should not be exempted from the ADA. Energy and Commerce has thoroughly documented cases of waste, fraud, and abuse in USF programs and exempting USF programs from the ADA only serves to make this problem worse. The Committee believes that restructuring the USF, and requiring compliance with the ADA, is crucial to ensuring the future health of these programs.

The USF program also overlaps significantly with the $7 billion allocated in the broadband provisions of the American Recovery and Reinvestment Act of 2009. Additionally, overlap exists with other existing programs such as those in the Rural Utility Service, including the Rural Broadband Access Loan and Loan Guarantee Program, the Community Connect Grant

Program, and the Distance Learning and Telemedicine grant program. The Committee intends to review these programs to minimize waste, fraud, and abuse.

Spectrum

The President's budget proposes to provide authority for "voluntary incentive auctions" that will permit existing spectrum licensees to relinquish their spectrum licenses for reauction by the FCC in exchange for a portion of the auction proceeds. The budget concludes that these voluntary incentive auctions, along with other measures to enable more efficient spectrum management, will generate more than $27 billion over the next 10 years. The President proposes to spend a total of $10.6 billion for the creation of an interoperable, 4G wireless broadband network for public safety users. Specifically, the budget proposes to reallocate the 700 MHz "D Block" – which is valued at over $3.1 billion – for public safety use. Existing law requires the FCC to auction the D block for commercial use. Additionally, the President's budget calls for $7 billion from auction proceeds of other spectrum to support the deployment of this network. Finally, the President's budget proposes $500 million to fund research and development of standards and technologies to ensure the network capabilities meet the mission requirements of public safety. The Committee plans to evaluate the President's proposal and other proposals to generate auction proceeds that could be used toward deficit reduction.

Corporation for Public Broadcasting

The Corporation for Public Broadcasting (CPB) customarily receives an advance appropriation. The latest appropriation occurred during the Omnibus Appropriation Act of 2009, which included $430 million dollars to be divided in equal parts. The second half of the money was distributed on March 4, 2011. The Committee plans to review CPB funding as part of the Committee's review of the statutory and programmatic framework for the distribution of funds to public television stations through the CPB.

Telecommunications Development Fund

The President's budget proposes to terminate the Telecommunications Development Fund (TDF). This fund receives interest earnings from deposits on spectrum auctions, a portion of which it invests in small telecommunications firms and uses the rest for salaries and administrative costs. Since 1996, TDF has collected over $100 million in interest that would have otherwise been deposited in the Treasury and directly benefited taxpayers. The Fund's efforts overlap those of several other Federal Communications programs as well as the private-sector. The Committee recommends accepting the President's proposal to eliminate this program.

FRED UPTON, MICHIGAN
CHAIRMAN

HENRY A. WAXMAN, CALIFORNIA
RANKING MEMBER

ONE HUNDRED TWELFTH CONGRESS

Congress of the United States
House of Representatives

COMMITTEE ON ENERGY AND COMMERCE
2125 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515–6115

Majority (202) 225–2927
Minority (202) 225–3641

March 18, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
U.S. House of Representatives
207 Cannon House Office Building
Washington, D.C. 20515

The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
U.S. House of Representatives
B-71 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan and Ranking Member Van Hollen:

Pursuant to clause 4(f) of Rule X of the rules of the House of Representatives, and section 301(d) of the Congressional Budget Act of 1974, as amended, the Committee on Energy and Commerce is submitting views and estimates on President Obama's fiscal year 2012 budget. It is the custom of this Committee for the majority and minority to transmit separate views and estimates. Attached are the views and estimates of the minority.

Please let me know if you have any questions about this submission.

Sincerely,

Henry A. Waxman
Ranking Member

Attachment

cc: The Honorable Fred Upton
Chairman

Views and Estimates on President's Fiscal Year 2012 Budget
Committee on Energy and Commerce
Minority Views

Each standing Committee of the House is required by the Congressional Budget Act of 1974 and Rule X, clause 4(f) of the Rules of the House to submit to the Committee on the Budget its views and estimates on the budget with respect to matters within its jurisdiction or functions. The following discussion is not exhaustive, but highlights the views on issues addressed in the President's fiscal year 2012 budget that are within the Committee's jurisdiction.

Commerce, Manufacturing, and Trade

FTC

The Administration's FY 2012 budget provides $326 million for the Federal Trade Commission, supporting a staff of 1,201 full-time equivalents (FTEs). This is an increase of $34.3 million and 25 FTEs from FY 2011 levels. The President is to be commended for increasing the resources of the FTC, which continues to operate with less funding and fewer FTEs than the agency had in the 1970s despite ever-increasing demands. Two-thirds of these new resources would go toward mandatory contract and space expenses, with the remaining amount split between agency-wide streamlining efforts and the FTC's twin missions of protecting consumers and maintaining competition.

CPSC

The Administration's FY 2012 budget provides $122 million for the Consumer Product Safety Commission, including support for a staff of 610 FTEs. This is an increase of $3.8 million and 34 FTEs from FY 2011 levels. The President is to be commended for a continuing dedication to adequate CPSC funding and staffing levels. Previously, the Commission's budgetary support had slid for more than two decades and reached a 30-year low in 2008. Consistent with the Consumer Product Safety Improvement Act of 2008, the Commission remains engaged in a major transformation from a reactive organization to a proactive one. This change is crucial to keep up with the safety of more than 15,000 types of consumer products, an increasing percentage of which are imported. A key priority for the Commission will be the successful operation of the new public product safety database, an important tool to help consumers report unsafe incidents and be aware of potentially unsafe or recalled products.

NHTSA

The Administration's FY 2012 budget provides $860 million for the National Highway Traffic Safety Administration, a decrease of $13 million from FY 2011 levels. However, funding for the agency's Operations and Research budget is set to rise by 22% to $304 million, supporting the work of 684 FTEs to conduct compliance testing with

vehicle safety standards as well as research and rulemaking to address emerging vehicle safety issues. The increase will help complete the transition to the updated New Car Assessment Program, enhance the collection of traffic safety data relied upon by industry, safety and public health officials, and nearly double the agency's capacity for defect investigations and related enforcement actions.

In addition, the proposed FY 2012 budget also reflects the first year of a broader, six-year Department of Transportation proposal to reauthorize federal surface transportation legislation. While details of this proposal are forthcoming, the FY 2012 budget indicates the Administration recommends reclassifying all NHTSA programs, including Operations and Research programs, as mandatory spending supported by the Highway Trust Fund. The Committee should review this proposal in greater detail.

ITA

The Administration's FY 2012 budget provides $517 million for the International Trade Administration, taking into account $9 million in offsetting receipts from fee collections. This funding, which will support the work of 1,960 FTEs, represents an increase of $70 million and 63 FTEs from FY 2011 levels. The President is to be commended for recognizing the importance of trade promotion to the economic recovery. More than 80% of the new resources for ITA would go toward expanding the U.S. Commercial Service, a global field network of experts who help American businesses seeking to sell their products abroad, especially those businesses that are small or medium-sized firms.

CFPB

The Administration requests no discretionary appropriations for the new Consumer Financial Protection Bureau in FY 2012 and therefore, CFPB funding will come from the operating budget of the Federal Reserve per the statute (Pub. L. No. 111-203). The Administration chose not to use its authority to seek discretionary funds in this fiscal year. Measures that would curtail CFPB's budgetary independence should be strongly opposed.

Communications and Technology

The budget proposes for matters relating to the use of the electromagnetic spectrum:

(1) Permanent Auction Authority – To extend indefinitely the authority of the Federal Communications Commission (FCC) to auction spectrum licenses. (This authority is currently set to expire on September 30, 2012).

(2) Incentive Auction Authority – To provide the FCC with new authority to conduct incentive auctions, where current license holders receive a portion of auction revenues.

(3) Spectrum License User Fee – To permit the FCC to impose license fees on unauctioned spectrum license holders.

(4) Domestic Satellite Service Spectrum License Auctions – To require the auction of spectrum licenses for predominately domestic satellite services such as Direct Broadcast Satellite and Satellite Digital Audio Radio Services.

The budget proposes to eliminate the following programs:

(1) The Public Telecommunications Facilities Grants Program – This program funds infrastructure and equipment upgrades and replacements for public broadcasting stations and is managed by the National Telecommunications and Information Administration of the Department of Commerce.

(2) The Telecommunications Development Fund (TDF) – This program receives interest earnings from deposits on spectrum auctions and uses a portion of these earnings to invest in telecommunications firms with the objective of promoting access to capital for small businesses, enhancing competition in the telecommunications industry, and improving the delivery of telecommunications services to rural areas.

As a general rule, communications policy matters, including rules regarding spectrum management, are best determined through the standard legislative process. Given the complexity of the policy issues confronting the communications and technology sector, it is imperative that the Committee engage in appropriate fact-finding, consultation, and analysis before adopting long-term policies. The Committee should continue working to ensure that the United States maintains a comprehensive and forward-looking spectrum management policy that inures to the maximum benefit of the American public.

With regard to the above-referenced programs the budget proposes to eliminate, the Committee should monitor these programs to ensure that they continue to fulfill, in a prudent and responsible manner, the missions and goals as mandated by Congress.

The budget contains a number of other important initiatives. The President is to be commended for proposing to reallocate and repurpose a total of 500 megahertz of federal agency and commercial spectrum bands over the next then years in order to increase access by Americans to wireless broadband. Making additional spectrum available for wireless broadband will facilitate access to smart phones, computers and innovative technologies on which Americans increasingly rely. The Committee should support the Administration's efforts to provide the most efficient and effective use of the radio spectrum, including spectrum sharing.

The President also is to be commended for proposing $7 billion in mandatory funding over the next several years to help build an interoperable public safety broadband network. This effort will enhance public safety by providing first responders with

interoperable modern communications capabilities. This effort builds upon the recommendations of the National Commission on Terrorist Attacks upon the United States and is of critical importance.

In addition, the President proposes to expand wireless broadband networks to rural America and to support research to develop wireless technologies that will support public safety, health, transportation, Smart Grid, telemedicine, distance learning and other important broadband capabilities. This proposal is worthy of careful consideration by the Committee.

Finally, the President is to be commended for the budget's support of Universal Service Fund (USF) modernization to help ensure subsidies are well-targeted, demonstrate results, and minimize the burden to ratepayers as well as the pursuit of means to strengthen USF financial and program management and minimize the burden on consumers.

Energy and Environment

Environmental Protection Agency

The President is to be commended for including $9 billion for the operations of the Environmental Protection Agency (EPA) and specifying $253 million in funds for agency-wide efforts to reduce greenhouse gas emissions. This funding will allow the agency to develop greenhouse gas emissions limits for large power plants and oil refineries and pursue additional opportunities to reduce greenhouse gas emissions from the transportation sector. The President's budget also includes an increase of $79 million for grants to state and local air quality agencies to help them implement updated National Ambient Air Quality Standards for criteria pollutants and issue air permits to large sources of greenhouse gas emissions under the Clean Air Act.

The President is to be commended that the budget proposes to reinstate the Superfund tax to ensure a consistent source of funding to clean up the nation's worst toxic waste sites. The President's budget also proposes reducing funding for the Superfund program by $70 million over 2010 levels. More than 1,200 sites remain active on EPA's National Priority List, but EPA completed construction of remedies at only 18 sites in FY2010. Adequate funding for the Superfund Program is vital to accelerate cleanup efforts and protect human health and the environment from uncontrolled exposure to hazardous substances at these sites. The Committee should work with the Administration to determine the appropriate level of funding needed for the Superfund program.

The President is to be commended for recognizing the importance of investing in clean and safe water and including $990 million for the Drinking Water State Revolving Fund. This funding, however, represents a 29% cut over FY2010 levels. Drinking Water SRF funding is critical, as the country's drinking water utilities need to invest in drinking water infrastructure repair and replacement to keep pace with aging infrastructure, much

of which is approaching the end of its useful life. The Committee should work with the Administration to determine the appropriate level of funding needed for drinking water infrastructure.

The President is to be commended for requesting $71 million in funding for chemical risk review and reduction, an increase of $16 million over 2010 levels. This funding demonstrates the Administration's commitment to ensuring that chemicals in commerce do not endanger public health. With additional resources, EPA will be able to conduct chemical risk assessments on priority chemicals and take action on chemicals determined to pose significant risks to human health and the environment. The agency also will increase the pace at which it obtains information about the health and safety risks of chemicals and makes such information public.

Department of Energy

The President is to be commended for including $3.2 billion in the budget to support Department of Energy (DOE) research, development, demonstration, and deployment of renewable energy and energy efficiency technologies that reduce carbon pollution. The budget increases for building, industrial, and vehicle efficiency, as well as for solar, wind, geothermal, and biomass energy will spur the nation's movement towards a clean energy economy. The requested $200 million in appropriated credit subsidy for loan guarantees for renewable energy and energy efficiency technologies will also encourage innovation and investment, which in turn will accelerate deployment, reduce costs, and create jobs.

Health

Centers for Medicare and Medicaid Services

CMS Program Management

The President's budget requests $4.4 billion in discretionary funds for program management for the Centers for Medicare and Medicaid Services, an increase of $1 billion over the FY 2010 enacted level. CMS is also seeking an increase in staffing of 641 full-time equivalents. This increase allows for continued effective administration of the Medicare, Medicaid, and the Children's Health Insurance Program (CHIP) and to implement new health insurance reforms and improvements to these programs under the Affordable Care Act (ACA).

It is essential that Congress meet the President's budget request for funding program management at the CMS in order to maintain important functions under Medicare, Medicaid, and CHIP, and fully implement the ACA. A letter from Kathleen Sebelius, Secretary of Health and Human Services, to Senator Baucus on March 8, 2011, outlined the dangers of not being able to appropriately implement the changes included in ACA for our nation's healthcare programs. It would "seriously impair or even halt"

policies in the Affordable Care Act that "make health care more affordable, accessible, accountable for seniors, individuals with disabilities, children and all other Americans as well as businesses large and small." In addition, the Congressional Budget Office stated that a one year inability to implement the Affordable Care Act would increase the deficit by $5.7 billion and result in $1 billion in incorrect Medicare payments.

The Affordable Care Act

The President's budget includes funding that puts the Affordable Care Act on track for full implementation. The ACA is the bedrock for our continuing efforts to expand access to health care and reduce its cost for families and taxpayers.

The ACA has already made a number of positive improvements to the insurance market helping millions of Americas. The law:

- Prohibits pre-existing condition exclusions for children;
- Prohibits rescissions of health insurance when a person gets sick;
- Allows adult children up to age 26 to stay on their parent's insurance;
- Prohibits lifetime limits;
- Prohibits restrictive annual limits while balancing the needs of access to limited benefit plans until 2014 when annual limits will be prohibited;
- Restricts cost sharing on prevention benefits and out of network emergency room care;
- Ensures internal and external consumer appeals rights for every consumer; and
- Allows patient choice of primary care physicians.

In addition, the ACA is focused on openness, transparency, and value. It promotes getting better value for consumer premium dollars through the medical loss ratio requirements and shines a light on premium increases and whether there is justification for them. The establishment of *healthcare.gov* creates a one-stop shop for Americans on their healthcare options in every state. Grants are helping states research and determine what type of exchange marketplace they want to set up so that in 2014 there is a competitive and vibrant marketplace for individual and small businesses in each state where discrimination based on pre-existing conditions is prohibited.

The ACA also promotes short-term health insurance solutions until the new exchange marketplace is available in 2014. It supports the maintenance of retiree health insurance, having helped more than 5,000 employers with the costs of health care and benefiting more than 4.5 million early retirees. It also provides a bridge to coverage by

helping those who have pre-existing health conditions enroll in a partly subsidized health insurance plan. Such plans have seen a 50% increase in enrollment in recent months.

The ultimate successes of the ACA will be expanding access to quality health care for all Americans and reducing cost growth in Medicare and Medicaid, making the budget's projections for those programs conservative.

Medicare Physician Payments

As in the FY 2011 budget, the President's budget assumes that Congress will enact a permanent fix to the sustainable growth rate (SGR) system for Medicare physician payments. Under current law, physicians treating Medicare patients face a 28% reduction in fees on January 1, 2011, and additional cuts thereafter. If allowed to go into effect, these cuts will trigger a crisis in the availability of medical services for elderly and disabled program beneficiaries.

Medicare's physician fee schedule also has a well-documented bias against primary care services and management activities known to provide the most effective and efficient kinds of care.

In November 2009, the House passed a SGR reform bill (H.R. 3961) that would guarantee beneficiaries' access to their doctors while encouraging the development of more efficient care practices and arrangements. It is essential that H.R. 2961, or a similar package of payment improvements and reforms, be enacted this year. The President's budget assumes that the cost of repairing the Medicare's physician payment system will be $370 billion.

The President's budget proposes $62 billion worth of spending reduction in Medicaid and Medicare to cover two years of the cost of the SGR modification, and proposes to work with Congress to offset future costs. These proposals include:

- Medicare Advantage Risk Adjustment Data Validation

The President should be commended for the proposal in his budget that would require CMS to recapture all estimated overpayments to Medicare Advantage plans arising from misreported risk adjusted data, saving $6.2 billion over the FY 2012 – FY 2021 period.

- Quality Improvement Organization Reforms

The President's budget includes important reforms to the Quality Improvement Organization (QIOs) program in Medicare. QIOs provide technical assistance to providers on issues relating to quality of care and patient safety, and are also responsible for responding to beneficiary complaints about those issues. The President's proposals have the potential to improve the effectiveness of the QIO program while reducing its costs.

- Medicaid Provider Tax Changes

The President's proposal on Medicaid provider taxes reduces federal expenditures by $18.4 billion over 10 years. It restricts the Medicaid provider tax levels below the current law limitation of 6% of gross provider revenues to 4.5% in 2015, 4% in 2016, and 3.5% in 2017 and thereafter. In our view, there is no convincing rationale to impose these reductions and limit states' prerogatives to raise revenues to support the Medicaid program. We recognize that in the early years of the program, this funding source was manipulated and abused, but those problems were addressed in regulations issued by the Bush Administration in the 1990s that required provider taxes to be broad-based and uniformly imposed, and prohibited states from holding providers harmless.

The regulations established a ceiling on taxes of 6% of gross revenues of the providers being taxed. (The Deficit Reduction Act reduced these ceilings to 5.5% for a limited time when increased federal funds were temporarily made available, with the ceiling returning to 6% on October 2, 2011). Since the issuance of the regulations, the provider tax has been an integral source of support for many state Medicaid programs. The President's budget proposal should not be supported. It will restrict states' ability to finance their share of Medicaid costs at the very time that additional Medicaid beneficiaries will be participating in the Medicaid program as a result of the reforms of the Affordable Care Act, and will reduce a source of funding that has been critical to states during periods of recession. It was a principle recognized in the Affordable Care Act that providers benefit from an expansion of persons insured for services in their facilities, and that imposing a tax to reflect the benefits they receive is a legitimate and defensible approach. This same rationale applies with the Medicaid provider tax at the state level.

- Medicaid Third Party Liability

The President's proposal on Medicaid third-party liability saves $1.6 billion over 10 years. The proposal does not permit prenatal and preventive pediatric claims to be submitted to Medicaid for 90 days after service during which time the pediatrician, primary care provider or obstetrician is required to first find and bill any third parties that may be liable for such claims and bill the non-custodial parent for such claims. Currently, states have the obligation to pursue liable third parties, not providers of prenatal and pediatric claims. The proposal would shift this burden, and the associated delay in under-reimbursement, to these providers. The Medicaid program serves close to 30 million children and 41% of pregnant women. The President's proposal should not be supported. This new hurdle adds an administrative burden on the providers that are integral to this large population serviced by Medicaid and creates a disincentive for them to participate in the program.

- Medicaid Disproportionate Share Hospital Payments

The President's budget rebases Medicaid disproportionate share hospitals (DSH) allotments in 2021, saving $4.8 billion. The proposal limits DSH payments in 2021 and

thereafter to 2020 levels set in the Affordable Care Act. This limits the payments to help hospitals offset the costs of uncompensated care. Although these costs are expected to decrease significantly after full implementation of the Affordable Care Act, there will still be uncompensated care costs for those that choose not to purchase health insurance of are unable to afford to purchase health insurance. Those remaining costs must be considered in any reductions in disproportionate share payments.

- Other Medicaid Proposals

The President's budget extends the Qualified Individuals program that helps low-income seniors with their Medicare costs and the Transitional Medical Assistance Program that helps maintain Medicaid during a family's transition to work. The President should be commended for this effort to sustain the funding for these important programs. The budget also contains important proposals to fight fraud, waste, and abuse in this program.

- Health Care Fraud and Abuse Control Fund

The President's budget requests $580.6 million in discretionary funding for the Health Care Fraud and Abuse Control Fund (HCFAC), an increase of $269.6 million over the FY 2010 enacted level. The President should be commended for this request, which demonstrates an ongoing commitment to reducing waste, fraud, and abuse in the Medicare and Medicaid programs.

The funding will be used to increase investigative and enforcement efforts, and to implement new authorities (provided under the Affordable Care Act) to end the "pay and chase" approach to fraud prevention and shift to an approach based on fraud prevention. The increased HCFAC funding will more than pay for itself in reduced fraudulent payments.

FDA

The President's budget recognizes the importance of the Food and Drug Administration and its many critical public health missions. In overseeing the safety of our drugs, medical devices, tobacco, and food, the FDA plays a vital role that touches the lives of Americans every day. The President's budget acknowledges the fundamental importance of the FDA and appropriately provides an increase in its budget.

Food Safety

The President's budget includes $1.4 billion, an increase of $333 million over FY 2010, for enhanced food safety activities at the FDA and the Centers for Disease Control and Prevention (CDC). These agencies—particularly the FDA—are in great need of a significant infusion of dollars to enable them to implement the newly enacted FDA Food Safety Modernization Act. The President is to be recognized for acknowledging the critical need for greater resources for these vital agencies.

Public Health

Healthcare-associated Infections

The President's budget strategically devotes additional resources across the HHS to address health care-associated infections for research, surveillance, and activities through the CMS Innovation Center and to implement the HHS Action Plan. The President's leadership has led to major successes, most recently as evidenced by CDC's recent report that central line infections have decreased by 58% in 2009 as compared to 2001. This success has saved lives, saved money, and improved care.

NIH

The President's budget includes an increase for the National Institutes of Health by $745 million over FY 2010 levels to $32 billion. The budget will allow for over 36,000 research project grants and over 9,000 new and competing awards. NIH research is critical to American economic innovation—for instance, NIH-supported advances have contributed to as many as one in five drugs approved by FDA. Drugs supported by NIH-sponsored work have also been shown to have a bigger impact on public health than drugs developed without NIH support. The President should be commended for this proposal.

Health Resources Services Administration

- Workforce Policy

The President's budget dedicates $1.3 billion to develop the health workforce, including $315 million in mandatory funding, an investment that makes for good fiscal and health policy. Along with the investments under ARRA, these investments put our nation on track to add 16,000 new providers to the health workforce.

Recognition should be given to the President's budget for viewing workforce programs from a broad perspective. The support for the National Center for Health Care Workforce Analysis to conduct further analysis of workforce needs and the National Health Care Workforce Commission will provide insight and data into the difficult questions of our nation's workforce needs.

- Children's Hospital Graduate Medical Education

The President's budget proposes to eliminate support for the children's hospital graduate medical education program, currently funded at $317 million. Instead of this proposal, this program instead should be reauthorized and appropriately supported.

The Committee in the last Congress took steps to increase the supply of pediatricians, and pediatric subspecialists in particular. The Affordable Care Act contained new loan repayment programs for pediatric subspecialists, but such programs have not yet been

funded. Last year, the Committee (and the House) passed H.R. 1210, which authorized a grant program to support pediatric subspecialists, but the legislation was not acted upon by the Senate.

These actions were in part a response to reports such as the Health Resources and Services Administration's report in February 2007, *The Pediatric Rheumatology Workforce: A Study of the Supply and Demand for Pediatric Rheumatologists*, which concluded that "a pediatric rheumatology shortage exists and a 75 percent increase is needed." A December 2008 report funded by HHS by the Expert Work Group on Pediatric Subspecialist Capacity concluded that "access to pediatric subspecialty care is a crisis in the United States" and recommended expansions of graduate medical education for pediatrics.

According to the American Academy of Pediatrics, about 43% of pediatric subspecialists are trained at institutions that receive support from Children's Hospital Graduate Medical Education Payment Program. Ongoing support of the program is critical to addressing the workforce deficit of pediatric subspecialists.

Community Health Centers

The President's budget proposes to increase support for community health centers (CHCs) to $3.3 billion, an increase of $1.1 billion over FY 2010. We strongly support this investment in this program which provides primary care services to millions of Americans.

While ARRA funds were invaluable to expanding the number of centers, an increase in the funding is necessary to sustain the operating costs of these new centers, and to continue the successful growth of this cost-effective high quality network of providers. With additional funds in place, CHCs are projected to serve 24.4 million patients. This represents an increase of 5.6 million over 2009 and more than double the 10.3 million patients served in 2001. CHCs also serve large numbers of uninsured; more than 9 million uninsured individuals are projected to have access to care in 2012, an increase of 2 million in 2009.

SPENCER BACHUS, AL, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

BARNEY FRANK, MA, RANKING MEMBER

March 18, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, D.C. 20515

Attention: Jonathan Romito
Counsel
Committee on the Budget
309 CHOB

Dear Mr. Chairman:

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives, section 301(d) of the Congressional Budget Act of 1974, and section 425 of Senate Concurrent Resolution 13, 112th Congress, the Committee on Financial Services submits herewith (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2012; (2) an estimate of the budgetary impact of all legislation which the Committee expects to consider during the coming session; and (3) recommendations for improved governmental performance. I am also transmitting the Minority Dissenting Views submitted by Members of the Committee. An electronic version in Microsoft Word Format was also sent to jonathan.romito@mail.house.gov on March 18, 2011.

The Committee approved the print in an open meeting on March 15, 2011, by a roll call vote of 29-24.

If you have any questions, please do not hesitate to contact Natalie McGarry on my staff at extension 5-7502. Thank you for your attention to this matter.

Sincerely,

SPENCER BACHUS
Chairman

cc: The Honorable Chris Van Hollen
The Honorable Barney Frank

Views and Estimates of the Committee on Financial Services on Matters to be Set Forth in the Concurrent Resolution on the Budget for Fiscal Year 2012

Pursuant to clause 4(f) of rule X of the Rules of the House of Representatives, section 301(d) of the Congressional Budget Act of 1974, and section 425 of Senate Concurrent Resolution 13, 112th Congress, the Committee on Financial Services submits (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for fiscal year 2012; (2) an estimate of the budgetary impact of all legislation that the Committee expects to consider during the coming session; and (3) recommendations for improved governmental performance.

OUR NATION'S FISCAL CHALLENGE

The non-partisan Congressional Budget Office (CBO) has reported that the Federal budget deficit will reach an all-time high of $1.48 trillion in FY 2011. According to CBO's preliminary estimate, in February, the United States posted its largest monthly deficit in history -- $223 billion. In light of these stark figures, it is not surprising that Ben Bernanke, the Chairman of the Federal Reserve Board, gave the following testimony to the Senate Budget Committee in January 2011: "[T]he federal government is on an unsustainable fiscal path. Yet, as a nation, we have done little to address this critical threat to our economy. Doing nothing will not be an option indefinitely; the longer we wait to act, the greater the risks and the more wrenching the inevitable changes to the budget will be."

The Committee finds that for those programs and agencies within its jurisdiction, the Administration's FY 2012 budget proposal fails to impose the spending discipline necessary to put this nation's finances in order. Just as ordinary Americans must live within their means, so must their government. Those who serve the American people must learn to do more with less. Because the resources of the American people and their government are not infinite, government officials must allocate those scarce resources wisely to fewer programs. The decision to cut spending is not an easy one. But it is necessary. And it will result in a more resilient economy and stronger nation for future generations of Americans. Because the Administration has failed to make these difficult choices, the Committee cannot, as a general matter, support the requests contained in the Administration's budget for fiscal year 2012.

SECURITIES AND EXCHANGE COMMISSION

In its budget for FY 2012, the Administration has requested more than $1.407 billion for the Securities and Exchange Commission (SEC), an increase of $264 million over the SEC's FY 2011 spending authority. The Administration has requested an increase in the number of SEC personnel to 4,827 positions (4,460 full time employees), an increase of 780 positions (612 full time employees) over FY 2011 levels.

It is well-documented that prior to 2009, the SEC failed to adequately fulfill its mission in the run-up to the financial crisis—including its failure to adequately supervise the nation's largest investment banks, which resulted in the bailout of Bear Stearns and the collapse of Lehman Brothers and the ensuing financial panic; its failure to supervise

the credit rating agencies that bestowed AAA ratings on securities that later proved to be no better than junk; and its failure to ensure that issuers made adequate disclosures about securities constructed from poorly underwritten mortgages that were bound to fail. In addition, subsequent to the financial crisis, the SEC's inability to detect the Madoff and Stanford Ponzi schemes cast further doubt on its capability to supervise the institutions under its regulatory mandate. In light of those failures, the Committee cannot support the Administration's funding and staffing requests for the SEC until the current SEC Chairman and management has shown concrete progress in correcting past failures and implementing clear and verifiable plans for fulfilling the additional responsibilities the Commission has been granted.

Section 967 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (P.L. 111-203) mandated that the SEC hire "an independent consultant of high caliber and with expertise in organizational restructuring and the operations of capital markets to examine the internal operations, structure, funding, and the need for comprehensive reform of the SEC." The SEC retained the Boston Consulting Group and spent $4.85 million for this study. Until the SEC and the Committee have reviewed the study, increasing the SEC's budget and staff resources would be premature. Until the SEC's failures are addressed, increasing the SEC's budget and adding employees will not ensure effective regulation. The Committee will monitor the SEC's efforts to address these failures, and it will hold the SEC accountable for its progress in both addressing its failures and using its resources to fulfill its statutory mandate.

Although the facilitation of capital formation is a critical part of the SEC's statutory mandate, the SEC's budget justification mentions this crucial task only in passing, and it has so far failed to establish the committee on small and emerging companies that was to advise the SEC on issues affecting small business in areas such as capital raising, corporate governance, and disclosure. Facilitating capital formation would spur economic growth and job creation, and it should be a key component of the SEC's agenda.

The SEC must also increase the number of examinations conducted of registered investment advisers. In recent years, the SEC averaged a 9% examination rate for investment advisers. In the justification for its budget request, the SEC estimates that it will examine 13% of investment advisers, 12% of investment companies and 46% of broker-dealers in FY 2012. While these estimates are an improvement over FY 2011, all three estimates are below FY 2008 levels, when the SEC's budget was less than approximately $906 million. To protect investors and prevent future Madoff-like frauds, the SEC must increase the percentage of investment advisers examined each year. Given the alternatives that exist to improve investment adviser oversight, including the designation of self-regulatory organizations (subject to SEC oversight) to perform examinations, the Committee will consider the recommendations presented in the SEC staff study mandated by Section 914 of the Dodd-Frank Act, which requires the SEC to review "the need for enhanced examination and enforcement resources for investment advisers."

Recognizing the magnitude of past failures, as acknowledged in the Administration's budget request and affirmed in recent SEC testimony, the Committee will only consider whether additional funding is needed once the Commission has 'optimiz[ed] its available resources through implementing the initiatives recommended in' the study authorized by

Section 967 of the Dodd-Frank Act, which was presented to the Committee on March 10, 2011.

SECURITIES INVESTOR PROTECTION CORPORATION

The Securities Investor Protection Corporation (SIPC) protects investors against losses that result from broker-dealer failures, thereby promoting investor confidence in the nation's securities markets. The Dodd-Frank Act increased the SIPC's line of credit with Treasury from $1 billion to $2.5 billion. In its budget request, the Administration asserted that SIPC will not use that $2.5 billion line of credit, a claim that the Committee finds to be overly optimistic.

In 2008, SIPC was confronted with two unprecedented events: the liquidation of Lehman Brothers Holdings in September and the liquidation of Bernard L. Madoff Investment Securities in December. Although SIPC so far has handled these "hundred-year" events and successfully managed the Lehman liquidation, the Madoff proceeding continues to present SIPC with challenges that could call into question the sufficiency of the SIPC fund.

In February 2009, the SEC charged Robert Allen Stanford and three of his companies with orchestrating a multi-billion dollar fraud arising from a certificate of deposit (CD) program. Although SIPC has thus far declined to cover Stanford customers, they appealed SIPC's refusal to the SEC. If the SEC overrules SIPC and expands coverage to include banking products, products issued by a foreign entity, or products that investors have custody of but prove to be worth less than when the products were purchased, new claims could overwhelm the SIPC fund.

The Committee believes that budget projections for SIPC should be realistic and account for the possibility that broker-dealers can fail and that frauds can occur. If the SIPC protection limit is raised from $500,000 to $1 million as part of possible SIPC reforms, stress on the fund will be exacerbated. The Committee will not endorse legislative reforms that would require SIPC to borrow against or beyond its recently increased line of credit at Treasury, thereby placing additional significant burdens on American taxpayers.

PUBLIC COMPANY ACCOUNTING OVERSIGHT BOARD

The Committee sees no reason for the Public Accounting Oversight Board (PCAOB) to be included in the Administration's FY 2012 budget. The PCAOB is a non-governmental, private-sector corporation that has no impact on the budget, and the numbers used in the Administration's budget are potentially misleading as they are only estimates of the PCAOB's expected revenues. The PCAOB is funded through registration fees and accounting support fees. Including the PCAOB in the budget thus gives the misleading impression that taxpayers are responsible for the PCAOB's funding. The Committee will closely examine the PCAOB's new authority arising from Title IX of the Dodd-Frank Act and the SEC's oversight of the PCAOB and its budget.

GOVERNMENT SPONSORED ENTERPRISES

Amid mounting mortgage losses, deteriorating credit quality, and eroding capital positions, two Government Sponsored Enterprises (GSEs) – Fannie Mae and Freddie Mac – were placed into the Federal conservatorship of their regulator, the Federal Housing Finance Agency (FHFA) in September 2008. To date, Fannie Mae has tapped $88 billion and Freddie Mac has used nearly $64 billion in taxpayer funds, for a total of approximately $150 billion ($131 billion, net of dividends paid), making the GSE conservatorship by far the costliest of all the taxpayer bail-outs carried out over the past three years. Last October, the FHFA projected that the cumulative Fannie Mae and Freddie Mac draws on the Treasury range from $221 billion to $363 billion through 2013.

After Fannie Mae and Freddie Mac were placed in conservatorship, the Congressional Budget Office concluded that they should henceforth be included in the Federal budget to reflect their cost to the taxpayer. In its 2010 fiscal outlook, the CBO estimated that the 10 year cost of operating the companies will be $370 billion. The Administration's budget request, however, does not place the GSEs on-budget. The Office of Management and Budget (OMB) continues to treat Fannie Mae and Freddie Mac as "off budget," and does not include their activities on the government's balance sheet. The Committee strongly recommends that OMB be statutorily required to move Fannie Mae and Freddie Mac "on budget," and to account for the losses they have sustained since they were placed in conservatorship in the same way as CBO calculates their losses. The Committee also recommends subjecting the two GSEs' debt – used to finance their mortgage purchases – to the statutory debt limit. To allow time for the implementation of this new law, an effective date of 90 days after enactment should be set.

TROUBLED ASSET RELIEF PROGRAM

Established in the fall of 2008 under the under the Emergency Economic Stabilization Act, the Troubled Asset Relief Program (TARP) was created as a temporary measure to address a crisis in the financial markets by making capital available to financial institutions. Those who voted for the Emergency Economic Stabilization Act did so with the assurance that the money appropriated for the program would be returned to the taxpayers when the crisis ended. Because financial institutions have repaid TARP funds and Treasury has received interest, fees, and warrants, TARP's costs are now estimated to be far less than originally projected. The Administration, however, has used and continues to use TARP funds for programs unrelated to the financial crisis, using those funds for mortgage assistance programs that have failed to help homeowners and exposing the taxpayer to losses. The Committee recommends that TARP be immediately shut down and unused funds be returned to the taxpayers.

CONSUMER FINANCIAL PROTECTION BUREAU

The Consumer Financial Protection Bureau (CFPB) is a federal agency created by the Dodd-Frank Act to regulate providers of credit and other consumer financial products and services. The Dodd-Frank Act confers upon the CFPB Director, who has yet to be

appointed by the President, a broad mandate that includes consumer protection functions transferred from seven different Federal agencies, and the authority to write rules, supervise compliance, and enforce all consumer protection laws and regulations other than those governing investment products regulated by the Securities and Exchange Commission or the Commodity Futures Trading Commission.

The Dodd-Frank Act housed the CFPB within the Federal Reserve Board as an "independent bureau," but the Act makes clear that the CFPB is to be autonomous of the Federal Reserve in carrying out its mission. The CFPB director determines the agency's budget, which is drawn from the Federal Reserve Board's annual combined earnings, and capped at 12 percent of those earnings (which translates into approximately $500 million for the last year for which data are available). This funding arrangement shields the CFPB from the appropriations process and undermines congressional oversight. In its FY 2012 budget, the Administration has requested $329 million to fund the CFPB. The Committee views the Administration's request as excessive, and intends to examine whether CFPB funding should be subject to the Congressional appropriations process to promote greater accountability and transparency.

EXPORT-IMPORT BANK OF THE UNITED STATES

In its budget for FY 2012, the Administration has requested $124.6 million for the Export-Import Bank. The Export-Import Bank provides export financing through its loan guarantee, insurance and lending programs, thereby helping American exporters compete in the global marketplace, which in turn creates jobs in the United States. Economists estimate that each $1 billion in U.S. exports supports 7,000 U.S. jobs. Last year, the Export-Import Bank provided approximately $24 billion in export financing.

By collecting fees from its users, the Export-Import Bank has become a self-sustaining organization and has returned $3.4 billion to the Treasury since FY 2006. As a result, the appropriation for the Export-Import Bank is expected to be recouped, and the Bank is projected to return approximately $213 million to the Treasury this year. The Committee supports the job-creating mission of the Export-Import Bank, and will focus its consideration of the Bank's reauthorization on improving the Bank's operations to better serve U.S. businesses and ensuring that the Bank maintains its fiscal soundness.

MULTILATERAL DEVELOPMENT BANKS

The Administration has requested $3.364 billion for Treasury's international programs, an increase from the $3.065 billion requested for FY 2011. The request includes funds for annual payments to multilateral development banks (MDBs); payments toward debt relief for many of the world's poorest countries; payments to World Bank trust funds; and payments to multilateral environmental organizations. The MDBs provide concessional lending and grants to the world's poorest countries and provide lending to middle-income and poorer credit-worthy countries to meet development needs. The MDBs have provided resources to member countries in the aftermath of natural disasters and have been counter-cyclical lenders during economic downturns, including the most recent recession and the attendant global contraction of credit.

The Committee urges Treasury to advocate that governments receiving assistance from the multilateral development institutions do not engage in gross violations of human rights, for example, the denial of freedom of religion, including the right to choose one's own religion, and physical persecution based on sexual orientation or gender identity.

Funding for the MDBs is based on pledges made to international organizations by the Treasury on behalf of the United States. These pledges are considered by Congress, which must decide whether to fund these pledges. Given the budget constraints facing the United States and this Committee's duty to do its part to right the nation's finances, the Committee intends to conduct thorough oversight of U.S. support for the MDBs. The Committee will examine the individual requests and seek to ensure the banks are using the resources effectively and consistent with the goals of the institution. Also, the Committee expects the Treasury to consult with the Committee prior to engaging in discussions on replenishment and capital increases and to protect the leadership role of the United States in these institutions.

INTERNATIONAL DEVELOPMENT ASSOCIATION

The Administration has requested $1.359 billion for the first of three annual payments to replenish the International Development Association (IDA), the World Bank facility that lends to 79 of the world's poorest countries. IDA's mission is to assist these countries in meeting basic health, infrastructure and development needs. Through its participation in IDA, the U.S. can leverage development assistance in the poorest regions of the world. IDA is also active in countries important to U.S. foreign policy, such as Afghanistan and Haiti.

The Committee believes IDA plays an important role in the global economy. IDA provides the world's poorest and least credit-worthy countries with access to capital, which permits these countries to build the credit record necessary to access private capital. The Committee also believes that the United States must retain its leadership role, which includes its ability to veto unwelcome changes to IDA's governing articles. The Committee intends to conduct oversight over any contribution made to IDA, including whether projects are being reviewed for effectiveness and whether the Bank is vigilant in its efforts to end corruption.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Administration has requested $117.4 million for the first of five payments towards a general capital increase for the International Bank for Reconstruction and Development (IBRD). In response to requests from world leaders, the IBRD increased lending sharply at the onset of the economic crisis. In 2009, IBRD dramatically increased lending to $39 billion, up from an average $15 billion per year. Member nations have agreed to increase capital to avoid reducing lending in the near-term. The IBRD has been an important source of capital for middle-income and credit-worthy poorer countries during the economic crisis and has contributed to global economic stability. Given the fragile state of the global economic recovery, it is important for the IBRD to provide resources to member countries. It is also important for the United States to maintain its leadership role at the IDRB. The Administration's request comes as Congress and this Committee are

attempting to put this nation's fiscal policy on a sustainable path; therefore, the Committee will scrutinize the request and examine whether it effectively achieves U.S. objectives.

DEBT RELIEF

The Administration has requested 174.5 million for debt relief, an increase of $134.5 million from FY 2011, to satisfy arrears to the Multilateral Debt Relief Initiative (MDRI), which is part of IDA 15, and to fund additional debt relief in IDA16 and at the African Development Fund (AfDF). In 2005, the United States and other creditor nations agreed to forgive MDB debt for many of the world's poorest countries. The Committee supports the commitment made by creditor nations to break the "lend and forgive" cycle that has saddled the world's poorest countries with debt loads that cannot be repaid. The Committee urges Treasury to require that countries adopt economic reforms to qualify for multilateral debt relief.

ENVIRONMENTAL FUNDS AND CLIMATE FUNDS

The Administration has requested $749 million for payments to World Bank trust funds and the Global Environmental Facility (GEF). This request is in addition to a request of $2.85 billion for payments to the MDBs to replenish concessional windows and increase capital. The overall request includes payments toward eight separate replenishments and capital increases, all of which are intended to increasing lending, concessional lending, and grant making capacity at the MDBs. The Committee notes that one of the MDBs' missions is to support the development of energy infrastructure in member countries, and the Strategic Climate Fund overlaps other environmental initiatives, including the GEF and the Tropical Forest Conservation Act.

The Committee therefore believes that the development of efficient energy infrastructure in developing nations is most effectively supported by directing resources to the MDBs. The Committee urges the Administration to use its leadership role in the MDBs to advance development plans that support efficient energy sources, including alternative energy sources where feasible and appropriate.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

The Administration has requested an increase in the budget of the Department of Housing and Urban Development (HUD) of 1.6 percent over FY 2010, an increase of $747 million that would result in a total HUD budget of $47.8 billion for fiscal year 2012. HUD has proposed spending $34.5 billion (72 percent of its budget) on three "Rental Assistance" programs: Tenant-Based Rental Assistance, Project-Based Rental Assistance, and Public Housing. HUD has proposed spending $10.9 billion (23 percent of its budget) on "Capital Costs" for programs such as Community Development Block Grants (CDBG) and Public Housing Capital. The remaining $2.4 billion (5 percent of its budget) is allocated to "Other Initiatives," such as Lead-Based Paint Hazard Reduction, Housing Counseling, Fair Housing and Equal Opportunity, and other programs.

Although the increase in HUD's budget for FY 2012 is smaller than increases in recent years, HUD's budget has consistently grown over the last decade and a half. The Congressional Research Service has reported that HUD's budget has expanded by more

than 50 percent from FY 2004 through FY 2010. The Office of Management and Budget has reported that the overall budget authority — funds appropriated by Congress — for all federal housing programs has grown from $15.4 billion dollars in 1995 to $53.8 billion in 2010, an increase of 249 percent. Overall outlays — payments made by federal agencies — on federal housing programs over the past decade have more than doubled in nominal dollars, from $28.9 billion in 2000 to an estimated $58.7 billion in 2010.

Notwithstanding this growth in HUD's budget and the sums spent on housing programs, the Administration's budget proposal includes several new housing programs to be administered by HUD. The Administration has requested $250 million for the Choice Neighborhood program, $200 million for the so-called Transforming Rental Assistance initiative, and $1 billion for the never-before-funded Housing Trust Fund. In light of the record deficits the United States is now facing, the Committee believes that prudent fiscal policy requires the Administration to refrain from asking taxpayers to fund new government housing programs.

The constantly increasing discretionary spending in HUD's budget is also a source of concern to the Committee. As noted above, HUD's budget includes $34.5 billion for Rental Assistance Programs, which represents 72 percent of HUD's budget request. This level of funding cannot be sustained. Congress has grappled with the program's cost and has tried to slow its growth relative to its proportion of the overall HUD budget. The Committee is concerned that unless the program is reformed, the funding that will be necessary to sustain the program will compromise other HUD programs, such as housing for the elderly, disabled and veterans.

In addition, a recent Government Accountability Office (GAO) study has raised questions concerning the extent to which HUD's economic development programs may duplicate those administered by other agencies. The GAO found that four different agencies — the Department of Commerce, the Department of Agriculture, the Small Business Administration, and HUD — administered 52 separate programs to fund "entrepreneurial efforts." Of these 52 programs, HUD funded twelve. The Committee will closely review HUD programs that overlap with those of other agencies to ensure that taxpayer funds are not wasted on duplicative programs.

NATIONAL HOUSING TRUST FUND

Created by the Housing and Economic Recovery Act of 2008, the National Housing Trust Fund was originally to be funded by Fannie Mae and Freddie Mac. Given the GSEs' current status in conservatorship, they cannot fund the program. The Administration has therefore requested $1 billion in funding. The Committee is concerned that the Trust Fund duplicates other Federal housing programs, such as the HOME Investment Partnership program, that provide grants to state and local governments to be used for increasing home ownership and affordable housing opportunities for low- and very low-income Americans.

FORECLOSURE MITIGATION PROGRAMS

The Administration continues to implement foreclosure mitigation strategies that are of questionable utility and are costing taxpayers billions of dollars. Originally envisioned as a $75 billion effort to help up to 9 million at-risk borrowers, the Making

Home Affordable initiative includes foreclosure prevention programs such as the Home Affordable Modification Program (HAMP), the Hardest Hit Fund, the Federal Housing Administration (FHA) Refinance Program, and the Emergency Homeowner Relief Fund. These programs, several of which derive their funding from the Troubled Asset Relief Program, have fallen far short of their stated objectives.

Some $30 billion from the Troubled Asset Relief Program has been obligated to HAMP. Of the 1.49 million trial modifications started under HAMP, which was originally projected to assist some 3 to 4 million homeowners, only 539,493 have resulted in permanent modifications. The program has been roundly criticized by a wide range of independent government watchdogs, including the Special Inspector General for the TARP, who testified on March 2, 2011, before the Subcommittee on Insurance, Housing and Community Opportunity that "supporters of HAMP have little reason to hope that it will be anything more than it is today – a program that benefits only a small portion of distressed homeowners, offers others little more than false hope, and in certain cases causes more harm than good." Accordingly, the Committee recommends that HAMP be terminated and all unobligated balances be returned to the taxpayer.

Although the 111th Congress appropriated $1 billion for the Emergency Homeowner Relief Fund, the Committee is concerned that Congress has not received assurances that loans made from the Fund will be properly underwritten. The Committee is also concerned that the program's almost 100 percent subsidy rate will translate into substantial losses for taxpayers. The Committee therefore recommends that the Emergency Homeowner Relief Fund be terminated.

In March 2010, the Administration announced a new FHA Refinance Program for homeowners who owed more on their homes than the home were worth. The program was to be funded with $8 billion in TARP funds originally set aside for HAMP. Although the program began in September 2010, the Congressional Research Service has reported that the FHA had received only 182 applications as of January 2011, and that only 40 loans have been refinanced. The program is currently scheduled to continue until December 31, 2012. Instead of using TARP funds to bankroll a foreclosure mitigation program that has proven to be ineffective, the Committee recommends that the $8 billion set aside for this program be returned to the taxpayer.

The Administration's Neighborhood Stabilization Program (NSP) provides funding to state and local governments to acquire, develop, redevelop, or demolish foreclosed homes. Initially created as a one-time emergency assistance program, $7 billion has been appropriated for the NSP in three rounds: $4 billion 2008 as part of the Housing and Economic Recovery Act (NSP1); $2 billion in 2009 as part of the Economic Stimulus; and $1 billion in 2010 in the Dodd-Frank Act (NSP3). Significant questions remain about the oversight and efficiency of the program. HUD's Inspector General has identified multiple misuses of NSP funds, and the GAO has questioned HUD's ability to track the funds. HUD has been slow to allocate funds from NSP 1 and NSP 2, raising further concerns about the effectiveness of the NSP and the need for further funding. The Committee therefore recommends that all remaining NSP unobligated balances be rescinded and the program be terminated.

FEDERAL HOUSING ADMINISTRATION

As private sector lenders withdrew from the mortgage market during the economic crisis, the Federal Housing Administration (FHA) increased its share of the market from less than 5 percent to over 30 percent. As the FHA's share of the market grew, however, increased delinquencies and foreclosures across the nation have negatively affected the FHA's financial standing. Late last year, an independent actuarial review showed that FHA's capital reserve ratio had dropped below the Congressionally-mandated threshold of 2 percent to 0.50 percent. If home prices do not recover, HUD may be forced to request an appropriation from Congress to shore up the FHA's finances. To protect the FHA's scarce capital, the Committee urges the Administration to be vigilant in its efforts to weed out mortgage originators who seek to use the FHA program as a dumping-ground for poorly or fraudulently underwritten loans.

The Committee commends HUD for announcing reforms that will strengthen the FHA's credit policies. The Administration has reported to Congress that it is exploring "ways to further reduce the risk exposure of FHA" by "giving FHA flexibility to adjust fees and programmatic parameters more nimbly than it can today." The Administration also noted that FHA "has already changed its policy to require that borrowers with lower FICO scores put down larger down payments," and that FHA will consider other options, such as "lowering the maximum loan-to-value ratio for qualifying mortgages more broadly." But to avoid putting the taxpayer at unnecessary and avoidable risk, the Committee recommends that FHA down payment requirements be increased to reflect the risk that its borrowers pose to the taxpayer.

The Committee is also concerned that the FHA lacks the capacity to properly oversee its single-family loan insurance portfolio. With the increase in loan limits and the recent changes in the FHA reverse mortgage program, the FHA must properly monitor its lenders and licensees to ensure that FHA programs are not being abused.

HOUSING COUNSELING

The Administration has requested $85 million for housing counseling, similar to FY 2010 enacted levels. The Committee will monitor federally-funded housing counseling programs — including state, local and nonprofit counseling programs — to assess their effectiveness at mitigating foreclosures and assisting consumers in avoiding predatory or abusive lending practices.

HOUSING PROGRAMS FOR THE ELDERLY AND DISABLED

Section 202 — Supportive Housing for the Elderly — and Section 811 — Supportive Housing for Persons with Disabilities — are HUD programs that help make housing available for the elderly and disabled. The Administration has requested $387 million for Section 202 programs, a decrease of $130 million from FY 2010 enacted levels, and it has requested $111 million for Section 811 programs, a decrease of $53 million from FY 2010 enacted levels. The recently enacted Frank Melville Supportive Housing Investment Act (P.L. 111-374) will provide more flexibility to align Section 811 programs with other federal,

state, and local funding sources, allowing federal funds to be levered with other funds to make more housing available for the disabled. The Committee is aware that both the 202 and 811 programs have unexpended balances and it will review these programs to find ways to expend funds to better meet the needs of the elderly and disabled.

SECTION 8 VOUCHER PROGRAM

The Administration has requested an increase in funding for the Section 8 housing choice voucher program, which serves more than 2.2 million low-income families. While changes to the voucher funding formula over the last decade have increased voucher usage and efficiency, comprehensive reform would increase the program's effectiveness. In 2007, OMB reported that "HUD does not track long-term performance outcome measures because the agency lacks a reporting mechanism to capture how program funds are used." OMB also found that the program's effectiveness remained unknown. The Committee will therefore work towards reforming Section 8. The Committee believes that the public is better served not by expanding Section 8 but by reforming it to allow public housing authorities to serve more people within existing funding levels. The waiting lists for Section 8 vouchers continue to grow, and given budget constraints, there are insufficient resources to serve all would-be applicants. The Committee believes that Section 8 recipients should be encouraged to move toward self-sufficiency so assistance can be provided to those applicants who have patiently waited for assistance, in some cases for almost ten years.

PROJECT-BASED SECTION 8

The Administration has requested $9.43 billion for Project-Based Rental Assistance, a substantial increase over FY 2010 levels. The Committee is concerned that most of this increase is attributable to program renewals. The Committee will examine the Administration's proposals for converting public housing units to long-term, project-based Section 8 contracts.

PUBLIC HOUSING

The Administration has requested $7.3 billion for the Public Housing Operating Fund and the Public Housing Capital Fund, which are to be combined and used for repair and maintenance of public housing units. The Committee remains concerned that the spend-out rates for this program are slow, and that new funding would worsen this problem. In light of the program's slow spend-out rates, the Committee will examine the reasons that these programs continue to have large unexpended balances. The Committee is also troubled by the overall performance of the Public Housing program. In the program's last comprehensive review in 2005, OMB designated the Public Housing program as non-performing, and gave the program a rating of "results not demonstrated," indicating that the program had either failed to develop acceptable performance goals or to collect data to assess its performance.

In its budget for FY 2012, the Administration eliminated funding for the HOPE VI program, which received $200 million in fiscal year 2010. The Administration has proposed folding the HOPE VI program into its Choice Neighborhoods program, and has requested $250 million for that program. The Committee remains concerned about the performance

of the Hope VI program, which has lagged for years. In the program's last comprehensive review in 2003, OMB rated the programs as ineffective. The Committee will continue to evaluate the HOPE VI program and it will consider the merits of the Choice Neighborhoods program. The Committee will also examine the prohibition of demolition-only grants, one-for-one replacement requirements, and tenant eligibility standards on housing availability.

McKINNEY-VENTO HOMELESS ASSISTANCE GRANTS

The 111th Congress enacted the Homeless Emergency Assistance and Rapid Transition to Housing Act as part of P.L. 111-22, which changed the administration of McKinney-Vento Homeless Assistance Grants. These changes consolidated separate grant programs into one Continuum of Care Program, expanded the definition of a qualifying "Homeless Individual" and "Chronically Homeless Person," and added measures aimed at preventing homelessness. In connection with these changes, which became effective in late 2010, the Administration has proposed an increase in funding for Homeless Assistance Grants by more than $500 million. The Committee will monitor these changes to ensure that they make the program more effective.

VETERANS AFFAIRS SUPPORTIVE HOUSING (VASH) PROGRAM

The Administration has requested $75 million for new Veterans Affairs Supportive Housing (VASH) vouchers, which will end homelessness for an estimated 11,538 of our nation's veterans. HUD-VASH combines tenant-based voucher assistance for homeless veterans with case management and clinical services provided by the Department of Veterans Affairs (VA) at its medical centers in local communities. PHAs awarded HUD-VASH vouchers develop partnerships with VA medical centers to help homeless veterans find permanent supportive housing. A recent report issued by HUD and the VA indicated that on a single night in January 2009, 75,609 veterans were homeless. The allocation of these vouchers is important to achieving the Administration's goal of ending homelessness among veterans.

COMMUNITY AND ECONOMIC DEVELOPMENT

Cities and counties use flexible Community Development Block Grants (CDBG) to meet local development, infrastructure, and affordable housing needs. The Administration has requested $3.8 billion for CDBG, making it HUD's fourth largest program. Concerns have been raised that some CDBG money is used to fund projects that reflect exclusively local priorities. In 2003, OMB designated the CDBG program as ineffective, indicating that the program had failed to use tax dollars effectively, attributable to a lack of clarity regarding the program's purpose or goals, poor management, or some other significant weakness. The Committee will examine how CDBG funds are used by recipients, as well as the program's history of slow spend-out rates to ensure that CDBG funds are spent appropriately. The Committee will also consider whether CDBG funds can be better targeted to benefit economically distressed communities.

RURAL HOUSING

The Administration has requested $1.437 billion for the rural housing Single Family Direct Loan program and $24.395 billion for the rural housing Single Family Guaranteed

Loan program. These programs are administered by the Rural Housing Service, an agency in the Department of Agriculture (USDA). The Administration's request for the direct loan program is a decrease of $1.226 billion from FY 2010 enacted levels, and its request for the guaranteed loan program is an increase of $5.684 billion. In December 2010, the USDA Inspector General raised questions about the Rural Housing Service's ability to operate the loan guarantee program. The USDA Inspector General found that 33 percent of the Rural Housing Services single family guaranteed loan portfolio failed to meet the statutory requirements for income eligibility. The Committee therefore has serious concerns about the Administration's request to increase expenditures for the guaranteed loan program.

NATIONAL FLOOD INSURANCE PROGRAM

According to the Government Accountability Office, the National Flood Insurance Program (NFIP) must be fundamentally reformed to stabilize its long-term finances. The NFIP owes $19 billion to Treasury, which it borrowed to pay flood claims resulting from hurricanes in 2005. The GAO determined that because the NFIP is not actuarially sound, it is failing to collect sufficient premiums from policyholders to cover the costs of estimated future losses. Approximately 25 percent of the NFIP's policies are subsidized, and these are primarily for high-risk structures built before the flood plain regulations and flood risk mapping went into effect. Some policyholders are paying rates that may be 35 to 40 percent of actuarially-sound rates.

In recent years, both the House and Senate have passed broadly supported legislation that would have moved the NFIP closer to actuarially sound, risk-based pricing. To protect taxpayers from excessive and unwarranted exposure, Congress must move forward with comprehensive reforms to overhaul the NFIP that will increase the role of the private insurance sector in flood risk management.

Minority Views

The following represent the views of the Democratic Members of the Committee on the following issues consistent with the Concurrent Resolution on the Budget for Fiscal Year 2012.

March 17, 2011

SECURITIES AND EXCHANGE COMMISSION

U.S. and global capital markets have undergone momentous changes in the last decade as new investors have diversified capital sources, new market participants have transformed market structure, and new legislation has significantly broadened the responsibilities of the market's regulator, the Securities and Exchange Commission (SEC). Despite the rapidly growing and complicated environment, the SEC has had serious constraints on its budget in all but the last few years. As the majority has detailed, the SEC has experienced colossal failures leading up to the financial crisis. The majority has taken away the wrong lessons from these failures, however, stating that the SEC should somehow "fix" itself before it should receive any additional funding.

As detailed in a study of the SEC, done by the Boston Consulting Group (BCG) pursuant to section 967 of the Dodd-Frank Act (DFA), Congress faces a stark choice: we can either choose to provide adequate funding to the SEC, or we can substantially reduce its responsibilities, delegating most to industry self-regulatory organizations (SROs), organizations which have significant conflicts of interest when it comes to providing adequate oversight of the securities industry.

The study, which evaluated all aspects of the agency's operations, lays out the following choice:

> "Given that the current context requires the SEC to make hard trade-offs in terms of mission critical activities, it is incumbent on Congress to carefully evaluate if these trade-offs are 'acceptable' given its own priorities. As it evaluates this, Congress should consider what it would take for the agency to fully implement all regulatory activities it would ideally undertake and to build out all key capabilities that will enhance its efficiency and effectiveness. . . . [S]enior management itself has identified several high-priority regulatory activities that cannot be implemented today even with the efficiencies described [elsewhere in the report], including the agency's demand for technology and expertise. . . . Based upon a very preliminary estimate, a range of an incremental $200 to $300 million may be required for the initiatives described in [this choice]." (pp 147)
>
> "In the event that the funding environment does not change, an alternative option is for the SEC's role to be changed to fit the available budget . . . **this 'new SEC' would change from being an 'actor' that actively regulates markets and market participants to an 'overseer' that primarily monitors the regulatory actions of others to whom it has delegated regulatory activities.**" (emphasis added) (pp 150)

Elsewhere in the study, the results of not funding the SEC are made even more stark, stating that "the SEC should consider scaling back or stopping some **vital but lesser priority activities** to free up resources." (emphasis added) (pp 78) As the study makes clear, the agency has itself already undertaken many initiatives to reform its activities and stretch its resources:

> As is clear from the wide range of initiatives the agency has already undertaken, the SEC is on the path to using its resources better and investing in key capabilities. Some of these initiatives have been completed (e.g. reorganization of Enforcement) and are already delivering good results, while some continue to be implemented (e.g. reorganization of OCIE, the build out of RSFI, and the implementation of the new performance management system). Furthermore, concrete steps have been taken in other areas... The SEC's senior management has taken steps to create greater collaboration and communication within their respective areas as well as across the agency . . . Having said this, there is more to do. There are mission critical activities that the SEC is not performing that force it to make intelligent but hard trade-offs. (pp75)

The situation in which the SEC finds itself is in part the product of many years of often inadequate funding. After significant increases in the early half of the last decade, the SEC was forced to reduce staff by 10 percent in 2006-7. Today, SEC staffing levels are just returning to 2005 levels, while its technology budget remains well below earlier levels.

Similarly, from 2005 to 2009, SEC's investments in new or enhanced information technology systems declined 50 percent. During this period, trading volume more than doubled, with the value of the average daily trading volume nearly tripling. Moreover, technology also plays a much larger role in trading today than a decade ago. High frequency trading made up only 15 percent of trading volume in 2006, but now makes up 56 percent. In 2005, 70 percent of trading volume went through NYSE—today, the NYSE captures only 22 percent. Moreover, 80 alternative trading systems, or "dark pools," are expected to account for 38 percent of equity volume. This fragmentation of capital markets can lead to poorer price discovery, difficulty of tracking market manipulation, and challenges in collecting market data, all challenges for the SEC to track and monitor without better technological resources.

The SEC's 3,800 employees currently oversee approximately 35,000 entities -- including 11,450 investment advisers, 7,500 mutual funds, 5,000 broker-dealers, and more than 10,000 public companies. Since 2003, the number of investment advisers has grown by roughly 50 percent, and the funds they manage have increased nearly 55 percent, to $33 trillion. While investment advisors have increased from FY 2005 by 32 percent to 11,450, assets under management have increased since FY 2005 by 60 percent to $38 trillion. The size, complexity, and geographical diversity of the 5,400 broker-dealer operations have greatly expanded, with broker-dealer branch offices increasing from 95,000 in 2005 to 175,000. Today, there are nearly 7,500 mutual funds, in which 80 million Americans (or half of all households) invest. In addition, DFA requires new registration of approximately 1,000 municipal advisor firms, including up to 20,000 individual municipal advisors, and 85 swap repositories among others.

Despite the efficiencies gained and to be gained from consolidation, the BCG acknowledges that SEC's current budget cannot accommodate the breadth of its regulatory responsibilities. In particular, the BCG notes:

> "that the benefits possible under current constraints are limited, considering the amount of investment required to build ... forward-looking capabilities....Thus, the agency will still not be performing several regulatory activities that it deems necessary for its mission, nor will it have the ability to build out all the capabilities it needs to oversee the fast-changing markets (e.g., all of the technology skills and systems required to keep pace with increases in high-frequency trading). This results in clear risks that Congress should be aware of as it contemplates the ongoing role of, and the right resource allocation for, the agency."(pp. 79)

The Minority therefore recommends adequate funding to support additional staffing to complete more investigations and inspections, and needed investments in technology for the SEC to meet both its pre-existing responsibilities as well as its new ones under the Dodd-Frank Act.

TROUBLED ASSET RELIEF PROGRAM

In its discussion relating to the "Troubled Asset Relief Program", the Majority opines that the Administration's use of TARP to provide assistance for homeowners is "unrelated to the financial crisis" and has not been effective, and recommends that TARP be shut down immediately and unused funds be returned to the taxpayers.

The Minority rejects the view that homeowner assistance is unrelated to the financial crisis or an inappropriate use of TARP funds. The Financial Crisis Inquiry Commission determined that the financial crisis resulted in large part from widespread abuses and failures in the mortgage lending and securitization process and resulted in unprecedented foreclosures associated with residential mortgage loans. The TARP legislation acknowledges the clear nexus between the financial crisis and foreclosures by (1) requiring the Treasury Secretary, when exercising his authority under TARP, to consider "the need to help families keep their homes and to stabilize communities" and (2) requiring each of the Treasury Secretary, the Federal Housing Finance Agency, the Federal Deposit Insurance Corporation, and the Board of Governors of the Federal Reserve System in specified cases to implement a plan that seeks to maximize assistance to homeowners and use its authority to encourage mortgage servicers to take advantage of the HOPE for Homeowners Program or other available foreclosure mitigation programs. See 12 USC 5213(3), 5219, and 5220. The Administration therefore appropriately has utilized some TARP funds to mitigate the devastating effects of the financial collapse on American homeowners.

The Minority also notes the statutory requirement in section 134 of the Emergency Economic Stabilization Act, which requires the President to submit a legislative proposal to recoup any TARP shortfalls from the financial industry to ensure that taxpayers do not bear any losses for the TARP program and that TARP does not add to the deficit or national debt, and the Minority reiterates its commitment to work for the enactment of such a bill. See 12 USC 5239.

CONSUMER FINANCIAL PROTECTION BUREAU

The Majority asserts that the independent funding of the Consumer Financial Protection Bureau (CFPB) undermines congressional oversight and that the Administration's $329 million request for Fiscal Year 2012 is excessive. We reject these assertions.

Congress expressly mandated that CFPB be separate and distinct from the appropriations process, which is the case with other federal banking regulators, to ensure that resources allocated to regulate the consumer financial markets would remain shielded from potential political influence and would have a steady, predictable level of funding. This funding mechanism is not without oversight, however. The CFPB is required to report to Congress each year regarding its budget, financial operating plans and forecasts, and its financial condition. Additionally, the Government Accountability Office will conduct an annual audit of the CFPB's expenditures and submit the report to Congress. We further note that the CFPB's funding is limited to a certain percentage of the operating expenses of the Federal Reserve System, and thus funding for CFPB does not derive from the General Treasury.

The Administration's request for $329 million for CFPB is not excessive. The funding is needed to ensure the CFPB is a strong, independent bureau that will provide appropriate focus on consumer protection issues and will coordinate closely with safety and soundness regulators. The Minority supports the CFPB as it works to provide a level playing field in the consumer financial services sector and to promote the healthy flow of credit to consumers.

NATIONAL HOUSING TRUST FUND

Created by the Housing and Economic Recovery Act of 2008 (P.L. 108-289), the National Housing Trust Fund was originally to be funded by Fannie Mae and Freddie Mac. However, the GSEs were placed into conservatorship before there was an opportunity to begin contributions to the Trust Fund. The Administration has therefore requested $1 billion in funding. This program was designed to provide a permanent source of funding for the development, rehabilitation and preservation of affordable rental housing for extremely low and very low-income residents. Unlike other federal housing programs, such as the HOME Investment Partnership, 90 percent of funding must be used primarily for the production of affordable rental housing and 75 percent must be used exclusively for the benefit of extremely low-income households.

The need for a National Housing Trust Fund is great. The recent Department of Housing and Urban Development survey: *Worst Case Housing Needs 2009* reported the 7.1 million households (an increase of 20 percent in 2 years) experienced worst case housing needs in 2009. Worst case housing needs are defined as very low income renters (households earning 50 percent or less of the area median income) who either pay more than half of their income for rent or live in severely inadequate conditions or both). The survey also reports that there are only 60 adequate, affordable rental units available for every 100 very low-income renters, and only 32 units of adequate, affordable rental housing for every 100 extremely low-income renters (households who earn 30 percent or less of the

area median income). The Administration estimates that with a $1 billion appropriation, the National Housing Trust Fund could produce approximately 36,000 affordable housing units and help to offset the harmful affects of budget cuts to other affordable housing programs.

NEIGHBORHOOD STABILIZATION PROGRAM

At a time when local and state governments are facing increased costs due to foreclosed and abandoned properties, the Neighborhood Stabilization Program (NSP) has provided a critical source of funding to reduce the negative and costly effects of foreclosure. Because of NSP's success in helping state and local governments address high-foreclosure neighborhoods, the program has the support of over 50 organizations, including the U.S. Conference of Mayors, National League of Cities, and Enterprise Community Partners.

The Majority asserts that questions remain about NSP's oversight. The Department of Housing and Urban Development (HUD) has conducted extensive oversight of the NSP program and grantees. Assistant Secretary of Community Planning and Development Mercedes Marquez testified at the March 2, 2011 Subcommittee on Insurance, Housing and Community Opportunity hearing that such oversight includes monitoring, risk assessment, and auditing of NSP grantees as well as providing training and technical assistance to address grantee capacity issues.

The Minority rejects the view that NSP has not been effective. HUD estimates that from the total NSP appropriation of $7 billion, 100,000 properties in the hardest-hit areas will be impacted. This number of properties makes up almost 20 percent of the real estate owned (REO) properties over the last 18 months in NSP-targeted areas. Grantees report that currently more than 36,000 properties are either under construction or rehab, a third of the overall estimate. Moreover, HUD estimates that NSP will support 93,000 jobs nationwide.

COMMUNITY AND ECONOMIC DEVELOPMENT

The Minority continues to be concerned about cuts to the Community Development Block Grant (CDBG) program. The Administration's request cuts funding for CDBG block grants by $284 million, from $4.021 billion to $3.737 billion, a 7.1 percent cut. In addition, the proposed 62 percent cut in H.R. 1, the Republican Continuing Resolution, would severely impact cities, counties, and states, which rely on the flexibility of the CDBG program to fund priority community and economic development needs, including affordable housing, improving blighted areas, and providing priority social services, with an emphasis on benefiting low- and moderate-income individuals. These cuts come at a time when states and localities are facing serious budget shortfalls, and are dealing with a housing foreclosure crisis and continued levels of high joblessness.

Barney Frank

Steny H. Hoyer

Wm. Lacy Clay

Ruben Hinojosa

C. A. Dutch Ruppersberger

Carolyn B. Maloney

Gwen S. Moore

Keith Ellison

Jim V. Cuthrie

Gabrielle E. Giffords

Michael E. Capuano

Emanuel Cleaver

ILEANA ROS-LEHTINEN, FLORIDA
CHAIRMAN

CHRISTOPHER H. SMITH, NEW JERSEY
DAN BURTON, INDIANA
ELTON GALLEGLY, CALIFORNIA
DANA ROHRABACHER, CALIFORNIA
DONALD A. MANZULLO, ILLINOIS
EDWARD R. ROYCE, CALIFORNIA
STEVE CHABOT, OHIO
RON PAUL, TEXAS
MIKE PENCE, INDIANA
JOE WILSON, SOUTH CAROLINA
CONNIE MACK, FLORIDA
JEFF FORTENBERRY, NEBRASKA
MICHAEL T. MCCAUL, TEXAS
TED POE, TEXAS
GUS M. BILIRAKIS, FLORIDA
JEAN SCHMIDT, OHIO
BILL JOHNSON, OHIO
DAVID RIVERA, FLORIDA
MIKE KELLY, PENNSYLVANIA
TIM GRIFFIN, ARKANSAS
TOM MARINO, PENNSYLVANIA
JEFF DUNCAN, SOUTH CAROLINA
ANN MARIE BUERKLE, NEW YORK
RENEE ELLMERS, NORTH CAROLINA

YLEEM D.S. POBLETE
STAFF DIRECTOR

One Hundred Twelfth Congress
U.S. House of Representatives
Committee on Foreign Affairs

HOWARD L. BERMAN, CALIFORNIA
RANKING DEMOCRATIC MEMBER

GARY L. ACKERMAN, NEW YORK
ENI F.H. FALEOMAVAEGA, AMERICAN SAMOA
DONALD M. PAYNE, NEW JERSEY
BRAD SHERMAN, CALIFORNIA
ELIOT L. ENGEL, NEW YORK
GREGORY W. MEEKS, NEW YORK
RUSS CARNAHAN, MISSOURI
ALBIO SIRES, NEW JERSEY
GERALD E. CONNOLLY, VIRGINIA
THEODORE E. DEUTCH, FLORIDA
DENNIS CARDOZA, CALIFORNIA
BEN CHANDLER, KENTUCKY
BRIAN HIGGINS, NEW YORK
ALLYSON SCHWARTZ, PENNSYLVANIA
CHRISTOPHER S. MURPHY, CONNECTICUT
FREDERICA WILSON, FLORIDA
KAREN BASS, CALIFORNIA
WILLIAM KEATING, MASSACHUSETTS
DAVID CICILLINE, RHODE ISLAND

RICHARD J. KESSLER
DEMOCRATIC STAFF DIRECTOR

Hon. Paul Ryan, Chairman
Hon. Chris Van Hollen, Ranking Member
Committee on the Budget
U.S. House of Representatives
207 Cannon Hour Office Building
Washington D.C. 20515

Dear Chairman Ryan and Ranking Member Van Hollen:

I am writing to share the views and estimates of the House Committee on Foreign Affairs regarding the President's proposed budget for Fiscal Year 2012. They include views and estimates submitted by the Subcommittee Chairmen and reflect concerns raised by the Majority Members of the Committee. Consistent with the past practice of the Committee, the Minority has prepared separate views and estimates that are also included in this transmittal.

As the massive fiscal challenge facing our country accelerates, producing trillion-dollar annual deficits as far as the eye can see, we need to move beyond the idea of selective freezes in spending to real cuts. These will be difficult and painful, but necessary for our nation's long-term interests. It is not possible to reconcile a continued expansion of funding or continued funding at current levels with the unfortunate fiscal realities facing the United States. Those who complain about potentially diminished levels of International Affairs funding need to ask themselves how much less an insolvent United States of America would be able to do. It is no longer sufficient to ask whether a particular activity is useful. Rather, the correct question is whether a given activity is so important that it justifies borrowing money to pay for it.

No one denies that our nation's foreign policy apparatus continues to face exigent circumstances in several regions of the world. However, the Administration's new bifurcation of the International Affairs budget request into so-called "Enduring" and "Overseas Contingency Operations" components obscures the extent to which the FY2012 International Affairs budget request continues the dramatic and unsustainable funding increases of recent years. Although the Administration has created confusion by citing different, smaller funding subsets in different contexts, the cumulative total for the FY 2012 International Affairs budget request is approximately $61.4 billion[1], representing a 13% increase over FY 2010 actual levels -- the last

[1] This figure is the OMB estimate for discretionary International Affairs budget authority in FY12, and also can be derived by adding the "State Operations & Foreign Assistance Request" and the "International Affairs Overseas Contingency Operations" amounts from pages 9 and 13 of the Department's FY12 Executive Budget Summary.

year subject to regular appropriations.[2] Compared to FY 2008 levels ($43.2 billion[3]), it represents a 42% increase. The FY 2012 International Affairs budget request is nearly two-and-a-half times larger than the FY 2002 levels ($25.2 billion[4]) of a decade ago.

In evaluating the FY2012 budget, the Majority also identified an endemic problem: misplaced priorities. The Administration is proposing dramatic increases in global health and climate change programs while cutting key programs, such as the Trans-Sahara Counterterrorism Partnership and the Partnership for Regional East Africa Counterterrorism—at a time when al- Qaeda affiliates in Africa set their sights on American targets, and American citizens are being captured and killed by Somali pirates

As reflected in this letter, the annual submission of views and estimates by the House Committee on Foreign Affairs affords an important opportunity to provide comments and insights on key policy issues that also have a role in the consideration of the annual budget request.

State Department

State Department operations funding

Recent increases in funding for State Department operations are demonstrated to have been even more significant when one focuses on the State Programs sub-account, which funds the State Department's own salaries and operations. According to the Department's numbers, the $12 billion request for Fiscal Year 2012 is a 25% increase over FY 2010 actual levels ($9.59 billion), and a nearly 75% increase since FY 2008 ($6.88 billion). Under the FY 2012 budget request, the overall "Administration of Foreign Affairs" account would grow by more than 64% just since FY 2008 (from $9 billion to $14.7 billion).

Foreign Service Overseas Pay Raise.

The "Diplomatic and Consular Affairs" portion of the Fiscal Year 2012 budget request contains funding for a more-than-16.5% base pay raise for overseas Foreign Service Officers, which would phase in, when they move overseas, about two-thirds of the 24+% locality pay premium that they receive when stationed in the District of Columbia in the U.S.. However, when they move overseas, FSOs already receive cost-of-living adjustments, free housing, free private education for their children, and danger and hardship raises worth up to 70% of their base pay. The Department of State has never demonstrated that this new raise is necessary for hiring and retention, and, in fact, Foreign Service hiring remains an extremely competitive process, with approximately 25,000 applicants for the few hundred slots that open up every year.

During recent consideration of the Fiscal Year 2011 Continuing Resolution (H.R. 1), the House adopted an amendment to prohibit this raise, which has never been properly authorized and

---

[2] Per State Department practice, this calculation of FY10 actual levels does not include $2.3 billion in one-time "Non-War Supplemental" funding (such as the Haiti earthquake response) in the International Affairs FY10 Actual funding total. If that amount were included in the FY10 number, FY12 increase would be approximately 8%.

[3] Source: OMB Historical Tables, Budget Authority for Discretionary Programs/International Affairs.

[4] *Id.*

which has also been targeted as an illustrative source of savings by the President's bipartisan National Commission on Fiscal Responsibility. Although we have so far been unable to obtain a detailed, annualized cost estimate from the State Department, the Director General of the Foreign Service estimated in September 2009 that implementing the full DC locality pay raise over two years for those stationed overseas would cost "approximately $440 million."

Assistance to Lebanon

U.S. economic and humanitarian assistance to Lebanon has steadily increased, even as the influence over the Lebanese government of Hezbollah, both a Foreign Terrorist Organization and an Iranian and Syrian proxy, has steadily increased. Given the recent *de facto* takeover of the Lebanese government by a government antithetical to U.S. policy objectives, continuing assistance to Lebanon would only enhance the ability of a Hezbollah-controlled Lebanese government to spend more of its own funds on activities that undermine Lebanese sovereignty, harm the Lebanese people, and threaten U.S. interests and allies.

U.S. security assistance to the Lebanese Armed Forces (LAF) and Internal Security Forces (ISF) has been predicated on the existence of a Lebanese government that was not aligned with Hezbollah and that would fulfill its obligations under UN Security Council Resolutions 1559 and 1701.

U.S. security assistance to the LAF and the ISF has not resulted in those forces' disarming of Hezbollah or in the prevention and reduction of smuggling of conventional weapons from Iran and Syria to Hezbollah across Lebanon's border with Syria. Concerns also remain regarding the extent of Hezbollah's infiltration of and coordination with the LAF in particular. Given Hezbollah's de facto takeover of the Lebanese government, additional security assistance to Lebanon could be compromised and directly or indirectly benefit Hezbollah, undermining Lebanese sovereignty, harming the Lebanese people, and threatening U.S. interests and allies.

Ending Economic Support Fund (ESF), Foreign Military Financing (FMF) and International Narcotics, Criminal and Law Enforcement (INCLE) assistance to Lebanon would result in savings of $225 million, as compared to the Fiscal Year 2012 budget request.

Assistance to the West Bank and Gaza

Despite the provision by the U.S. since Fiscal Year 2007 of over $2 billion in Economic Support Fund (ESF) assistance to the Palestinian Authority (PA) -- including hundreds of millions of dollars in direct cash transfers to the PA -- the Palestinian leadership continues to fail to meet its international obligations, including: a halt to anti-Israel and anti-American incitement; the unequivocal rejection of and a crackdown on violent extremism; direct negotiations with Israel; or recognizing Israel's right to exist as a democratic, Jewish state.

During the past year, the Palestinian leadership has repeatedly rejected and evaded efforts to resume direct negotiations; stepped up its campaign to demonize and de-legitimize Israel worldwide and in international forums, and sought to bypass negotiations by seeking unilateral recognition of a Palestinian state from foreign governments and in international forums. Despite some U.S. pressure to stop these counter-productive activities—including direct intervention

from the President—the PA has not modified its approach and has recently indicated that it may seek to again form a coalition government in partnership with Hamas, a Foreign Terrorist Organization and an Iranian and Syrian proxy.

Suspending Economic Support Fund assistance to the West Bank and Gaza would result in savings of $400.4 million, as compared to the FY 2012 budget request.

Asia Foundation

The request of almost $15 million in Fiscal Year 2012 for the Asia Foundation should be eliminated, as the Foundation's programs are supplemental and redundant. Numerous other organizations that now receive U.S. Government funding operate in Asia with very similar mission statements aimed at improving governance, civil society, and economic development. The National Endowment for Democracy and its constituent components, such as IRI and NDI, operate in over a dozen Asian countries plus Hong Kong and Tibet. AID is also well-established in the region and has programs in the same functional areas as that of the Asia Foundation. Other taxpayer-supported groups, such as the East-West Institute, also have overlapping mission statements with the Asia Foundation

U.S. Institute for Peace

During consideration of H.R. 1, the House supported an amendment to eliminate funding for the U.S. Institute for Peace (USIP), a think tank that is staffed by 325 employees and that enjoys large private donations and funding from other USG departments and agencies (an additional $17 million in contributions from the Departments of Defense and State alone in 2010).

The FY2012 budget request contains nearly $43 million for USIP, up from $25 million in FY 2008. According to a breakdown of the similar FY2011 budget request, by far the biggest portion ($11.7 million) would be for "facilities management requirements, including operation and maintenance, security and rehabilitation planning." At a time when expenditures must be reduced, USG funding for USIP should be ended.

East-West Center

During consideration of H.R. 1, the House backed an amendment to eliminate funding for this U.S. Government-funded think tank, which is focused on Asia. The East-West Center enjoys the support of other sources of revenue, and Congress has also gone above and beyond the budget requests in supporting this institution throughout recent years. (Over Fiscal Years 2006 through 2010, Congress has exceeded the total of the George W. Bush and Obama Administrations' requests for the East-West Center by a total of nearly $45 million.)

Agency for International Development

Total AID Funding

Funding for the Agency for International Development has grown considerably in recent years, increasing from $3.3 Billion in FY 2001 to $5.1 Billion in Fiscal Year 2008 to $8 Billion in FY 2010, an increase of 57% in the last two years alone.

Reducing funding from the FY 2010 level to the FY 2008 level would provide a spending reduction of $2.9 Billion.

AID and AID-Contractor Personnel Levels

We should consider freezing the total of direct-hire personnel now employed by AID.

Information provided by the Congressional Research Service denotes that, under the Development Leadership Initiative, the total number of Foreign Service Officers (FSOs) at AID has grown from 992 in FY 2001 to 1,299 in FY 2008 and 1,811 in FY 2010—an increase of 39% just between FY 2008 and FY 2010. Overall, AID's total, direct-hire staffing (including such FSOs) has grown from 7,057 in FY 2008 to 8,610 in FY 2010—an increase of 22% in that two-year period. Moreover, despite that growth in direct-hire personnel, as the Government Accountability Office (GAO) has noted, AID's workforce plan still does not include a comprehensive analysis of the agency's gaps in critical skills and competencies or the specific actions the agency intends to take to address such gaps. According to GAO, until AID improves its workforce planning, it will remain at risk of not deploying the workforce it needs. *("Foreign Operations: Key Issues for Congressional Oversight", GAO Testimony, March 3, 2011)*

Finally, while an estimate is apparently not available for the total number of staff hired by for-profit and non-profit contractors that are implementing AID programs around the world, the estimation of the size of that non-direct-hire workforce and efforts to freeze or reduce its growth as well would be important at this time of serious fiscal challenge.

Salaries and Benefits for Personnel of Non-Profit AID Contractors

Disturbing reports have surfaced of individuals creating non-profit entities for purposes of contracting with AID and subsequently arranging huge salary and benefits packages for themselves and even for members of their families.

Such abuse of the special status afforded to non-profit organizations in our procurement system must be addressed. Changes in law to require clear reporting on such salary and benefits compensation, to end current abuses and place limits on such compensation levels in future would save taxpayer monies that could be applied to actual programs that assist those in need overseas.

AID's Development Assistance Account and Its Development Credit Assistance Program

AID's Development Credit Authority (DCA), as AID itself has acknowledged, has a proven track record of significantly leveraging private financing in support of development aid to

impoverished countries – in recent years, mobilizing over $1.8 Billion in local, private financing at a budget cost to the U.S. Government of less than $70 *Million.*

The President's budget request for FY 2012, however, demonstrates no interest in expanding the use of this proven program, asking for total funding of only $8.3 *Million*, a slight, but actual *decrease* from the DCA funding level of $8.6 *Million* in FY 2010. In fact, funding for the DCA program over the past decade has averaged only about $8 *Million* annually, with minuscule increases, while AID has requested and received huge increases in the Development Assistance account—going from $1 Billion in FY 2001 to $1.6 Billion in FY 2008 and $2.5 Billion in FY 2010.

A decrease in AID's Development Assistance account balanced by a lesser increase in funding for the DCA account, could result in equivalent development outcomes, but at far less cost to the taxpayer.

Development Assistance for Countries that Have Large Foreign Aid Programs of Their Own

Some of those countries that receive United States assistance by means of bilateral programs or multilateral organizations are now experiencing significant economic growth and are funding major foreign aid and investment programs of their own. Countries such as the People's Republic of China (PRC), India, Brazil and South Africa may have pressing needs, but those needs do not support the continued provision of U.S. assistance to those countries while they, in turn, use their resources to provide foreign aid to others.

For example:

- It is questionable to provide the PRC, a country run by a communist dictatorship, which gives its citizens almost no personal liberties, any assistance, either directly or through multilateral banks and agencies. The PRC owns approximately one trillion dollars of our national debt and has engaged in its own aid programs with other countries. Given the need for spending freezes, any U.S. assistance to the PRC should be eliminated, with the exception of programs aimed specifically to assist the Tibetan people or democracy activists within the PRC.

- In another example, U.S. development assistance for South Africa, which recently joined the ranks of the largest high-growth economies in the world (along with Brazil, Russia, India, and the PRC), has increased from $9.25 million in Fiscal Year 2008 to $29.84 in the Fiscal Year 2012 request (an increase of 223%).

  A portion of that funding is to go to a "Trilateral Assistance Program," by which the U.S. provides up to $2 million annually to South Africa so that South Africa can turn around and provide foreign assistance to other countries. It is unclear how this program advances U.S. interests. Eliminating development assistance for South Africa would result in potential savings of up to $29.8 million, when compared to the FY 2012 budget request.

Funding for Global Environmental Programs

The Fiscal Year 2012 budget request proposes major and unjustified funding increases for a range of international programs related to the environment, including the Clean Technology Fund, the Strategic Climate Fund, and the Global Environment Facility. All are vaguely defined, have no clear mechanisms for determining success, and have virtually no track record. Yet the proposed FY 2012 budget contains significant increases for all three (over the levels as provided in the House-passed, long-term, FY 2011): from $300 million to $400 million, or 33%, for the Clean Technology Fund; from $75 million to $190 million, or more than 150%, for the Strategic Climate Fund; and from $86.5 million to $143 million, or 66%, for the Global Environment Facility. The total proposed increase for these three open-ended programs is $272.25 million.

In the context of such program funding requests, it is startling to see $452 million of the $2.9 billion requested for AID Development Assistance in FY 2012 earmarked for "Global Climate Change" programs, while "Governing Justly and Democratically" ranks second-to-last on the list of priorities, despite the historic events transpiring across the Middle East and North Africa. The spending priorities included in the FY 2012 budget request are therefore out of synch with U.S. national security interests. A reduction by half of such global environmental programs should be accompanied by a reallocation of a large portion of the remaining funding to democracy and governance programs -- for a savings of $226 million.

SEED and FSA Assistance Accounts for East Europe and the Former Soviet States

The Support for East European Democracy Act (SEED) was enacted in 1989 to provide assistance to the former communist countries of East Europe and the Baltic States. The FREEDOM Support Act (FSA) was subsequently enacted in 1992 to provide assistance to the newly-independent, formerly communist states created by the break-up of the Soviet Union. The underlying U.S. objectives represented by those two laws' creation of special coordinators' offices at the State Department to oversee the implementation of the two separate assistance accounts were to: (a) help produce democratic reforms and (b) economic reforms that would lead to the kind of sustained growth that would end the need for further U.S. aid. Neither Act envisioned a long-term continuation of assistance under the aegis of a separate office and separate assistance account.

Many of the East European countries have already successfully implemented reforms and "graduated" from U.S. assistance -- and are now, in fact, members of NATO and the European Union. U.S. assistance continues for some of the states of the Balkans, but it is increasingly clear that aid for those countries should and will come from the European Union in the coming years, as U.S. aid is rapidly phased out.

With regard to the states of the former Soviet Union, the progress of democratic reforms remains hopeful in some of those countries, although it is obviously challenged in many others. Nevertheless, it may be time to move the responsibility for such democracy assistance to other parts of the State Department, which use specifically-targeted accounts to fund U.S. democracy promotion programs around the world.

The SEED and FSA assistance accounts were not originally envisioned to be long-term assistance vehicles, but were intended to work toward "graduating" countries from U.S. assistance and end aid operations, much as U.S.-funded Enterprise Funds have conducted and then phased out their specific assistance operations in countries throughout East Europe and the former Soviet Union.

It may well be reasonable at this time to phase out the operations and accounts authorized under SEED and FSA, reduce appropriations for assistance to some of the countries of the region, and continue U.S. assistance, where appropriate, through the MCC and existing aid accounts for democracy promotion, development, nonproliferation and so on.

U.S.-Funded Enterprise Funds Upon the Termination of Their Operations

The enterprise fund concept has proven to be a useful tool for development in some of the countries in which it has been utilized, such as Poland, Bulgaria and Russia. Once these U.S. Government-funded entities end business operations, they usually have had significant assets available for return to the U.S. Treasury. While there has been a general practice to return to the Treasury 50% of the original USG grant, that practice has not been mandated in law and there have in fact been questionable uses of the balance of the monies derived from former enterprise funds, in one case involving multi-million-dollar payouts to the management of a fund.

A legal requirement that all such U.S.-funded enterprise funds (and similar funds created at the expense of the USG) return to the U.S. Treasury for purposes of debt reduction at least 50% of the total, final value of their assets upon the end of their operations, rather than just 50% of the original USG grant, would likely provide several hundred million dollars that could be applied to the debt.

Non-security, non-humanitarian assistance to Bolivia

The proposed cuts already included in the Fiscal Year 2012 budget request for Bolivia (a more than $39.8 million decrease from the FY 2010 enacted levels) are an important acknowledgement of the lack of value and effectiveness of U.S. assistance to that country at this time. Following the expulsion from Bolivia of our U.S. Ambassador and DEA personnel and the end of democracy and governance programs there in 2009, our governments have been unable to reach consensus on a Framework Agreement, despite ongoing high-level efforts for more than a year.

The proposed FY 2012 funding cuts are a good start but more needs to be done. All non-security, non-humanitarian assistance to Bolivia should be suspended until marked differences are seen in the level of commitment by the Government of Bolivia in sharing our democratic and security objectives.

The Peace Corps

Funding

The Fiscal Year 2012 budget request for the Peace Corps is nearly $440 million, $40 million over the FY 2010 level of funding and $109 million over FY 2008 level. This year marks the 50th anniversary of the Peace Corps. Despite the passage of fifty years of operations, the Peace Corps still lacks benchmarks for graduating countries and lacks a strategic plan for placing volunteers in countries based on their important to U.S. foreign policy interests. The Peace Corps also continues to operate in countries, such as Ghana, in which significant development strides have been made over the past half-century and which receive major amounts of assistance from other U.S. aid agencies. (For instance, in 2006, the U.S. and Ghana signed a five-year $547 million compact with the Millennium Challenge Corporation.)

International Organizations and Multilateral Development Banks

U.S. assessed and voluntary contributions to a number of international organizations, programs, and activities have increased substantially in recent years. The Fiscal Year 2012 request for *Contributions to International Organizations* is $1.619 billion, a 15% increase from FY 2008, and the request for *International Organizations and Programs is* $348.7 million, a 12.5% increase from FY 2008.

Unconditional payment of U.S. contributions has not produced the real and sweeping reforms that the UN and other international organizations badly need in order to achieve their founding goals and to be an effective vehicle for advancing U.S. interests. Therefore, contributions should be reduced to FY 2008 levels.

Reducing Funding Support for the Organization of American States

The Organization of American States (OAS) continues to fall short of its obligations and founding principles under the Inter-American Democratic Charter. Yet, our assessed commitment continues to increase year after year, from $45.7 million in Fiscal Year 2008 to $49.6 million under the FY2012 budget request. Even as the largest contributor to the general budget, the U.S. remains unable to effectively leverage our assistance to the OAS to advance our foreign policy and security objectives in the region. Only after the OAS has undertaken meaningful reform will the U.S. begin to see a return on our investments in that regional body. In order to incentivize such change, the U.S. should immediately move to reduce its payments on assessed contributions and better prioritize voluntary contributions to the OAS.

Recommendations regarding certain UN Entities

- **Require Proper Coordination Among International Development Aid Agencies**
  It is increasingly apparent that aid agencies administered by the United Nations are not properly coordinating with each other or overseeing their programs, resulting in duplication of effort, higher administrative costs and, most likely, less effective programs. It is also likely that programs administered by the multilateral development

banks may duplicate UN development aid agencies' efforts at times as well. Limits should be placed on USG funding provided to all such international development aid agencies until the U.S. is persuaded that proper coordination of programs and elimination of duplication of effort has been instituted by the UN and other international aid organizations.

- **United Nations Development Program**
  The UN Development Program (UNDP) has been accused of mismanagement, non-transparent practices and/or diversion of funds in programs from Afghanistan to Burma to North Korea to Zimbabwe. UNDP has also been accused of retaliating against whistleblowers who spotlighted such mismanagement. After leaving North Korea several years ago due to scandalous revelations about their operations there, UNDP has now resumed its programming there, and hires staff from lists of persons handpicked by Kim Jong Il's dictatorship. Prohibiting Function 150 funding from being used as a contribution for UNDP—and revising overall assistance to IO&P accordingly—would result in savings of savings of $75.3 million below the FY 2012 request.

- **United Nations Population Fund**

  The Administration is requesting $47.5 million for the United Nations Population Fund (UNFPA), electing to fund UNFPA despite its ongoing support for and participation in the management of China's brutal birth limitation policy. The Chinese government's practices of forced abortion and coerced sterilizations clearly violate international human rights standards and it has been demonstrated that UNFPA provides assistance to the very Chinese government agency that implements these human rights violations. The U.S. should return to its past practice, consistent with the Kemp-Kasten Amendment, prohibiting funding to UNFPA until it ceases its direct or indirect involvement in coercive population control activities. Such a prohibition—in conjunction with a corresponding reduction to overall funding for IO&P—would result in savings of $47.5 million below the FY 2012 request.

- **International Panel on Climate Change, the United Nations Framework Convention on Climate Change and the United Nations Environment Program**

  Reports over alleged manipulation of data by scientists on the the International Panel on Climate Change have delegitimized the UN's already dubious environment-and climate-related activities. There are better uses for U.S. taxpayer dollars. Zeroing-out Function 150 funding to these programs—in conjunction with a corresponding reduction to overall funding for IO&P—would result in savings of $21.2 million below the FY 2012 request.

International Atomic Energy Agency

The Fiscal Year 2012 budget request proposes further increasing the U.S. voluntary contribution to the International Atomic Energy Agency (IAEA) from the President's requested $79.5 million in Fiscal Year 2011 to $85.9 million requested for FY 2012. Unfortunately, part of the money will be used to support the IAEA's Technical Cooperation Fund, to which the U.S. contributed $21 million in 2010.

A 2009 report by the Government Accountability Office found that the TCF has provided millions of dollars in assistance to the nuclear programs of Iran, Syria, Cuba, and Sudan, which are state sponsors of terrorism.

Instead of an unconditional increase in funding, the U.S. voluntary contribution to the IAEA should be reduced by an amount proportional to what the IAEA's TCF provides to Iran, Syria, Cuba, and Sudan, until reforms are implemented to prevent the TCF from providing nuclear assistance to state sponsors of terrorism.

Comprehensive Nuclear Test Ban Treaty Organization

The Fiscal Year 2012 budget request includes a $33 million contribution to the Comprehensive Nuclear Test Ban Treaty Organization (CTBTO) and its "International Monitoring System," an amount slightly above, but largely consistent with previous contributions. However, the budget request includes a separate, $7.5 million request (in addition to the $33 million) for "special contributions," bringing the total CTBTO request to over $40 million.

With little or no explanation, the Administration is ramping up funding for a treaty the U.S. is not party to. As such, no funding should be provided for this purpose in the FY2012 budget.

Policy Issues

Iraq and Afghanistan

In this year's budget presentation, State and USAID have for the first time bifurcated the prior International Affairs accounts into "Core Budget/Enduring Programs" and "Overseas Contingency Operations (OCO)" components. The OCO component is intended to segregate what State terms "extraordinary funding requirements in Iraq, Afghanistan, and Pakistan" from the "core budget [that] funds the Department of State/USAID national security and foreign policy mission worldwide." The budget request requests $8.7 billion in International Affairs funding that has now been designated as OCO funding. While we do not propose to object to the requested level of funds at this time in order to expedite their use in support of our national security objectives, concerns remain regarding the appropriate use of these resources. Of paramount concerns are the widespread difficulties that the State Department has reportedly faced in aligning its workforce and programs to manage the upcoming transition to a civilian-led presence in Iraq—a presence that is slated to more than double in size from nearly 8,000 civilian personnel to about 17,000. This includes the police training program, which will be the largest and most comprehensive program ever carried out by the State Department. Accordingly, the Committee will continue to review the strategy, implementation and effectiveness of the INL police training program; the satellite site component, contracting component, rotary and fixed-wing component core competency requirements and personnel standards for contract personnel; and provide policy recommendations and additional observations on program administration. In Afghanistan, the Committee remains concerned regarding the endemic nature of corruption in Afghanistan, from the national to local levels, the effectiveness of United States anti-corruption strategy in Afghanistan; and aid agencies' program administration and internal controls to guard against the direct or indirect use of programs for corrupt purposes. Concerns also remain that U.S. assistance is not prioritized to maximize benefits in a cost-effective manner. Funding

composition and levels should be based on the extent to which State and USAID have effectively addressed these and other concerns.

Pakistan

Prominent in the minds of many on the Committee is safety of our men and women serving with such distinction in Afghanistan and the transition of that country to a more stable and democratic future. In this regard, our challenging relationship with Pakistan is crucial to mission success. Here Pakistan must do more to meet pressing United States concerns, including the release of our detained American diplomat and shifting its approach to Afghanistan – away from armed proxies and toward constructive and legitimate political partners. Oversight of our strategies, policies and programs throughout Afghanistan and Pakistan – particularly to ensure that corruption, mismanagement, and waste do not jeopardize our mission – will be a focus of the Committee in this Congress. In this context, we support the request for robust and accountable assistance programs to frontline states like Pakistan where the United States has crucial national interests at stake.

Israel

U.S. security assistance to the democratic, Jewish State of Israel serves as a force multiplier in advancing U.S. security interests in the Middle East, a volatile region in which Israel serves as a unique source of stability. The U.S. and Israel also enjoy mutually-beneficial defense, homeland security, and scientific cooperation. Israel also continues to face growing threats from Iran, Syria, and their violent extremist proxies, such as Hezbollah and Hamas. We therefore recommend fully funding security assistance to Israel, in accordance with the 2007 U.S.-Israel Memorandum of Understanding.

Egypt

In the past, U.S. provision of ESF for Egypt has not incentivized the previous Egyptian government to implement meaningful political and economic reforms or to stop cracking down on democratic dissidents and human rights activists. The previous Egyptian government also failed to protect the religious freedom of its citizens, and Egyptian Coptic Christians in particular have continued to be targeted for violent attacks. The U.S. needs to help facilitate a post-Mubarak transition in order to avert further violence, ensure stability and security, and guard against the exploitation of the transition process by extremist elements seeking to directly or indirectly undermine Egypt's evolution into a democratic republic. However, significant concerns remain regarding the use of present and future U.S. funding, including that malign actors, such as the Muslim Brotherhood and its affiliates, must not directly or indirectly receive U.S. assistance or training. Further, it is unclear at best whether the State Department and USAID have specific contingencies currently in place in the event that U.S. assistance to Egypt must again be shifted and reallocated unexpectedly. Concerns also remain that U.S. assistance is not prioritized to maximize benefits, particularly with respect to promotion of democracy and human rights. ESF spending levels for Egypt should be based on the extent to which State and USAID have effectively addressed these concerns.

In the past, U.S. provision of security assistance for Egypt has had moderate success in incentivizing military cooperation with Egypt on issues of great importance to U.S. interests and allies, but has not incentivized the previous Egyptian government to implement meaningful political and economic reforms or to stop cracking down on democratic dissidents and human rights activists. Security assistance to Egypt should continue to the extent that: the Egyptian military continues to be a force for stability and security; the government that emerges in the near future is democratic and accountable, upholds the human rights and freedoms of its citizens, and meets Egypt's international obligations, including its long-standing peace treaty with Israel; and the State Department and USAID develop specific contingencies in place in the event that the aforementioned provisions are not realized.

Yemen

Yemen remains at the center of United States regional counterterrorism efforts. The situation in Yemen remains tenuous, as there are few good options. The Saleh government must undertake comprehensive political and institutional reform as a means to ensure the long-term viability of, and promote internal stability in Yemen, which it has, hitherto, refused. The United States has an enduring interest in maintaining a government that will confront al-Qaeda and address its separatist movements in a constructive manner. Thus, the Congress should view these protests as an opportunity to encourage the Saleh government toward political and economic reforms, which could in turn bolster the state's legitimacy, capacity, and efficacy—including pressing for more government transparency to address corruption and ensure that the political process is as inclusive as possible. We also continue to have longstanding concerns regarding the near, medium and long-term strategy, objectives and metrics that the Administration employs to prioritize and measure the effectiveness of security assistance to the Yemeni security forces. This includes whether our security assistance programs have been effective in the long-term and end-use monitoring and post-shipment verification in the near term. Concerns also remain that U.S. assistance is not prioritized to maximize benefits, particularly with respect to promotion of democracy and human rights. Spending levels for Yemen should be based on the extent to which the Administration has effectively addressed these concerns.

Haiti

The Fiscal Year 20Y12 budget request includes more than $400 million for Haiti, nearly 20% of the entire Western Hemisphere request. With presidential elections scheduled for March 20, 2011, it is important to keep in mind however that a peaceful and responsible transition of power will be essential to the continuation of such a significant U.S. commitment. Further, it will be imperative that the next leader of Haiti demonstrate a commitment to democratic values and regional security in order for U.S. assistance to be effective and sustainable.

Sudan

The Administration is requesting $484.4 million of designated funding for Sudan. An atmosphere of euphoria and optimism exists in southern Sudan following the January 2011 independence referendum, and the population's expectations are high that prosperity for the people of the new South Sudan will materialize soon. There are valid grounds to fear that these expectations are exaggerated under the circumstances, and could quickly turn to disappointment,

disillusionment and anger towards the South Sudanese government, thereby threatening the peace and stability of the fledgling country. It is imperative that U.S. assistance to South Sudan be expended in a manner that quickly brings tangible and meaningful improvements to the lives of the South Sudanese people. This implies, however, that strict and effective transparency and accountability measures must be employed to ensure that the money reaches its intended beneficiaries for its intended purposes.

North Korea

Administration witnesses revealed in testimony at a recent Senate Foreign Relations Committee hearing that consideration is being given to positively responding to a new North Korean request for 300,000 tons in food assistance. While this food assistance can be provided reportedly under the Bill Emerson Humanitarian Trust, a food reserve f or Public Law (P.L. 480) administered by the Secretary of Agriculture with no additional Congressional authorization, such assistance should be premised on a full accounting of the twenty thousand tons of U.S. food assistance that disappeared in North Korea in 2009 and only if guarantees can be given that the assistance will not be diverted for the 2012 celebrations of the 100th anniversary of the birth of Kim Il Sung. Any additional consideration by the Administration of funding for heavy fuel oil (HFO) or construction of light water reactors (LWR) as a portion of future negotiations should be "frozen" as the current level of zero.

Burma

Recent reports indicate that our Charge d'affaires in Burma was consulting with military-backed authorities about the provision of economic assistance inside Burma, beyond post-cyclone disaster relief, as part of an engagement policy. Given the concern over diversion of such funding by and to the military junta, such funding provisions should be frozen at the current level of zero.

The Socialist Republic of Vietnam

Why, in a time of budget restraint, should we provide this communist country with over $95 million in aid, including funds for "military education and training"?

The Trans-Sahara Counterterrorism Partnership

It comes as a surprise to see that the Fiscal Year 2012 budget request for development assistance to our partners in the important Trans-Sahara Counterterrorism Partnership (TSCTP) has been drastically cut. The FY 2012 budget request for assistance through the Economic Support Fund account to our partners under the Trans-Sahara Counterterrorism Partnership would also be a reduction from $6 million in Fiscal Year 2010 to $1.5 million in FY 2012. In addition, ESF assistance for Mali would be eliminated and ESF assistance for Tunisia, where the Ben Ali regime has been removed after 32 years of despotic rule, has also been eliminated.

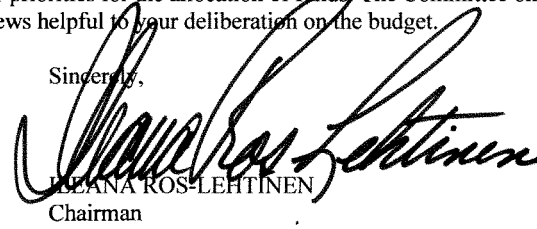
Family Planning and Reproductive Health

The Administration's request for funding for international family planning and reproductive health activities totaling approximately $769 million, combined with the January 23rd, 2009 Presidential Memorandum rescinding the "Mexico City Policy," raises serious concerns that U.S. Family Planning and Reproductive Health funds may now flow to foreign non-governmental organizations that promote and perform abortion as a method of family planning. Our concerns are further heightened by the administration's Global Health Initiative which integrates family planning programming with a wide range of global health programs, thereby expanding funding opportunities for abortion organizations. We oppose the administration's agenda of abortion exportation and at a minimum call for reinstatement of the Mexico City Policy protections that prevent funding for foreign NGOs that promote and perform abortion.

Conclusion

In conclusion, the views and estimates outlined here reflect a desire to maximize returns on U.S. investments by seeking to eliminate duplication and redundancy; by seeking reform and accountability; and by establishing clear priorities for the allocation of funds. The Committee on Foreign Affairs hopes you find these views helpful to your deliberation on the budget.

Sincerely,



ILEANA ROS-LEHTINEN
Chairman

ILEANA ROS-LEHTINEN, FLORIDA
CHAIRMAN

CHRISTOPHER H. SMITH, NEW JERSEY
DAN BURTON, INDIANA
ELTON GALLEGLY, CALIFORNIA
DANA ROHRABACHER, CALIFORNIA
DONALD A. MANZULLO, ILLINOIS
EDWARD R. ROYCE, CALIFORNIA
STEVE CHABOT, OHIO
RON PAUL, TEXAS
MIKE PENCE, INDIANA
JOE WILSON, SOUTH CAROLINA
CONNIE MACK, FLORIDA
JEFF FORTENBERRY, NEBRASKA
MICHAEL T. MCCAUL, TEXAS
TED POE, TEXAS
GUS M. BILIRAKIS, FLORIDA
JEAN SCHMIDT, OHIO
BILL JOHNSON, OHIO
DAVID RIVERA, FLORIDA
MIKE KELLY, PENNSYLVANIA
TIM GRIFFIN, ARKANSAS
TOM MARINO, PENNSYLVANIA
JEFF DUNCAN, SOUTH CAROLINA
ANN MARIE BUERKLE, NEW YORK
RENEE ELLMERS, NORTH CAROLINA

YLEEM D.S. POBLETE
STAFF DIRECTOR

One Hundred Twelfth Congress
U.S. House of Representatives
Committee on Foreign Affairs

HOWARD L. BERMAN, CALIFORNIA
RANKING DEMOCRATIC MEMBER

GARY L. ACKERMAN, NEW YORK
ENI F.H. FALEOMAVAEGA, AMERICAN SAMOA
DONALD M. PAYNE, NEW JERSEY
BRAD SHERMAN, CALIFORNIA
ELIOT L. ENGEL, NEW YORK
GREGORY W. MEEKS, NEW YORK
RUSS CARNAHAN, MISSOURI
ALBIO SIRES, NEW JERSEY
GERALD E. CONNOLLY, VIRGINIA
THEODORE E. DEUTCH, FLORIDA
DENNIS CARDOZA, CALIFORNIA
BEN CHANDLER, KENTUCKY
BRIAN HIGGINS, NEW YORK
ALLYSON SCHWARTZ, PENNSYLVANIA
CHRISTOPHER S. MURPHY, CONNECTICUT
FREDERICA WILSON, FLORIDA
KAREN BASS, CALIFORNIA
WILLIAM KEATING, MASSACHUSETTS
DAVID CICILLINE, RHODE ISLAND

RICHARD J. KESSLER
DEMOCRATIC STAFF DIRECTOR

March 17, 2011

The Honorable Paul Ryan, Chairman
The Honorable Chris Van Hollen, Ranking Member
Committee on the Budget
U.S. House of Representatives
207 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan and Ranking Member Van Hollen:

We are writing to share the views of the Minority on the House Foreign Affairs Committee regarding the President's proposed budget for Fiscal Year 2012.

Recognizing the difficult economic situation now facing our country, we believe that no area of the federal budget – including the International Affairs Budget, or Function 150 -- should be exempt from thorough scrutiny.

However, we are concerned that many of the calls for cuts in international spending are based on the belief that the United States spends far more than it actually does. Annual polls by the University of Maryland show that Americans vastly overestimate the percentage of the federal budget allocated to foreign aid, with a median estimate of 25 percent. When asked how much they think would be an appropriate percentage, the median response is 10 percent – a response that has remained unchanged for the past fifteen years. In reality, of course, foreign assistance accounts for about 1 percent of the federal budget.

Nor would cuts in the 150 budget help to create new jobs at home. In fact, the reverse is true. Since more than one in every five U.S. jobs is linked to exports and imports of goods and services, we must support the work of our export agencies in advocating for U.S. commercial interests overseas and creating new and stable markets for U.S. exports. As the U.S. Chamber of Congress wrote to House Members during consideration of H.R. 1, approximately half of all U.S. exports go to developing countries, and our contributions to international financial institutions play a vital role in helping developing countries become reliable trading partners.

A recent report by the Government Accountability Office (GAO) entitled *Opportunities to Reduce Potential Duplication in Government Programs* (GAO-11-318SP) did not identify any such programs in the Department of the State. The only mention of USAID in effect called for more spending, not less, to build a data base in Afghanistan that would incorporate projects of the Department of Defense. Nor has the GAO identified any programs in the 150 Account as "high risk" in its *High Risk Series* (GAO-11-278).

We strongly support President Obama's decision to consider Function 150 as part of the national security budget, in recognition of overwhelming evidence that defense, diplomacy and development must go hand in hand. Whether in Iraq and Afghanistan, where U.S. troops have been engaged in combat operations, or Haiti and Sudan, where complex humanitarian emergencies threatened to deteriorate into large-scale violence, USAID's operations are every bit as important as the U.S. military's to protecting the health and safety of American citizens.

The FY 2012 request for the first time includes Department of State and USAID operations as part of the Overseas Contingency Operations (OCO) budget, which funds our activities in Iraq, Afghanistan and Pakistan. This change was made to reflect the importance to U.S. national security of a military-to-civilian transition in Iraq, and the fact that, as Secretary Gates recently said, "without development we will not be able to be successful in either Iraq or Afghanistan." While the State Department portion of the OCO budget represents less than a $4 billion increase over prior year levels, the total cost to the American taxpayer will drop dramatically, as the transition will allow savings of $45 billion from the Pentagon budget.

Our uniformed commanders recognize that defense, development, and diplomacy are the essential triad of our national security in the 21st century. To quote General James N. Mattis, USMC, Commander, U.S. Central Command: "Diplomacy and development are just as vital as defense in securing our national interests." As he also explained to the House Armed Services Committee, "economic development reduces the need for U.S. forces and underpins long-term transition activities and is fundamental to a sound counterinsurgency campaign."

The State Department/USAID core budget request of $47 billion represents a 1 percent increase over the comparable FY 2010 levels. The portion of that request for foreign assistance - $32.9 billion – limits growth to 0.5 percent over 2010 levels while making hard decisions about program funding in many critical areas. For example, the President's budget cuts $115 million (15%) in assistance for Europe, Eurasia, and Central Asia, eliminates six bilateral country programs ($4.5 million), cuts foreign military financing (FMF) to 16 countries by 50 percent or more ($39.5 million), and decreases development assistance to over 20 countries (saving $144 million).

The Honorable Paul Ryan
The Honorable Chris Van Hollen
March 17, 2011
Page Three

The President's FY 2012 International Affairs budget request reflects tough choices and significant savings in a difficult economic climate. In a world characterized by great turmoil and uncertainty, the budget request represents the resources needed to protect Americans and American national security interests around the globe. We urge support for the President's FY 2012 budget request for the Department of State, USAID and related agencies.

Sincerely,

HOWARD L. BERMAN

GERALD E. CONNOLLY

ALLYSON Y. SCHWARTZ

KAREN BASS

GARY L. ACKERMAN

ENI F.H. FALEOMAVAEGA

DONALD M. PAYNE

BRAD SHERMAN

The Honorable Paul Ryan
The Honorable Chris Van Hollen
March 17, 2011
Page Four

ELIOT L. ENGEL

GREGORY W. MEEKS

RUSS CARNAHAN

ALBIO SIRES

THEODORE E. DEUTCH

DENNIS CARDOZA

BRIAN HIGGINS

CHRISTOPHER S. MURPHY

FREDERICA WILSON

WILLIAM KEATING

DAVID CICILLINE

Ben Chandler

BEN CHANDLER

THE VIEWS AND ESTIMATES OF THE COMMITTEE ON HOMELAND SECURITY ON THE PROPOSED FISCAL YEAR 2012 BUDGET FOR THE DEPARTMENT OF HOMELAND SECURITY

Pursuant to clause 4(f) of Rule X of the Rules of the House of Representatives, and section 301(d) of the Congressional Budget Act of 1974 (2 U.S.C. 601 *et seq.*), the Committee on Homeland Security (Committee) is transmitting herewith to the House Committee on the Budget its Views and Estimates on matters within its jurisdiction or functions to be set forth in the budget of Fiscal Year (FY) 2012. These Views and Estimates were circulated to all Members of the Committee for their review and comment. While the report reflects the bipartisan views of the Members of the Committee, the Committee wishes to note that not all Members necessarily agree with every aspect of the report. Accordingly, the Committee reserves its flexibility to determine program needs and recognizes the potential for funding changes, as the Committee and Congress work their will through the legislative process.

OVERVIEW

The Department of Homeland Security (DHS or Department) commemorated its eighth anniversary on March 1, 2011. As Congress seeks ways to reduce Federal expenditures, it is important to remember that 'homeland security' is 'national security.' A wide-scale terrorist attack on the United States would not only result in a tragic loss of life, but would have collateral, catastrophic consequences for the Nation's economy. Just last month, Department of Homeland Security Secretary Janet Napolitano appearing before the Committee stated, "the terrorist threat facing the country has evolved significantly in the last ten years – and continues to evolve – so that, in some ways, the threat facing us is at its most heightened state since [the 9/11] attacks." This is a stark reminder that the Department must remain vigilant in protecting the Homeland. The Department needs adequate funding to do so.

The Committee notes that, in recognition of the difficult economic environment, Secretary Napolitano undertook the DHS Efficiency Review initiative in 2009 that identified areas for integration of activities and administrative savings within all Department components. To date, the implementation of Efficiency Review reforms have resulted in over $800 million in cost reductions. According to the Department, savings were accomplished through efficiency gains in acquisition, asset and real property management, and employee vetting and hiring, and information technology.[1] Because of the Department's profound mission of preventing terrorist attacks, enhancing security, and preparing for and responding to catastrophic incidents, it must continue to receive adequate resources. At the same time, the Department owes the American taxpayer and the Congress a continued commitment to ensuring that every appropriated dollar is dedicated to making the Nation more secure and prepared. The Committee supports the DHS Efficiency Review and is committed to working with the Department and appropriators to ensure continued streamlining and greater efficiencies are identified and implemented.

---

[1] FY 2012 Budget in Brief, Department of Homeland Security, p. 5.

The Committee is encouraged by the Department's ongoing commitment to a risk-based approach to funding decisions. Because of the fiscal challenges the Nation faces, it is imperative that homeland security resources are allocated to those missions and programs that address the greatest risks. The Department's Quadrennial Homeland Security Review (QHSR) aligned the Department's programmatic activities and organizational structure to better serve its missions and goals. The Department states that the Fiscal Year (FY) 2012 budget request supports and strengthens the six DHS missions: 1) preventing terrorism and enhancing security; 2) securing and managing the Nation's borders; 3) enforcing and administering the Nation's immigration laws; 4) safeguarding and securing cyberspace; 5) ensuring resilience to disasters; and 6) providing essential support to national and economic security.[2]

For FY 2012, the President's proposed net discretionary budget for the Department is $43.22 billion, which represents a $410 million decrease from the President's FY 2011 request and less than a two percent increase over FY 2010 funding. With mandatory funding accounts included, the total budget authority is $56.98 billion. While the Committee is supportive of the President's overall budget request, the Committee will work to identify areas for additional cost savings through implementation of efficiencies, elimination of duplicative activities, and potential consolidation or elimination of programs. In addition, the Committee would like to highlight the following program areas.

GAO REPORT ON DUPLICATIVE PROGRAMS REVIEW

On March 1, 2011, the Government Accountability Office (GAO) released a report entitled, "Opportunities to Reduce Potential Duplication in Government Programs, Save Tax Dollars, and Enhance Revenue." The Committee will review each of the recommendations regarding homeland security programs for further action to reduce duplication and waste. Highlighted in the report is the lack of coordination among various programs to defend against biological threats, a particular interest of the Committee. Additionally, GAO notes potential duplication of interagency efforts on the northern border. The Committee will conduct oversight into whether there is unnecessary overlap between Customs and Border Protection (CBP) and Immigration and Customs Enforcement (ICE) interagency coordination programs at the northern border. Another area of potential duplication that GAO identified relates to the security assessments for hazardous material trucking companies that the Transportation Security Administration (TSA) requires. Actions in response to GAO recommendations have the potential for not only budget efficiencies but also enhancements to homeland security operations.

CUSTOMS AND BORDER PROTECTION

Operational Control of the Border

The budget request proposes the Customs and Border Protection's (CBP) Border Security Fencing, Infrastructure, and Technology (BSFIT) account be reduced by over $300 million to $528 million due to the Department's cancellation of the SBI*net* program. DHS conducted an analysis of alternatives to SBI*net* and has recently developed and funded an Alternative Border Technology

[2] *Id.*

plan for the state of Arizona. The Administration's budget proposes $242 million to deploy the first three (of five total) Integrated Fixed Tower (IFT) System deployments to Border Patrol stations' areas of responsibility in Arizona. The total expected cost for the technology plan for Arizona is estimated to be $750 million. The Committee will be conducting oversight into the Department's plans for deploying technology, as well as personnel and infrastructure, to achieve operational control of the border.

The Department has indicated that a technology plan for the remainder of the southwest border is expected to be released in July. The Committee will be conducting oversight to better understand how the resources sought for the Arizona project relate to the plan that DHS will unveil for the entire southwest border.

In FY 2010, the Department increased the number of land border miles under effective control from 939 to 1,007 miles. The Committee notes that the Department's budget submission does not indicate that additional miles would be under effective control under the request. The Committee believes that the Department needs a comprehensive national strategy for securing the Nation's borders that includes specificity on how effective control of the land borders will be achieved.

Ports of Entry
The Committee supports the plan to increase funding for the Immigration Advisory Program (IAP) which will allow CBP to hire an additional 11 CBP officers for Paris, France; Abu Dhabi and Dubai, U.A.E.; and Amman, Jordan. Through the Immigration Advisory Program, CBP places employees in strategic foreign airports to assist with advanced screening of travelers to the United States.

IMMIGRATION AND CUSTOMS ENFORCEMENT

Visa Security Program
While the Committee generally supports the budget request for ICE, the Committee is disappointed that the FY 2012 budget request includes no additional funding to support expansion of the Visa Security Program (VSP). The Visa Security Program strategically places Immigration and Customs Enforcement personnel in State Department consular posts to provide an additional level of screening for visa applications. The State Department has 220 consular posts abroad, yet there are only 19 VSP offices in 14 countries. The Committee believes that the Visa Security Program, if appropriately supported, can contribute to a layered approach to border security and play an important role in preventing terrorists from receiving visas. The Committee believes that a risk-based expansion of the program should be undertaken as expeditiously and cost-effectively as possible.

UNITED STATES COAST GUARD

The Committee is concerned that the President's FY 2012 budget request continues to delay much needed new capital acquisitions in the Coast Guard. For too long, the Coast Guard has continued

to refurbish and reuse old assets long past their expected and viable life spans. For example, the FY 2012 budget request further delays the construction of the sixth National Security Cutter (NSC). These ships are designed to serve primarily as maritime security and law enforcement platforms. The Coast Guard's plan is to use the NSCs to replace the aging 378-foot Hi gh Endurance Cutters (HECs), which, on average, are more than 40 years old. The Committee believes that while the FY 2012 budget may save money in the short term, it risks lower readiness and cost overruns in the long term. Therefore, the Committee would urge the construction of the sixth NSC as expeditiously and cost-effectively as possible.

FEDERAL EMERGENCY MANAGEMENT AGENCY

State and Local Programs
The President's FY 2012 budget requests $3.84 billion for State and Local Programs within the Federal Emergency Management Agency (FEMA), a $320.5 million reduction from the FY 2010 enacted level. This reduction is partly achieved through the consolidation of smaller homeland security grant programs into the State Homeland Security Grant Program (SHSGP) and Urban Area Security Initiative (UASI). These programs include the Metropolitan Medical Response System, Interoperable Emergency Communications Grant Program, and Driver's License Security Grant Program. In many cases, investments permitted under these programs are also permitted under SHSGP and UASI.

The Committee is concerned that if the proposed consolidation occurs, access to grants to achieve the targeted capabilities supported by these smaller grant programs may be diminished. Further, the Committee is concerned that when the amounts associated with these three programs are taken into account, funding for SHSGP will functionally be reduced by $30 million. The Committee will continue to closely monitor the Department's administration and management of homeland security grant programs to ensure that any reorganization of grant programs does not degrade any preparedness and response capacity achieved to date and that grant funds are distributed on the basis of risk.

OFFICE OF HEALTH AFFAIRS

The President's FY 2012 budget requests $161 million for the Office of Health Affairs. Specifically, the President requests $115 million for BioWatch, an increase of $25 million over the FY 2010 enacted level. DHS proposes to maintain the detector program in the existing cities, and has provided $25 million for operational testing of Generation 3 BioWatch detection technology. The Committee supports the goal of decreasing detection time from the current 12-36 hours down to 4-6 hours and of providing detectors that will function in indoor areas. The Committee will continue to conduct oversight over this program to ensure DHS produces a formal cost-benefit analysis to justify the Generation 3 acquisition.

NATIONAL PROTECTIONS AND PROGRAMS DIRECTORATE

Office of Infrastructure Security Compliance
The security of our Nation's chemical facilities continues to be a major priority for the Committee. The Committee believes continuation of the Chemical Facility Anti-Terrorism Standards (CFATS) program is necessary to substantively reduce the risks of terrorism. The FY 2012 budget request for the Office of Infrastructure Security Compliance is $4 million less than the FY 2010 enacted levels. The Committee is concerned that this reduction may hinder DHS' ability to hire and retain additional staff to accelerate the required compliance inspections. The Committee will continue to do oversight to ensure that DHS continues CFATS implementation in a manner that maximizes effectiveness of every dollar appropriated.

As DHS establishes regulations for the sale and transfer of ammonium nitrate, the Committee urges DHS to ensure resources are leveraged between the CFATS and ammonium nitrate programs to the greatest extent possible.

Cybersecurity
The President's FY 2012 budget request for the National Cyber Security Division and the cybersecurity functions within NPPD is significantly increased from the FY 2010 enacted level due to the Department's mission to implement greater cyber protections for Federal information systems and coordination with the private sector on mitigating and responding to cyber threats. Since 2007, the Department has been assigned responsibility for conducting Government-wide cybersecurity operations, policy review, and enforcement under the Federal Information Security Management Act (FISMA). This increased responsibility comes as the persistent cyber threat grows more aggressive and sophisticated. The Nation's security and economic prosperity depend upon a trusted, secure national information infrastructure, and the threats to that infrastructure are growing. The Committee supports adequate funding to enable the Department to provide crucial cybersecurity support and operational guidance to both the Federal government and the private sector.

The Committee supports the Department's growing efforts to protect Federal systems and improve its cyber capabilities. The Committee notes that both the cybersecurity operational function within NPPD and the cybersecurity research function within the Science and Technology (S&T) Directorate requested significant increases over the FY 2010 request. The Committee will monitor the Department's cybersecurity activities to determine whether there is appropriate planning and coordination between NPPD and S&T to ensure programmatic efficiency and prevent duplication and unnecessary redundancies.

TRANSPORTATION SECURITY ADMINISTRATION

Advanced Imaging Technology
This President's FY 2012 request includes $105.2 million and 535 positions to procure, install and operate 275 additional Advanced Imaging Technology (AIT) units at the Nation's airport checkpoints. The Committee recognizes that this technology can provide enhanced detection

compared to a magnetometer; however, the Committee acknowledges that lingering privacy and operational concerns need to be addressed as the program progresses. The Committee will continue to do oversight of the AIT program. While not reflected in this budget, the Committee is generally pleased that TSA has begun piloting the Automated Targeting Recognition (ATR) software to potentially accompany AIT machines to address privacy concerns. The ATR software displays a "stick figure" type image to the AIT operator; and therefore provides increased privacy protections to the AIT screening process. Further, ATR assists operators in identifying anomalies that may indicate prohibited items by placing a box around an area for the screening personnel to further investigate. ATR is currently being piloted at three airports – L as Vegas McCarran International Airport, Atlanta Hartsfield International Airport, and Ronal Reagan Washington National Airport.

The Committee has some questions about TSA's request for an additional 535 employees to support the deployment of these machines. Through oversight, the Committee will be evaluating, on an ongoing basis, the staffing model that TSA proposes as part of the AIT deployment. Many AIT units are being deployed to replace existing metal detectors that are already being staffed by existing Transportation Security Officers.

Air Cargo and Surface Transportation
The President's FY 2012 budget request includes a $4.6 million decrease from the FY 2010 funding level for air cargo security. In light of the recent disrupted air cargo bomb plot originating out of Yemen and the necessity of TSA to meet its passenger air cargo screening mandate this year, the Committee is concerned that the President's FY 2012 budget request includes a decrease in funding for air cargo security. The President's 2012 budget request includes $134.7 million for surface transportation, an increase of $24.2 million (18%) over FY 2011. While the Committee is supportive of the increase in funding for surface transportation, and the specific request for additional Visual Intermodal Prevention and Response teams, the Committee believes that surface transportation deserves a larger share of TSA's funding and attention given this modality's vulnerabilities and economic importance.

Canines
The Committee supports the President's FY 2012 request for $125.7 million to sustain the deployment of 900 canine teams. Well-trained canines and handlers offer a reliable and often cost-effective screening capability that adds significant value across the spectrum of transportation security, from the surface environment to air passenger and cargo screening. The Committee looks forward to the expanded use of canine teams beyond the aviation passenger environment and into air cargo and the surface sector, and believes the Department must take further initiative to expand its program.

DEPARTMENTAL MANAGEMENT AND OPERATIONS

DHS Headquarters Consolidation Project
The President's FY 2012 budget request for DHS includes $215.2 million for the DHS Headquarters Consolidation Project located in Southeast Washington, DC. Of the funding requested, $159.6 million is to support the consolidation of DHS Headquarters at the St. Elizabeths complex, and $55.6 million is for the consolidation of mission support elements not re-locating to

St. Elizabeths. In particular, the requested funding will complete the Coast Guard Headquarters and continue construction of the National Operations Center. The Committee supports this request in that consolidating elements of the Department to a single location is designed to enhance coordination among DHS components, reduce travel costs and delays, and develop a sense of purpose and mission within the Department which has been hindered due to the fragmentation of its operational units around the National Capital Region.

The Committee is concerned, however, that the President's FY 2012 request will delay construction of FEMA and other St. Elizabeths construction projects by at least one year. Delaying the consolidation of personnel and resources at the new DHS headquarters will prolong the unification of DHS and slow down efforts to maximize Department-wide efficiencies and cost-savings. Further, the delay would increase the overall cost of the project by over 10 percent.

CONSOLIDATION OF JURISDICTION

To date, 108 committees and subcommittees have exercised oversight over the Department of Homeland Security. Consolidation of jurisdiction was a key recommendation of the 9/11 Commission. The Committee has received testimony that the lack of consolidated oversight results in a drain on departmental resources – both personnel and financial – and conflicting guidance which distracts the Department from fulfilling its critical mission of protecting the Nation. Therefore, the Committee believes that the full implementation of the 9/11 Commission recommendation to consolidate homeland security jurisdiction in Congress can assist the Department in creating further cost-savings and efficiencies. The Committee will continue to work in a bipartisan manner to help address this important issue.

Peter T. King
Chairman

Bennie G. Thompson
Ranking Member

Daniel E. Lungren

Loretta Sanchez

Mike Rogers

Sheila Jackson Lee

Michael T. McCaul

Henry Cuellar

Gus M. Bilirakis

Yvette D. Clarke

Paul C. Broun

Laura Richardson

Tim Walberg

Danny K. Davis

Chip Cravaack

Brian Higgins

Joe Walsh

Jackie Speier

Patrick Meehan

Cedric L. Richmond

E. Scott Rigell

Hansen Clarke

Billy Long

William R. Keating

Blake Farenthold

Mo Brooks

Candice S. Miller

ADDITIONAL VIEWS OF DEMOCRATIC MEMBERS OF THE COMMITTEE ON HOMELAND SECURITY ON THE PROPOSED FISCAL YEAR 2012 BUDGET FOR THE DEPARTMENT OF HOMELAND SECURITY

As Democrats on the Committee on Homeland Security, we are generally supportive of the Administration's $57.04 billion budget proposal for the Department of Homeland Security (DHS), including the request for $43.22 billion in net discretionary spending for Fiscal Year (FY) 2012. We appreciate that DHS faired better than many Federal agencies in this tough budget environment and, in general terms, believe that the requested resources should help DHS execute its non-homeland security missions as well as its homeland security missions of deterring, detecting, preparing for, and responding to terrorism and natural disasters.

While we are generally supportive of the President's FY 2012 budget request, we are troubled that the commencement of budget debate for FY 2012 is occurring at a time when DHS lacks clarity on funding for FY 2011 and is forced to operate under a series of short-term continuing resolutions (CR). We are particularly troubled by H.R. 1, the "Full-Year Continuing Appropriations Act of 2011," as approved by the House on February 19th by a vote of 235 – 189. If enacted, H.R. 1 would fund DHS at $41.5 billion -- $2.1 billion below the FY 2011 budget request of $43.6 billion and $1.1 billion below the funding DHS received for FY 2010 ($42.6 billion). H.R. 1 also requires that DHS dedicate $1.6 billion of the $3.2 billion provided for the Disaster Relief Fund (DRF) to addressing a DRF shortfall. When factoring in the DRF backfill, the House bill essentially reduces DHS funding to levels prior to the 2009 Christmas Day attack.

We believe that, if enacted, the reductions proposed under H.R. 1 would reduce DHS's operations and capabilities for the remainder of FY 2011. For example, H.R. 1 would cut funding to the Transportation Security Administration (TSA) headquarters and information technology account by $42 million, a 6% reduction when compared to FY 2010 enacted levels. At this level of funding, TSA's resources to conduct background checks on new Transportation Security Officers and respond timely to watchlist redress requests could be significantly impacted. Further, the funding provided under H.R. 1 is insufficient to maintain 33,400 detention beds, a necessity for Immigration and Customs and Enforcement (ICE) to sustain the progress been made in enforcing our immigration laws. With respect to the Coast Guard, H.R. 1 reduces the operational budget by $27 million below the President's FY 2011 budget request. As a result, the Coast Guard has stated that it will be forced to defer dry-docks and dockside maintenance availabilities, decreasing operational readiness, and increasing out-year maintenance costs.

H.R. 1 will also hinder DHS's ability to invest resources into the development and procurement of homeland security technologies required to replace existing technologies that are close to the end of their life-cycle or enhance DHS's capability to counter the ever-changing terrorist threat. For example, H.R.1 would cut funding for Customs and Border Protection's (CBP's) border security fencing, infrastructure and technology account, which is a $350 million (44%) decrease from the FY 2010 enacted budget and $124 million (22%) less than requested by CBP for FY

2011. These cuts would reduce funding for planned technology investments and security improvements at the borders; reduce interoperable communications capabilities at the Southwest border; and reduce by 50% funds available for ongoing Tactical Communications Modernization along the Southwest border. Additionally, H.R. 1 would reduce funding for planned aviation security investments and deployments, increasing risk and vulnerability across the aviation system.

H.R. 1 also jeopardizes future investments in cybersecurity, including the elimination of $56 million in current level funding for National Protection and Programs Directorate (NPPD). This cut will limit DHS's ability to deploy Einstein 3, the automated cyber intrusion detection and prevention program for Federal networks. Specifically, enactment of H.R. 1 would reduce the planned deployment of Einstein 3 sensors – intended to thwart cyber attacks against Federal networks — from five down to only two, reducing the immediate protection of the Federal networks down to only 12%, and likely delaying complete coverage of the civilian Federal network until FY 2018. The Science and Technology Directorate would also receive a reduction of $560 million, 50% less than it received in FY 2010. This reduction would hinder S&T ability to fund research and development projects in border and maritime security, chemical and biological, explosives, and radiological and nuclear detection. We believe that any reduction in funds for planned technology investments and research and development projects is a disservice to the DHS's front-line personnel who should have in their arsenal the most reliable and up to date technology to safeguard this nation.

The prospect that DHS will be funded for the remainder of FY 2011 below the FY 2010 enacted level was not considered in the President's FY 2012 budget submission, but could very well be the reality that Secretary of Homeland Security Janet Napolitano and DHS will face. When asked about H.R.1, Secretary Napolitano stated, "All I can say about the House budget [H.R. 1] for FY11 is that it is not a good budget for security... And if that budget becomes the basis for the FY12 budget then I think the Congress needs to understand, and I think my job is to help it understand, that that in all likelihood will have a security impact."[1]

If H.R. 1 is enacted, it would also decrease the budget baseline for funding decisions for DHS's FY 2012 budget by approximately $1 billion, which would be below FY 2010 enacted levels. To further complicate the budget outlook for DHS in future years is the possibility that proposals to roll back DHS funding to FY 2008 or, worse yet, FY 2006 levels will be embraced. A roll back to FY 2006 levels in FY 2012, as proposed by H.R. 408, and found that it would result in a devastating $10.7 billion reduction below the FY 2010 enacted levels. If DHS is appropriated at FY 2008 levels, funding for DHS would be reduced by $6.47 billion when compared to FY 2010 enacted levels. While we support reductions where inefficiencies or redundancies are identified, we do not support arbitrary across-the-board cuts. Such action will result in significant implications on this multi-mission security agency's capacity to carry out operations and partner with State, local, tribal and private sector partners to foster greater preparedness, security, and resilience.

---

[1]United States. Cong. Senate. Senate Appropriations Subcommittee on Homeland Security. *Hearing on the Proposed Fiscal 2012 Budget Request for the Homeland Security Department*, 2 March 2011. 112th Congress, 1st sess.

For the record, for FY 2012, we do not support funding DHS at FY 2006 or FY 2008 levels. We support the funding level set forth in the President's request. Specific areas of interest within that request are discussed below.

FEDERAL EMERGENCY MANAGEMENT AGENCY – STATE, LOCAL, AND TRIBAL GRANTS

We are concerned that the budget request includes significant reductions in funding for vital Federal Emergency Management Agency (FEMA) homeland security grant programs. We are particularly troubled that the budget request seeks $320 million below the level anticipated by the President's budget for a full-year CR for FY 2011. These cuts could not come at a worse time, as State, local, and tribal governments across the Nation struggle to find resources to maintain basic emergency services and maintain homeland security capabilities.

We do not agree with the $320.54 million reduction for FEMA's homeland security grants to State, local and tribal governments. The President's FY 2012 budget requests $3.84 billion for State and local grants, Firefighter Assistance Grants, and Emergency Management Performance Grants, a $320.54 million (7.70%) reduction from $4.17 billion, the amount anticipated by the President's budget for a full-year FY 2011 CR. Specifically, the budget request cuts funding for the following grant programs: $140 million reduction for (SAFER) program and the Assistance to Firefighter Grant (AFG); $10 million reduction for Operation Stonegarden; $8.3 million reduction for Continuing & Emerging Training Grants; and $57.5 million reduction for National Domestic Preparedness Consortium. It also zeros out of funds for the following grant programs: Regional catastrophic preparedness grants; Medical Surge Grants (Metropolitan Medical Response System); Interoperable Emergency Communications Grant; Real ID Grants; Emergency Operations Centers; Rural Domestic Preparedness Consortium; Cybercrime Counter-terrorism Training; and Over-the-Road Bus Security Grants.. These cuts come at a difficult time for our Nation's first responders as State and local governments face budget crises that force them to delay critical equipment purchases, staffing, training, and other expenses. We recommend that FEMA grant programs, including the AFG and SAFER programs, should be funded – at a minimum – at the FY 2010 enacted levels.

We also are not supportive of the request to consolidate several grants under the State Homeland Security Grant Program (SHSGP). Within the 7.7% reduction in the FEMA grant programs is a budget proposal to consolidate several key grant programs, including Regional Catastrophic Preparedness (RCPG), Metropolitan Medical Response System (MMRS), Interoperable Emergency Communications Grants (IECGP), and Driver's License Security Grants (DLSGP) into SHSGP. We believe that consolidating these grant programs into SHSGP will significantly reduce the amount of Federal assistance available to support important State and local preparedness capabilities, particularly individual readiness, medical surge capacity, and interoperable communications. We urge keeping these four grants as stand-alone programs and separate from SHSGP.

While we agree with the 20% increase to the Disaster Relief Fund (DRF), we are concerned that the current funding mechanism for DRF may not be a viable funding option for response and recovery efforts for future catastrophic incidents. The budget requests $1.8 billion for DRF, a $321.6 million (20.10%) increase above the FY 2011 CR level. The DRF is used by FEMA to

fund eligible response and recovery efforts associated with domestic major disasters and emergencies. Congress has traditionally appropriated funds to maintain the DRF at a certain level, and then provided additional financing for assistance through supplemental appropriations following a specific large disaster. It is because of this current funding process, some have called this general appropriation inadequate since, in 2010 alone, FEMA needed $3 billion in DRF funds to respond to storms, hurricanes, blizzards and other natural disasters. We recommend that Congress look towards creating an efficient funding mechanism that would appropriately fund the DRF to budget for large-scale catastrophic incidents and save unobligated funds for future use.

CUSTOMS AND BORDER PROTECTION – INTERNATIONAL MARITIME CARGO SCREENING

We are concerned that DHS is failing to dedicate adequate resources to international maritime cargo screening, especially in the wake of the recent Yemeni cargo-based terrorist attempt. The budget proposes $68.76 million for international cargo screening, a decrease of $93.24 million (-57.56%) below the funding level in the current CR of $162 million. Customs and Border Protection's (CBP's) International Cargo Screening Program includes both the Container Security Initiative (CSI) and the Secure Freight Initiative (SFI). Under CSI, only targeted cargo is examined, rather than 100 percent of cargo, as required for SFI ports. The budget request assumes that the number of SFI ports is reduced from two to one; CBP plans to eliminate the SFI program at Salalah, Oman and only maintain a presence at Qasim, Pakistan. At the same time, the FY 2012 budget requests a reduction in CSI funding due to CBP's decision to cease CSI operations at many of the current fifty-eight ports. This reduction also reflects a movement towards more remote targeting and examinations of freight (through electronic imaging) at the National Targeting Center-Cargo in Northern Virginia in lieu of stationing CBP personnel at overseas ports.

We are particularly troubled that instead of seeking resources for its International Cargo Screening Program, the Department is seeking $7.5 million for a "feasibility and alternatives study" for the 100 percent screening mandate that comes due on July 1, 2012, pursuant to the "Implementing 9/11 Commission Recommendations Act of 2007" (P.L. 110-53). We are perplexed that DHS would need to commission a $7.5 million study to come up with a maritime cargo security plan four years after the enactment of the 9/11 Act. Further, we are troubled that the Secretary of Homeland Security continues to seek an indefinite extension for all ports in the absence of any meaningful efforts to implement the law. We remain concerned about the significant homeland security risk to our nation as a result of DHS's continued inability to articulate a path forward in this important area.

IMMIGRATION AND CUSTOMS ENFORCEMENT – OFFICE OF INVESTIGATIONS

While we support the overall FY 2012 funding request for Immigration and Customs Enforcement (ICE), we believe that the funding request does not seek sufficient resources to support ICE critical overseas investigatory activities as well as the Visa Security Program. The FY 2012 budget requests $1.86 billion and 8,953 FTE for ICE's Office of Investigations, which is a $65.54 million increase and a 293 FTE decrease from the amount anticipated under the FY 2011 CR. With the increase in other border security personnel and resources in recent years,

ICE's domestic and international investigations have also increased. Additional funding may be necessary to ensure ICE has the personnel and resources to keep pace with demand over the long term. Further, in the wake of the recent killing of an ICE agent in Mexico in February 2011, ICE may need more funding resources to implement security protocols. If that is the case, we support such appropriations.

TRANSPORTATION SECURITY ADMINISTRATION

STAFFING STRATEGY

We are concerned with TSA's staffing strategy for programs such as the Behavior Detection Officer (BDO) program, Visible Intermodal Prevention and Response (VIPR) teams[2], and surface transportation inspectors. The budget requests the expansion of the Behavior BDO program by 350 slots, establishment of 12 new VIPR teams, and reduces surface transportation security staffing by 12. Overall, we urge that TSA improve its distribution of staffing priorities to reflect a threat that encompasses all modes of transportation.

In the past, we have expressed serious concerns in previous oversight activities about TSA's deployment and continued use of BDOs or the Screening Passengers by Observation Technique (SPOT) program, a behavior-based profiling initiative used at a number of U.S. airports. According to the Government Accountability Office (GAO), TSA personnel detained and questioned more than 14,000 people during SPOT's first six years of operation (principally at Boston Logan); however, as of May 2010, TSA has been unable to prove the scientific validity of the SPOT technique so that auditors could assess its effectiveness for aviation security purposes[3]. In this tight budgetary environment, we believe that an expansion of the SPOT program, as proposed by TSA, is not supportable and that limited aviation security resources should be dedicated to validated security screening operations.

We have reservations about the FY 2012 budget request for surface transportation security, primarily the lack of increase in Transportation Security Inspectors specifically for surface transportation. Most of the increase in funding is due to addition of 12 new VIPR teams. We have a number of concerns about the VIPR program's value to surface transportation security efforts. It is worth noting that the Congress shares many of these concerns and conditioned the FY 2010 resources for the VIPR program on new reporting requirements in the Department of Homeland Security Appropriations Act, 2010 (P.L. 111-83).

We also remain concerned with TSA's surface transportation security staffing and resources and is further troubled that the budget request reduces FTE allocation by 12, allotting only 775 slots for the entire surface transportation security enterprise. For purposes of comparison, under the President's budget request, TSA's aviation screener workforce would rise to 49,951 FTE in FY 2012, a 2,502 increase. Overall, we continue to have serious reservations about TSA's piecemeal approach to protecting non-aviation transportation modes, which by any standard are

[2] VIPR teams are comprised of Federal Air Marshals, canine teams, Surface Transportation Inspectors, Transportation Security Officers, and Behavior Detection Officers.

[3] Government Accountability Office. "Efforts to Validate TSA's Passenger Screening Behavior Detection Program Underway, but Opportunities Exist to Strengthen Validation and Address Operational Challenges", May 2010, GAO–10–763.

at risk. The recently-thwarted plot against the D.C. Metro was a reminder that terrorists see a gap in metro transit security that may become more and more attractive, especially as we invest in layers of security at the airport.

FEDERAL PROTECTIVE SERVICE

While we support the $146.5 million increase for the operating budget at the Federal Protective Service (FPS), we are concerned that the funding mechanism for this agency is no longer a fiscally sustainable option. The FY 2012 budget request includes $1.26 billion in offsetting collections authority for FPS. The request is an increase of 146.5 million (13.14%) above the anticipated amount under the FY 2011 CR budget. FPS funds all its operation with fees collected from Federal government agencies that occupy the GSA owned or leased building that it protects. It is not a congressionally appropriated agency. The current funding structure is inadequate to meet the needs of FPS's mission and responsibilities, and forces the agency to prioritize spending that creates building security vulnerabilities and the mismanagement of contract oversight of private security guards.

UNIVERSITY PROGRAMS

We support the funding of the University Programs account at the Science and Technology Directorate (S&T) at FY 2010 levels. The President's FY 2012 budget requests $36.5 million for the University Programs account, a $12.8 million decrease (-26%) below the $49.35 million anticipated under the FY 2011 CR budget. Notably, the University Programs line item sees the second largest percentage decrease of any activity within S&T. The University Programs Division supports research and education at U.S. colleges and universities to address high-priority homeland security issues and to enhance homeland security capabilities over the long term. These reductions will take place in the Centers of Excellence (COEs), Minority Serving Institutions (MSIs), and Education Programs. The FY 2012 funding decrease assumes the defunding one or more COEs and cutting approximately $1.89 million from Education's Scholarship and Fellowship program within University Programs.

We oppose a 26% reduction in support for these vital research and scientific academic pipeline programs. Further, S&T leadership should be more forthcoming about their proposed cuts to these areas of the budget and plans to eliminate the National Transportation Security Center of Excellence, which was authorized in Implementing 9/11 Commission Recommendations Act (P.L. 110-53), in the face of ever-changing transportation security threats.

BENNIE G. THOMPSON
Ranking Member

LORETTA SANCHEZ

SHEILA JACKSON LEE

HENRY CUELLAR

YVETTE D. CLARKE

LAURA RICHARDSON

DANNY K. DAVIS

BRIAN HIGGINS

JACKIE SPEIER

CEDRIC L. RICHMOND

HANSEN CLARKE

WILLIAM R. KEATING

LORETTA SANCHEZ
47TH DISTRICT, CALIFORNIA

WASHINGTON OFFICE
1114 LONGWORTH BUILDING
WASHINGTON, DC 20515-0546
(202) 225-2965
(202) 225-5859 FAX

DISTRICT OFFICE
12397 LEWIS STREET, SUITE 101
GARDEN GROVE, CA 92840-4695
(714) 621-0102
(714) 621-0401 FAX

E-mail:
Loretta@mail.house.gov

Website:
www.house.gov/sanchez

Congress of the United States
House of Representatives
Washington, DC 20515

COMMITTEE ON ARMED SERVICES
SUBCOMMITTEES:
CHAIRWOMAN, TERRORISM, UNCONVENTIONAL THREATS AND CAPABILITIES
MILITARY PERSONNEL
STRATEGIC FORCES

COMMITTEE ON HOMELAND SECURITY
SUBCOMMITTEES:
BORDER, MARITIME AND GLOBAL COUNTERTERRORISM
EMERGING THREATS, CYBERSECURITY, AND SCIENCE AND TECHNOLOGY

JOINT ECONOMIC COMMITTEE

Additional Views of Representative Loretta Sanchez (D-CA) On the Proposed Fiscal Year 2012 Budget For the Department of Homeland Security

March 17, 2011

I have signed and generally concur with the additional views offered by the Democratic Members of the Committee on Homeland Security. I am submitting additional views to expound on an exchange I had with the Honorable Janet Napolitano, Secretary of the Department of Homeland Security (DHS), during our budget hearing on Thursday, March 3, 2011.

During that hearing, I asked Secretary Napolitano to discuss her goals to address the implementation of the US-VISIT system and its role in targeting visa overstays. Specifically, I asked about the significant funding decrease in the US-VISIT program, overall a $71.49 million dollar reduction, and how that decrease will affect the biometric exit systems implemented to ensure those who enter our country, exit as well. The Secretary stated that *"at this point in time, that is something we can better accomplish...by making sure ICE is properly funded to go ahead and pick up people."*

I am concerned by her response to my question, given that last year the Committee held several briefings with DHS on two potential pilot versions of the US-VISIT exit systems at airports. In part based on the result of those pilots, the Secretary was expected to make a decision in the near future about how to proceed with a long-term exit solution. Unfortunately, that decision was apparently not made in time to inform the FY 2011 or the FY 2012 budget proposals, and no money was requested. This is especially troubling considering in 1996, Congress mandated the creation of an entry-exit system to help the federal government identify foreign travelers to the U.S. who had overstayed their visas. Additionally, legislation passed post 9/11, including the USA PATRIOT Act of 2001 (P.L. 107-56) required the entry-exit system to utilize biometric technology.

PRINTED ON RECYCLED PAPER

It is clear in the law that the Department of Homeland Security is required to utilize a biometric exit system as part of a larger US-VISIT system to ensure the utmost security of our nation. I am concerned that DHS is ignoring the mandate written in existing law and will not build on the two pilot systems tested in 2009. I look forward to working with all interested parties in finding a solution that will be mutually acceptable, but works within the current mandates required by law.

Sincerely,

Loretta Sanchez
Member of Congress

DANIEL E. LUNGREN, CALIFORNIA
CHAIRMAN

GREGG HARPER, MISSISSIPPI
PHIL GINGREY, GEORGIA
AARON SCHOCK, ILLINOIS
TODD ROKITA, INDIANA
RICH NUGENT, FLORIDA

PHILIP KIKO, STAFF DIRECTOR

Congress of the United States
House of Representatives
COMMITTEE ON HOUSE ADMINISTRATION

1309 Longworth House Office Building
Washington, D.C. 20515-6157
(202) 225-8281
http://cha.house.gov

ROBERT A. BRADY, PENNSYLVANI
RANKING MINORITY MEMBE

ZOE LOFGREN, CALIFORNI
CHARLES A. GONZALEZ, TEXA

ONE HUNDRED TWELFT
CONGRES

JAMIE FLEET, MINORITY STAFF DIRECTO

March 15, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

I write this letter to formally submit the Fiscal Year 2012 views and estimates on matters within the jurisdiction of the Committee on House Administration to the Committee on the Budget. Pursuant to the Congressional Budget Act of 1974 and House Rule X, the views and estimates were adopted by the Committee on House Administration in an open hearing on March 9, 2011. The views of the Minority Members are also included. Any questions you may have with regard to this submission may be directed to Kimani Little, Parliamentarian, Committee on House Administration.

Sincerely,

Daniel E. Lungren
Chairman
Committee on House Administration

cc: The Honorable Robert A. Brady

COMMITTEE ON HOUSE ADMINISTRATION
112TH CONGRESS
COMMITTEE RESOLUTION 112-6
MARCH 9, 2011

Resolution to Approve Committee Views and Estimates

Resolved, pursuant to § 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), the Committee adopts the following views and estimates for Fiscal Year 2012:

COMMITTEE ON HOUSE ADMINISTRATION
VIEWS AND ESTIMATES FOR FISCAL YEAR 2012

Federal Election Commission

The Federal Election Commission (FEC) is an independent, bipartisan commission which facilitates transparency in the Federal election process through public disclosure of campaign finance data, and encourages compliance with the Federal Election Campaign Act by providing information and policy guidance. The FEC administers and interprets the Federal Election Campaign Act, the Presidential Election Campaign Fund, and the Presidential Primary Matching Payment Account Act. The FEC also enforces these Acts through audits, investigations, and civil litigation.

The FY 2012 Presidential Budget Request totals $67,014,000, which includes an unobligated balance brought forward. Otherwise, the FEC's level of appropriation ($67,000,000) has remained the same from FY 2010 to the FY 2012 budgets. The FEC's budget reflects the resources necessary to carry out its mission in the upcoming fiscal year. The Committee will conduct vigorous oversight to identify and realize future potential savings.

Election Assistance Commission

The Election Assistance Commission (EAC) is an independent, bipartisan commission which develops guidance to meet Help America Vote Act (HAVA) requirements, adopts voluntary voting system guidelines, and serves as a national clearinghouse of information on election administration. The EAC also certifies voting systems, accredits test laboratories, and audits the use of HAVA funds.

The FY 2012 Presidential Budget Request and the current continuing resolution both eliminate election reform grants previously administered by the EAC and funded at $75 million in FY 2010. The Presidential Budget Request for the EAC totals $13,715, 655, which includes a transfer of $3.25 million to the Department of Commerce National Institute of Standards and Technology. EAC is left with a net operating budget of $10,465,665. This is a reduction from its FY 2010 and FY 2011 continuing resolution net operating budget of $14,459,000. The Inspector General of the EAC testified before the Appropriations Committee on March 2, 2011, that 51.7% of the FY 2012 budget request goes to "management". The IG also testified that the agency was overly bureaucratic and had an excessive number of staff. According to his testimony, the EAC's overhead is very high as illustrated by the fact that the Commission uses $5,406,718 to manage programs totaling $3,486,601. Based on the Inspector General's comments, the Committee would support dramatic reductions to the budget for the EAC. Four Committee members have introduced a bill to terminate the agency.

VIEWS AND ESTIMATES FOR BUDGET COMMITTEE

MINORITY VIEWS OF RANKING MEMBER ROBERT A. BRADY, REP. ZOE LOFGREN AND REP. CHARLES GONZALEZ

The Democrats on the Committee on House Administration agree with the overall assessment of the views that have been submitted by the Committee majority relating to the Federal Elections Commission. However, as it relates to the Elections Assistance Commission (EAC), we differ.

The Inspector General testified that the agency is management-intense and as a result resources should be moved to program areas. In light of the Inspector General's comments, the Committee minority supports moving the limited agency resources from management to program areas without dramatically reducing the budget for the EAC. It is our understanding that while the EAC's Inspector General has been critical of administration of EAC's duties, he is not in favor of ridding the agency of resources or personnel.

The EAC administers the national clearing house on elections and the certification of voting equipment; we believe that the Committee should focus on making sure that monies used are to ensure the efficiency of programs to strengthen voting for all Americans.

ROBERT A. BRADY

ZOE LOFGREN

CHARLES GONZALEZ

LAMAR S. SMITH, Texas
CHAIRMAN

F. JAMES SENSENBRENNER, JR., Wisconsin
HOWARD COBLE, North Carolina
ELTON GALLEGLY, California
BOB GOODLATTE, Virginia
DANIEL E. LUNGREN, California
STEVE CHABOT, Ohio
DARRELL E. ISSA, California
MIKE PENCE, Indiana
J. RANDY FORBES, Virginia
STEVE KING, Iowa
TRENT FRANKS, Arizona
LOUIE GOHMERT, Texas
JIM JORDAN, Ohio
TED POE, Texas
JASON CHAFFETZ, Utah
TOM REED, New York
TIM GRIFFIN, Arkansas
TOM MARINO, Pennsylvania
TREY GOWDY, South Carolina
DENNIS ROSS, Florida
SANDY ADAMS, Florida
BEN QUAYLE, Arizona

ONE HUNDRED TWELFTH CONGRESS

Congress of the United States
House of Representatives

COMMITTEE ON THE JUDICIARY

2138 RAYBURN HOUSE OFFICE BUILDING

WASHINGTON, DC 20515-6216

(202) 225-3951
http://www.house.gov/judiciary

JOHN CONYERS, JR., Michigan
RANKING MEMBER

HOWARD L. BERMAN, California
JERROLD NADLER, New York
ROBERT C. "BOBBY" SCOTT, Virginia
MELVIN L. WATT, North Carolina
ZOE LOFGREN, California
SHEILA JACKSON LEE, Texas
MAXINE WATERS, California
STEVE COHEN, Tennessee
HENRY C. "HANK" JOHNSON, JR., Georgia
PEDRO R. PIERLUISI, Puerto Rico
MIKE QUIGLEY, Illinois
JUDY CHU, California
TED DEUTCH, Florida
LINDA T. SÁNCHEZ, California
DEBBIE WASSERMAN SCHULTZ, Florida

March 18, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, D.C. 20515

The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
B71 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan and Ranking Member Van Hollen,

Pursuant to section 301(d) of the Congressional Budget Act of 1974 (2 U.S.C. § 632(d)) and House Rule X, clause 4(f)(1), we are submitting the views and estimates of the Committee on the Judiciary on the President's budget proposal for Fiscal Year 2012. These views and estimates encompass a broad range of programs within the Judiciary Committee's jurisdiction. We hope that they provide valuable guidance to your Committee as you prepare the budget resolution. We note that, while this document reflects the bipartisan view of the Members of this Committee, some Members may have individual views that are not reflected in this document. Please feel free to contact us or our staffs should you have any questions or concerns.

Sincerely,

Lamar Smith
Chairman

John Conyers, Jr.
Ranking Member

Enclosure

COMMITTEE ON THE JUDICIARY
VIEWS AND ESTIMATES FOR FISCAL YEAR 2012

The following presents the views and estimates of the Committee on the Judiciary regarding the President's fiscal year 2012 budget request on matters within the Committee's Rule X jurisdiction.

The Committee recognizes that the Federal government currently faces significant budgetary constraints that will require federal departments and agencies to meet their respective missions and perform their functions while receiving fewer resources. The departments and agencies that fall within the Committee's jurisdiction serve a unique function in that they are among the few departments and agencies that perform functions specifically called for in the U.S. Constitution. Their related expenditures should be assessed in light of the core functions and responsibilities of the Federal government as defined by the U.S. Constitution.

The departments and agencies within the Committee's jurisdiction have made various spending reduction proposals. The Committee will assess those proposals, but the Committee will not support reductions that would put national security or public safety at risk.

MANDATORY SPENDING

FEDERAL JUDICIARY

The Federal Judiciary is comprised of the U.S. Supreme Court and the lower federal courts. Combined, they adjudicate criminal and civil disputes and carry out other constitutional and congressionally allotted responsibilities.

The Federal Judiciary's budget request of $7.3 billion for FY 2012 includes funding for the following institutions and programs: The U.S. Supreme Court; the U.S. Court of Appeals for the Federal Circuit; the U.S. Court of International Trade; the (regional) courts of appeals, district courts, and other judicial services; defender services; fees of jurors; court security; the Administrative Office of the U.S. Courts; the Federal Judicial Center; judicial retirement funds; and the U.S. Sentencing Commission. The Committee supports an FY 2012 funding level of $7.3 billion or, if less, at a level necessary for the Federal Judiciary to complete its mission.

DISCRETIONARY SPENDING

ADMINISTRATIVE CONFERENCE OF THE UNITED STATES

The Administrative Conference of the United States (ACUS) is a nonpartisan body that makes many cost-saving recommendations intended to improve the efficiency and efficacy of regulatory law and practice. The Regulatory Improvement Act of 2007, Pub. L. 110-290, authorized ACUS from FY 2009 through FY 2011 and authorized $3.2 million to be

appropriated to ACUS for FY 2011. The Judiciary Committee will seek to reauthorize ACUS this session at a level appropriate to accomplish its mission.

The President's budget for FY 2012 requests $3.2 million for ACUS. Recognizing current budgetary constraints and ACUS' mission to identify agency cost-saving measures, the Committee supports funding ACUS at a level necessary to accomplish its mission.

ANTITRUST DIVISION (DOJ)

For FY 2012, the President requests $166.221 million for the Antitrust Division, an increase of $3.051 million from FY 2011 CR funding levels. Mandatory pre-merger filing fees paid by companies planning to merge are typically used to offset a majority of the Antitrust Division's funding. The Antitrust Division estimates receipt of $110.000 million in filing fees in FY 2012. As a result of this fee collection, the Antitrust Division's budget request anticipates an estimated final FY 2012 appropriation from the general fund of $56.221 million.

The Committee supports funding the Antitrust Division at levels necessary to accomplish its various missions.

EXECUTIVE OFFICE FOR U.S. ATTORNEYS (DOJ)

There are 93 U.S. Attorneys located throughout the United States, the District of Columbia, Guam, the Northern Mariana Islands, Puerto Rico and the Virgin Islands. The U.S. Attorneys who lead each office are the chief law enforcement representatives of the Attorney General. Each enforces Federal criminal law, handles most of the civil litigation in which the United States is involved, and initiates proceedings for the collection of fines, penalties, and forfeitures owed to the United States. The Executive Office of U.S. Attorneys (EOUSA), located in Washington, D.C., at the Department of Justice, is entrusted with the task of coordinating the efforts of these U.S. Attorneys with the policies and priorities of the Attorney General and supervising their activities.

The FY 2012 Presidential Budget Request proposes $1,995.1 million for necessary expenses which is $61.1 million over the FY 2011 CR funding level. This request includes 47 new positions, including 29 attorneys, over the FY 2011 CR of 10,629 direct authorized positions. Recognizing current budgetary constraints, the Committee supports funding EOUSA at levels that will allow it to accomplish its mission.

MEDICAL MALPRACTICE

The Administration's FY 2012 Budget proposes $250 million in mandatory funds for states to reform their laws on medical malpractice. The Administration has not, to date, provided specific legislative proposals concerning medical malpractice reform.

A majority of the Committee recently voted to report H.R. 5, which limits malpractice lawsuits.

Recognizing current budgetary restraints, and pending specific legislative proposals from the Administration, the Committee withholds judgment on the need for the requested funding.

GENERAL LEGAL ACTIVITIES (DOJ)

Office of the Solicitor General

The Office of the Solicitor General supervises and processes all appellate matters and represents the United States and federal agencies in the Supreme Court. The FY 2012 Presidential Budget Request proposes $11.348 million for the Office of the Solicitor General, which is an increase of $539,000 over the FY 2010 enacted budget. The Committee considers the work of the Solicitor General an important element of the role played by the Department of Justice. Recognizing current budgetary constraints, the Committee supports funding the Solicitor General's office at a level necessary to accomplish its mission.

Civil Division

The Civil Division represents the United States, its departments and agencies, Members of Congress, Cabinet officers, and other Federal employees in litigation in Federal and State courts. Its litigation reflects the diversity of government activities, involving, for example: False Claims Act litigation to protect the federal fisc; defense of challenges to Executive Branch actions; national security issues; commercial issues such as contract disputes, banking insurance, patents, fraud and debt collection; all manner of accident and liability claims; benefit programs; certain immigration matters; and certain violations of consumer protection laws. Each year, Division attorneys handle thousands of cases that collectively involve billions of dollars in claims and recoveries. The Division manages litigation over significant policy issues that often rise to constitutional dimensions in defending and enforcing various Federal programs and actions.

For FY 2012, the Administration requests $310.112 million for the Civil Division, an increase of $22.354 million over the FY 2010 enacted budget. The Committee considers the work of the Civil Division important to the mission of the Department of Justice. Recognizing current budgetary constraints, the Committee supports funding the Civil Division at a level necessary to accomplish its mission.

Environment and Natural Resources Division

The Environment and Natural Resources Division (ENRD) of the Department of Justice enforces the Nation's civil and criminal environmental laws; defends environmental challenges to federal laws and actions; and performs a variety of other important legal activities related to the environment and our nation's natural resources. Its activities include, for example, litigation concerning the Clean Air Act; the Clean Water Act; the Comprehensive Environmental Response, Compensation, and Liability Act (Superfund); defense against environmental challenges to Federal programs and activities; the protection, use, and development of national natural resources and public lands; the Endangered Species Act; Indian rights and claims; and the acquisition of private property for Federal use.

The President's budget for FY 2012 requests $117.244 million for ENRD, an increase of $2.459 million over the FY 2010 enacted amount. Recognizing current budgetary constraints, the Committee supports funding ENRD at a level necessary to accomplish its mission.

Civil Rights Division

The Civil Rights Division of the Department of Justice is responsible for enforcing Federal statutes guaranteeing every American's civil rights and prohibiting discrimination on the basis of race, sex, disability, religion, and national origin. The Division enforces Federal laws that protect every Americans' civil rights and freedom from discrimination in education, employment, credit, housing, certain federally funded and conducted programs, and voting.

The Division has eleven sections: Appellate, Coordination and Review, Criminal, Disability Rights, Educational Opportunities, Employment Litigation, Housing and Civil Enforcement, Office of Special Counsel for Immigration Related Unfair Employment Practices, Special Litigation, Administrative Management, and Voting.

The Administration has requested $161.755 million for the Civil Rights Division in FY 2012, an increase of $16.3 million from FY 2011 CR funding levels. The Division received a significant funding increase in FY 2010. Recognizing current budgetary constraints, the Committee supports funding the Civil Rights Division at a level necessary to accomplish its various missions, based on demonstrated need.

Criminal Division

The Criminal Division of the Department of Justice is responsible for supervising the application of all federal criminal laws except those specifically assigned to other divisions. Its mission is to identify and respond to critical and emerging national and international criminal threats, and to lead the enforcement, regulatory, and intelligence communities in a coordinated, nationwide response to reduce those threats. The Division provides expert guidance and advice to U.S. Attorneys and other federal, state, and local prosecutors and investigative agencies, as well as foreign criminal justice systems. It also oversees the use of the most sophisticated investigative tools available to federal law enforcement, including all federal electronic surveillance requests in criminal cases, and secures the return of fugitives and other assistance from foreign countries.

For FY 2012, the President requests $200.602 million for the Criminal Division, an increase of $23.741 million from FY 2011 CR funding levels. The additional funding requested by the Administration will maintain the current level of services while providing funding for resources to expand operations against computing crimes and intellectual property crimes internationally. Specifically, the increase will allow DOJ to place 6 attorneys (at a cost of $2.95 million) as DOJ Attachés overseas to fight transnational crime, with particular emphasis on intellectual property crime. These DOJ Attachés will serve as regional International Computer Hacking and Intellectual Property coordinators (ICHIPs) and will be well-positioned to combat the increasing threat of transnational crime, especially intellectual property crime.

Recognizing current budgetary constraints, the Committee supports funding the Criminal Division at a level necessary to accomplish its various missions.

Tax Division

The Tax Division of the Department of Justice represents the United States in virtually all litigation arising under the internal revenue laws. This work includes both a civil component as well as assistance to U.S. Attorneys in prosecuting criminal tax violations. In addition, the Division's attorneys lend their financial crimes expertise to the enforcement of other laws with financial aspects.

The President request $113.0 million for the Tax Division for FY 2012, an increase of $7.2 million over its FY 2011 CR funding level. Recognizing current budgetary constraints, the Committee supports funding the Tax Division at levels necessary to accomplish its mission, but notes that every additional dollar provided to the Tax Division will result in many additional dollars being recovered for the Treasury.

U.S. National Central Bureau (INTERPOL Washington)

The U.S. National Central Bureau (INTERPOL Washington) facilitates cooperation and information sharing among police agencies in different countries. It is the link between more than 18,000 Federal, state, and local law enforcement authorities and the 187 other member countries for INTERPOL-related matters. The main goals of INTERPOL Washington are facilitating international law enforcement cooperation; transmitting information of a criminal justice, humanitarian or other law enforcement related nature between law enforcement agencies; responding to law enforcement requests; coordinating and integrating information for investigations of an international nature, and identifying patterns and trends in criminal activities. INTERPOL Washington also actively screens all inbound international flights for passports that are reported as lost or stolen to INTERPOL and generates over 200 hits monthly that require human analysis.

The President's FY 2012 budget requests $33.5 million for INTERPOL Washington, reflecting an increase of $3.4 million over its FY 2011 CR funding levels. The Committee supports INTERPOL Washington's continued efforts to enhance information sharing amongst international police authorities. In anticipation of reduced spending levels, the Committee supports funding INTERPOL Washington at a level allowing it to achieve its mission.

U.S. TRUSTEE PROGRAM (DOJ)

The U.S. Trustee Program is charged with supervising the administration of bankruptcy cases and trustees. Its mission is to protect and preserve the integrity of the U.S. bankruptcy system by regulating the conduct of parties, ensuring compliance with applicable laws and procedures, bringing civil actions to address bankruptcy abuse, securing the just and efficient resolution of bankruptcy cases, and referring bankruptcy crimes for prosecution. The Program is self-funded through user fees paid by participants in the bankruptcy system. The Program's appropriation is offset by fees it collects during the fiscal year. These monies are paid into the

U.S. Trustee System Fund. Approximately 56% of the Program's funding is subsidized by quarterly fees paid by Chapter 11 debtors. The remaining 44% of its funding is derived from a portion of filing fees paid to commence bankruptcy cases, interest earnings, and other miscellaneous revenues.

The President requests $234.115 million for FY 2012 for the U.S. Trustee Program, which represents a $14.865 million increase over FY 2010 enacted appropriations. Recognizing current budgetary constraints, the Committee supports funding the U.S. Trustee Program at a level necessary to accomplish its mission.

OFFICE OF THE INSPECTOR GENERAL (DOJ)

The Office of the Inspector General (OIG) is an independent office within the Justice Department that is charged with conducting investigations, audits, inspections, and special reviews of Justice Department personnel and programs to detect and deter waste, fraud, abuse, and misconduct, and to promote integrity, economy, efficiency, and effectiveness in Department operations. For FY 2012, the President requests $85.1 million for OIG, an increase of $0.7 million over the FY 2011 CR funding level. The Committee supports the work of the OIG. Recognizing current budgetary constraints, the Committee supports funding OIG at a level that will allow it to accomplish its mission.

US OFFICE OF THE INTELLECTUAL PROPERTY ENFORCEMENT COORDINATOR (US-IPEC)

The Committee has determined that intellectual property theft presents a substantial threat and imposes significant harm, including major economic damage, on the United States. To address this problem, the Committee authorized, through the Prioritizing Resources and Organization for Intellectual Property Act of 2008 (PRO-IP Act, P.L. 110-403), the creation of an Intellectual Property Enforcement Coordinator (IPEC) within the Executive Office of the President. The IPEC chairs an interagency intellectual property enforcement advisory committee, coordinates the development of the Joint Strategic Plan against counterfeiting and infringement and provides other assistance in the coordination of intellectual property enforcement efforts. The first IPEC was appointed in December 2009. The Committee urges the Administration to provide a detailed plan to staff the office with permanent FTEs, appropriate resources and a travel budget and supports such sums as are necessary to enable the IPEC to fully execute her statutory duties.

NATIONAL SECURITY DIVISION (DOJ)

The National Security Division (NSD) was authorized by Congress in the USA PATRIOT Improvement and Reauthorization Act of 2005 (Public Law 109-177), which was enacted in 2006. The NSD consists of the elements of the Department of Justice (other than the Federal Bureau of Investigation) engaged primarily in support of the intelligence and intelligence-related activities of the United States Government, including: (1) the Assistant Attorney General for National Security, (2) the Office of Intelligence Policy and Review, (3) the

counterterrorism section, (4) the counterespionage section, and (5) any other office designated by the Attorney General.

For FY 2012, the President requests $87.882 million for NSD, a decrease of $56,000, but an increase of 18 permanent positions (including 2 attorneys), and 10 FTE. The NSD's total requested program improvements for FY 2012 will expand the Division's support of goal one of the Department's Strategic Plan, which is the prevention of terrorism and the promotion of the Nation's security.

The Committee supports the important work of the National Security Division and recommends funding the Division at levels necessary to carry out its mission.

COMMUNITY RELATIONS SERVICE

The Community Relations Service assists State and local governments in quelling conflict arising from differences of race, color, and national origin, and to prevent and respond to alleged violent hate crimes committed on the basis of actual or perceived race, color, national origin, gender, gender identity, sexual orientation, religion or disability.

The President requests $12.967 million for the Community Relations Service in FY 2012, an increase of $1.488 million from FY 2011 funding levels. The Service argues that this increase is needed to continue its work to meet the expanded jurisdiction created by the Matthew Shepard and James Byrd, Jr. Hate Crimes Prevention Act (P.L. 111-84, 2009). Recognizing current budgetary constraints, the Committee supports funding the Community Relations Service at levels necessary to continue performing its mission.

FEDERAL BUREAU OF INVESTIGATION (DOJ)

The Federal Bureau of Investigation (FBI) is the Nation's largest federal law enforcement agency, charged with investigating terrorism, cybercrimes, public corruption, white collar crime, organized crime, civil rights violations, and other federal offenses.

For FY 2012, the President requests $8.076 billion for the FBI. The request includes a total of $7.994 billion for Salaries and Expenses and $80.982 million for Construction to address the FBI's highest priorities. The request includes a base increase of $248 million to maintain service levels and program increases of $131.450 million and 181 positions.

Of the $131.450 million, $10.495 million is requested to support Information Technology purposes. The FBI will use the increased appropriation to enhance investigatory capabilities and protect critical technology network infrastructure, as well as, establish a Domestic Communications Assistance Center to support law enforcement's electronic surveillance capabilities, among other priorities.

The FBI has identified mortgage fraud as its most significant white collar crime issue, and the number of pending investigations of mortgage fraud against financial institutions has been rising annually. The Fraud Enforcement and Recovery Act (FERA, P.L. 111-21) was

enacted in 2009 to combat this problem and other financial crimes. The Committee supports funding for FBI mortgage fraud investigations.

The FBI maintains the National Instant Criminal Background Check System (NICS), which contains records of persons who are legally prohibited from possessing firearms. In 2007, Congress passed the NICS Improvements Amendments Act after the tragic shootings at Virginia Tech revealed that the states were not submitting to NICS a large volume of disqualifying mental health records. The Committee supports funding for the NICS system.

The Committee recommends the FBI be funded at a level necessary to achieve its important objectives.

U.S. MARSHALS SERVICE (DOJ)

The U.S. Marshals Service (USMS) has varied responsibilities. The USMS administers the Asset Forfeiture Program of the Justice Department; conducts investigations involving escaped federal prisoners and other fugitives; ensures safety at judicial proceedings; assumes custody of individuals arrested by all federal agencies; houses and transports prisoners; and manages the Witness Security Program. $1.152 billion was appropriated for FY 2010 and the President's request for FY 2012 is $1.259 billion. The Salaries and Expenses (S&E) appropriation is $1.244 billion and $15.625 million is appropriated for Construction. This is an increase of $107 million.

The Committee supports funding for the USMS at levels necessary to accomplish its various missions.

ASSETS FORFEITURE FUND

The Assets Forfeiture Fund (AFF) was established pursuant to the Comprehensive Crime Control Act of 1984. The USMS administers the program by managing and disposing of properties seized by and forfeited to federal law enforcement agencies and U.S. Attorneys nationwide. AFF is used to receive the proceeds of forfeiture and to pay the costs associated with forfeitures, including the costs of managing and disposing of property, satisfying valid liens, mortgages, and other innocent owner claims, and costs associated with accomplishing the legal forfeiture of the property. The Attorney General is authorized to use AFF to pay such necessary expenses associated with forfeitures. The Fund may also be used to finance certain general investigative expenses, as enumerated in 28 U.S.C. §524(c).

For FY 2012, the President requests $20.99 million in definite authority for expenses of the AFF to support the Department's Strategic Goal 2: To prevent crime, enforce Federal laws and represent the rights and interests of the American people. The Committee supports the President's overall proposal for the AFF FY 2012 budget and will continue to monitor any proposed diversions or transfers of Fund resources, particularly with regard to any proposed use of Fund monies for purposes outside of the jurisdiction of the Committee.

BUREAU OF ALCOHOL, TOBACCO, FIREARMS, AND EXPLOSIVES (DOJ)

The mission of the Bureau of Alcohol, Tobacco, Firearms, and Explosives (ATF) is to reduce violent crime, prevent terrorism, and protect the United States through enforcing laws and regulating the firearms and explosives industries. For FY 2010 ATF received $1.12 billion. For FY 2012, the President requests $1.147 billion. This request includes $58.338 million in adjustments to base to maintain current service levels and program improvements of $1.519 million to establish a Domestic Communications Assistance Center to support law enforcement's electronic surveillance capabilities. The budget also requests program offsets of $27.334 million.

Recognizing current budgetary constraints, the Committee supports funding ATF at levels necessary to accomplish its various missions.

DRUG ENFORCEMENT ADMINISTRATION (DOJ)

The Drug Enforcement Administration (DEA) is the lead federal agency tasked with reducing the illicit supply and abuse of narcotics and drugs through drug interdiction and seizing of illicit revenues and assets from drug trafficking organizations. The FY 2011 CR allocated $2.019 billion for the DEA. DEA's FY 2012 budget request totals $2.042 billion, an increase of $22 million, which includes $10 million in construction funding and a cancellation of unobligated balances totaling $30 million.

The Committee recommends funding at an appropriate level for FY 2012.

FEDERAL BUREAU OF PRISONS (DOJ)

The Federal Bureau of Prisons (BOP) is responsible for confining Federal offenders in prisons and community-based facilities. For FY 2012, $6.824 billion has been proposed for the administration, operation, and maintenance of Federal penal and correctional institutions. This budget proposal covers $6.724 billion in salaries and expenses and $99.394 million for buildings and facilities which maintains prior year expenditure levels without an increase to offset an increasing prisoner population. BOP does not and cannot control the number of inmates committed to its custody, and adequate resources are needed to assure the safety of inmates, employees, and visitors, while providing appropriate rehabilitation for offenders.

The Committee recommends funding at an appropriate level for FY 2012.

HEALTH CARE FRAUD (DOJ)

The Health Insurance Portability and Accountability Act (HIPAA) directed that the Department of Justice (DOJ) and the Department of Health and Human Services (HHS) establish a joint Health Care Fraud and Abuse Control (HCFAC) program. The President's FY 2012 budget requests an increase in discretionary funding for the HCFAC program to $581 million. Funding to combat health care fraud is a sound investment from the standpoint of protecting our citizens and recapturing money obtained by criminals. In FY 2010, DOJ and HHS announced over $4.0 billion in recoveries and payments to the Medicare Trust Fund, returned to victim

programs, and others. The 3-year average Return-on-Investment for the HCFAC program was $6.8 to $1.0.

OFFICE OF THE FEDERAL DETENTION TRUSTEE

The mission of the Office of the Federal Detention Trustee (OFDT) is to manage and regulate the federal detention programs and the Justice Prisoner and Alien Transportation System. OFDT coordinates detention strategies and policy with the USMS, the BOP and the Department of Homeland Security's Immigration and Customs Enforcement and is led by the Federal Detention Trustee who is appointed by the Attorney General. The President's budget requests $1,595.4 million for FY 2012, which is a $156.7 million increase from the FY 2011 CR funding level of $1,438.7 million. As with the BOP, the OFDT has no control over inmates committed to its custody. Recognizing current budget constraints, the Committee recommends funding OFDT at a level necessary to achieve its important mission.

OFFICE OF JUSTICE PROGRAMS (DOJ)

The President requests for the Office of Justice Programs (OJP) a budget of $3.0 billion, 730 positions, and 716 FTEs for FY 2012. This request level includes total increases of $782.5 million (including a $145.0 million increase to the Crime Victims Fund and $250.0 million increase for the new mandatory Grants to States for Medical Malpractice Reform program) and total offsets of $1.078 billion, for a net decrease of $295.5 million from the FY 2011 Continuing Resolution level of $3.1 billion. The request includes a total of $8.5 million in adjustments-to-base. The request reflects $0.2 million under the OJP Salaries and Expenses appropriation and $2.8 billion in OJP grant programs.

Byrne Justice Assistance Grants

The Byrne Justice Assistance Grants (Byrne JAG) program provides direct grants to states and local communities for a number of purposes, including funding local drug task forces. It is the only source of Federal funding for multi-jurisdictional efforts to prevent, fight, and prosecute drug-related and violent crime. For FY 2012, the President requests $519 million for the Edward Byrne Memorial Justice Assistance Grant program, which is the same amount as requested in FY 2010 and 2011.

In FY 2012, the President's budget requests $30.0 million for the new Byrne Criminal Justice Innovation program, to provide demonstration grants in selected communities to support innovative, place-based, evidence-based approaches to fighting crime.

OJP requests no funding for FY 2012 for the Byrne Discretionary Grant program. This program awards discretionary grants to state, local, and tribal law enforcement and criminal justice agencies, non-profit organizations and community groups to improve the functioning of the criminal justice system, to prevent or combat juvenile delinquency, and to assist victims of crime (other than compensation). Justification Funding provided through the Byrne Discretionary Grants program is traditionally earmarked by Congress, which automatically

entitles recipients who meet the program's minimum requirements to receive a grant. Both the President and Congress have expressed concerns about earmarks.

The President's FY 2012 Budget proposes $25.0 million for the Byrne Competitive Grant program, a decrease of $15 million from the FY 2011 CR level. This program awards grants to improve the functioning of the criminal justice system, to prevent or combat juvenile delinquency, and to assist victims of crime (other than compensation). The program focuses on seven purpose areas, including: Preventing crime; enhancing local law enforcement; and enhancing local courts.

The FY 2012 President's budget requests $60.0 million for the Missing and Exploited Children Program (MECP), a decrease of $10.0 million from the FY 2011 CR level.

In anticipation of reduced spending levels, the Committee supports funding Byrne JAG at levels necessary to accomplish its various missions.

DNA Backlog Elimination

The Committee supports full funding for the Debbie Smith Act, which funds reducing the backlog of DNA evidence in the Nation's labs, as well as the Innocence Protection Act, which funds post-conviction DNA testing. This technology is crucial and as it is increasingly used, an increasing amount of departments are amassing biological evidence for use in criminal cases. However, using the technology and storing the evidence is costly.

For FY 2011, the President's request for the DNA Related and Forensics Program was $151 million. For FY 2012, the President's request for this program (which also includes funding for DNA training for law enforcement and others, as well as the Sexual Assault Forensic Exam Program) is $110 million. The Committee supports funding these DNA programs at appropriate levels.

Juvenile Justice

OJP requests $280.0 million for the Juvenile Justice Programs account, which is $143.6 million below the FY 2011 CR level.

This account includes programs that support state, local, and tribal community efforts to develop and implement effective and coordinated prevention and intervention juvenile programs. The objectives of these programs are to reduce juvenile delinquency and crime, improve the juvenile justice system so that it protects public safety, hold offenders accountable, and provide treatment and rehabilitative services tailored to the needs of juveniles and their families.

In FY 2012, the President's budget does not request funding for the Juvenile Accountability Block Grant (JABG) program, a decrease of $55.0 million from the FY 2011 CR level. For FY 2012, JABG is being consolidated under the new Race to the Top-style Juvenile Incentive System Improvement Grants program. That program is being requested at $120.0 million. This new grant program will consolidate existing formula grants targeting juvenile system improvements.

For FY 2012, recognizing current budgetary constraints, the Committee supports funding Juvenile Justice at levels necessary to accomplish its various missions.

Residential Substance Abuse Treatment

The Residential Substance Abuse Treatment program for state prisoners helps state and local governments develop, implement, and improve residential substance abuse treatment programs in correctional facilities, and provides community-based aftercare services for their probationers and parolees to assist them in remaining drug-free. The program was funded at $30 million in FY 2010. The Committee supports funding the program at the appropriate level.

State Criminal Alien Assistance Program

State and local governments have had to bear an immense fiscal burden as a result of incarcerating criminal aliens. Although control of our nation's borders is a federal responsibility, states and localities are only partially reimbursed for these expenditures. The Committee believes that the State Criminal Alien Assistance Program (SCAAP) should be adequately funded to assist state and local jurisdictions.

Adam Walsh Act

The Adam Walsh Child Protection and Safety Act was enacted in 2006. Title I of the Act, the Sex Offender Registration and Notification Act (SORNA), established a comprehensive national system for the registration and notification to the public of those offenders. For FY 2012, the President's budget requests $30 million to provide critical assistance to SORNA jurisdictions, particularly in these difficult economic times, to ensure the continuation of SORNA implementation activities. The funding would support jurisdictions' investments in their registration and notification systems that will be necessary to implement SORNA's many requirements. The Committee recommends funding the Adam Walsh Act at appropriate levels.

Services for Victims of Crime

The Administration requests an increase of $145 million from the FY 2010 funding level for the Crime Victims Fund (CVF), increasing the obligation cap to $850 million. The increase in the obligation cap will support programs to assist victims of violence against women, including grants to support domestic violence shelters and rape crisis shelters, and provide transitional housing assistance and other needed services to victims of domestic violence, sexual assault, and stalking. By statute, the resources available under the CVF are administered by the Office for Victims of Crime. In addition to this amount, up to $50.0 million may be set aside for the Antiterrorism Emergency Reserve.

Recognizing current budgetary constraints, the Committee supports funding Services for Victims of Crime at levels sufficient to accomplish its various missions.

COMMUNITY ORIENTED POLICING SERVICES

In FY 2012, the President requests for the Office of Community Oriented Policing Services (COPS) a total of $709.830 million, 210 positions and 175 FTE. Of this amount, $669.5 million is requested under the COPS appropriation to further the Department's effort to successfully assist state, local, and tribal law enforcement agencies in their efforts to prevent crime, enforce federal laws, and represent the rights and interests of the American people.

The COPS Office is proposing several program increases to assist state, local, and tribal law enforcement to combat crime and increase law enforcement effectiveness by leveraging resources and maximizing cooperative efforts. The key highlight of this request is a $302 million increase for the COPS Hiring Program to assist in hiring additional law enforcement professionals at the local level. In addition, an $8.5 million increase is requested to expand community policing development efforts including training, technical assistance, and the development and dissemination of COPS knowledge resources. Finally, a $10 million increase is requested for the Police Integrity initiative to further efforts to build and enhance the trust between police and the citizens and communities they serve including strategies to identify and disseminate best practices, develop model problem-solving partnerships, and deliver national training and technical assistance.

In anticipation of reduced spending levels, the Committee supports funding COPS at an appropriate level.

OFFICE OF VIOLENCE AGAINST WOMEN (OVW)

In FY 2010, OVW received $434 million for Violence against Women Act (VAWA) implementation and in FY 2012, the President requests for OVW a total of $454.898 million, 102 positions and 86 FTEs. Of this amount, $431.750 million is requested to further OVW's efforts to improve the Nation's response to domestic violence, dating violence, sexual assault and stalking. The FY 2012 budget request includes several targeted program enhancements including increased funding to address sexual assault, which is one of OVW's top priorities. This represents a total funding level change from FY 2010 to FY 2012 of $20.690 million.

In anticipation of reduced spending levels, the Committee supports funding OVW at levels necessary to accomplish its various missions.

EXECUTIVE OFFICE FOR IMMIGRATION REVIEW (DOJ)

The Executive Office for Immigration Review (EOIR) contains the corps of Immigration Judges, the Board of Immigration Appeals (BIA), and the Office of the Chief Administrative Hearing Officer. EOIR presides over administrative immigration hearings such as removal, bond, and employer sanctions proceedings.

The President's budget requests $329.813 million for EOIR in FY 2012, an increase of $31.858 million. This requested level represents a 10.7 percent increase from the FY 2011 CR.

The request seeks an increase of 149 positions, including an additional 21 Immigration Judge teams and 10 BIA attorneys.

EOIR has to plan and coordinate with DHS as enforcement programs increase. EOIR's immigration court cases continue to increase along with DHS's increased enforcement efforts. In 2007, immigration courts received 336,000 matters for adjudication. During 2008, that number rose to 352,000 matters. For 2009, the courts received 393,000 matters and in 2010 received 393,000 as well. Case receipts are expected to top 400,000 by 2011. As a consequence, case backlogs have continued to increase, *i.e.*, from 186,000 matters pending at the start of 2009 to over 268,000 matters pending at the end of the first quarter of 2011. Court dockets have been stretched unacceptably far into the future, *e.g.*, most courts are scheduled at least a year into the future (many have cases scheduled well into 2012).

The Committee also supports funding of Legal Orientation Programs (LOP) for detained noncitizens at a level necessary to accomplish the goals of the program.

Timely and fair adjudication of cases in Immigration Courts is an essential part of effective immigration enforcement. Funding for EOIR personnel and programs must keep pace with other immigration enforcement activities in order for the entire immigration enforcement system to function properly. The Committee recommends that EOIR be funded at a level that will enable it to achieve these goals.

U.S. CUSTOMS AND BORDER PROTECTION (DHS)

The Department of Homeland Security's U.S. Customs and Border Protection (CBP) is the federal agency principally responsible for the security of the Nation's borders, at and between the ports of entry along the border and at our seaports and airports. The Committee supports CBP's various missions, including the work of Inspectors and Border Patrol agents who are an essential component of our immigration-enforcement system and serve as a critical shield against those who would enter the U.S. unlawfully.

The President's budget requests $11.839 billion ($10.379 billion in appropriated funds and $1.460 billion in mandatory fee collections) for FY 2012. The funds will support current levels of Border Patrol agents, a force that has nearly doubled since FY 2004, and will increase the number of CBP Officers in the Office of Field Operations, who perform critical services at our ports of entry. It is important to note that the FY 2010 Border Security Supplemental is annualized into the FY 2012 budget. The Committee supports funding CBP at levels necessary to accomplish its various missions.

The Committee notes that a high rate of attrition for Border Patrol agents has been resolved through increased vetting and training programs as well as improvements in salaries and benefits. The Committee notes from FY 2010 to FY 2012, salaries and benefits increased by approximately $1.6 billion from $6.4 billion to $8.1 billion due to the implementation of pay increases for CBP officers, Border Patrol agents and Agricultural Specialists by raising the journeyman grade level from GS-11 to GS-12.

The Committee also supports the use of funding for the addition and improvement of Border Patrol facilities. Although appropriated funds in the American Recovery and Reinvestment Act resulted in improvements to several Border Patrol facilities, the Committee is concerned that CBP intends to use facilities management funds solely to maintain existing structures, rather than to develop new Border Patrol facilities and continue to modernize existing facilities.

U.S. IMMIGRATION AND CUSTOMS ENFORCEMENT (DHS)

U.S. Immigration and Customs Enforcement (ICE) is the largest investigative arm of DHS. Comprised of several components from the former Immigration and Naturalization Service (INS) and the U.S. Customs Service, the agency combines the investigative, detention and removal, and intelligence functions of the former INS with the investigative and intelligence functions of the former Customs Service.

The President's budget requests $5.822 billion ($5.510 billion in appropriated funds and $311.870 million in mandatory fee collections) for FY 2012. In anticipation of reduced spending levels, the Committee supports funding ICE at levels necessary to accomplish its various missions.

The Secure Communities Program is a comprehensive plan that seeks to identify and remove criminal aliens. In addition, the Criminal Alien Program focuses on identifying incarcerated criminal aliens in federal, state, and local facilities, and secures orders of removal prior to their release. The Committee supports funding for Secure Communities and the Criminal Alien Program, which focus on criminal aliens to improve public safety.

U.S. CITIZENSHIP AND IMMIGRATION SERVICES (DHS)

United States Citizenship and Immigration Services (USCIS) administers the immigration service functions described in the Immigration and Nationality Act, such as adjudicating citizenship and immigration benefit applications and petitions.

The FY 2012 President's budget request is $2.907 billion, which consists of $2.5 billion in mandatory fee collections and $369.5 million in appropriated funds. The FY 2011 budget request was $2.812 billion, consisting of expected mandatory fee collection amount of $2.426 billion and $385.8 million in appropriated funds. The Committee supports funding CIS at levels necessary to accomplish its various missions.

The request for appropriation includes $203.4 million for the processing of applications for refugee and asylum status, $102.4 million for E-Verify, $29.9 million for the Systematic Alien Verification for Entitlements (SAVE) program, and $19.7 million of immigrant integration and citizenship programs. The costs of these programs are currently supported by individuals and businesses applying for other citizenship and immigration benefits through USCIS.

OFFICE OF REFUGEE RESETTLEMENT (HHS)

The Office of Refugee Resettlement (ORR) within the Department of Health and Human Services (HHS) provides assistance and services to refugees, asylees, unaccompanied alien children, victims of human trafficking, and certain Amerasian, Iraqi, Afghan, Cuban, and Haitian immigrants. ORR assists these populations by providing a range of services, including cash and medical assistance, housing assistance, and economic and social integration services.

The President's budget request of $825 million represents an increase of $94 million over the FY 2010 appropriated amount. The Committee recommends that ORR be funded at a level that will enable it to achieve its goals.

US-VISIT (DHS)

The FY 2012 President's budget request of $302 million represents a decrease of $76.7 million from the FY 2011 CR. The Committee has long supported sufficient funding to meet the entry-exit requirements mandated by Congress in 1996 in order to identify who is entering and exiting the U.S. and how long they stay in the country. The Committee notes that the agency reported to Congress in FY 2010 the results of two air exit pilot programs. The Committee supports the use of unobligated funds appropriated in previous years to proceed with implementation, but also recommends sufficient funding be provided to prioritize the development of an integrated master schedule for the full implementation of the legal mandate. The Committee recommends that US-VISIT be funded at a level that will enable it to achieve full implementation.

LEGAL SERVICES CORPORATION

The Legal Services Corporation (LSC) is a non-profit entity established by Federal statute for the purpose of providing financial support for legal assistance in noncriminal proceedings or matters to persons financially unable to afford legal assistance. For FY 2012, the President requests $450 million to LSC, an overall increase of $30 million in Federal funding from the FY 2010 enacted budget. The FY 2012 budget request allocates $420.15 million for basic field programs and required independent audits; $4.35 million for the Office of Inspector General; $19.5 million for management and grants oversight; $5 million for client self-help and information technology; and $1 million for loan repayment assistance.

Pursuant to its independent budgetary authority, LSC requests $516.55 million in appropriated funds for FY 2012. The request specifically allocates: $484.9 million for basic field grants; $4.35 million for the Office of Inspector General; $19.5 million for management and grants oversight; $6.8 million for technology initiative grants; and $1 million for loan repayment assistance.

The Majority notes that Government Accountability Office and LSC Inspector General reports have raised concerns about LSC's and its grantees' internal practices and accountability. The GAO has made numerous recommendations to protect appropriated federal funds. While LSC has taken steps to improve its own and its grantees' practices, it has not yet implemented all

of the GAO's recommendations and established a sustained track record of compliance with the recommended reforms. Taking due account of LSC's ongoing reform efforts, and in anticipation of reduced spending levels, the Majority supports the reduction of funding for LSC to levels below those requested.

The Minority notes that LSC is working with GAO to implement GAO's recommendations, many of which were to modernize LSC's internal controls and strengthen governance and oversight. Taking into account the success LSC has made in implementing the GAO recommendations, the Minority supports fully funding LSC at the level LSC requested to accomplish its mission of providing access to legal justice for the poor.

PRIVATE CLAIMS LEGISLATION

The Committee anticipates it will consider private bills for claims against the United States. The Committee believes that $5 million was sufficient in the past several years and believes that this figure, based on an analysis of private claims bills passed by recent Congresses, continues to be sufficient to meet the unanticipated costs associated with private claims legislation.

OFFICE OF GOVERNMENT ETHICS

The Office of Government Ethics (OGE) is responsible for providing the overall direction of executive branch policies designed to prevent conflicts of interest and to ensure high ethical standards. In partnership with executive branch agencies and departments, OGE develops ethics training courses and other educational materials for government employees, conducts on-site reviews of existing ethics programs, and provides advice and guidance on the Standards of Ethical Conduct for Employees of the Executive Branch. For FY 2012, the President requests $13.664 million for OGE, which is $336,000 less than its FY 2011 CR level of $14 million. In anticipation of reduced spending levels, the Committee supports funding OGE at levels necessary to accomplish its various missions.

U.S. COMMISSION ON CIVIL RIGHTS

The Commission on Civil Rights was established by the Civil Rights Act of 1957, (P.L. 85-315), to serve as a bipartisan, fact-finding agency to investigate and report on the status of civil rights. For FY 2012, the President's budget requests $9.429 million for the Commission which is a continuation of its current funding level. The Committee will examine the continuing mission of the Commission and its ability to perform core functions in its current configuration and level of funding.

U.S. PATENT AND TRADEMARK OFFICE

The U.S. Patent and Trademark Office (USPTO) issues patents and registers trademarks, which provide protection to inventors and businesses for their inventions and corporate and product identifications. The agency also advises other government agencies on intellectual property issues and promotes stronger intellectual property protections in other countries.

The USPTO is funded through the imposition of user fees that are paid by individuals and businesses that file for patent and trademark protection. The USPTO Director deposits these funds in a special account at the Treasury. As a practical matter, the agency is beholden to Congress and the appropriations process to receive funds back. Since the early 1990s, this has led to the diversion of more than $800 million from the USPTO to other unrelated government initiatives.

The agency is critical to the economic health of the country as it is an innovation-driver and job-creator. The Committee opposes the practice of diversion and believes the USPTO should be permitted to keep all of the funds it raises each fiscal year until expended. The Committee therefore supports "full" funding of the agency at $2.7 billion, which includes an extension of law that restructures and increases fees through FY 2012 (this was originally enacted in 2005 and 2006 and subsequently extended); and a one-year 15% surcharge that the Committee hopes to enact this year.

U.S. COPYRIGHT OFFICE

The U.S. Copyright Office is responsible for registering copyright claims and renewals, vessel hull designs, and mask works; recording assignments and related documents; acquiring US copyrighted works for possible inclusion in the Library of Congress collections; creating and making available records of copyright ownership; and providing copyright information to the public.

The Office is funded, in part, through the collection of fees received for services rendered and the value of books and other library materials deposited in accordance with the Copyright Act and transferred to the Library of Congress. The Committee supports an FY 2012 funding level for the Copyright Office of $56.44 million or, if less, at a level necessary for the Office to accomplish its mission.

U.S. SECRET SERVICE

The Secret Service is primarily tasked with two law enforcement functions: Handling protection and conducting criminal investigations. Criminal investigation activities encompass financial crimes, bank fraud, mortgage fraud, identity theft, counterfeiting, and computer fraud. The protection mission covers the President and Vice President, among others.

The President's FY 2012 request provides an increase of $60.455 million for the 2012 Presidential Campaign. This includes planned expenditures for candidate/nominee protective details, the Democratic and Republican Conventions, protective equipment, and other costs associated with the campaign.

The Secret Service is also responsible for security activities at National Special Security Events (NSSEs), which include the Party Nominating Conventions, as well as international conferences and events held in the United States. For FY 2012, the President has requested an increase of $18.307 million for three upcoming NSSEs: the Economic Summit (G20), the North Atlantic Treaty Organization Summit, and the Asia-Pacific Economic Cooperation Summit.

The President's FY 2012 budget request also provides an increase of $65.8 million for operations mission support, which includes critical investments in equipment, training and personnel needed to address current threats directed at the President, Vice President, and the White House Complex. The Committee notes the Secret Service's robust investigative efforts in the area of cyber crime and supports the budget request of $53.051 million for the Secret Service's Electronic Crimes Special Agent Program and Electronic Crimes Task Forces.

The total FY 2012 request for the Secret Service is $1.943 billion. The Committee fully supports this request.

STATE JUSTICE INSTITUTE

The State Justice Institute (SJI) was established by Federal law in 1984 to award grants to improve the quality of justice in State courts, facilitate better coordination between State and Federal courts, and foster innovative, efficient solutions to common issues faced by all courts.

The Committee supports an FY 2012 funding level for SJI of $6.3 million or, if less, at a level necessary for SJI to accomplish its mission.

ADDITIONAL VIEWS OF CONGRESSMAN ROBERT C. "BOBBY" SCOTT
COMMITTEE ON THE JUDICIARY
VIEWS AND ESTIMATES FOR FY 2012

John R. Justice Prosecutor and Defender Incentive Act

The John R. Justice Prosecutor and Defender Incentive Act was enacted in 2008. The Act authorizes funding for loan repayment assistance for state and federal public defenders and state prosecutors who commit for three years. In both FY 2010 and in the FY 2011 CR, this program was funded at $10 million. I support funding for this program at least equal to the level for FY 2011.

Mentally Ill Offender Act

The Mentally Ill Offender Treatment and Crime Reduction Reauthorization Improvement Act of 2008 reauthorizes funding for the Adult and Juvenile Collaborations Program grants. The Act authorizes $50 million for each fiscal year for FY 2009 through FY 2014. $12 million was appropriated for this program for FY 2010 and in the CR for FY 2011. The President's budget requests no funds for this program for FY 2012. I support funding for this program at least equal to the level for FY 2011.

Second Chance Act

The Second Chance Act of 2008 provides grants to establish and expand various adult and juvenile offender reentry programs and funds reentry-related research. The Act authorized $165 million for FY 2009 and 2010. The President's FY 2012 budget proposes $100 million for the program. I support funding for this program at the level of $100 million for FY 2012.

Congressman Robert C. "Bobby" Scott
Ranking Member
Subcommittee on Crime, Terrorism, and Homeland Security

DOC HASTINGS, WA
CHAIRMAN
DON YOUNG, AK
JOHN J. DUNCAN, JR., TN
LOUIE GOHMERT, TX
ROB BISHOP, UT
DOUG LAMBORN, CO
ROBERT J. WITTMAN, VA
PAUL C. BROUN, GA
JOHN FLEMING, LA
MIKE COFFMAN, CO
TOM McCLINTOCK, CA
GLENN THOMPSON, PA
JEFF DENHAM, CA
DAN BENISHEK, MI
DAVID RIVERA, FL
JEFF DUNCAN, SC
SCOTT R. TIPTON, CO
PAUL A. GOSAR, AZ
RAÚL R. LABRADOR, ID
KRISTI L. NOEM, SD
STEVE SOUTHERLAND II, FL
BILL FLORES, TX
ANDY HARRIS, MD
JEFFREY M. LANDRY, LA
CHARLES J. "CHUCK" FLEISCHMANN, TN
JON RUNYAN, NJ
BILL JOHNSON, OH

TODD YOUNG
CHIEF OF STAFF

U.S. House of Representatives
Committee on Natural Resources
Washington, DC 20515

EDWARD J. MARKEY, MA
RANKING DEMOCRATIC MEMBER
DALE E. KILDEE, MI
PETER A. DeFAZIO, OR
ENI F.H. FALEOMAVAEGA, AS
FRANK PALLONE, JR., NJ
GRACE F. NAPOLITANO, CA
RUSH D. HOLT, NJ
RAÚL M. GRIJALVA, AZ
MADELEINE Z. BORDALLO, GU
JIM COSTA, CA
DAN BOREN, OK
GREGORIO KILILI CAMACHO SABLAN, CNMI
MARTIN HEINRICH, NM
BEN RAY LUJÁN, NM
DONNA M. CHRISTENSEN, VI
JOHN P. SARBANES, MD
BETTY SUTTON, OH
NIKI TSONGAS, MA
PEDRO R. PIERLUISI, PR
JOHN GARAMENDI, CA
COLLEEN W. HANABUSA, HI

JEFFREY DUNCAN
DEMOCRATIC STAFF DIRECTOR

18 March 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, D.C. 20511

Dear Mr. Chairman Paul

Enclosed please find the Views and Estimates of the Committee on Natural Resources for Fiscal Year 2012. We have used the President's Fiscal Year 2012 budget proposal as a baseline, and in keeping with your directive and that of the American people, have proposed spending reductions and proposals to reduce the budget deficit.

Sincerely,

Doc Hastings
Chairman

Enclosure

Committee on Natural Resources
Views and Estimates for Fiscal Year 2012
Doc Hastings, Chairman

Overview

The Committee on Natural Resources (the Committee) recognizes that confronting record budget deficits and debt levels requires examining federal spending by this Committee and all others. Our Nation simply cannot afford to spend at the rate of the past several years. Real reductions must occur now. The Committee intends to do its part to contribute to this effort.

In making such reductions, the Committee recognizes that there are important and much-treasured matters under its jurisdiction that require care and consideration in determining how to protect valued federal activities and lands while ensuring the federal budget does not deteriorate further to a degree that requires even more painful spending cuts. The sooner that the federal budget can be put in order, the less of a threat it poses to vital federal assets and activities.

It is disappointing that the President's budget request does not reflect this sense of urgency to reduce spending and the danger excessive spending will increasingly pose to all federal programs and activities if action is not taken. The Fiscal Year (FY) 2012 request for the Department of the Interior (the Department) reflects this lack of seriousness. While described as a "freeze budget" for this Department, in reality it reduces nearly a billion dollars in spending to increase spending in other areas by a like amount. To get the nation's fiscal house in order, it is necessary to make real, actual reductions.

In particular, the President's proposal to increase land acquisition spending to record levels is especially out of touch with the dire fiscal straits confronting the country. The proposed $900 million in the President's budget for the Land and Water Conservation Fund to primarily purchase more federal land is an increase of $553 million above FY2008 levels. The Department has a maintenance backlog on existing public lands that measures in the billions of dollars – and yet the Administration proposes to spend nearly a billion dollars in the next fiscal year to deepen this lack of ability to care for and maintain existing lands. The Committee believes the first and foremost focus should be caring for existing parks and lands, before exacerbating the problem with a record amount of higher spending for the acquisition of more land.

Additionally, efforts to restrict the ability of Americans to access existing public lands for recreation and enjoyment, as well as job creation and economic and energy development, is particularly distressing in these days of record deficits and debt. Our public lands should be open for the public to enjoy and made available for the public to benefit from the job creation, revenue generation, increased national and economic security, and lower prices that result from American-made energy production.

The President's budget proposal would reduce energy production on public lands, both onshore and offshore. The second largest source of revenue to taxpayers comes directly from the multiple forms of revenues, royalties and payments generated from producing energy offshore and onshore on public lands. Producing more American-made energy can both strengthen the

federal budget situation, as well as strengthen job creation and our national security. The actions of this Administration, as furthered by the proposals in the President's FY2012 budget, move us in the opposite direction – towards lost jobs, less energy and higher prices.

The higher taxes on energy, higher gasoline prices and deepening America's dependence on energy from hostile, dangerous regions of the world that would result from the President's policies and proposals is absolutely the wrong approach. The Committee instead recommends pursuit of an American Energy Initiative that focuses on an all-of-the-above energy approach for our nation. By increasing American energy production, we can create jobs, lower gasoline and energy prices, bolster our budget with greater revenue generation, and reduce our need for foreign energy.

Department of the Interior

Bureau of Indian Affairs (BIA)

Trust Management – Over the last several decades some of the costliest recurring items in the annual budget request of the Department of the Interior have been for the management, probate, and consolidation of highly fractionated Indian lands. These functions are authorized by various Indian land leasing statutes, the Indian Land Consolidation Act, and the American Indian Probate Reform Act.

Undertaking the consolidation of highly fractionated Indian land remains a huge challenge. Funds to purchase and consolidate fractional interests in Indian lands have routinely been provided through annual appropriations. The Claims Resolution Act of 2010 provides for a mandatory appropriation of $1.9 billion to the Department for the Indian Land Consolidation Program, conditioned on Final Approval being granted to the *Cobell v. Salazar* Settlement Agreement by the U.S. District Court for the District of Columbia. If the Settlement is given final approval, the Department has ten (10) years to spend the $1.9 billion for consolidating highly fractionated Indian lands before any unspent funds are returned to the U.S. Treasury.

In anticipation of final approval being granted to the Settlement, the President's FY2012 budget request virtually zeroes out Indian land consolidation monies, enabling the Department to claim it is cutting the budget for BIA programs even though $1.9 billion in a new mandatory appropriation is already provided for in federal law pending court approval.

In the meantime, the Department has yet to provide the Committee with any plan to spend this money within the ten year time limit provided in the Settlement. This lack of any publicly known plan has been a source of frustration for some tribal leaders. In fact, in a recent budget oversight hearing before the Subcommittee on Indian and Alaska Native Affairs, when asked about the Department's plan (if any) to consolidate fractional interests in Indian lands, the Assistant Secretary for Indian Affairs "recused" himself from responding to questions relating to the Cobell Settlement Agreement, and the witness for the Office of Special Trustee for American Indians issued the legal equivalent of a "no comment."

Here is what we do know: The Department estimates there are 4.1 million fractionated interests of Indian land on nearly 100,000 fractionated tracts. As part of a January 8, 2011 Department of the Interior Inspector General report on land consolidation, the Department stated:

> We are not assuming that current structures can or should be used to implement this special, one-time, enormous effort, particularly since the settlement anticipates that the program will be scaled up relatively quickly, with the land consolidation program hopefully proceeding in the early years in conjunction with other payouts under the settlement. IG Report, p. 6.

In response to this statement, the Inspector General's Report stated:

> [T]he Department likewise acknowledges that the Cobell implementation effort will require a new plan as opposed to using preexisting procedures.

With no funds requested in the President's Budget Request for FY2012 to address Indian land fractionation, and no new Departmental plan in place to spend $1.9 billion in mandatory spending (with a ten-year time limit), the Committee is concerned that existing Indian lands will continue to fractionate and create a larger problem – with higher costs – for Congress to resolve in future years.

Economic Development – The Committee is concerned that the requested level of community and economic development funds requested by the Administration do not properly take into account the most promising potential for economic development on Indian lands. The Department has indicated that non-competitive renewable forms of energy will be a priority for development in Indian Country. While wind and solar energy hold much potential, the reservations where they would be developed are located in remote areas where transmission capacity is low. More emphasis should be steered toward conventional energy development (oil, natural gas, coal), as U.S. infrastructure to deliver these forms of power is generally highly developed, and these forms of energy are the most cost-competitive and marketable. Several Indian reservations are believed to hold high concentrations of conventional energy resources and such action would provide a far greater and sustained positive economic impact for tribes.

Law Enforcement – The Committee supports sufficient funds to meet law enforcement needs in Indian Country. Indian Reservations experience unusually high rates of crime, including violent crime, while law enforcement personnel are responsible for covering large areas of land with relatively small resources. These problems should not be allowed to persist.

Bureau of Land Management (BLM)

Setting budget priorities that promote sound, multiple-use management of BLM lands will significantly contribute to the following goals: increased energy and resource independence, a wide diversity of outdoor recreation, job creation, economic growth, reduced deficit spending, and increased national security.

BLM has received significant pressure to convert its traditional multiple-use mandate into one focused only on preservation and a mission more akin to the National Park Service. Unfortunately, this movement received a big push with the creation of the National Landscape Conservation System (NLCS). As well as eroding the mission of BLM, NLCS has also morphed into a completely duplicative office at best, and an entirely new layer of bureaucratic, centralized, and unnecessary management at worst. The Committee strongly recommends consideration of eliminating the Office of the NLCS and restoring management of "units" to BLM state offices.

In these times of constrained budgets, it is curious that BLM is talking about expanding their mission outside of their boundaries to merge itself into landscape level planning. BLM needs to focus on its own land and how to best manage it to be available to those uses that practice sound conservation and at the same time create jobs and promote a sound national economy. Opening up the vast energy potential on our public lands is one way to accomplish this.

BLM has taken a significant step backward in recent months with a new Secretarial Order on "Wild Lands." The Wild Lands order serves to reduce and eliminate acres of public lands that are currently available to energy production. This is clearly the wrong direction when the country is more unified than ever expressing a desire to have their public lands responsibly developed for energy production. The Committee recommends eliminating any funds that would further the implementation of the Wild Lands policy.

As with other areas of the Department's budget, BLM squeezes important existing needs to quench this Administration's thirst for spending to acquire more federal lands. By requesting $50 million for land acquisition, BLM appears completely out of touch with the need to ensure that BLM land is in line with the country's current fiscal challenges. The Committee recommends that these funds be eliminated for FY2012.

The Committee is concerned about the rapidly increasing budget for the Wild Horses and Burros program. We favor a critical re-examination of the program with the goal of maintaining a sustainable population of wild horses and burros compatible with the carrying capacity of the land and reality of budget constraints.

Bureau of Ocean Energy Management (formerly Minerals Management Service)

The Committee recognizes the importance of ensuring adequate resources to oversee and manage the leasing, exploration and production of offshore oil and natural gas. The President's budget proposes $358.4 million for the agency, which reflects an increase of $119.3 million above FY2010 levels. U.S. offshore drilling should be the safest in the world, and additional funds are needed for enhanced activity, such as hiring more inspectors. Yet, the Committee believes it is critical to make certain that increased spending will be used to actually improve safety and resume offshore drilling. Most can agree that bigger government does not generally equate to better government. This Committee is specifically interested in how increased funding and staffing will improve the process and foster increased American energy production. The goal should be to make this agency better and faster, not bigger and slower.

Again, in light of the current fiscal crisis, it is important to remember that American energy production offshore and on public lands generates billions of dollars in revenue. Not only does this create jobs by producing energy in the U.S., but it helps lower the debt and deficit, and it prevents our energy dollars from being sent overseas to foreign countries.

For these reasons, the Committee believes strongly in the need to boost energy production offshore and onshore. This includes ending the *de facto* moratorium in the Gulf of Mexico that has put thousands out of work and idled American energy sources at a time of increasing gasoline prices and volatile turmoil in the Middle East and North Africa.

Additionally, the Obama Administration has acted repeatedly to delay and block production on the greater Outer Continental Shelf beyond the Gulf of Mexico, onshore on public lands, and on leased areas in Alaska. The Committee will look to all of these areas and other available repositories of American energy in seeking to create jobs, lower gas prices, lessen dependence on foreign sources, and boost bid payments, revenues, and royalties to the government to help balance the budget.

This approach stands in stark contrast to the President's FY2012 budget proposal. Instead of increasing production and thereby reducing the deficit, the Administration has proposed to increase the cost of producing American energy by raising a multitude of taxes. The President's budget includes over $60 billion in higher taxes and fee increases on American energy production. This will lead to less energy, higher gas prices and lost American jobs.

If the cost of producing gasoline is increased, the price of gasoline at the pump climbs higher. The last thing families and businesses need right now is even higher gasoline prices.

It is troubling that in the President's three budget submissions to Congress, each subsequent proposal seeks to increase energy taxes even higher than previously proposed. The Administration's insatiable appetite for higher taxes and higher gas and energy prices is a threat to job creation and economic growth.

Bureau of Reclamation (BOR)

The Bureau of Reclamation's dams and reservoirs provide water, emissions-free hydropower and numerous other benefits. The agency's historical water and power mission formed the basis for growth of the western United States, transforming arid land to some of the most productive farmland in the world and powering communities with affordable, reliable and renewable electricity. BOR played a leading role in building dams and storing water for these purposes, yet the agency generally has been transformed from a construction agency promoting abundant water and power supplies to an entity managing water shortages.

The Administration's FY2012 budget is a symbol of this transformation. In questioning before the Water and Power Subcommittee earlier this year, BOR indicated that it had little quantitative idea how its programs fit into Western water supply needs for the next two decades. In that context, its proposed budget pays little attention to the aging facilities that have served as the water supply backbone for much of the West and instead focuses on taxpayer-financed programs

that have a questionable federal nexus. Specifically, the agency seeks to expand its WaterSMART program, which provided funding in 2010 for toilet rebates to San Francisco Bay area residents and allocated $500,000 in grants to an entity with a history of litigating against the federal government's water projects. The proposed budget featured this program prominently, yet it does not have a formal cost-benefit analysis compared to the benefits of other projects.

While focusing on conservation and efficiency programs like WaterSMART and water recycling, the budget lacks vision on concluding new surface storage studies – and it actually continues a taxpayer-financed process aimed at removing four privately held hydropower producing dams on the Klamath River. The budget also pursues more water flows on the San Joaquin River in an attempt to re-introduce expensive salmon despite the resulting water damages that have occurred on nearby farmlands. Meanwhile, the proposed budget fails to address the ongoing situation of Delta pump curtailments that helped create 40% unemployment in some areas of the San Joaquin Valley of California.

In conclusion, the proposed budget fails to address many of the real issues impacting jobs in the rural West and instead focuses on dubious American taxpayer-financed programs that could be paid for by local beneficiaries.

U. S. Fish and Wildlife Service (FWS)

In its budget submission to the Congress, FWS repeatedly stated that it had to make a number of "tough choices" as to the funding levels for their programs. It is, therefore, surprising and disappointing that FWS would submit a budget request that is $47.9 million more than FY2010 enacted levels and $320 million more than FY2008. Only in Washington would an increase be considered a "tough choice."

Since FWS is unwilling or unable to make real "tough choices," the Committee is compelled to assist them in this effort. The first option is the FWS's request of $140 million for land acquisition under the Land and Water Conservation Fund. This amount is excessive and defies the fiscal threat confronting the government. A nominal amount may be necessary to undertake emergencies, hardships, exchanges, inholdings, etc., but even such efforts may be hard-pressed in the current budget environment. At a time when the operations and maintenance backlog within the National Wildlife Refuge System is nearly $4 billion, there is no justification for acquiring an additional 90,533 acres of private property.

The Committee recommends consideration of zero funding for the State and Tribal Wildlife Grant Program in FY2012. Under FWS's FY2012 budget submission, the States and Territories would receive $864.5 million in funds from the Federal Aid in Wildlife Restoration (Pittman-Robertson) and Sport Fish Restoration Account (Dingell-Johnson). At this time, it must be examined whether the taxpayers can afford this additional transfer of funds under the State and Tribal Wildlife Grant Program. It would save our taxpayers $95 million in FY2012, an amount $73.8 million below FY2008 funding levels.

U.S. Geological Survey (USGS)

The proposed USGS budget makes significant cuts in the non-fuel minerals program, eliminates the collection of international non-fuel minerals data (our nation is 100% dependent on foreign sources of 17 different non-fuel mineral commodities), eliminates the National Cooperative Geologic Mapping and Data Preservation programs, cuts grant money for mineral programs at universities and colleges throughout the U.S. (there is a significant National workforce shortage for petroleum and mining engineers and geologists), and reduces the budget for energy programs by $2 million. These are all programs authorized by the laws cited in the Department of the Interior's budget appendix.

In contrast, the budget proposal emphasizes the Secretary of the Interior's priorities: New Energy Frontier (renewables); Cooperative Landscape Conservation; WaterSMART; Youth in the Great Outdoors; and Ecosystem Restoration. This includes $25.6 million for existing and new Regional Climate Science Centers, which is $10.5 million over FY2010 enacted levels. This program should certainly not be expanded and the authority and justification for continuing existing centers must be examined closely.

It is essential to refocus USGS on its traditional, Congressionally-authorized core mission if the United States is to be competitive in the world, reduce our dependence on foreign sources of fuel and non-fuel minerals and materials, create jobs, and strengthen our economy by improving opportunities for responsible development of the nation's rich natural resources.

The Committee agrees with the Administration's comment on the agency's Water Resource Researches Institutes that there, "is not a Federal need or a clear Federal responsibility for this research." At a Subcommittee on Water and Power hearing last year, Members determined that some of this fungible funding was being used for water taste tests in the District of Columbia and how added water fees lead to more conservation. The program also lacks any consistent transparency.

National Park Service (NPS)

The Committee is concerned that NPS is diverting funds away from critical needs of the existing majestic and historic park units and into projects that do not further the NPS's essential mission to serve visitors and to preserve these great parks for the future. It is disappointing that despite historic increases to NPS's budget for the past two Administrations, the maintenance backlog on existing parks continues to balloon and visitation continues to decline.

The President's proposal has $360 million for land acquisition programs administered by NPS, with $160 million specifically set aside to grow federal holdings. These funds would be better directed toward major maintenance projects addressing aging and neglected infrastructure.

NPS is also asking for a $35 million increase for operations. Again, after receiving historic increases in recent years, NPS has done little to show for this in terms of increased public use and enjoyment of parks or reduction in the maintenance backlog. The Committee also notes that the total NPS budget is nearly $500 million higher than the FY2008 enacted amount, which leads

us to conclude that pleas of inadequate park funding may have more to do with management priorities than actual funding levels.

The Committee is encouraged that NPS recognizes the need to divest themselves of initiatives spreading their reach outside of their boundaries. Specifically, NPS proposes slicing heritage areas grants in half, to $8 million. The Committee recommends consideration of possible further reductions.

The Committee's strong support for our country's unparalleled system of grand parks notwithstanding, it is important to recognize the need, in coordination with NPS, to commit to finding areas of waste and lower priority spending within the budget. The current proposal does raise some questions. Specifically, NPS proposes spending nearly $60 million for construction management and planning, but only $90 million on actual construction. This ratio appears inefficient, but unfortunately consistent, with reports of possible waste within the NPS such as the instance in which the Park Service spent $1 million on a single toilet outhouse.

Office of Insular Affairs (OIA)

The President's FY2012 budget request for OIA is $474.374 million, $15.881 million less than the FY2010 enacted level of $490.255 million. Out of the overall budget for OIA, only $59 million is discretionary funding. With limited ways to reduce costs in OIA, efforts should be taken to respond to long-standing concerns raised by the Interior Inspector General and the General Accounting Office regarding insular area governments' internal control weaknesses, which increase the risk of fraud, waste and mismanagement. The Committee urges the Administration to institute measures to effectively monitor its grants and other funding programs within OIA to ensure federal funds are being used efficiently and as intended in the insular areas.

Department of Commerce

National Oceanic and Atmospheric Administration (NOAA)

The President's FY2012 budget request for NOAA proposes an increase of more than 15 percent from the FY2010 enacted level. This increase of $749 million is almost entirely a result of one satellite system ($688 million). In addition, NOAA has proposed a number of new initiatives that will drain funds from their ability to maintain Congressionally-mandated functions and duties.

Adequate Science Necessary for Management Decisions – NOAA' s new initiatives will hinder activities to gather basic scientific information necessary for making decisions on the management of natural resources. In particular, decreased fishery stock surveys will result in fishery managers making decisions based on out-dated information on the status of commercially and recreationally important fisheries. Without adequate and up-to-date information, management decisions will become more risk averse and will not allow for the full, responsible harvest of fishery resources, costing jobs and causing adverse impacts on coastal communities.

Coastal and Marine Spatial Planning – This new initiative would obviously require new funding. The initiative will result in coastal and marine zoning by Federal agencies that will further erode the ability of coastal and ocean-dependent users to conduct their activities, either recreational or commercial. This initiative is being coordinated out of the White House (the National Ocean Council) and through the Council on Environmental Quality. It is a very broad Federal initiative and will require any agency that has authority over any coastal or ocean program to adhere to new guidelines which will be developed without public comment by unelected agency personnel. In addition, this initiative does not have specific statutory authority. No funds should be appropriated for this new initiative.

Regional Ocean Partnership Grants – This is a new funding request for FY2012 that is also being driven by Presidential initiative and is related to Coastal and Marine Spatial Planning. The President's request is $20 million. No funds should be appropriated for this new grant program.

NOAA's Education Programs – There are more than a dozen separate programs within the NOAA Education office, most of which were created and sustained through earmarks. The National Academy of Sciences conducted a review of the NOAA education programs; however, they did not make recommendations concerning overlap and duplication of programs. Duplication of programs should be eliminated. While the President's request does eliminate all earmarks within this office, decisions should be made on whether NOAA's education programs should be maintained and, if so, statutory authorization should be pursued.

Marine Protected Areas – There are numerous statutes that give NOAA authority to create specific types of protected areas, including the National Marine Sanctuaries Act, the Magnuson-Stevens Fishery Conservation and Management Act, and authorities for the National Estuarine Research Reserve System. It is unclear why NOAA also has a Marine Protected Area Center and has funded a Marine Protected Area Advisory Committee for more than ten years. Funding for both should be examined for elimination.

National Catch Share Program – While some funding is necessary to implement existing fishery management plans and amendments to existing catch share plans, the President's budget request of $54 million for FY2011 and FY2012 is well above the amount necessary for existing programs. NOAA has indicated that it intends to increase the number of catch share programs by more than double, even in fisheries where fishermen are not interested. This push from the top down is inappropriate. In addition, funding for this new initiative has been taken from important programs such as cooperative research to fund this top-down push for catch shares.

Coastal and Estuarine Land Conservation Program – Eliminating this land acquisition program would save $20 million, the amount appropriated in FY2010. The President's FY2012 request is $25 million. This is not a time when taxpayers can afford to increase federal land ownership, especially when the government cannot afford to care for and maintain existing lands.

Department of Agriculture

U. S. Forest Service (USFS)

The Committee is concerned that USFS, faced with serious threats to forest health from fires, beetle infestations and the demise of many local wood products companies, now seeks to expand its reach and use its limited resources on projects that do not address current problems and may ultimately damage the public's forests. Specifically, the President's budget proposes spending $230 million in land acquisition. USFS is already behind in efforts to manage our forests in a manner that allows the American people to enjoy the full benefits of these lands. Properly managed, our national forests can contribute to our national well-being while providing economic opportunities that flow to surrounding communities and keep the forests healthy and disease free. In fact, our forests are literally collapsing as the scourge of beetle infestation grows unchecked. Therefore, the Committee cannot support expanding Forest Service lands until these basic responsibilities are met and budget concerns lessened.

The Committee also recommends eliminating funds that would otherwise go to well-funded and litigious groups in the form of Equal Access to Justice Act payments. The pattern is now well established. Almost every timber sale is contested in court by activists, with the attorney costs being picked up by the taxpayer. Beyond this waste, the unfortunate result is that forests go unmanaged, deteriorating into the inevitable state of a catastrophic forest fire time bomb. The Committee wants an end to the litigation-induced downward spiral in the condition of the taxpayers' forests and the injustice of forcing taxpayers to fund the attack.

The Committee recommends a strengthening of the county payment or Secure Rural Schools system with an emphasis on creating a more secure and dependable basis for funding. Such a system could include revenue resulting from lands or resources being dedicated for that purpose. Ultimately, the goal should be to allow timber communities to get back to work, caring for and providing for the health of the land that they know best how to manage.

The Committee is concerned by a move, specifically found in the draft Land Management Planning Rule, which encourages "Landscape" level planning by USFS. Again, there is widespread support for efforts that contribute to the health of our forests, but USFS has more than enough to do in improving the management of its current forests and is not in a position to expand its influence over State or private lands that are regularly managed to a higher standard than federal forests. Funds must be focused on finding solutions to the health crisis found on our federal forests.

Department of Energy

Western Area Power Administration

The Western Area Power Administration seeks to loan taxpayer money for the purpose of integrating wind and solar energy into the nation's transmission grid. The goal of the program is to require loan recipients to pay back the federal funding with interest; however the actual statute authorizing the loan program indicates that, "If, at the end of the useful life of a project, there is a

remaining balance owed to the Treasury under this section, the balance shall be forgiven." This means that American taxpayers could be stuck with the bill for any outstanding balances on a project that cannot be repaid. American taxpayers cannot afford any more bailouts.

Additional and Dissenting Views
Committee on Natural Resources
Views and Estimates for Fiscal Year 2012

We do not support the penny-wise and pound foolish approach to the budget that the majority takes. Investments in the natural and human resources of our country will pay dividends not only today but for years to come. We can, by making smart choices in the use of federal funds, enhance our economic well-being, protect our environment and provide a bright future for our children and grandchildren.

The programs and activities under the jurisdiction of the Committee on Natural Resources are an economic engine for the United States. Federal lands are a major supplier of renewable and conventional energy resources. Our Nation's national parks, forests, public lands, and wildlife refuges not only provide enjoyment and inspiration to millions of Americans but also support significant economic activity in recreation, tourism and wildlife.

As an example, the work of the Department of the Interior (DOI) supports more than 1.3 million jobs and $370 billion in economic activity annually. DOI is unique in that the department generates more revenue for the U.S. Treasury than it receives in annual appropriations.

The committee has special responsibilities for Native Americans and U.S. Territories and we must not seek to balance the budget on the backs of these vulnerable populations. This is especially true at a time when we have major multinational corporations who are reporting billions in profits yet are not paying the American public for the use of public resources on and within the lands of the United States.

The Administration has been restrained in its budget request. While we do not agree with everything they have proposed, their budget request would place the United States on a sounder footing than where the Majority Members of the Natural Resources Committee would lead us. Programs within the jurisdiction of the Natural Resources Committee are on the Republican chopping block not because cutting them will meaningfully reduce the deficit but because they are priorities for the White House.

In fact, if the Congress were to enact the President's Fiscal Year 2012 Interior budget request as submitted, it would reduce the deficit by $2 billion. Serious efforts to cut spending would praise Interior's effort and move on to requiring similar savings from other departments and programs. Such an approach does not appear to interest House Republicans.

LWCF

House Republicans feign *fiscal* outrage at spending proposals that offend their *political* sensibilities. The chief outrage appears to be the President's call to provide the fully authorized level of funding for the Land and Water Conservation Fund (LWCF). The basic premise of the LWCF is that as oil companies deplete our off-shore energy resources, a small percentage of their enormous profits should be deposited into a conservation trust fund. "Cutting" LWCF expenditures does not save taxpayers' money; it simply diverts energy company payments away from the conservation purposes for which they were collected.

The fact that we face difficult budget challenges does not mean we should stop building our national parks, forests, public lands and refuges. Previous generations invested in federal land during both world wars and the Great Depression and our challenges pale in comparison.

Nor is it legitimate to claim we should freeze federal land acquisition until all maintenance needs have been met. This is like telling the Pentagon they can't buy new airplanes or tanks because the existing fleet needs an oil change. The choice between meeting our maintenance needs and building our federal lands is a false choice, created by those who simply don't support parks and public lands. We can, and we will do both.

Bureau of Land Management (BLM)

The Majority views oppose funding for the National Landscape Conservation System (NLCS) within the BLM because it is *both* a fundamental shift in the agency's mission, and merely duplicative. The Majority fundamentally misunderstands the program. The BLM is a multiple-use agency whose conservation mission has received short shrift during the race to produce more oil and gas. The NLCS provides new emphasis on conservation of BLM lands and increasing funding for the program is actually the point.

We note with interest the Majority's opposition to funding for the Secretary's recently announced wildlands policy. Given that the Administration has not requested any funding for the policy, this amounts to saving money that does not exist.

Forest Service

The Majority's plan to save money in the Forest Service budget is not to address fire suppression or bark beetle costs, but rather to abolish payment of attorney's fees pursuant to the Equal Access to Justice Act. It is unclear if the Majority opposes equality, equality of access, or justice itself. Regardless, the Majority views fail to point out that such fees are available only to

successful plaintiffs. In effect, the Republican plan is to balance our budget by making it too expensive for plaintiffs to pursue legitimate claims against the federal government. It is difficult to imagine a less lucrative or more unjust policy.

Bureau of Ocean Energy Management, Regulation and Enforcement (BOEMRE)

Improving safety for offshore drilling must be the top priority for the BOEMRE as the Administration continues to permit new offshore drilling on the outer continental shelf. According to the independent, National Commission on the BP Deepwater Horizon Oil Spill and Offshore Drilling, "from 2004 to 2009, fatalities in the offshore oil and gas industry were more than four times higher per person-hours worked in U.S. waters than in European waters, even though many of the same companies work in both venues." The Commission further concluded that the root causes of the BP spill were "systemic" to the entire industry. The Administration's proposed increase in the BOEMRE budget to hire more safety inspectors and to ensure that drilling occurs in an environmentally protective manner is necessary to protect our workers, our economy and our environment.

The majority's contention that there is a "de facto moratorium" on new permits in the Gulf of Mexico is not supported by the facts. In the last nine months, the Administration has issued 38 new permits in shallow water – a rate of 6 per month, nearly matching the rate prior to the spill. In deepwater, the deepwater drilling moratorium was lifted on October 12, 2010. However, until recently, no oil company had demonstrated an ability to actually contain and respond to a deepwater blowout like the Deepwater Horizon. That was the holdup – that oil companies remained unable to contain a deepwater blowout, not the Administration.

Once oil companies demonstrated they had the capability to contain a blowout, the Administration issued the first deepwater drilling permit 11 days later, on February 28, 2011, and a second deepwater permit on March 11, 2011. Furthermore, there are more rigs in the Gulf now than there were before the spill, with 125 rigs in the Gulf now as compared with 122 one year ago.

Moreover, domestic oil production has increased in each year of the Obama Administration. Overall, U.S. domestic oil production is at its highest level since 2002. In the last two years, oil production from the federal U.S. Outer Continental Shelf has increased by more than a third, from 446 million barrels in 2008 to an estimated more than 600 million barrels in 2010. Federal offshore oil production accounted for 25% of total U.S. production in 2008. That number rose to 30% of total U.S. production in 2009.

Gulf of Mexico production has similarly increased. According to the Department of the Interior, Gulf oil production totaled 569 million barrels in 2009, an increase from 422 million

barrels in 2008. Despite the BP oil spill, through October 2010, Gulf of Mexico production was already 502 million barrels of oil.

Nearly a year after the BP spill, Congress has not enacted a single reform to improve the safety of offshore drilling. Democratic leaders in the House have introduced legislation to implement the recommendations of the independent Commission but this Committee has not scheduled any legislative action in the 112th Congress whatsoever on these reforms to improve the safety of offshore drilling. Nor has this committee heard from BP and or any other major integrated oil company, despite the fact that the Commission called the causes of the BP Horizon disaster "systemic."

Meanwhile, the Majority is defending unnecessary tax subsidies for the oil industry, some of which were enacted nearly 100 years ago. When oil is hovering around $100 per barrel, these oil companies do not need additional tax incentives to drill for oil, the profit motive is already there. And the five largest oil companies are already making nearly $100 billion per year in profits. If the Majority were serious about reducing the deficit they would join Democrats in working to repeal these unnecessary tax breaks.

In addition, the Majority has opposed Democratic efforts to close a loophole in a 1995 law that allows oil companies to drill on public land offshore in the Gulf of Mexico without paying any royalties to the federal government. American taxpayers currently stand to lose up to $53 billion dollars as a result of this royalty-free drilling, according to the Government Accountability Office.

The Majority has also opposed Democratic efforts to impose a fee on nonproducing oil and gas leases as a way to incentivize production and increase the revenue to the federal government. Currently, oil companies hold 79 million acres of federal land under lease but are only actually producing on 18.5 million acres. The GAO has recommending increasing fees on nonproducing leases as a way to incentivize more timely production and increase federal revenue. The Administration has included a proposal in its FY12 budget to establish a similar fee on nonproducing oil and gas leases to what House Democrats have proposed.

Finally, the Majority claims to be pursuing an "all-of-the-above" energy plan when the scorecard in this committee stands at 7 hearings on oil and gas and zero on any other forms of energy.

Bureau of Indian Affairs

The resolution of the *Cobell* litigation will mark an historic turning point in redressing the injuries to Native Americans as a result of past shortcomings of the United States in fulfilling its

trust duties owed to tribal nations and individual Native Americans. Once the Cobell settlement is approved by the Court, the Department of the Interior will be in a better position to move forward in addressing the educational, law enforcement, and economic development challenges faced on Native American tribal lands.

The majority complaints that the administration has failed to allocate discretionary funding for the development of a plan to consolidate fractionated interests on Indian land are truly baffling. The President's budget request clearly explains that the *Cobell* settlement will establish a new fund to purchase fractionated interests and this fund "covers administrative costs to undertake the process of acquiring fractionated interests and associated trust reform activities." The majority repeatedly cites the need to eliminate wasteful and duplicative spending in the federal budget, yet here it wants to allocate discretionary funds to duplicate what will occur after the *Cobell* settlement is approved by the Court. Moreover, until the Court approves the *Cobell* Settlement, it would be imprudent to allocate discretionary spending on a plan to consolidate fractionated land interests since the Court might modify or ever disprove of the settlement agreement. As the majority's own report explains, the land consolidation program will proceed "in conjunction with other payouts under the settlement," not *before* the settlement is approved.

The majority's contentions about economic development being shortchanged on tribal lands are equally baffling. The administration has requested additional funds for tribal government operations, including an additional $2.9 million for Small and Needy tribes. This additional funding will allow a greater degree of autonomy and self-determination for tribal nations so that each tribe can make its own decision on how to best develop its own economy.

With respect to energy development on tribal lands, the administration has proposed a true "all of the above" energy strategy. The administration proposed $18.7 million for minerals and mining activities on tribal lands, an *increase* from FY 2010 levels. And, the administration proposed a modest increase of $2 million to develop renewable energy projects on tribal lands. These projects could provide tribes with a long-term, sustainable source of revenue, instead of the boom-and-bust phenomena that has repeatedly occurred on tribal lands during the extraction of conventional energy resources. The majority's desire to steer even more money to industries that are mature, profitable, and do not require government assistance does not reflect a balanced energy strategy that would create a sustainable future for tribal nations.

U.S. Territories

The Territorial Clause of the U.S. Constitution provides the Congress with the power to "dispose of and make all needful Rules and Regulations respecting the Territory or other Property belonging to the United States..." The enactment of certain federal laws has provided

the Secretary of the Interior with the authority to carry out functions to improve the economic and political development of the U.S. territories of the Virgin Islands (USVI), Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands (CNMI). Congress makes annual appropriations available to the Interior Department's Office of Insular Affairs (OIA) to assist in their mission to help the aforementioned U.S. territories. Additionally, annual appropriations for three former U.N. Trust Territories of the Pacific Islands, whose political relationship and funding agreements are governed under Compacts of Free Association, are carried out through the Department of the Interior's Office of Insular Affairs.

The Fiscal Year 2012 budget request would provide $87.2 million in current appropriations to the Office of Insular Affairs, which is $15.3 million below the FY 2010 enacted level. We agree that measures should be instituted to address the long-standing DOI Office of Inspector General recommendation to address internal OIA control weaknesses to address potential waste, fraud, and mismanagement. However, it should be noted that the OIA as currently constituted may not be able to carry out such measures. We would therefore recommend that OIA receive additional funds for increased field and technical operations to address these various problem areas.

U. S. Fish and Wildlife Service (FWS)

Our fish and wildlife resources provide billions of dollars in benefits to the U.S. economy, are an integral part of our nation's heritage, and provide abundant opportunities to experience wildlife-dependent outdoor recreational activities. Yet, several factors, notably climate change and habitat loss and fragmentation remain paramount threats to our wildlife legacy. We support the Administration's request to seek funds of $1.69 billion to address the impacts of climate change, and to conserve, protect, and enhance fish, wildlife, plants, and their habitats for the American people.

Landscape Conservation Cooperatives

We support the FWS's request to seek funds of $37.5 million for Cooperative Landscape Conservation and Adaptation Science activities. A network of Landscape Conservation Cooperatives will serve as a vital tool for natural resource managers to work collaboratively to manage for climate-driven changes in ecosystems throughout the Nation.

State and Tribal Wildlife Grants

The State and Tribal Wildlife Grant Program provides States, territories, and Tribes with Federal grant funds to implement programs for the benefit of fish and wildlife and their habitat, including species that are not hunted or fished. All funded activities must link with species,

actions, or strategies included in each State's Wildlife Action Plan. Zeroing funding for the State and Tribal Wildlife Grants Program would eliminate highly leveraged dollars that are supported by the States, Tribes, fish and wildlife managers, sportsmen, environmentalists, and tourism businesses. These funds come from the Land and Water Conservation Fund, which are revenues collected from Outer Continental Shelf oil and gas royalties, not taxpayers dollars. We support the Administration's request of $95 million for the State and Tribal Wildlife Grants Programs, which protects American jobs, and preserve sustainable industries including hunting, fishing, and wildlife tourism.

North American Wetlands Conservation Act (NAWCA)

The North American Wetlands Conservation Act provides matching grants to organizations and individuals who have developed partnerships to carry out wetlands conservation projects in the United States, Canada, and Mexico for the benefit of wetlands-associated migratory birds and other wildlife. We support the Administration's request for $50 million for the North American Wetlands Conservation Fund.

Endangered Species Program

We are pleased that the Administration has moved aggressively to restore the credibility and scientific integrity of its responsibilities under the Endangered Species Act (ESA) and support the request of $182.7 million in Fiscal Year 2012. Funding for ESA programs is of paramount importance to address the backlog in proposed listings, to develop critical habitat designations, to conduct renewable energy consultations, and to provide monies for the Cooperative Endangered Species Fund.

National Oceanic and Atmospheric Administration (NOAA)

National Ocean Service (NOS)

Coastal and Marine Spatial Planning and Regional Ocean Partnership Grants

The *Deepwater Horizon* disaster has been a clear example of how one use, oil and gas drilling, can cause harm to other uses, including fishing and tourism. Without coordination and planning of ocean uses, there is no way to properly balance activities in and protection of our oceans. Regional Ocean Partnerships ensure coordination and communication amongst Federal agencies with authorities for ocean, coastal, and Great Lakes management and between those Federal agencies and States. This coordination and planning will reduce conflict among different user groups and provide certainty for the various user groups, including the U.S. Navy, the fishing industry, the transportation sector, offshore oil and gas industry. We are pleased to see initiatives to support coastal and marine spatial planning and to fund regional ocean partnership

initiatives to increase coordination and reduce conflict in our ocean, coastal, and Great Lakes environments.

Coastal and Estuarine Land Conservation Program (CELCP)

The CELCP is critical to protecting coastal lands and estuarine areas that are ecologically productive and economically important. The Program improves stewardship and conservation of these highly vulnerable lands, by providing matching land conservation grants (50:50) to state and local governments that are threatened by development, giving priority to lands that can be effectively managed and protected, and have ecological value. We commend the Administration for requesting $25 million for CELCP grants, which represents a 20 percent increase over the Fiscal Year 2010 appropriation to support additional land acquisition in coastal watersheds.

Integrated Ocean Observing System (IOOS)

NOAA and many other agencies and organizations within the IOOS collect data that deliver information needed to increase understanding of our oceans and coasts, so decision makers can take action to improve safety, enhance the economy, and protect the environment. Armed with this information, local planners can make long-term decisions that not only save billions of dollars, but also save lives. We support the Administration's request for $31 million to support IOOS regional observations.

Working Waterfronts

During an era in this country when creating and sustaining jobs is critical, we support the Administration's request for $8 million to fund the Working Waterfronts program. This program will assist distressed fishing communities by providing resources for communities to engage in planning, capacity building, and other activities to support economic diversification, resource conservation, and economic growth.

Coral Reef Program

The Coral Reef Program helps build and lead U.S. efforts to protect, restore and sustainably use the nation's valuable coral reef ecosystems. We are disappointed that the Administration has proposed cutting $2 million from NOAA's coral reef conservation program and recommend restoring funding for this program at no less than the Fiscal Year 2010 appropriated level.

National Marine Fisheries Service (NMFS)

Fulfilling the mandates of the Magnuson-Stevens Fishery Conservation and Management Reauthorization Act (MSRA) of 2006 will require adequate funding for stock assessments and other activities that provide the scientific and technical foundation to meet the statutory deadline

for all federally managed stocks to adhere to annual catch limits by this year. Strong, up-to-date science is the foundation for rebuilding fisheries. NOAA estimates that if all stocks were rebuilt, this would generate an additional $31 billion in sales impacts, support an additional 500,000 jobs, and increase ex-vessel value by $2.2 billion.

We support the Administration's request for $67 million for annual stock assessments, $11 million for economic and social sciences research, $33 million for fisheries statistics, and $24 million for survey and monitoring projects. However, we are disappointed that the Administration has proposed cutting $10 million from cooperative research. These cuts undermine efforts to increase and improve the working relationship between NMFS researchers, state fishery agencies, universities, and fishermen.

Climate Service

We are pleased to see a budget neutral reorganization that establishes a Climate Service line office, which brings together NOAA's existing climate capabilities. Up to one-third of the U.S. gross domestic product depends on accurate weather and climate information. NOAA's climate science and services provide significant public and private sector benefits, allowing businesses, communities, and individuals to make smart investment choices that impact the economy and public health and safety. The Climate Service will allow NOAA to more efficiently and effectively provide the reliable, easily accessible climate data, information, decision-support services, including to NOS and NMFS, and to better coordinate with other agencies and partners.

United States Geological Survey

The U.S. Geological Survey (USGS) is a science-based organization that provides impartial information on environmental and ecosystems health, the natural hazards from earthquakes and volcanoes, the location and abundance of natural resources throughout the United States, the impacts of climate and land-use change, and the core science systems that provide timely, relevant, and useable data to the public. In contrast to the majority's desire for the USGS to focus on its historical areas of expertise, the budget proposal demonstrates that the USGS is adapting to the 21st century needs of the nation while acknowledging the current fiscal constraints.

The biggest changes to the USGS budget are the requests needed to formalize the partnership between the USGS and the National Aeronautics and Space Administration (NASA) to maintain the continuous collection and availability of earth imaging data provided by Landsat satellites, which were called for in the National Space Policy. The Landsat satellites are vital to the Nation's agricultural, water management, disaster response, and scientific communities. In

addition, the military uses Landsat for mapping, surface-change detection, and graphics-display applications. New and innovative uses of Landsat data are being continually developed by USGS, especially to develop new techniques using satellite and historical USGS data sets.

The USGS's Climate and Land Use Change activity supports the important need to assess and forecast climate change and to provide scientific information on the impacts of climate and land use change on the nation. Pursuant to Public Law 110-161, the USGS began the development of the National Climate Change and Wildlife Science Center (NCCWSC). The NCCWSC will eventually be expanded into a network of eight DOI Climate Science Centers, with the first three coming on line next year. The focus of this program is to provide climate change impact data and analysis geared to the needs of fish and wildlife managers as they develop adaptation strategies in response to climate change. These DOI Climate Science Center will be developed in close collaboration with other Interior agencies as well as State, university, and non-governmental partners allowing federal dollars to leverage additional dollars and expertise outside of the federal government to meet the increasing challenges of climate change.

The USGS budget proposal also requests increased funding to support the WaterSMART Program Water Use and Availability Assessment initiative. At a time when climate variability is impacting the rate and timing of water supply throughout the nation, good data and research are needed to inform water management decisions that are critical to our adjustment to the earth's dynamic water system. To support the Administration's National Ocean Policy, the USGS requests additional funding for coastal and marine spatial planning. The USGS will support regional planning efforts with other Federal, State, tribal and regional partners by developing a national information management system for coastal, ocean and Great Lakes resources.

The USGS budget proposal to cut some programs in natural hazards, water resources, environmental contamination and mapping are worrisome and will require active Congressional oversight to insure that the USGS is meeting the needs of the nation in these areas.

Bureau of Reclamation

The Bureau of Reclamation (Reclamation) is responsible for the development of federal water supply and power generation facilities in 17 western states. Historically, Reclamation constructed large scale multipurpose projects in an effort to reclaim the arid desert in the early 20th century. Reclamation's Fiscal Year 2012 budget request supports project activities that provide water and power certainty while evolving with the changing water needs of the west. Quite simply, Reclamation's budget request will support activities that meet its core mission of delivering water and generating hydropower consistent with state and federal laws, and in an environmentally responsible and cost-effective manner.

Reclamation's budget request also funds program activities that have an extremely robust non-federal cost share, further leveraging federal dollars. We support the Administration's funding request of $58.8 million for the WaterSMART program which includes cost sharing activities like the Title XVI Water Reuse and Recycling Program (1:3 match), WaterSMART Grants (1:1 match), and the basin studies (1:1 match).

The Title XVI Water Reuse and Recycling Program is the quintessential program of doing "more with less." Title XVI projects have produced an estimated 260,000 acre-feet of real water made available in 2010. For every federal dollar spent on an authorized Title XVI project, there is a $3 dollar non-federal cost share. Similarly, WaterSMART grant projects had been appropriated $93 million in federal funds since 2004, and are expected to conserve about 715,000 acre-feet per year. These existing WaterSMART projects, ranging from lining of irrigation canals to industrial efficiencies, yield a cost of $130 per acre-foot.

In comparison, a December 2006 appraisal level study estimated the cost to construct the Auburn-Folsom South Unit at $9.59 billion dollars. Reclamation has provided a rough estimate of $46,144 dollars per acre-foot. Some of the costs would be allocated for other project uses, however, tens of thousands of tax payer dollars per acre-foot would still be spent on irrigation water produced by this project.

Indian water rights settlements provide water supply certainty for tribal and non-tribal communities and end expensive and protracted litigation through the settlement of unresolved water claims. On December 8, 2010, President Obama signed into law the Claims Resolution Act of 2010, which included four water rights settlements for seven tribes and pueblos in Arizona, Montana, and New Mexico. Since the passage of the Claims Resolution Act, Congress has approved 27 Indian water rights settlements.

Like the Administration, we strongly support the resolution of Indian water rights claims through negotiated settlements and the empowerment of Tribal Nations through funding water rights settlements. The 2012 budget request includes $84.4 million for Indian Land and Water Claim Settlements, of which $51.1 million is in the Reclamation budget as part of the newly established Indian Water Rights Settlement Account. The account provides funds for construction activities to fund the four water rights settlements that were a part of the Claims Resolution Act, as well as the Navajo-Gallup Water Supply Project.

Finally, we strongly support the Administration's funding requests in support of local, state and federal partnerships. This includes $39.7 million for Reclamation to actively engage in the Bay Delta Conservation Plan, a multi-stakeholder driven initiative focused on conserving and restoring the health of the California San Joaquin-Sacramento Bay Delta while improving water management. We also strongly support the requested $9 million for the San Joaquin River Restoration Settlement, a Settlement committed to restoring flows and salmon to the San Joaquin

River between Friant Dam and the Merced River confluence while avoiding or minimizing adverse water supply impacts to Friant contractors.

Power Marketing Administrations, Department of Energy

The American Recovery and Reinvestment Act of 2009 (Stimulus Act) provided both Bonneville Power Administration (BPA) and Western Area Power Administration (WAPA) with $3.25 billion in borrowing authority. We support the use of borrowing authority by BPA and WAPA, consistent with their unique missions. We also strongly urge WAPA and BPA to continue to engage with their customer groups as appropriate in the discussions regarding borrowing authority.

Edward J. Markey

M.C.

Clude E. Pepper

Madeleine Z. Bordallo

Raúl M. Grijalva

Rush Holt

Views and Estimates on the Fiscal Year 2012 Budget
Committee on Oversight and Government Reform
United States House of Representatives

Overview

In submitting these Views and Estimates pursuant to § 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), the Oversight and Government Reform Committee (the Committee) is primarily concerned with doing its part to help restore budgetary balance at a time when the Nation is grappling with historic annual budget deficits and a public debt level approaching $10 trillion.

The Committee's oversight activities are focused on identifying barriers to job creation that are restraining the economic growth necessary to restore budgetary balance, and identifying the waste, fraud and abuse in government programs that creates a perpetual drain on Federal coffers.

The Committee's legislative agenda is similarly focused on strengthening the Federal balance sheet. This includes efforts to increase transparency, empower inspectors general and improve Government management laws. It also includes harmonizing Federal workers' compensation with that of private sector counterparts, shoring up the long-term solvency of the Postal Service, and ensuring the efficiency and cost-effectiveness of the Federal contracting process.

Government Reorganization

The President's FY 2012 Budget states that, "In the coming months, the Administration will develop a proposal to merge, consolidate, and reorganize the Federal Government in a way that best serves the goal of a more competitive America." The Committee shares the Administration's goal of organizing Executive Branch functions in a manner that results in the most effective and efficient delivery of critical programs and services. The size and scope of our Federal Government has continued to grow, resulting in duplicative programs and functions that waste scarce taxpayer dollars and limit our ability to meet current and future needs. The Committee looks forward to working collaboratively with the Administration as it develops its proposal.

Human Capital Management

The Committee agrees that the Federal Government needs to improve management of the Federal workforce to better serve the American people, and looks forward to reviewing the proposed human resource dashboard to evaluate planned improvements in human capital management. The Committee was disappointed to see the Office of Personnel Management's (OPM) indication in the Budget that it "will continue to study the feasibility of promoting alternatives to modernize the Federal pay system to be more supportive of current recruitment and retention trends and strategies." This statement stands out against OPM Director Berry's November 2009 statement that the "the cracks are showing," in the General Schedule (GS) pay system, adding that government "could limp along for a few more years [in it], or we can seize this moment to build something new." The Committee will consider legislation to establish a

total compensation system that is market and performance sensitive and attracts individuals with the skills necessary to meet current and future mission needs. The Committee looks forward to the Government's continued efforts to reform the hiring process. While the Executive Branch has made some progress in reducing the time to hire from 180 days to 105 days, further reform is necessary to meet the 80 day hiring cycle goal established by the President in his memorandum of May 11, 2010, *Improving the Federal Recruitment and Hiring Process.*

Federal Civilian Workforce Size and Compensation

In the context of an FY 2012 Budget that emphasizes the need to make "tough choices and sacrifices," the President proposes an increase of 15,000 full-time equivalents within the federal civil service (excluding the U.S. Postal Service) for the coming year. The Committee questions the logic behind an increase in federal employment when many, including the National Commission on Fiscal Responsibility and Reform, are calling for reductions in the size of the federal workforce, either through attrition or force reductions.

Starting in 2011, the President proposed and Congress enacted a two-year freeze for Federal civilian basic and locality pay, at an estimated savings of $2 billion over the remainder of 2011, $28 billion over the next five years, and more than $60 billion over the next 10 years. The Committee is concerned, however, that the President's description of this policy as an overall "pay freeze" for Federal civilian employees is a misnomer, in that periodic step increases based on longevity in the Federal workforce will continue to occur during the two-year period. The Committee intends to propose legislation eliminating these periodic step increases, which are demonstrably performance insensitive. During fiscal years 2000-2009, periodic step increases were awarded to 99.5 percent of eligible employees. Of the 1.1 million GS full time, permanent, non-seasonal Federal employees in service as of September 2010, 45 percent received within-grade increases under 5 U.S.C. 5335 during the prior twelve month period. The annualized cost of these within-grade increases is approximately $1.025 billion, or approximately 1.25 percent of payroll, over a 12 month period. The long-term savings is much greater, since it would also lower the baseline used for future pay adjustments.

Modest changes to Federal retirement benefits would also produce significant long-term savings. Many such changes would also harmonize Federal employee benefits with those of their counterparts in the private sector. To provide just one illustration, private sector retirement benefits are more typically calculated based on a worker's highest five salary years than the "high three" calculation used for the Federal workforce. The fiscal dilemmas many States now face due to public sector pension obligations owed should serve as a warning to those charged with determining Federal workers' retirement benefits.

Telework

The President's budget proposes funding for an evaluation of Federal telework practices. The Committee looks forward to reviewing the results of the evaluation to determine the extent to which the *Telework Enhancement Act of 2010* improves telework practices, and the extent to which it can be enhanced, in order to ensure that telework is managed in a responsible, cost-effective manner that results in a more productive and efficient Federal workforce.

Office of Personnel Management

The President's Budget requests a six percent increase for the OPM. The Committee is concerned with the Administration's decision to suspend all retirement system modernization activities, which it characterizes as a fiscally responsible action that will enable resources to be redirected toward supporting implementation of the Affordable Care Act and expanding employee wellness programs. OPM has already received $5 million from the Department of Health and Human Services and is requesting a direct appropriation of $12.3 million in FY2012 to fund management, development and design, and analysis activities from the Multi-State Option Plan.

Federal employees should receive their retirement benefits in a timely manner. Management and administration of the retirement program for Federal employees is a High Priority Performance Goal linked directly to OPM's Strategic Goal of honoring Federal service. For more than 20 years, OPM has been undertaking initiatives to improve Federal employee retirement processing. The Committee understands the need to reduce spending, but questions why OPM is choosing not to address management weakness in retirement processing identified by the Government Accountability Office (GAO).

The Committee looks forward to receiving more information on the Administration's proposal to carve out the purchase of prescription drugs under the Federal Employees Health Benefits Program (FEHBP) at a savings of $1.7 billion over ten years. The President's Budget proposes $2 million in funding to cover administrative expenses associated with this proposal. The Committee questions whether the proposal is simply cost-shifting, and seeks to better understand the impact such a proposal would have on existing FEHBP premiums, of which the employer share is 72 percent.

The Budget includes funding for the government's share of the normal cost of the Federal Employees Retirement System (FERS). Effective fiscal year 2012, the normal cost is projected to be 12.7 percent. Most employees contribute 0.8 percent of the normal cost, with the government contributing the remaining 11.9 percent. The Committee may propose legislation to increase the employee share from 0.8 percent to 1.3 percent of the normal cost, at a projected savings of approximately $8.9 billion over ten years.

Federal Employees Compensation Act Reform

The Committee shares the Administration's goal of reforming the Federal Employees Compensation Act (FECA) at an estimated savings of $400 million over ten years. The Committee intends to work with the Committee on Education and the Workforce to advance legislation that converts retirement-age beneficiaries to a retirement annuity benefit, imposes a three-day waiting period for benefits, and permits third party collection of compensation awards.

Patent and Trademark Office

The Budget proposes that the Patent and Trademark Office (PTO) continue to fund accruals associated with post-retirement health benefits as well as the full cost for retirement benefits for its employees. The Committee supports this request.

Federal Real Property Disposal

In the fiscal year 2012 budget, the President proposes the creation of a Federal Civilian Real Property Board (Board) for the purpose of establishing "a fair process that will result in the timely disposal and realignment of Federal civilian real property, including but not limited to unneeded buildings and warehouses."[1] It appears this proposal is similar to the Department of Defense's Base Realignment and Closure process, which is expected to save approximately $5 billion by 2012.[2]

According to the Budget, the Federal Government operates and maintains an inventory of 14,000 buildings or structures which have been designated as "excess," and 55,000 which are under or not-utilized.[3] The total portfolio of buildings and structures includes over 900,000, with over 3 billion square feet.[4] Since 2003, Federal real property management has been included on the GAO High Risk Series.[5]

Previously, GAO raised concerns about the reliability of the data contained in Federal Real Property Profile (FRPP), the database cataloging the Federal Government's holdings.[6] However, due to steps taken by the Bush Administration and continued in the current Administration, the most recent High Risk Series found that the "federal government has taken numerous steps since 2003 to improve the completeness and reliability of its real property data."[7] Additionally, GAO found that agencies "improved their ability to manage their repair and maintenance backlogs by conducting facility condition assessments, prioritizing repairs, and improving the definition of deferred repair and maintenance."[8] Still, managing Federal real property remains on the High Risk Series because of "long-standing problems, such as overreliance on leasing, excess and underutilized property, and protecting Federal facilities."[9] There are a number of statutory and regulatory impediments to expeditious disposal of Ffederal real property. The Committee hopes to work with the Administration to determine the ideal framework to remove these barriers and streamline the disposal process.

In the 111th Congress and currently emerging in the 112th Congress, there are a number of legislative proposals to dispose of civilian real property, including one offered by Committee member Rep. Jason Chaffetz (R-UT). All proposals share the common goal of allowing the General Services Administration (GSA) and the agencies to more expeditiously dispose of

---

[1] The Budget for Fiscal Year 2012, General Provisions at 12.
[2] The Budget for Fiscal Year 2012, Putting the Nation on a Sustainable Path at 27.
[3] *Id.*
[4] U.S. Gov't Accountability Office (GAO), *High Risk Series*, GAO-11-278 (2011).
[5] Garrett Hatch, Congressional Research Service, Real Property Disposition: Overview & Issues for the 111th Cong., CRS no. R41240, July 27, 2010 [hereinafter CRS Real Property Report].
[6] U.S. Gov't Accountability Office (GAO), *High Risk Series*, GAO-11-278 (2011).
[7] *Id.*
[8] *Id.*
[9] *Id.*

surplus real property. The Committee looks forward to working with the Administration to ascertain which of the various approaches is the most practical and cost effective.

On June 10, 2010, the President issued a Memorandum on the topic of property disposal. In this memo he directed the Office of Management and Budget (OMB) to develop guidance that "shall include agency-specific targets to achieve $3 billion in cost savings...."[10] Combining defense and civilian real property savings, the President's goal is $8 billion by the end of 2012.[11] This provides a baseline for Congress to evaluate what steps agencies, and in particular GSA, have taken to achieve the goals in the Memorandum.

Contracting Reform

The Committee supports the President's efforts to save contracting dollars by: "terminating unnecessary contracts, strengthening acquisition management, ending the over-reliance on contractors, and reducing the use of high-risk contracts."[12] The size and cost of government contracting has more than doubled in the last decade. From fiscal year 2001 to fiscal year 2010, total U.S. Government contract spending increased from $223 billion in to $534.9 billion. Approximately 70% of this total goes toward defense spending. Approximately $80 billion of federal contracting dollars currently go toward information technology purchases.

Competition in contracting is one of the primary means to curb costs. GAO recently noted that the Administration "obligated approximately $170 billion on noncompetitive contracts in fiscal year 2009 alone."[13] GAO acknowledged that on occasion using means other than full and open competition is appropriate, however, it also found that "when federal agencies decide to open their contracts to competition, they frequently realize savings."[14]

The Committee is concerned that competition has been derogated and the process subjected to fraud by set-asides and other carve-outs to special interest groups. While these are well intentioned social and economic development programs, recent media reports have shown that small, minority businesses often serve as a "pass through" for contracting dollars that ultimately flow to large corporations.[15] This was not the intent of the legislation creating these programs. In October 2010, the Small Business Administration suspended a large, publicly-traded corporation based in Herndon, Virginia, for using an Alaskan Native Corporation to receive a contract set-aside for a small business when in fact the work was actually being performed almost entirely by the large Virginia corporation.[16]

---

[10] Memorandum on Disposing of Unneeded Federal Real Estate—Increasing Sales, Proceeds, Cutting Operating Costs, & Improving Energy Efficiency, Memorandum for the Heads of Executive Departments and Agencies, June 10, 2010.
[11] The Budget for Fiscal Year 2012, Putting the Nation on a Sustainable Path at 27.
[12] The President's Budget for Fiscal Year 2012, Putting the Nation on a Sustainable Fiscal Path at 28.
[13] U.S. Gov't Accountability Office, Opportunities to Reduce Potential Duplication in Gov't Programs, Save Tax Dollars, & Enhance Revenue, GAO-11-441T (2011)[hereinafter GAO-11-441T].
[14] *Id.*
[15] Matthew Weigelt, SBA Changes Anti-Suspension, Debarment Culture, IG Says, FED. COMPUTER WEEK, Mar. 3, 2011; Jill Aitoro, GAO: Fraud Plagues Small Biz Program, WASH. BUSINESS J., Mar. 4, 2011.
[16] *Id.*

The Committee looks forward to collaborating with the Administration to reform the manner in which the Federal Government procures information technology (IT). One of the weaknesses in the acquisition process has been the lack of skilled IT professionals in the acquisition workforce. The Committee is pleased that this Administration utilizes an "acquisition cadre" to draft solicitations and refine requirements.[17] And it is pleased that the Administration is working to utilize skilled IT professionals as the program managers who manage contractors.[18] These two steps, the Committee hopes, will help to deter waste, fraud, and abuse.

The Committee looks forward to working with the Administration to find the proper balance between Federal employees and contractors in ensuring that government functions are carried out effectively and cost-efficiently. Agencies must approach in-sourcing in a strategic, analytical, and transparent manner so as not to unnecessarily grow the Federal bureaucracy or harm small businesses contracting with the Federal Government.

DC Opportunity Scholarship Program

The Committee is concerned with the persistent and systemic failings of many schools in the DC Public School system, especially those in traditionally low-income areas. The Committee supports the role of the DC Opportunity Scholarship Program (DC OSP) in helping to improve the public schools, and in providing choice and opportunity in schooling for many low-income District residents who would otherwise be forced to attend a low-performing public school. The Committee believes the Administration's budget is short-sighted in ending the DC OSP for new enrollees, while proposing $64.5 million for school improvement initiatives in the public schools in DC. To that end, the Committee is committed to reauthorizing the DC OSP, and restoring it to a funding level where new cohorts of students can continue to be enrolled.

Originally enacted in 2003, the DC OSP expands school choice options for low-income parents looking to remove their children from their current failing school and to enroll them in private institutions that provide increased educational opportunities. For several successful years, the program offered eligible, low-income K-12 students a scholarship of up to $7,500 to attend an eligible private school of their choice. The graduate rate of DC OSP participants far exceeded their public school counterparts. But in 2010, the Administration rescinded 216 scholarships that had been promised to new enrollees. In addition, the Democratic Congress adopted a FY 2010 omnibus appropriations bill that specified that the use of any funds in any act for Opportunity Scholarships after the 2009-2010 school year would only be available if the program was reauthorized, and the District of Columbia adopted legislation approving that reauthorization. Earlier this year, Speaker John Boehner introduced H.R. 471, the Scholarships for Opportunity and Results (SOAR) Act, which reauthorizes the DC OSP for the next 5 years. The legislation increases the scholarship ceiling from $7,500 to $8,000 for elementary students -- and to $12,000 for secondary school students. The legislation continues and strengthens reporting requirements that monitor the effectiveness of the program and addresses concerns raised by GAO with the early implementation of the program.

---

[17] Vivek Kundra, U.S. Chief Information Officer, 25 Point Implementation Plan to Reform Federal Information Technology Management, Dec. 9, 2010.
[18] *Id.*

The Committee's Health Care, District of Columbia, Census, and the National Archives Subcommittee held a hearing on the DC OSP and H.R. 471 on March 1, 2011. The full Oversight and Government Reform Committee then reported the legislation favorably on March 10, 2011.

Postal Reform

The President's FY 2012 budget proposes short-term financial relief for the United States Postal Service (USPS) primarily consisting of a $4 billion deferment in a scheduled $5.5 billion payment due from USPS to the Postal Service Retiree Health Benefit Fund (PSRHBF) by September 30, 2011, and a series of payments from the Treasury to USPS described as a refund – spread over a 30-year period – of a projected $6.9 billion surplus that USPS has built up in the Federal Employee Retirement System (FERS). The initial installment of this FERS surplus repayment to USPS would be $550 million. According to USPS, these proposals would enable USPS to meet its fiscal obligations for FY 2011. Without them, USPS projects it will hit its borrowing ceiling this year and be forced to choose between making the aforementioned payment to the PSRHBF or making payroll.

The Committee notes that the Administration's plan includes no specific proposals for structural reforms needed to restore the long-term solvency of USPS. The Postal Service has taken some initial steps to cut costs, but its projected long-term costs continue to far exceed its projected long-term revenues. This Committee will consider legislation that will enable, expedite, and require further cost-cutting measures at USPS. Currently, USPS operates retail and mail processing networks far in excess of actual demand, operates an aging delivery fleet it cannot afford to replace, and maintains a workforce disproportionate to its evolving needs. Eighty percent of the operating expenses of the Postal Service are workforce-related – a percentage that easily exceeds competitors such as FedEx and UPS.

Major restructuring and modernization is necessary to preserve affordable, self-financing universal service through USPS. Without major action this Congress, the Postal Service will remain on an unsustainable financial trajectory that necessitates repeated requests for short-term, taxpayer-funded financial relief to stave off insolvency.

National Archives

The Committee will consider legislation that will eliminate the National Historical Publications and Records Commission Grants Program. Elimination of this program will save the taxpayers $10 million per year.

Office of National Drug Control Policy

The Committee strongly supports all efforts to protect the American people with a comprehensive, multi-faceted plan to combat domestic illegal drug use and the abuse of legal drugs. The Committee is particularly supportive of the Office of National Drug Control Policy's High Intensity Drug Trafficking Areas (HIDTA) Program, which coordinates the counter-drug

efforts of Federal, state, local, and tribal law enforcement officials. The National HIDTA Directors Association (NHDA) found that the HIDTAs collectively removed $38 billion worth of wholesale drug value from market circulation in 2009, representing a return on investment of approximately $200 in wholesale drug value removed for every Federal dollar spent on HIDTAs that year.

Program Redundancy and Sunset Legislation

On March 1, 2011, GAO released its first annual report to Congress regarding redundant programs, agencies, and offices in the Federal Government. According to the report, taxpayers are now double-funding a wide array of programs, from food safety systems to surface transportation and employment training. While some of these programs are worthy endeavors that meet the government's basic responsibilities, the fragmented approach of Federal departments and agencies to meet these goals demands immediate reform.

At a time when the American people are increasingly concerned about the inflated cost of government and runaway Federal deficits, duplicative programs present an obvious area for spending cuts. The GAO has identified that in some instances more than 100 programs spread across numerous agencies are addressing the same concerns. Senator Tom Coburn (R-Okla.) has projected that the programs GAO identified represent more than $100 billion in annual losses to taxpayers. Eliminating this fragmentation and duplication could save taxpayers billions of dollars annually and foster a more responsive and efficient delivery of government services.

The Committee will consider legislation that would eliminate or sunset unnecessary or redundant Federal programs.

Inspectors General Reform

The Committee last year reported bipartisan legislation that would empower inspectors general (IGs) by providing them with testimonial subpoena authority and granting them relief from onerous administrative requirements. The Committee intends to take up such legislation again this year, which if enacted would enhance the ability of IGs to carry out their mission of identifying waste, fraud and abuse.

During 2009, IGs identified nearly $10 billion in questioned costs – expenditures that are questionable because they violated a law, regulation, contract or grant, were not adequately documented or were unnecessary or unreasonable. They also identified more than $45 billion related to instances where funds could be put to more effective or efficient use, including reducing outlays or avoiding unnecessary expenditures.

Improper Payments

OMB has estimated the volume of improper payments made by the Federal Government at $125 billion per year. The majority of all improper payments are made through just five programs: Unemployment Insurance, the Earned Income Tax Credit program, Medicare Fee-for-Service, Medicare Advantage, and Medicaid. The Committee will examine whether the $125 billion

number can be substantially reduced by amending the Improper Payments Information Act and the Improper Payments Elimination and Recovery Act to require continuous transaction monitoring rather than sample audits.

Transparency/Open Government

Federal agency information technology systems continue to lag far behind those utilized by the private sector. For example, GAO's annual review of the Federal Government's consolidated financial statements has never yielded a clean audit opinion; this is most directly the result of dozens of separate agencies using incompatible software systems and inconsistent accounting methods to report their financial results. Since the government cannot track its own finances, it cannot accurately report them to the public. Recently, government watchdog groups reported that USASpending.gov – which is supposed to list all Federal grants and contracts – is only accurate 35 percent of the time.

The Committee will continue to advocate technological solutions to achieve government transparency that allows for informed budgetary decision-making. The Committee will seek to ensure that the Federal Government's information – with a few well-defined exceptions, such as national security – is made available online, and that it is formatted in ways that facilitate easy access and analysis. The Committee will consider legislation to set policy goals for technology-driven transparency for Federal spending data, program performance information, regulatory materials, and legislative documents.

Whistleblowers

Last December, the House passed S. 372, the Whistleblower Protection Enhancement Act of 2010. That bill did not become law, but the Committee is determined to advance whistleblower legislation this Congress. Considerable taxpayer savings is attributable to the disclosure by federal whistleblowers of gross waste, fraud and mismanagement in Federal agencies. Enhancing the protection of Federal employees from management reprisals against these disclosures will embolden whistleblowers to come forward more often, resulting in even greater savings.

Grant Reform

Grants have now surpassed Federal contracts as the largest category of discretionary Federal Government spending. According to USASpending.gov, federal contracts were $535 billion for FY 2010, while grant spending surged to $556 billion for that same time period. For the period 2000-2011, spending on contracts was $4.340 trillion, while spending on grants was $5.195 trillion. Over 1,000 Federal grants programs are disbursed and managed by 26 Federal agencies and other grant-making organizations. Despite their ubiquity, Federal grants are not subject to the same degree of accountability as contracts. There are no uniform government-wide regulations to ensure the consistent application of merit-based criteria in federal grant award processes, nor are there uniform transparency requirements concerning public access to grant applications and grant review materials. The Committee will consider legislation to enhance accountability and transparency in Federal grant programs.

Views and Estimates on the President's Fiscal Year 2012 Budget Proposal
Committee on Oversight and Government Reform – Minority Views
United States House of Representatives

Overview

The Minority offers these Views and Estimates on the President's Fiscal Year 2012 budget proposal, pursuant to § 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f). The President's budget proposal strikes the appropriate balance between the investments necessary to create jobs, to continue our nation's economic recovery, and to put the federal budget on a path toward long-term fiscal sustainability.

The efficient and effective operation and organization of the federal government are a primary focus of the Committee on Oversight and Government Reform and are critical to addressing both the economic health of our nation and the reduction of the federal deficit.

The President's budget proposal offers sound suggestions for reducing waste, fraud, and abuse within the federal government through such measures as reducing improper payments and improving debt collection. It also includes proposals to improve the federal workforce, federal acquisition policies, and the management of federal real property.

Government Reorganization

The organization of our federal government has not kept pace with the information age. Departments and agencies have expanded in areas that have nothing to do with their core mission while duplicative programs reduce the government's efficiency. The President's budget proposal demonstrates a commitment to consolidating and eliminating duplicative programs by terminating more than 200 programs that would save more than $33 billion in 2012 alone. In the coming months, the Administration will develop a proposal to merge, consolidate, and reorganize the federal government in a way that better supports America's competitiveness. The Minority supports the President's efforts to determine how we can better organize federal programs and functions to improve competitiveness.

Federal Workforce

Improving the Federal Workforce

The Committee is responsible for ensuring that the federal workforce is performing efficiently and effectively. The Minority supports the Administration's goal of improving the federal workforce and looks forward to working with the Administration to support policies that will strengthen our federal workforce.

The President's Fiscal Year 2012 budget proposal recognizes that the current federal workforce is the most highly educated and highly skilled in the history of the country. At the same time, tens of thousands of the employees in the federal government are preparing to retire and will need to be replaced in the coming years to ensure that the government maintains its skills and expertise. The President's budget proposal demonstrates a clear commitment to employee training and development and emphasizes the urgency of incorporating technology into the government's human resource management practices.

The Minority supports the work the Administration has done as part of the President's Hiring Reform Initiative to streamline the federal hiring process, and will work with the Administration to ensure federal agencies are utilizing simplified and shortened job descriptions and speeding the hiring process in accordance with the Reform Initiative's objectives. The Minority also strongly supports the President's Veterans Employment Initiative to promote the hiring of military veterans.

Telework

The Minority supports the inclusion of funding in the President's Fiscal Year 2012 budget proposal to support the evaluation of telework practices pursuant to the enactment of the Telework Enhancement Act in the 111th Congress, and believes agencies' use of telework will improve employee morale, recruitment, retention, and will ensure federal employees are able to fully participate in a 21st century work environment.[1] The creation of telework capabilities will also assist in ensuring agencies are prepared to maintain continuity of operations.

Federal Employee Compensation

The Minority is monitoring the effects of the two-year civilian pay freeze enacted at the end of 2010. While there are significant fiscal and budgetary challenges facing the United States (U.S.), we are concerned that deficit reduction proposals aimed solely at federal employees will undermine the government's ability to attract and retain a highly skilled workforce.

Federal Employee Health Benefits Plan

Federal Employee Health Benefits Plan (FEHBP) provides affordable health care coverage to more than 9 million federal employees, retirees, and their families. Like other employer-sponsored health plans, the program's costs have been increasing significantly. The Office of Personnel Management (OPM) recently announced that the 2011 FEHBP premium rates will increase by 7.2% on average, consistent with increases in previous years.

---

[1] Pub. L. No. 111-292 (2010).

Concerns have also been raised recently regarding the costs of prescription drugs under FEHBP. OPM estimates that in 2012, 29% of FEHBP expenses, approximately $13 billion, will be for prescription drugs.[2] These cost increases demonstrate the need for the reforms enacted into law in the Patient Protection and Affordable Care Act (PPACA) to control long-term health care costs. Additionally, the Minority will monitor the Administration's new proposal to carve-out prescription drugs from individual FEHBP health plans in an effort to gain discounts on pharmaceuticals. This proposal could potentially result in $1.7 billion in savings.

Federal Employee Compensation Act

The Minority looks forward to working with the Administration to develop the Department of Labor's Federal Employee Compensation Act reforms. It is the Minority's priority to ensure that injured workers are treated fairly under any proposed changes, and that any legislative changes will improve the performance of the Office of Workers' Compensation Programs.

Office of Personnel Management

The President's budget proposal requests a modest increase in discretionary appropriations for OPM, given its critical role in developing government-wide hiring, human resource management, and personnel practices. Additionally, the agency is charged with implementing significant portions of the PPACA, including the Pre-Existing Continuing Insurance Program and the federal health insurance exchange that will be established by 2014 for those states that opt not to run their own state-based exchange.

The Minority is pleased that OPM has significantly reduced back-logs in background investigations and has significantly enhanced oversight over agency and contractor investigators. As a result of these actions, the Government Accountability Office (GAO) has removed this issue from the 2011 High-Risk List.

Concerns remain about OPM's retirement claims processing capabilities, in light of its decision to suspend all retirement systems modernization activities. The Minority will monitor OPM's retirement claims processing activities and its implementation of programs required under the PPACA to ensure that the agency is achieving its mission to deliver timely services to federal employees and annuitants, and to Americans enrolling in these new health plans.

Office of Personnel Management Inspector General

The OPM Office of Inspector General (OIG) is responsible for significant oversight duties of major government operations, including FEHBP, the Civil Service

---

[2] *Budget of the U.S. Government, Fiscal Year 2012, Appendix*, 1151 (Feb. 2011).

Retirement and Disability Trust Fund, and the Revolving Fund programs. The OIG is also supporting OPM's growing federal background investigations casework. An adequate level of funding is needed to ensure that proper and continuous oversight is conducted over these programs, particularly in light of reduced staffing levels at the OIG during Fiscal Year 2006 through Fiscal Year 2009. The Minority supports the $1 million increase over the Fiscal Year 2010 enacted level included in the President's budget proposal request to ensure adequate oversight of these programs.

Federal Real Property Disposal

The federal government owns 1.2 million properties across the country, making it the biggest property owner in the United States. However, billions of taxpayer dollars are wasted each year on government properties that are no longer needed by the federal government.

In June 2010, the President directed the agencies of the federal government to accelerate efforts to remove surplus property from the federal inventory to achieve a savings of $8 billion by the end of 2012 through reduced operating expenses and sales revenue. To date, federal agencies have identified $1.7 billion in non-defense savings opportunities, and the Department of Defense is on track to achieve $5 billion in real property cost savings through the Base Realignment and Closure process in the same time period.

On March 2, 2011, the Administration proposed legislation to reform the way the government disposes of surplus federal real property. Specifically, the President's proposal would establish an independent board of experts to expedite the disposal of unneeded properties and identify opportunities to consolidate offices across and within agencies. This board would apply approaches similar to those used by the Department of Defense's Base Realignment and Closure Commission, and its property disposal recommendations would be presented to Congress in a single package to be voted on in an up-or-down manner.

The Administration estimates that implementation of such a process could save taxpayers in excess of $15 billion over the next three years. The Minority supports efforts to reduce the federal government's inventory of surplus real property. Such efforts should take into consideration the existing laws governing the disposal of federal real property that give priority consideration to providers of assistance to the homeless and to state and local governments for certain public benefit purposes.

Contracting Reform

The Minority is committed to working on a bipartisan basis in support of the President's efforts to save contracting dollars by "terminating unnecessary contracts, strengthening acquisition management, ending the over-reliance on contractors, and

reducing the use of high-risk contracts."[3] In support of these efforts, the Committee should conduct oversight of inefficiencies in inter-agency and agency-wide contracts.

According to GAO, inter-agency and agency-wide contracts were responsible for at least $54 billion in obligations for goods and services in Fiscal Year 2009. In theory, these contracts help leverage the government's buying power and provide cost savings, but in practice duplicative contracts administered by multiple agencies have hindered the government's ability to fully leverage its buying power through any one contract. The Office of Management and Budget (OMB) has taken some steps to improve inter-agency contracting processes, but more needs to be done to ensure that these contracts are efficient and effective.

The Minority will work with the Administration to find the proper balance between federal employees and contractors in ensuring that government functions are carried out effectively and efficiently. The Minority encourages OMB to finalize a definition of "inherently governmental" functions so agencies are able to better prioritize the transfer of such functions to federal positions. The Minority recognizes that during this period of budget uncertainty, such insourcing efforts must be done – as the Majority suggests – in a strategic, analytical, and transparent manner, and efforts must be made to protect small business and minority-owned business interests as such efforts are carried out. However, any efforts to impose caps or freezes on the size of the federal workforce will upset agencies' efforts to ensure that inherently governmental functions are performed by federal employees. Such an approach to budget reduction will be counterproductive and increase contracting costs to the detriment of the taxpayers.

Federal Funds for District of Columbia Education

The President's Fiscal Year 2012 budget proposal continues to place an emphasis on supporting public education reform in the nation's capital, which has led to significant improvements in student achievement. The President's budget proposes $66 million to support public school improvement in the District of Columbia (D.C.). Of that figure, $44 million would be provided for D.C. public schools, $20 million would support D.C. public charter schools, and $2 million would support the Community College of the District of Columbia.

The Minority strongly supports this proposal to ensure that public funds are utilized to improve public education for D.C. students at all grade levels. The Minority opposes proposals to use taxpayer funds to pay for private school vouchers in D.C. Recent studies show that the D.C. Opportunity Scholarship program did not improve student achievement as measured by standardized tests. In contrast, students in D.C. public charter schools, which educate 38% of District students, score 60% higher in reading and math at the middle and high school levels than D.C. public school students.

---

[3] *Budget of U.S. Government, Fiscal Year 2012*, 28 (Feb. 2011).

The Minority supports the President's budget proposal to provide $35 million for the D.C. Tuition Assistance Grant (TAG) Program in Fiscal Year 2012. D.C. TAG, which was established by the District of Columbia College Access Act of 1999 and amended by the D.C. College Access Improvement Act of 2002, is designed to equalize postsecondary education opportunities for students from D.C. by enabling them to attend any public college or university in the nation at in-state tuition rates. D.C. TAG provides limited scholarships to college students to help cover the costs of attendance at private colleges in the D.C. metropolitan area and at Historically Black Colleges and Universities throughout the country. Since its creation, D.C. TAG has assisted over 15,000 students in pursuing a postsecondary education.

United States Postal Service

Ongoing declines in mail volume continue to challenge the financial condition of the United States Postal Service (USPS). Since 2006, USPS has recorded consecutive annual operating losses totaling approximately $20 billion. These trends have continued in the first quarter of 2011, in which USPS had a net loss of $297 million. The solvency of USPS has remained an important topic for policymakers and stakeholders.

The President's budget proposal recommends eliminating the $29 million revenue foregone payment authorized by the Revenue Forgone Reform Act of 1993 to repay the Postal Service for free mailing services provided to the blind, visually handicapped, and overseas voters from 1991 through 1998. Repayments are payable over a 42-year period and have been appropriated to USPS each year since 1994. Given the potential impact of this proposal on USPS's net income, the Minority opposes elimination of the revenue foregone payment in Fiscal Year 2012.

The President's budget proposes providing USPS short-term financial relief by modifying the financing of its employee and retiree pension and health benefits obligations. These changes include providing USPS with relief from a $550 million payment, which represents the initial portion of a $6.9 billion surplus OPM has determined USPS has accumulated from its Federal Employee Retirement System (FERS) contributions. The FERS surplus would be paid back to USPS over a 30-year period. While the Minority supports returning the FERS surplus to USPS, further consideration of the manner in which the funds are to be repaid is urged, given USPS's financial status.

The President's budget proposes restructuring USPS's retiree health benefits payments by accelerating a future requirement, included in the Postal Accountability and Enhancement Act of 2006, for USPS to pay the normal costs of health benefits for current employees and to pay the costs of health premiums for current retirees out of the Postal Service Retiree Health Benefits funds. These will cost $3 billion and $2.4 billion, respectfully, in Fiscal Year 2011. The budget proposal also recommends permitting USPS to defer $4 billion of its Fiscal Year 2011 $5.5 billion retiree health benefits payment.

The Minority supports providing short-term financial relief to the USPS. However, such relief must be coupled with a thorough and deliberate examination of USPS's long-term viability. The Minority believes that requiring the USPS to maintain universal service, unlike any other company, while simultaneously operating efficiently in the modern marketplace, will require not only cost cutting, but also innovation on the part of USPS and greater flexibility on the part of Congress to permit USPS to operate in a more business-like manner.

National Historical Publications and Records Commission

The National Historical Publications and Records Commission (NHPRC) works to preserve and publish non-federal records. The Majority's budget views indicate that the Committee will consider legislation that would eliminate the Commission's grants program. Cutting this program will negatively impact archives and historical records programs across the country and could put our national history at risk.

The NHPRC awards competitive, matching grants to help finance the nation's non-federal archives and for projects to edit and publish historical records of national importance. NHPRC grants make it possible for scholars and school children to have access to the papers of the Founding Fathers and national leaders like Abraham Lincoln and Dr. Martin Luther King, Jr.

Office of National Drug Control Policy

For Fiscal Year 2012, the President's budget proposes a total of $355 million for the Office of National Drug Control Policy (ONDCP) and related programs aimed at reducing illicit drug use and its consequences in the United States. This request represents a $72 million decrease from the level of funding provided for ONDCP in Fiscal Year 2010. The Minority does not support this decrease, as it may well negatively impact existing efforts to combat the use of illicit drugs and the misuse of legal drugs.

In order to ensure that the development of a more scientifically based and effective National Drug Control Strategy remains a national priority, the Minority strongly urges the Committee to work with the Administration to reauthorize ONDCP this year.

Sunset Commission

The Majority's budget views indicate that the Committee will consider legislation that would sunset federal programs. While duplicative programs exist, as the President's budget proposal clearly recognizes, the Minority does not support proposals that would jeopardize critical federal agencies and programs and inappropriately transfer power from Congress to the executive branch.

It is the duty of Congress to review, reauthorize, and, if necessary, restructure or consolidate existing federal agencies and programs. If the Administration has a specific

proposal to eliminate or reorganize an agency or program, it should submit the proposal to Congress for consideration under regular order.

Improper Payments

The President's budget proposes to reduce improper payments by $50 billion by 2012. Improper payments include overpayments, underpayments, and payments made without proper documentation. The Administration has also set a goal of recapturing $2 billion in overpayments by 2012. Federal agencies reported that $687 million in improper payments were recaptured in 2010, which puts the Administration on track to accomplish its 2012 goal.

The President's Fiscal Year 2012 budget proposes $10 million for cutting-edge, anti-fraud technology in support of the federal "Do Not Pay" list. This is a critical initiative that will prevent and recapture improper payments. The Minority also strongly supports the $20 million in funding requested by the President for OMB's Partnership Fund for Program Integrity Innovation to support additional pilot programs for innovative federal and state cooperation to improve the integrity, efficiency, and delivery of assistance programs.

Transparency and Open Government

The federal government's capacity to track federal spending and report those findings to the public has grown over the past three decades, with several notable advances in the last five years. Pursuant to the Federal Funding Accountability and Transparency Act, OMB launched USASpending.gov in 2007, which gives the average American an unprecedented ability to track federal contracts and grants. The government's experience with USASpending.gov paved the way for the creation of additional websites that allow the public to track specific types of spending, including Recovery.gov and Data.gov.

The Administration's ongoing efforts to improve the quality and breadth of data being reported are to be commended. The addition of sub-award data on USASpending.gov in October 2010 is particularly significant. The Minority supports the Administration's continued efforts to improve the timeliness and accuracy of data being reported to the public.

In order to make the government more transparent and accountable, the Committee should consider H.R. 1144, the Transparency and Openness in Government Act. This legislation is a package of five bills that overwhelmingly passed the House in the 111th Congress with broad, bipartisan support. This legislation will make federal commissions more transparent and accountable, increase public access to presidential records, require greater disclosure of donations to presidential libraries, ensure that government email records are preserved, and clarify the authority of the GAO to access agency records.

Whistleblowers

The Obama Administration is the first administration in decades to actively support legislation to strengthen whistleblower protections for federal employees. As the Majority notes, whistleblower disclosures promote more efficient government and help to save tax dollars. In the last Congress, the House of Representative passed whistleblower protection legislation that had previously been passed by the Senate. The House-passed bill removed protections for national security whistleblowers because House Republicans raised concerns about these provisions in the final days of the Congress. The modified version of the whistleblower legislation – which was identical to the bill the Senate had passed just days earlier, absent the national security provisions – was sent back to the Senate. However, it was blocked from being passed a second time by a Senate Republican. The Minority is committed to expedited consideration of this important taxpayer protection legislation in the 112th Congress.

Grant Reform and Overall Federal Budget Accountability

In its views, the Majority states, "Grants have now surpassed federal contracts as the largest category of discretionary federal government spending. According to USASpending.gov, federal contracts were $535 billion for Fiscal Year 2010, while grant spending surged to $556 billion for that same time period." The Majority also states, "Federal grants are not subject to the same degree of accountability as contracts."

The Minority agrees that all federal spending should be transparent and accountable. Such accountability should also include spending in an alternate form that is administered by the Internal Revenue Service (IRS) through the tax code. Tax expenditures are alternatives to other policy instruments, such as spending or regulatory programs, have a significant impact on the federal budget, and yet are subject to far less scrutiny than either contracts or grants. The Minority supports the President's efforts to examine the objectives and effects of the wide range of tax expenditures in our budget. While many tax expenditures may have a legitimate policy purpose, this type of review is long overdue.

Funding for the Washington Metropolitan Area Transit Authority

In accordance with the Federal Rail Safety Improvements Act of 2008[4], the President's Fiscal Year 2012 budget proposal requests funding for the Washington Metropolitan Area Transit Authority (WMATA). Specifically, the budget requests $150 million be provided to assist WMATA in eliminating its capital and preventative maintenance backlogs and in implementing its system reliability projects. The Minority recognizes the vital role WMATA plays in transporting commuters, residents and visitors in the National Capital region and supports the President's Fiscal Year 2012 request for dedicated funding.

---

[4] Pub. L. No. 110-432 (2008).

The Minority is also aware of the ongoing challenges WMATA faces in ensuring rider and system safety and security. Therefore, the Minority urges the Committee to continuing its oversight of the transit agency during the 112th Congress.

Department of State and United States Agency for International Development

International Affairs

The President's budget proposes $52.7 billion for the Department of State and the United States Agency for International Development (USAID) which is $70 million more than the Fiscal Year 2011 level of appropriations. The budget proposes a total of $14 billion for diplomacy, economic assistance, law enforcement, and military aid for Iraq, Afghanistan, and Pakistan. In the 110th and 111th Congresses, the Committee examined significant weaknesses in U.S. oversight of its assistance programs in these conflict areas. For example, the Committee reported that the Coalition Support Funds Program – which provides reimbursement to the Government of Pakistan in its fight against terrorist groups – had experienced significant accountability shortcomings. While there have been significant improvements in that program, the Minority believes that oversight resources and mechanisms need to be strengthened to ensure that U.S. assistance resources are used effectively in Iraq, Afghanistan, and Pakistan.

Personnel and Operations

The President's budget proposes $14.2 billion in funding for the Department of State's personnel and operations and $1.7 billion for USAID for those purposes. The Minority believes the State Department and USAID were provided inadequate resources to fulfill their critical missions abroad over the past decade. As a result, the Department and USAID have become overly reliant on contractors to support their missions. The Committee record also suggests there are open questions about the resources that will be available to Foreign Service officials as the U.S. draws down its military forces in Iraq. Since Congress and the President have charged State and USAID with tasks essential to our national security, it is critical that Congress adequately fund State and USAID to perform these missions.

Military Spending

Efficiencies

The Department of Defense has identified $178 billion in potential savings over the next five years. The President's Fiscal Year 2012 budget proposes to reinvest $100 billion from these savings into higher priority missions and to reduce the projected inflation-adjusted growth in defense spending by the remaining $78 billion over five years. The Minority supports the Department's efforts to identify efficiencies and slow the rate of growth in the overall defense budget.

Major Weapons Systems

The President's budget proposal would cancel a number of weapons programs that have been plagued by cost overruns and schedule delays. Specifically, the budget proposes to cancel the Expeditionary Fighting Vehicle ($2.8 billion), the Surface Launched Advanced Medium-Range Air-to-Air Missile ($1.1 billion), the Non-line of Sight Launch System ($3.2 billion), the C-17 transport aircraft program ($2.5 billion), the Joint Strike Fighter Alternative Engine ($0.5 billion), and the Joint Multi-Mission Submersible Program ($0.8 billion). GAO has reported that the procurement process for many major weapons systems continues to face serious challenges, including a shortage of qualified project managers. A GAO survey of 93 major procurements identified $296 billion in overspending and significant schedule delays.

The President and Congress must continue to work together to eliminate wasteful and ineffective defense spending and to ensure that defense resources are efficiently allocated to counter threats to the U.S. The Minority will continue to focus on wasteful spending in defense procurement.

Cyber Security

Cyber threats and attacks against U.S. information systems continue to grow in both volume and intensity. In recent years, the U.S. electrical grid was reportedly infiltrated by hackers and denial-of-service attacks brought down the websites of a number of federal agencies, including the Department of State, the Secret Service, and the Federal Trade Commission. The federal government must be prepared to defend itself against a range of emerging cyber security threats. The Minority supports the President's proposed funding for the operations of the National Cyber Security Division of the Department of Homeland Security and the U.S. Cyber Command at the Department of Defense to secure federal civilian networks and protect the nation's critical infrastructure and core defense information systems.

We also support the Administration's efforts to improve the security of online transactions, enhance cyber security education efforts, increase cyber security research and development, and enhance network security at small federal agencies.

In addition, the Minority supports the Administration's efforts to improve reporting under the Federal Information and Security Management Act through the use of a modern digital platform that increases efficiency by automation, focuses on outcome-oriented security metrics, and improves real-time situational awareness.

Collection of Debts Owed to the Government

The President's Fiscal Year 2012 budget proposal includes several common sense initiatives through which the Treasury Department can help other agencies maximize the collection of unpaid debt from individuals and businesses. These reforms will require that taxpayers be paid in full by government contractors and Medicare service providers with past-due debt before they can receive a federal payment. It will also help states

collect a portion of the sizable state income tax debt owed by former residents. A number of management improvements are proposed that would increase collections by more than $5 billion over the next 10 years.

The President's budget also proposes to consolidate the Financial Management Service and Bureau of Public Debt data centers, streamline management functions among Treasury's Departmental Offices, and reduce overhead and administrative expenses across the IRS. The Minority supports the Administration's efforts to streamline Treasury's management functions, which are projected to save approximately $200 million in 2012 and generate additional savings in the future.

Evaluating the Efficiency of Government Programs

In order to understand what does and does not work in the federal government and thus better use taxpayer dollars, rigorous evaluations of program results are critical. The Administration is proposing new funding for 2012 for 19 rigorous program evaluations. These evaluations will assess, for example, the effectiveness of different strategies for improving college enrollment; capacity-building training for USAID employees; and ways to make the federal workforce more efficient. In addition, an inter-agency working group is promoting enhanced performance evaluation across the federal government, and OMB is working with agencies to make information readily available online about all federal evaluations that are planned or already underway. The Minority supports these initiatives.

Information Technology Reform

The federal government spends nearly $80 billion dollars on information technology (IT) each year, yet fails to achieve the same productivity and service gains as the private sector. The Minority strongly supports the President's Accountable Government Initiative, particularly the review and reform of IT use and procurement. The Initiative will include the use of the IT dashboard, which provides data on the cost and schedule of IT projects in a user-friendly format, to improve transparency and accountability. The Administration's high-level TechStat review sessions for projects that are seriously behind schedule, over budget, or otherwise failing is also an important part of this initiative.

The Minority supports the Administration's IT reform goals, which include turning around poorly performing IT projects, accelerating agency adoption of innovative IT to save money, working with agencies to reduce the time and effort required to acquire IT, and holding IT providers accountable for their performance. On December 9, 2010, Federal Chief Information Officer, Vivek Kundra, issued a 25-Point Implementation Plan to support federal IT reform. We look forward to working with the Administration to find legislative solutions to improve federal IT use and acquisition, and we support oversight efforts to ensure that the federal government meets IT performance benchmarks.

Cloud Computing

The Minority strongly supports the goal of lowering IT infrastructure costs, reducing energy consumption, and making IT service more efficient and effective through the use of cloud computing, but remains concerned about the security risks associated with the new federal cloud computing environment. We will continue to monitor and review the Federal Cloud Computing Initiative, including the establishment and testing of standards for security, data portability, and interoperability.

Data Center Consolidation

The number of federal data centers has increased by 385% over the last 12 years, and there are now nearly 2,100 such centers, with many offering overlapping and duplicative services. This rapid proliferation of data centers increases federal real estate, energy, and security costs.

On February 26, 2010, the Administration launched the Federal Data Center Consolidation Initiative, which has four overarching goals: (1) promote the use of Green IT by reducing the overall energy and real estate footprint of government data centers; (2) reduce the cost of data center hardware, software, and operations; (3) increase the overall IT security posture of the government; (4) shift IT investments to more efficient computing platforms and technologies. The Minority supports the President's Fiscal Year 2012 budget proposal to eliminate 40% of federal data centers by 2015. Industry estimates the potential cost savings from data center consolidation over the next decade in accordance with the Consolidation Initiative could be as much as $200 billion. We look forward to working with the Data Center Consolidation Task Force and will continue to monitor agency data center consolidation efforts with an eye toward helping agencies meet individual goals.

Regulatory Review

On January 18, 2011, the President issued Executive Order 13563 "which emphasizes the importance of protecting 'public health, safety and our environment while protecting economic growth, innovation, competiveness, and job creation."[5] As part of a broad effort to promote economic growth, the Committee should review federal regulations to make them more effective while ensuring they protect the health and safety of the American people. This review should include an examination of both the costs and benefits and should result in the development of clear conclusions based on solid data drawing on input from a wide variety of sources.

---

[5] *Budget of the U.S. Government, Fiscal Year 2012, Analytical Perspectives*, 87 (Feb. 2011).

Mike Rogers, Michigan, CHAIRMAN

Mac Thornberry, Texas
Sue Myrick, North Carolina
Jeff Miller, Florida
K. Michael Conaway, Texas
Peter T. King, New York
Frank A. LoBiondo, New Jersey
Devin Nunes, California
Lynn A. Westmoreland, Georgia
Michele Bachmann,, Minnesota
Thomas J. Rooney, Florida
Joseph J. Heck, Nevada

C.A. Dutch Ruppersberger, Maryland, RANKING MEMBER

Mike Thompson, California
Janice D. Schakowsky, Illinois
James R. Langevin, Rhode Island
Adam B. Schiff, California
Dan Boren, Oklahoma
Luis V. Gutierrez, Illinois
Ben Chandler, Kentucky

John A. Boehner, SPEAKER OF THE HOUSE
Nancy Pelosi, DEMOCRATIC LEADER

U.S. HOUSE OF REPRESENTATIVES

PERMANENT SELECT COMMITTEE
ON INTELLIGENCE

HVC-304, THE CAPITOL
WASHINGTON, DC 20515
(202) 225-4121

Michael Allen, STAFF DIRECTOR

March 17, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
United States House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Pursuant to § 301(d) of the Congressional Budget Act of 1974 and clause 4(f) of House Rule X, and in response to your request dated February 18, 2011, the Permanent Select Committee on Intelligence herewith provides its views and estimates on the President's budget for Fiscal Year 2012. The Committee is constrained in that the total amount of funding requested by the President within the Committee's jurisdiction remains classified. As a result, we are unable to provide you with detailed, public recommendations as to the funding levels for Fiscal Year 2012.

While much of the funding for the U.S. government's intelligence activities is classified, we note that the Director of National Intelligence, in compliance with the Intelligence Authorization Act for Fiscal Year 2010, has disclosed that the aggregate amount requested for the National Intelligence Program for fiscal year 2012 is $55 billion. Additionally, the funding levels for the Intelligence Community Management Account (ICMA) and the Central Intelligence Agency Retirement and Disability Program (CIARDS) are publicly available. The amounts requested for fiscal year 2012 for ICMA and CIARDS are $592,213,000 and $513,700, 000, respectively.

The Committee generally believes these amounts and the top line figures that remain classified to properly represent the resources required for the Intelligence Community to carry out its crucial mission in the coming fiscal year and urges the Committee on the Budget to reflect these funding levels in its fiscal year 2012 budget resolution.

Sincerely,

Mike Rogers
Chairman

DAVID DREIER, CALIFORNIA
CHAIRMAN

PETE SESSIONS, TEXAS
VIRGINIA FOXX, NORTH CAROLINA
ROB BISHOP, UTAH
ROB WOODALL, GEORGIA
RICHARD B. NUGENT, FLORIDA
TIM SCOTT, SOUTH CAROLINA
DANIEL WEBSTER, FLORIDA
VACANT

HUGH N. HALPERN, STAFF DIRECTOR
(202) 225-9191
www.rules.house.gov

Committee on Rules
U.S. House of Representatives
H-312 The Capitol
Washington, DC 20515-6269

ONE HUNDRED TWELFTH CONGRESS

LOUISE M. SLAUGHTER, NEW YORK
RANKING MINORITY MEMBER

JAMES P. McGOVERN, MASSACHUSETTS
ALCEE L. HASTINGS, FLORIDA
JARED POLIS, COLORADO

MILES M. LACKEY, MINORITY STAFF DIRECTOR

MINORITY OFFICE
H-152, THE CAPITOL
(202) 225-9091

March 15, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

On March 14, 2011, the Committee on Rules met, in open session with a quorum present, and adopted by voice vote the Committee's Views and Estimates on the President's Proposed Budget for Fiscal Year 2012.

Pursuant to Clause 4(f)(1) of rule X of the Rules of the House of Representatives, I submit to the Committee on the Budget the Committee's Views and Estimates.

Sincerely,

David Dreier

Cc: The Honorable Louise M. Slaughter
The Honorable Chris Van Hollen

[COMMITTEE PRINT]

112TH CONGRESS
1st Session
HOUSE OF REPRESENTATIVES

VIEWS AND ESTIMATES ON THE PRESIDENT'S PROPOSED BUDGET FOR FISCAL YEAR 2012

MARCH 14, 2011. Approved by the Committee on Rules.

Mr. DREIER, from the Committee on Rules, submitted to the Committee on the Budget the following

REPORT

Clause 4(f)(1) of rule X of the Rules of the House of Representatives requires each standing committee to submit to the Committee on the Budget, not later than six weeks after the submission of the budget by the President, its views and estimates with respect to the President's proposals.

Although the Committee on Rules has no jurisdiction over spending or revenue measures required for inclusion in a budget resolution pursuant to section 301(a) of the Congressional Budget Act of 1974, it is customary for the Committee on Rules to transmit, on occasion, its views pertaining to specific budget process proposals typically contained in the President's Budget, which either in whole or in part fall under the jurisdiction of the Committee on Rules.

BACKGROUND

In any discussion of reforms intended to improve the Federal budget process the focus falls in two places: changes external to the House and changes internal to the House. In any discussion of in-

ternal House changes, the Committee on Rules is at the center of substantive changes to the rules of the House, which are adopted on the opening day of each Congress, and provisions of the Congressional Budget Act that fall within the Committee's jurisdiction. Some of the substantive changes to House rules and separate orders adopted on the opening day of the 112th Congress, which were designed to encourage spending reductions rather than tax increases, include:

- Requiring spending reductions to offset spending increases through the creation of CUTGO;
- Creating "spending reduction" accounts in appropriations bills to ensure that spending cuts can reduce the costs of appropriations bills rather than be used as offsets for additional spending.
- Repealing the "Gephardt rule" to provide for a separate vote in the House on public debt-limit legislation.

VIEWS AND ESTIMATES

The annual budget process continues to present challenges to the Legislative and Executive branches of government. The mechanisms currently in place are limited in their ability to address critical issues such as the need for discretionary budget cuts and long-term entitlement reform. While, to his credit, the President continues to support proposals offered by prior Administrations, including enhanced rescission authority, limiting the use of advanced appropriations, and program integrity funding, the President fails to propose policies or processes that will have significant impact on government overspending in either the short-term or long-term.

The House has focused its attention on job creation and economic growth through, in part, a renewed focus on bringing spending back in line with revenues. Unfortunately, the President's Budget fails to address the most pressing issues facing our Nation, including the unsustainable paths of discretionary and mandatory spending.

For example, the President's Budget proposes to freeze an already bloated discretionary budget for five years, failing to make the tough choices needed to get the Nation back on track. The

President's Budget also fails to address the Nation's long-term unfunded liability in our entitlement programs.

The Nation, and by extension the taxpayers, are facing record deficits and record levels of public debt. Congress must lead where the President failed to do so and continue to propose budget process reforms, spending reductions, and entitlement reforms to get the Nation's fiscal house in order.

The Rules Committee continues to support the adoption of a two year budget cycle, which will give Members the opportunity to conduct thorough oversight of the Federal budget and Executive branch agencies and programs. The Committee also continues to support the establishment of a joint select committee on budget process reform. The Committee recognizes that ultimately a bicameral solution is necessary in order to successfully implement reforms to the congressional budget process.

COMMITTEE CONSIDERATION

The Committee on Rules met in open session on March 14, 2011 and ordered the measure reported by a voice vote, a quorum being present.

RALPH M. HALL, TEXAS
CHAIRMAN

EDDIE BERNICE JOHNSON, TEXAS
RANKING MEMBER

U.S. HOUSE OF REPRESENTATIVES
COMMITTEE ON SCIENCE, SPACE, AND TECHNOLOGY
2321 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515-6301
(202) 225-6371
www.science.house.gov

March 18, 2011

The Honorable Paul Ryan
Chairman, Committee on the Budget
U.S. House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Pursuant to the provisions of clause 4(f) of House Rule X of the Rules of the House of Representatives for the 112th Congress and Section 301(d) of the Congressional Budget Act of 1974, as amended, I am transmitting the Views and Estimates, including Additional and Minority Views, of the Committee on Science, Space, and Technology for Fiscal Year 2012.

Sincerely,

Ralph M. Hall

Ralph M. Hall
Chairman

Enclosure

cc: The Honorable Chris Van Hollen, Ranking Member, Committee on the Budget
The Honorable Eddie Bernice Johnson, Ranking Member, Committee on Science, Space, and Technology

VIEWS AND ESTIMATES
COMMITTEE ON SCIENCE, SPACE, AND TECHNOLOGY
FISCAL YEAR 2012

President Obama transmitted his budget request for Fiscal Year 2012 (FY12) to Congress on February 14, 2011. The President proposes $38.9 billion in FY12 for all non-defense and non-health specific research and development, a 10.8 percent increase over the FY10 enacted level. This amount includes basic and applied research, development, and facilities and equipment.

The Committee on Science, Space, and Technology supports funding research and development activities and believes that wise investments, coupled with favorable tax cuts and reduced regulations, can lead to economic growth and innovation. However, we are mindful that in order to realize gains on investment, the nation needs to be on a sound economic footing. Our nation is currently in a challenging economic environment. The Congressional Budget Office estimates that Federal spending will rise to $3.7 trillion or 25 percent of GDP this year. We are running a deficit of $1.5 trillion and our gross Federal debt now exceeds $14 trillion. These levels are truly unsustainable. We need to begin to address this challenge by reducing spending and finding ways to cut unnecessary, duplicative, and wasteful programs so that we deliver the most efficient and effective programs for the country.

The following are the views of the Committee on Science, Space, and Technology on the budget for programs within the Committee's jurisdiction.

National Aeronautics and Space Administration (NASA)

The National Aeronautics and Space administration (NASA) is the Nation's primary civilian space and aeronautics research and development agency, carrying out a diverse set of missions and projects designed to expand our understanding of Earth, the Solar System, and the universe. NASA operates the Space Shuttle fleet, the International Space Station, and a number of satellites in orbit around Earth and throughout the solar system. It also undertakes activities in technology development and transfer, education, outreach, and participates in a number of interagency initiatives such as nanotechnology, information technology, climate change research, and the Next Generation Air Transportation (NextGen) program.

The Committee supports NASA's FY12 budget request of $18.7 billion, the same amount appropriated by Congress for FY10 and continued thus far in FY11.

NASA's budget requests also display budget assumptions for the succeeding four out-years, giving Congress an indication of near-term spending plans for programs, projects and activities. The FY12 budget request assumes a flat spending profile through FY16, while last year's budget (and associated out-years) assumed annual increases such that by FY16, NASA would be receiving over $20 billion annually. The potential savings indicated in the FY12 budget request would, in the aggregate, save $3.8 billion for FY12 – FY14, compared to last year's budget request.

NASA's FY12 request qualified their out-year assumptions as "notional." However, NASA's "notional" assumptions are significantly higher than the corresponding numbers used in OMB's FY12 U.S. Budget request (OMB's Blue Books) by an aggregate of $2.3 billion. NASA officials advised the Committee that they are using their higher out-year assumptions for planning purposes.

Requested funding levels for NASA's space science program are relatively flat, going up an additional $11 million between the FY11 and FY12 requests, amounting to a 0.2% increase. Within the Science Mission Directorate (SMD), the James Webb Space Telescope (JWST) has run into serious cost and schedule challenges. NASA is intent on finding resources within the SMD account to remedy the problem, a solution we endorse.

With respect to Earth Science, which is a program within SMD, in the FY11 budget request (including the outyears) Committee Republicans took exception to significant increases in its funding profile. We were concerned that the balance of funding within the SMD was getting out of balance to the detriment of the other SMD programs. This year's request (including the outyears) for Earth Science is substantially reduced. To stay within this profile, NASA is delaying start of two Earth Science missions (CLARREO and DESDynI). We support this change.

The most troubling aspect of this year's request lies within the agency's human space flight program (Exploration Systems Directorate and the Space Operations Mission Directorate). Last year Congress passed, and the President signed, the NASA Authorization Act of 2010 (P.L. 111-267). The bill directed NASA to give priority to development of a Space Launch System (SLS) and Multi-Purpose Crew Vehicle (MPCV) to replace the retiring Shuttle. The bill also authorized NASA to continue activities related to development of a commercial crew launch system. NASA's FY12 request flips the relative priority, seeking an amount higher than authorized for commercial crew ($850 million versus $500 million authorization); and underfunding development of the SLS and MPCV ($2.8 billion versus $4 billion authorization). By doing so, NASA will be delaying development of a government-owned assured access system to the ISS, perhaps until the end of this decade. Coupled with this is the likelihood that the yet-to-be-developed commercial crew system may fail to materialize, leaving our government with only one option: to continue buying seats from the Russians. We find this unacceptable and firmly believe NASA should give highest priority to the SLS and MPCV programs.

Finally, we note that the FY12 budget includes a new program first proposed last year: Space Technology. The FY12 request seeks $1.02 billion to manage and develop a portfolio of technologies needed to ensure the success of future missions, as well as enabling the spinoff of NASA technologies to the private sector. We support this endeavor generally, but believe these tough budgetary times argue for a smaller initial start.

National Science Foundation (NSF)

The National Science Foundation (NSF) provides approximately 20 percent of Federal support for all basic research at U.S. colleges and universities and is second only to National Institutes of Health (NIH) in support for all academic research. It is the primary source of federal funding for non-medical basic research, providing approximately 40 percent of all federal support, and serves as a catalyst for science, technology, engineering, and mathematics (STEM) education improvement at all levels of education. It supports the fundamental investigations that ultimately serve as the foundation for progress in nationally significant areas such as national security, technology-driven economic growth, energy independence, health care, nanotechnology, and networking and information technology.

The FY12 budget request for NSF is $7.7 billion, an increase of 13 percent, or $894.5 million over the FY10 enacted level (not including any carryover from the $3 billion NSF received from ARRA funding). The Committee recognizes the importance of making appropriate investments in science, space, and technology research, development, and STEM education in order for the United States to remain a world leader in competitiveness and innovation. While supporting a robust budget request for NSF, the Committee is concerned that the levels requested exceed what is fiscally responsible in the current economic climate. Further, new and expanded Administration priorities continue to excessively divert precious research and development (R&D) funds from other worthy endeavors.

The Committee applauds the Administration's decision to eliminate or reduce funding for six specific programs, but regrets that it did not go further in identifying areas for significant savings to the American taxpayer. This additional savings could go a long way in helping to protect the integrity of the Nation's essential basic R&D portfolio.

Research and Related Activities (RRA)

The FY12 budget request includes $6.3 billion for Research and Related Activities (RRA), an increase of $690 million or 12.4 percent over FY10 enacted. New programs established as part of the increased research funding request for FY12 include $35 million for a nanotechnology manufacturing initiative, $40 million in next-generation robotics technologies, and $96 million for an interdisciplinary program to eventually replace computer chip technologies. In addition, $87 million is requested for advanced manufacturing activities including expanded university-industry research partnerships and regional innovation ecosystems and clean energy manufacturing research. Another $117 million is requested for "cyber-infrastructure" activities to accelerate the pace of discovery and $12 million for a "new program that will fund a suite of activities that promote greater interdisciplinary research." Much of the funding increases are focused on manufacturing technologies and regional innovation centers. The Committee is concerned that the increased emphasis in these areas moves the Foundation from its core mission of supporting basic R&D to significantly more support for applied areas of R&D, which are best left to market forces or agencies with specific applied R&D goals to advance their mission.

As part of the Science, Engineering and Education for Sustainability (SEES) program that crosses all NSF directorates and has a goal of advancing "climate and energy science,

engineering, and education to inform the societal actions needed for environment and economic sustainability and sustainable human well-being," the FY12 budget request is $998.1 million, an increase of $337.5 million or 51 percent. The Committee recognizes the broad interdisciplinary activities within the SEES program, but is greatly concerned that 13 percent of the entire Foundation's budget request is being devoted to this issue, particularly given the strong emphasis on these programs across all relevant federal agencies. Further, the Committee is strongly opposed to the 144.5 percent budget request increase for the NSF contribution to the Climate Change Technology Program (CCTP) and recommends elimination of the $10 million Climate Change Education program, as worthy climate change education proposals are certainly eligible for other education funding at the Foundation.

In addition, the FY12 budget request also includes a plan to invest broadband spectrum receipts in a variety of areas, including $150 million to NSF in FY12 and $1 billion total over a 5-year period for targeted research on experimental wireless technology testbeds, more flexible and efficient use of the radio spectrum, and cyber-physical systems such as wireless sensor networks for smart buildings, roads, and bridges. NSF's participation is a piece of the $3 billion WIN fund.

Education and Human Resources (EHR)

The FY12 budget request for Education and Human Resources (EHR) is $911 million, a $38.4 million or 4.4 percent increase over FY10. The Administration continues to offer a mixed message regarding the treatment of EHR relative to the healthy increase for RRA. While calling for an investment of $3.4 billion in STEM education activities across the federal government, a number of proven NSF initiatives are being eliminated, reduced, or reprogrammed to make way for new or expanded programs. Like last year's request, the FY12 budget request continues to shift a greater responsibility for STEM education to the Department of Education while maintaining NSF primarily as a research agency. The Committee agrees that NSF is primarily a research agency, but also strongly believes that an essential element of NSF's mission is support for STEM education, from pre-K through graduate school and beyond. Therefore, the Committee is concerned with this shift. We recognize that the Department of Education is better equipped to disseminate and replicate STEM programming, but the STEM-related research and expertise that NSF can and does provide is world-class and needs to be included in any appropriate larger, overarching STEM education activities carried out by the Federal government.

New funding in the FY12 budget request includes an additional $20 million for a Transforming Broadening Participation through STEM (TBPS) pilot program to seek innovative solutions for broadening participation in STEM at the undergraduate level. This is part of an overarching realigned program called Broadening Participation at the Core (BPAC), which also houses several underrepresented population programs. The BPAC program total request is $156 million, a $21 million or 23.3 percent increase over FY10. Research programs focused on gender and persons with disabilities have been moved from this Division to the Division of Research on Learning in Formal and Informal Settings and funding under the request is cut by 8.7 percent to $17 million. The Committee does not believe that a new $20 million pilot program is warranted at this time, given the budgetary constraints our country is facing. Further,

the Committee is concerned that funding for the Human Resources Division has increased by more than 15 percent while the focus of the Division does not include all underrepresented populations.

Additionally, the FY12 budget request includes $40 million in funding for a new teacher-training research and development program, split evenly between K-12 teachers and undergraduate teachers. At the same time, the budget request for Noyce Scholarships is $45 million, a decrease of $10 million or 18.2 percent and the Math and Science Partnership is $48.2 million, also a decrease of $10 million or 17.2 percent. Likewise, the Administration's budget request places a high priority on Graduate Research Fellowships (GRF) by increasing the funding to $134.6 million, a 31.2 percent increase over FY10, while essentially flatlining the Integrative Graduate Education and Research Traineeship Program (IGERT) at $30.17 million and greatly diminishing the Graduate STEM Fellows in K-12 Education (GK-12) to $27 million, a 45 percent cut. The Committee understands the need to make cuts, but believes that Noyce Scholarships and MSP are proven and worthy programs and are not appropriate areas to be cut in order to fund a new and unproven program. Increasing the number of GRFs is a laudable goal in a better economic environment, but increasing the funding level by over 31 percent, particularly while essentially ignoring other graduate programs, is not fiscally responsible.

Department of Energy (DOE)

The Department of Energy (DOE) funds a wide range of research, development, demonstration and commercial application activities. The overall F12 budget request for DOE is $29.5 billion, which represents a $3.1 billion or 11.8 percent increase of FY10 levels. Approximately one third of this amount is directed to research and development programs.

President Obama made clean energy technology development a centerpiece proposal of his State of the Union. The proposal includes an 80 percent clean energy standard (CES), a $2 billion increase in "clean energy" research, and a Better Buildings Initiative. The Committee recognizes the importance of energy technology development to America's economic future, but has serious concerns with the overall spending and relative prioritization within the President's budget request.

Office of Science (SC)

The DOE Office of Science (SC) is the Federal government's primary supporter of long-term basic research in the physical sciences, as well as design, construction, and operation of major scientific user facilities. Office of Science activities are organized into the following six major programs: Basic Energy Sciences (BES), Advanced Scientific Computing Research (ASCR), Biological and Environmental Research (BER), Fusion Energy Sciences (FES), High Energy Physics (HEP), and Nuclear Physics (NP). The FY12 budget request for SC is $5.4 billion, a 9.1 percent increase over FY10 levels.

The Committee recognizes the unique role of the Office of Science in supporting world-class scientific research and facilities and notes its continued strong support for SC activities as a key

driver of innovation and long-term economic growth. We also recognize SC's strong record in managing construction and operation of major scientific facilities that are delivering cutting-edge research breakthroughs in areas such as materials science and chemistry. Accordingly, we believe the Office of Science should be the top funding priority among DOE R&D programs. However, in light of budget circumstances, we intend to continue to work to identify areas within the SC budget warranting consideration for cuts. Of particular interest in this regard are SC Biological and Environmental Research activities, which fund significant research in areas ancillary to DOE's primary mission and/or potentially duplicative of research funded elsewhere in the government (such as climate change). Specifically, the Committee is concerned that the Atmospheric System Research and the Climate and Earth Systems Modeling programs are duplicative of research programs at the National Oceanic and Atmospheric Administration and the National Science Foundation. Additionally, the Fusion Energy Sciences program is an area of concern due to high-risk program management and international funding and cooperation challenges associated with the ITER project, and the value of SC spending on science education and workforce development also warrants further review.

Advanced Research Projects Agency – Energy (ARPA-E)

Advanced Research Projects Agency – Energy (ARPA-E) was created in 2007 with a charge to fund high-risk, high-reward research that "industry itself is not likely to undertake." The Administration requests $650 million for ARPA-E in FY12. Of this amount, $550 million would be provided through discretionary funding. ARPA-E would also administer an additional $100 million "Wireless Innovation Fund" aimed at developing wireless communications technologies and paid for through a proposed transfer of wireless spectrum auction revenues. Initially provided with $400 million in the 2009 Recovery Act, ARPA-E did not receive a direct appropriation in FY10, though it was the beneficiary of a $15 million transfer from the Office of Science.

The Committee remains concerned with ARPA-E. In 2007, many members opposed the creation of ARPA-E because they feared the program would emphasize late-stage technology development more appropriately performed by the private sector, and that it would funded at the expense of priority basic research programs within the Office of Science.

These concerns appear to be validated by ARPA-E's initial activities, which suggest several instances of awards being made for activities already being pursued by the private sector. While the Committee remains open to identifying an acceptable manner in which to support truly high-risk and unsupported transformational research activities such as those described in the original ARPA-E vision, we do not believe the program should receive funding above existing levels necessary to oversee ongoing projects until an evaluation of the projects being funded takes place.

Nuclear Energy (NE)

The Administration request for Office of Nuclear Energy (NE) R&D programs is $447.4 million, a 8.1 percent decrease ($39.6 million) from the FY10 enacted level and 10 percent decrease from

the FY11 President's budget request. Approximately 74 percent of that request is dedicated to the Fuel Cycle R&D and Reactor Concepts RD&D programs.

The Committee strongly supports advancement of nuclear energy and associated research in NE. This support does not preclude Committee concern for misdirected and lower priority R&D within NE. For example, NE should focus on technology development for reactors with realistic potential for deployment, rather than continuing university research on well-studied technologies unlikely to move beyond the academic realm.

The Committee is encouraged by the proposal for two new programs, the Nuclear Energy Enabling Technologies (NEET) program and the Light Water Reactor (LWR) Small Modular Reactor (SMR) Licensing Technical Support program. The NEET program may provide an avenue for reactor development with crosscutting technologies which are not easily categorized specifically as fuel cycle or reactor concepts technology.

SMRs are well-researched and near demonstration. SMRs hold promise; however, still lack approval and licensing from the Nuclear Regulatory Commission (NRC). The proposed LWR SMR program intends to overcome the existing regulatory challenges. DOE must work closely with NRC to complete the SMR licensing process, at which point the LWR SMR Licensing Technical Support program should be terminated.

Energy Efficiency and Renewable Energy (EERE)

The Office of Energy Efficiency and Renewable Energy (EERE) funds a wide array of energy efficiency and renewable energy technologies. The Administration's budget request of $3.2 billion for EERE represents a 44.4 percent ($958 million) increase from the FY10 enacted level and a 36 percent increase ($845 million) over the President's FY11 budget request. This reflects President Obama's call in his State of the Union speech for increased spending on clean energy technologies. Most EERE programs receive significant funding increases relative to the FY10 enacted level. Of note, Industrial Technologies receives a $225 million increase (239 percent), which includes the creation of an Energy Innovation Hub on critical materials. Geothermal Technology would see an increase of $58 million (125 percent) to expand the enhanced geothermal subprogram and Solar Energy would receive an additional $213 million (87.8 percent) to fund the "Sunshot" and "dollar-a-watt" initiatives.

The Committee objects to the requested $958 million (44 percent) increase in EERE's budget. This concern is based on (1) EERE's focus on incremental, low-impact technological advances through technology development, demonstration, commercialization, and deployment activities; and (2) its significant budget increases, which include 32 percent growth since FY 2008 and 93 percent growth since FY 2006. Additionally, EERE has spent only 31 percent of its appropriated $16.5 billion in Stimulus funding. Outside of specific programmatic concerns, the ability of the office to responsibly manage and effectively oversee such massive budgetary increases is questionable.

Additionally, we believe many activities conducted by EERE are unnecessary and represent an inappropriate government involvement in the marketplace, resulting in the government "picking

winners and losers" among competing companies and technologies. EERE's budget increase includes a number of programs explicitly designed to assist with technology-specific demonstration, deployment and commercialization activities. Fundamentally, the act of providing individual firms with government money for the purpose of commercializing profitable technology is an inappropriate intervention in the market that may crowd out or discourage a greater amount of private investment.

We also generally question the appropriateness and value of several other newly proposed and expanded activities within EERE. The Vehicle Technologies Program (VTP) requests a $204 million increase in vehicle technology deployment to disburse grants to cities for upgrade infrastructure to accommodate electric vehicles. Also, VTP plans to raise public awareness of vehicle technologies with "high visibility demonstration projects at national parks." The Building Technologies Program (BTP) requests a $186 million increase from FY10 levels to support a "Race to the Green" competitive grant program. The grant program would implement policies such as adopting more stringent building codes, benchmarking and disclosing building energy use, and establishing public energy-savings targets. The Race to the Green program is a component of the Administration's Better Buildings Initiative. The Committee questions the relative value of a significant increase in Federal government spending for the purpose of providing grants to select localities.

EERE conducts a multitude of "outreach and education" programs encompassing projects from developing K-12 curriculums to providing energy resource assessments for governments scattered throughout Latin American and the Caribbean. These projects call into question the merit of existing spending and demand a methodical reevaluation of budget priorities before an increase of any size should even be considered.

These areas of concern are not exhaustive but rather represent examples of areas the Committee intends to further scrutinize. Rigorous examination and Committee oversight of EERE is necessary and the Committee believes EERE warrants significant and well-justified cuts to meet necessary spending reductions.

Electricity Delivery and Energy Reliability (OE)

The Office of Electricity Delivery and Energy Reliability (OE) oversees the modernization of the electric grid, the reliability of energy infrastructure, and conducts research and development for energy delivery-related technologies. Research and Development within OE would be funded at $193 million in the President's FY12 budget request. This would reflect an increase of $71.4 million (58.8 percent) from enacted FY10 levels and a $48.5 million increase (33.6 percent) from the President's FY11 budget request. Additionally, the President requests $20 million for the creation of a Smart Grid Technology and Systems Hub to be administered by OE.

This Committee asserts OE's FY12 budget request is misguided given current budgetary restraints. OE seeks an increase of $43.4 million for the Energy Storage program; however, we are concerned about potential overlap with similar programs in the Office of Science, EERE's Vehicle Technologies Program, and ARPA-E's "GRIDS" program.

The Committee supports targeted OE R&D in Cyber Security for Energy Delivery Systems, which provide basic value and is a wise and necessary investment for the Federal government. In spite of the value provided by a rigorous cyber security program, the budget request reduces cyber security funding by $9 million.

Fossil Energy (FE)

The DOE Office of Fossil Energy (FE) supports research and development focused on coal (including "clean coal" technologies), gas, petroleum, and also supports the Federal Government's Strategic Petroleum Reserve. The President's total budget request for the Office of Fossil Energy (FE) is $520 million. FE's research and development budget is reduced to $453 million, a decrease of $207 million, or 31 percent, from FY10 enacted levels. This correlates to a 23 percent decrease ($134 million) from the President's FY11 budget request.

The FY12 budget request proposes to terminate the Natural Gas Technologies and Unconventional Fossil Energy Technologies programs. Coal R&D is funded at $291 million, the bulk of which is focused on advancing carbon capture and sequestration (CCS) efforts. The Hydrogen from Coal, Coal to Coal Biomass to Liquids, and Solid Oxide Fuel Cells subprograms would all be eliminated.

The Committee continues to be supportive of an "all-of-the-above" approach to addressing energy supply and demand issues, and recognizes the potential of renewable energy and energy efficiency technologies to contribute to this effort. We are concerned about the budget's hostile approach to supply side factors associated with energy independence –primarily, expanding traditional sources of domestic energy – is disturbing. For example, we are deeply disappointed that the President's budget summary proposes to eliminate the Ultra-Deepwater and Unconventional Natural Gas and Other Petroleum Research Program established in Section 999 of the Energy Policy Act of 2005 (P.L. 109-58). Section 999H(a) sets the funding for this program at a level of $50-million-per-year provided from Federal lease royalties, rents, and bonuses paid by oil and gas companies – not taxpayers. It should be clear that the overall program was initiated and carried out to reach energy known to exist in the areas targeted – energy that was impossible to produce without new technology – and that the required technology would be eventually be paid for from the energy captured. Further, the Section 999 program is the only R&D program in the Federal government capable of addressing drilling safety and accident prevention-related technology needs in a timely and effective manner.

The Committee believes the United States must develop domestic energy resources to improve America's energy security. This entails fossil fuel development, which are the backbone of energy usage today and, according to the Energy Information Administration, for the foreseeable future. Accordingly, the Administration's proposal to eliminate a number of traditional Fossil Energy R&D programs, while placing nearly exclusive emphasis on carbon capture and sequestration (CCS) technology, is misguided. The Committee recommends restoring DOE's Fossil Energy program to its prior focus on fundamental R&D to advance oil and gas exploration and production technologies and enable near-term environmental improvements, such as increasing power plant efficiency and research on non-greenhouse gas related pollution abatement technology.

Loan Guarantee Program Office (LPO)

The President's FY12 budget request for DOE's Loan Guarantee Program Office (LPO) is $200 million. This funding would be used as a credit subsidy for loans authorized under Section 1703 of the Energy Policy Act of 2005. The LPO did not receive an appropriation for credit subsidies in FY10. The credit subsidy funding would support an estimated $1 to $2 billion in loan guarantees to support energy efficiency and renewable energy activities.

The Committee does not support the budget request for $200 million to cover credit subsidies for renewable energy loan guarantees. The loan guarantee program offers businesses the ability to secure below market financing rates. Private financial institutions have a record of supporting economically feasible and valuable projects. Highly-developed financial markets have the necessary tools to evaluate the relative worth of an energy project and provide the appropriate level of financing. We should avoid picking "winning and losing" projects through this program and return to a privately funded model of energy innovation.

In addition to the Title 17 loan guarantees, the President is requesting $105 million to for the creation of a "Better Building Pilot Loan Guarantee Initiative for Universities, Schools, and Hospitals." This program would fund loan guarantees help retrofit commercial buildings and would be available to subsidize up to $2 billion in total loan principal.

The Committee believes the creation of the Better Buildings Initiative is not warranted. The Administration provides nominal details for the initiative, such as what entities would qualify, the criteria by which terms and conditions would be decided, and why such a program is needed. The associated costs, outside of the $100 million for credit subsidies, reveal the potentially wasteful nature of the program. For example, the detailed justification requests $1.65 million for salaries and benefits of ten full-time equivalent employees, or an *average* package of $165,000 per employee.

Energy Innovation Hubs

The FY12 budget request proposes funding of $146 million to support six Energy Innovation Hubs, which are supported through the SC, EERE, and NE accounts. This would support the three existing Hubs as well as the creation of three new Hubs, which the President highlighted in his recent State of the Union address. According to the Administration, Hubs are intended to "advance highly promising areas of energy science and engineering from the early stage of research to the point where the technology can be handed off to the private sector."

The Administration's proposal to double the number of Hubs is not warranted under current fiscal strains. The newly proposed hubs all replicate ongoing research in multiple DOE programs. For example, the request includes $34 million for a Batteries and Energy Storage Hub, in addition to $136 million ($60 million increase) for battery and energy storage R&D in EERE's Vehicle Technologies Program, thermal energy storage research conducted by the Solar Technologies Program, and two BES subprograms.

Rather than merge and consolidate programs to improve program direction and research efficiency, the request advances the complete opposite approach with new research programs in associated across-the-board increases for all programs.

National Oceanic and Atmospheric Administration (NOAA)

Within the jurisdiction of the Committee, the National Oceanic and Atmospheric Administration (NOAA) is one of the smaller operational and research agencies. NOAA's mission of science, service, and stewardship is manifested through improvement of the understanding of oceans and atmosphere and how their interactions affect human life, property and ecosystem health. NOAA provides critical weather and climate data necessary to protect lives and to enhance commerce through the National Weather Service (NWS) and the National Environmental Satellite Service (NESS)[1]. NOAA is responsible for mapping and charting coastal areas and other navigation support services through the National Ocean Service (NOS). NOAA also manages fisheries and conducts research on marine ecosystems and marine mammals through the National Marine Fisheries Service (NMFS). Finally, NOAA conducts world-leading atmospheric and oceanic research through its Office of Oceanic and Atmospheric Research (OAR).

NOAA's FY12 budget request is 5.5 billion, an increase of $749 million or 15.8 percent above the FY10 enacted level. As part of the request, the Administration has proposed the largest reorganization of NOAA since its inception in 1970.

Climate Service (CS)

The budget request includes $346.2 million for a new line office, the Climate Service (CS), which would include assets consolidated from OAR, NWS, and NESS. The Committee does not approve this reorganization or the creation of this Climate Service. The Committee has serious concerns regarding the implications of transitioning climate-related research into an operational office. Such a movement makes research funding vulnerable to cuts during tight budgetary times in order to ensure the continued operational functionality of the service. The Committee is concerned that existing science-driven research activities would be supplanted by service-driven and mission-directed research, compromising the integrity and objectivity of NOAA research. The Committee remains open to identifying organizational changes to improve information flow between NOAA's research, service, and operational activities, but such an effort would require close review and consideration through hearings and possibly legislative action. The Committee expects that NOAA will continue operating in its current organizational structure unless explicitly authorized otherwise by Congress.

National Environmental Satellite Service (NESS)

The FY12 budget request for the NESS is $2 billion, a $698.2 million increase over FY2010 enacted levels. This 58.2 percent increase is by far the largest increase in NOAA's total budget

[1] This line office was previously termed the National Environmental Satellite, Data, and Information Service (NESDIS). However, with the movement of the data centers into the new Climate Service, the name was changed to reflect the office's narrower focus.

request. The bulk of the increase is for the Joint Polar Satellite System (JPSS)[2]. JPSS will provide polar-orbiting satellites scheduled to launch starting in 2016, which will replace currently operational satellites and provide key data used in weather forecasting and environmental observations. The Committee strongly supports this request and believes it should receive funding priority, even if it must come at the expense of other programs at NOAA. Due to the previous delays of its predecessor program, JPSS is well behind schedule. Further significant budgetary shortfalls are very likely to result in a satellite data continuity gap, degrading the efficacy of timely weather forecasts (particularly with respect to development storms and severe weather), and potentially harming NOAA's ability to fulfill its mission to protect life and property. However, the Committee is concerned that, since the recent reorganization of this program, JPSS has not undergone a budget re-baseline process as required under P.L. 110-161 and P.L. 109-155. The Committee believes that a baselining process should be completed before funding for FY12 is appropriated, and will continue to work to identify cost-savings within the JPSS program that do not jeopardize operational needs.

The Committee has reservations about NOAA's request of $47 million for the refurbishment of the Deep Space Climate Observatory (DSCOVR) satellite. Although supportive of funding a replacement satellite for the existing Advanced Composition Explorer (ACE) satellite that provides space weather information, NOAA's choice of replacement warrants further scrutiny. The DSCOVR satellite has been in storage for a decade. The Committee realizes that NASA has already spent money refurbishing DSCOVR for a research mission, we are concerned about using such an old satellite for a replacement of ACE, a vital resource for forecasting space weather events that have direct impacts on global positioning satellites, communication networks and the electric grid. Furthermore, we are concerned about combining an operational mission from NOAA with a research mission from NASA. Typically, specifications for research satellites differ from specifications and standards for operational satellites. The Committee will closely monitor the development of the ACE replacement and will also ensure that the Office of Science and Technology Policy follows through on the requirement laid out in P.L. 111-267 to submit a report to Congress detailing options for an ACE replacement.

Office of Oceanic and Atmospheric Research (OAR)

The Committee has grave concerns regarding the impact of the proposed Climate Service on OAR. More than half the resources of OAR will move into the new line office, decimating the resources of this research agency and harming the synergistic and strategic approach of the entire NOAA science enterprise. This transfer of assets is inconsistent with what was suggested and proposed by NOAA's Science Advisory Board only six years ago. The Committee will be reviewing the effects of such a transfer, and in the meantime, has insisted to the Administrator that the existing structure is maintained.

---

[2] This program was previously the National Polar-orbiting Operational Environmental Satellite System (NPOESS), a tri-agency program with the National Aeronautical and Space Administration (NASA) and the Department of Defense (DoD). As part of the FY2011 budget request, the Administration split NPOESS into two programs. NOAA and NASA have responsibility for the JPSS program to cover the afternoon satellite orbit. DoD will have a separate polar weather satellite program for the early morning orbit.

The Committee does not agree with the proposed budget reduction of the Unmanned Aircraft Systems (UAS) program. After several successful test runs, this program is prime for additional research to truly make it operational. The UAS technology appears likely to be capable of delivering improved weather and environmental data for reduced cost, alleviating operational budgets for the National Weather Service and other NOAA activities. The Committee recommends that this budget stay at the FY2010 enacted levels of $6 million. We believe that such an investment will result in future cost savings.

The Committee supports the $10 million OAR request for R&D on Multi-function Phased Array Radar (MPAR). This next generation radar has the potential to reduce the U.S. system by 180 radars, resulting in $1.9 billion in acquisition savings and $3 billion in operational cost reductions over 30 years. MPAR would be four to five times faster than today's system, greatly enhancing public safety by allowing warnings of over one-hour versus the current 15 minute lead time.

National Weather Service (NWS)

The Committee is generally supportive of the overall National Weather Service (NWS) FY12 budget request of $988.0 million which is a 1.2 percent decrease from the FY10 enacted level. However, there are some concerns with the prioritization of the request. During some of the major storms in 2010, the NWS website went down. This is a vital resource used by emergency responders, State and local decision makers and the general public in order to deal with extreme weather events. The Committee is concerned about the requested decrease of $3.2 million for the telecommunications program at NWS; specifically, how it will affect the ability of NWS to ensure that critical information flow to the public is not hampered. With increasing concerns about the quality of the surface temperature data used for climate monitoring and prediction, the Committee is hesitant about the zeroing out of funding for the National Mesonet Network. The Mesonet Network was established in response to the National Academies of Science expressing concern about the lack of integration of distributed monitoring and observational networks. While we have confidence that NWS will be able to achieve quality forecasts using existing networks, we are concerned with the quality of the data generated by outside entities and the ability of NWS to properly integrate it into its own databases. Therefore, the Committee would support a reduction but not elimination of funding for the Mesonet Network, provided this would not increase the total proposed budgetary request. Finally, the Committee supports the NWS request of an increase of $11 million for weather and climate supercomputing. However, given the amount of funding NOAA has received for climate computing capability in the last few years, including stimulus funding, the Committee would recommend that this increase be granted only in accordance with an equal or larger decrease in the climate-related computing budget.

National Institute of Standards and Technology (NIST)

The National Institute of Standards and Technology (NIST) is a non-regulatory laboratory of the federal government tasked with innovation and industrial competitiveness by advancing measurement science, standards and technology in ways that enhance economic security and improve our quality of life.

In FY12, the Administration has requested a funding level of $1 billion or a 16.9 percent increase from FY10 enacted funding for NIST. The budget request would provide $678.9 million for NIST's Scientific and Technical Research and Services (STRS); $84.6 million for Construction of Research Facilities (CRF); $142.6 million for the Manufacturing Extension Partnership (MEP) program; and $75.0 million for the Technology Innovation Program (TIP).

Laboratories and Construction

The Committee recognizes that NIST's laboratories and internal maintenance and construction of those laboratories closely support our nation's innovation by working closely with industry to develop consensus-based voluntary standards. As a trusted arbiter regarded for its high-quality work, maintaining strong support for the laboratories is vital to our economic security. Nevertheless, the $164 million or 32 percent increase over FY10 requested for the laboratories needs to be scrutinized to ensure that these additional funds are necessary.

While state-of-the-art facilities are essential to the capabilities of NIST's intramural laboratories, the Committee supports the Administration for requesting no funds for the extramural construction grant program. The grants – awarded to external entities - do not directly support NIST's mission and were not an authorized activity. Members believe NIST should remain focused on its primary mission and concur with the Administration that this program should not be funded in FY12.

Industrial Technology Services

The Committee is concerned about the proposed expansion of the industrial technology services programs requested by the Administration. In particular, the Technology Innovation Program (TIP) is requested to receive a $5 million increase. Though the three-year old program has had limited time to prove itself, the Committee wants to ensure that this program is successfully supporting the development of technologies to meet critical national needs. The Committee also notes that this program was not reauthorized in the 2010 America COMPETES Act.

The Committee is pleased with the Administration's reduced request for the Baldrige Performance Excellence Program (BPEP). While the program plays an important role in recognizing and perpetuating high quality practices across industry, it is an appropriate time in the program's maturity to explore other sustainable mechanisms of running the program.

The Committee questions the creation of the new Advanced Manufacturing Technology Consortia (AMTech) Program, with a $12.3 million request in FY12. The program would fund facilities, equipment, and research at universities and government laboratories to address long-term research needs of the manufacturing industry. A thorough review of the plans for this program is necessary.

Public Safety Innovation Fund (WIN)

The FY12 budget request includes a plan to invest broadband spectrum receipts in a variety of areas, including $100 million annually provided to NIST for 2012-2016 for research supporting the development and promotion of wireless technologies to advance public safety, Smart Grid, and other broadband capabilities. The Committee commends the Administration for recognizing NIST's history of working closely with industry on interoperability standards.

Department of Homeland Security (DHS)

The Department of Homeland Security Science and Technology Directorate (DHS S&T) funds research, development, testing and evaluation to improve homeland security. The Domestic Nuclear Detection Office (DNDO), whose transformative research program is transferred to DHS S&T in the FY12 request, is dedicated to both the development and enhancement of the global nuclear detection architecture, the coordination of nuclear detection research and development, and the establishment of procedures and training for end users of nuclear detection equipment.

The FY12 budget request for DHS S&T is $1.2 billion, an increase of 16.9 percent, or $170 million over the FY10 enacted level. Most of this increase reflects the transfer of R&D programs from the DNDO to DHS S&T. Within DNDO, the FY12 budget drops by $51.3 million or 13.4 percent.

The Committee is concerned that if the DNDO transfer and proposed funding for the construction of the National Bio and Agro-Defense Facility is removed, the DHS S&T budget request represents a net 11 percent decrease from FY10 funding levels. The Committee recognizes that robust research and development is necessary to support DHS's mission, and wants to ensure that the S&T Directorate has the resources it needs to keep our nation safe and borders secure.

Finally, the Committee recognizes the value of both Assistance to Firefighter Grants (AFG) and Staffing for Adequate Fire and Emergency Response (SAFER) grants to our Nation's fire departments. However, the Committee remains concerned that SAFER grant program continues to expand while the FY12 request for AFG reflects a 36 percent decrease below FY10 funding.

Environmental Protection Agency (EPA)

The Science and Technology (S&T) account in the Environmental Protection Agency (EPA) covers research and development activities in several line offices. The activities at the Office of Research and Development (ORD) represent about 70 percent of the S&T budget. The FY12 budget request for S&T is $825.6 million, a 2.6 percent reduction from FY10 enacted levels. The budget request for ORD is $584.1 million, a 2.1 percent decrease from FY10 levels.

Due to EPA's disturbing pattern of regulating based on insufficient or faulty scientific evidence, the Committee feels that it is unnecessary to continue to fund EPA's research at existing levels until reforms are undertaken. For example, the Air, Climate and Energy (ACE) research programs at ORD include activities to develop tools to assess behavioral responses to mitigation or adaption policies. This type of research does not further EPA's mission of protecting human health and the environment. Instead, these activities seem to be more driven by policy advocacy, which is not an appropriate use of research dollars.

The Committee does not support the 56 percent increase in STAR fellowships. Although fellowships are important for the training and education of the next generation of scientists, the Committee feels that the budgetary constraints we are currently operating under do not afford this type of expenditure.

The Committee has reservations about $0.5 million requested decrease in the Human Health Risk Assessment research program. This program supports the Integrated Risk Information System (IRIS), a risk-based database used by industry and government regulators alike. IRIS has been notoriously late on assessments, and with the decreased transparency that is now embedded into the new assessment process, the Committee has grave concerns about the quality of the assessments produced. Furthermore, the Committee has serious reservations about how this system is being used for ulterior purposes. EPA decision makers for IRIS are focusing on chemicals that a very small percentage of the overall population is exposed to. Given the backlog of chemicals IRIS is assessing, the Committee feels it would make more sense to assess chemicals that potentially affect a much greater percentage of the population. Finally, the Committee does not support the use of poor quality data, reports or information in these IRIS assessments. It has come to our attention that such data is used to make determinations that will have substantial economic and policy implications.

Department of Transportation

Federal Aviation Administration (FAA) – Research, Development and Technology

The FY12 budget request provides $394.4 million for FAA research and development activities, plus an additional $28.4 million for related facilities, adding to a total request of $422.8 million, a $22.2 million increase (5.5%) above the FY11 request. Agency R&D is spread among four accounts:

1. Office of Commercial Space Transportation (OCST) – Safety. The FY12 budget request is $566,000 for OCST – Safety, a $401,000 or 243 percent increase over FY11. Among other activities, the additional funds would be used for research and development of the technical expertise needed to certify human space flight launch systems and capsules now under development that would be used to carry non-government passengers (astronauts) to orbit.
2. The Research, Engineering and Development account (Aviation Trust Fund), with a FY12 request of $190 million, is $500,000 less than the amount requested in FY11. RE&D conducts research to support a safe, efficient and environmentally acceptable

aviation system in five key areas: air traffic services, airport technology, aircraft safety, human factors and the environment.

3. A portion of the Facilities and Equipment account (Aviation Trust Fund) dedicated to engineering, development, test and evaluation, with an FY12 request of $177.5 million, a $22.3 million or 14 percent increase over the FY11 request.
4. A portion of the Airport Improvement Program account (Aviation Trust Fund) with an FY12 request of $44.3 million, an increase of $2.1 million over five percent over FY11.

At a programmatic level we support the FAA's budget request for development and implementation of NextGen, to modernize our nation's air traffic control system. NextGen technologies will ensure that our national airspace system can readily accommodate future growth while maintaining the highest levels of safety. Whether speaking about NextGen R&D, or NextGen generally, it is essential these efforts be supported.

Office of Commercial Space Transportation (OCST)

The FY12 budget request for OCST (operations) is $26.6 million, an increase of $10.9 million or 70 percent over the FY11 request. OCST is responsible for licensing and regulating commercial space launches and reentries to ensure compliance with standards designed to protect public safety. For FY12, OCST proposes to hire 32 additional FTE staff to develop and implement additional safety processes and requirements specifically for commercial human spaceflight and space traffic management. Our committee intends to hold hearings prior to reauthorizing OCST later this year.

Research and Innovative Technology Administration (RITA)

The FY12 Administration research request for RITA is $17.6 million, or $4.6 million above the FY10 enacted. RITA is tasked with coordinating and reviewing all of DOT's research and development programs, representing more than $1 billion across the Department.

The proposed funding levels for research and development for the Federal Highway Administration is $661 million and for the Federal Transit Administration is $30 million. Both of these accounts support portions of the research and development conducted by University Transportation Centers across the country.

The Committee is concerned about long-term, rigorous transportation research and development remaining a high priority, and believes that we must provide realistic and sustainable funding for these programs in the future. Furthermore, the Committee is concerned that the Administration's goals for some transportation research programs, such as Livable Communities or green construction, may stray from the fundamental transportation needs of most taxpayers including road safety and congestion mitigation.

Ralph M. Hall Chas. "Chuck" Fl

Bennie G. Thompson MS-2 | Judy Biggert IL 13

Scott Rigell VA-02 | AZ-3

Ron Paul | IL 14

Paul Broun GA10 | IN-08

Frank D. Lucas OK-3 | WI-05

Mo Brooks AL-05 | Lamar Smith

Michael McCaul TX-10 | TX-26

MO-01 | W. Todd Akin

Dan Benishek MI01 | MI-12

Sandy Adams

ADDITIONAL VIEWS
OF HON. DANA ROHRABACHER
COMMITTEE ON SCIENCE, SPACE AND TECHNOLOGY
FISCAL YEAR 2012 BUDGET REQUEST

As we get deeper and deeper into ever more deficit spending, with crushing debt threatening our nation's prosperity, it is more critical than ever that we pay extreme attention to every federal expense. American investments into science and technology have always provided the basis for new industries, which have, in turn, increased the private sector workforce and improved the lives of millions of Americans. These investments have enabled our economy to consistently be the strongest in the world.

We must make every dollar count because we are borrowing 40 cents of every dollar the federal government spends. We must show restraint. We must not duplicate efforts across agencies and departments. And we must not continue to spend by mortgaging the futures of our children by borrowing from our friends and from our enemies. Although I agree with much of the Views and Estimates, there are some specific areas on which I wish to state a different view.

U.S. Global Change Research Program The U.S. Global Change Research Program (USGCRP) is the government-wide program created by Congress in 1990 "to improve understanding of uncertainties in climate science, expand global observing systems, develop science-based resources to support policymaking and resource management, and communicate findings broadly among scientific and stakeholder communities." For FY 2011 the Administration requested a 20.7% increase over the FY 2010 enacted funding. For FY 2012 the Administration has asked for even more. These funds are requested directly in the budgets of NASA, NSF, NOAA, NIST, DOE, and other departments.

I have been blunt before, and I still strongly believe that the entire budget for this program should be zeroed out. Federal global warming research is not reducing uncertainties in climate science. The research is not changing minds. If we spend $2.6 billion in FY 2012, 40% of which we borrow from overseas, it will change zero minds about global warming. Every dollar spent on this is a dollar wasted. The path we are on is irrational and reckless.

National Aeronautics and Space Administration The budget request for Fiscal Year 2012 for the National Aeronautics and Space Administration (NASA) funds every component authorized under the NASA Authorization Act of 2010 (P.L. 111-267) within the same funding level as appropriated for FY 2010 of $18.7 billion, which is $730 million less than authorized. The budget request also includes $548 million for the Space Shuttle Pension Liability commitment, which was not included in that authorization.

NASA is to be commended for proposing to fund every component in the authorization, while absorbing this $1.3 billion reduction in expected funding flexibility.

It is of note that, whatever our space policy will be from this point forward, we will not be able to achieve continued success solely on the backs of our taxpayers. For far too long our space funding has not matched our space mission, creating a dangerous, frustrating situation with no clear path to success. With the 2010 NASA Authorization Act, we have identified the path forward: America's space goals can only be achieved by partnering with other nations and by bringing in funds from the private sector, creating sustainable launchers and vehicles that can serve both public and private markets. This budget request reflects that reality.

This FY 2012 budget request identifies the development of commercial crew services as one of the key short-term components that will help us make use of the $100 billion spent to date on constructing the International Space Station. $850 million to help incentivize the private sector to develop and demonstrate critical technologies leading to multiple, independent, sustainable systems that can bring people safely to orbit and return them to Earth is an investment worth making. The increase of $350 million in this program above authorized levels is small relative to the potential gain for NASA, America, and humanity. The companies involved in the commercial crew services program include both new startups and long-established companies who have been NASA's partners on every human spaceflight mission.

The FY 2012 budget request also seeks funding of $2.8 billion for the SLS and MPCV programs. These vehicles are being developed primarily for exploration beyond Earth orbit, expected to start in 2020, and can also serve as a backup system for Earth-to-orbit transportation in the unlikely event that none of the other systems in development are successful. It would obviously be ill-advised to fund a back-up system at 330% of the cost of the primary system if there were no additional purpose for it. The funding level for these programs is $1.2 billion less than authorized for FY 2012, due mostly to the overall reduction in the NASA request, the required pension liability commitment, and the ongoing process of architecture selection. This reduction is one of those difficult choices that need to be made in our current fiscal environment, and I think it is the correct one.

ROSCOE G. BARTLETT
6TH DISTRICT, MARYLAND

2412 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-2721

UNITED STATES
HOUSE OF REPRESENTATIVES

COMMITTEES:
ARMED SERVICES
SUBCOMMITTEES:
CHAIRMAN
TACTICAL AIR AND LAND FORCES
SEAPOWER AND EXPEDITIONARY FORCES

SCIENCE, SPACE, AND TECHNOLOGY
SUBCOMMITTEES:
ENERGY AND ENVIRONMENT
RESEARCH AND SCIENCE EDUCATION

SMALL BUSINESS
SUBCOMMITTEE:
AGRICULTURE, ENERGY AND TRADE

Additional Views and Estimates

Congressman Roscoe G. Bartlett

Committee on Science, Space and Technology

Fiscal Year 2012

Department of Energy (DOE)

The Committee objects to significant increases in the requested budgets for research, development and demonstration projects by DOE. These increases must be considered not only in the context of the past several fiscal years and our fiscal challenges which I agree must be addressed, but in a broader historical context. As I indicated in charts I shared during my question and answer period with Secretary Chu, the threat to the economic and national security of the United States posed by global peak oil argues for significantly greater, not less funding for research, development and demonstration projects to develop alternative liquid fuels for our most dependent and vulnerable transportation sector.

The United States is now 40 years past our peak crude oil production in 1970-71. The U.S. is producing 5 mpd, half of what we produced in 1970-71 despite production from Alaska and the Gulf of Mexico and new technologies, such as seismic 3-D and horizontal drilling, recently applied to the Bakken shale formation that underlies Montana, North Dakota and Wyoming.

The International Energy Agency (IEA) lowered its estimate of potential global crude oil output in 2035 by 10 mpd between its 2009 and 2010 World Energy Outlook reports from @100 mbd to 90 mbd. In its World Energy Outlook 2010, the IEA asserted that global peak oil has already occurred. Specifically, the IEA said, "Crude oil output reaches an undulating plateau of around 68 - 69 mb/d by 2020, but never regains its all - time peak of 70 mb/d reached in 2006." Furthermore, the IEA projected growing influence in the global oil market by OPEC oil producing countries. "The increasing share of OPEC contributes to the growing dominance of national oil companies: as a group, they account for all of the increase in global production between 2009 and 2035." These countries are governed by predominantly authoritarian regimes, many hostile to the United States, such as Iran and Venezuela. Popular protests that began in Tunisia and Egypt in the Middle East have spread to Bahrain and Saudi Arabia, the key swing and largest producer, contributing to oil price spikes over $100/barrel in the last three months.

7360 GUILFORD DRIVE
SUITE 101
FREDERICK, MD 21704
(301) 694-3030

1800 DUAL HIGHWAY
SUITE 301
HAGERSTOWN, MD 21742
(301) 797-6043

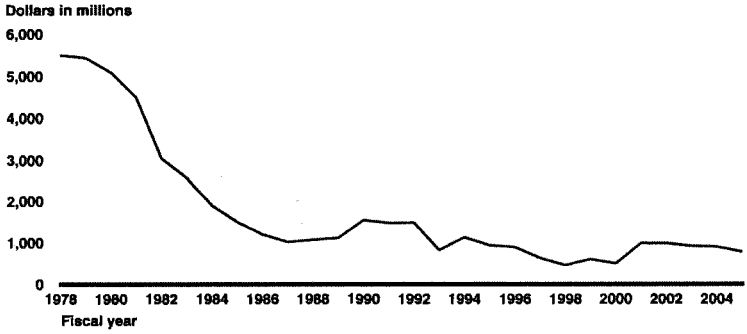
1 FREDERICK STREET
SUITE 2
CUMBERLAND, MD 21502
(301) 724-3105

412 MALCOLM DRIVE
SUITE 200
WESTMINSTER, MD 21157
(410) 857-1115

The vulnerability of the U.S. is increasing because we have been producing, that is depleting, our small and declining 2-3 percent share of world oil reserves at a rate four times faster than OPEC. U.S. oil geologist and executive, Ray Leonard, President and CEO, Hyperdynamics Corporation, at the Muehlberger Symposium in Austin, Texas August 2010 reported that, "Present yearly production consumes 1.5% of OPEC reserves, 3.5% of [the Former Soviet Union] FSU, and 7% of the rest of the world (ROW). Extending this trend into the future with current reserve base increases OPEC's reserve share to 80% by 2020. Meanwhile, the rest of the world's share reduces to less than 10% by 2015."

Despite repeated instances and increasing vulnerability of the United States to oil-fueled price spike economic disruptions, funding for research, development and demonstration on energy has declined dramatically. The General Accounting Office (GAO) analyzed the trends of U.S. federal government expenditures on research, development and demonstration projects by DOE in two relevant reports, "Advanced Energy Technologies: Budget Trends and Challenges for DOE's Energy R&D Program," (GAO-08-556) and "Department of Energy: Key Challenges Remain for Developing and Deploying Advanced Energy Technologies to Meet Future Needs" (GAO-07-106). GAO reported to Congress that "DOE's total budget authority for renewable, fossil, and nuclear energy R&D dropped by over 85 percent (in inflation-adjusted dollars) from 1978 to 2005—from about $5.5 billion in fiscal year 1978 to $793 million in fiscal year 2005. (Fig. 2)

Figure 2: DOE's Budget Authority for Renewable, Fossil, and Nuclear R&D, Fiscal Years 1978-2005



Source: GAO analysis of DOE data.

Committee on Science, Space and Technology
Fiscal Year 2012
Additional Views

The Majority Views and Estimates for the Committee on Science, Space and Technology incorporate many positions that I support regarding the future of the various agencies under the Committee's jurisdiction. However, I must emphasize the need to be vigilant in our oversight of these agencies and their budgets. In these difficult economic times and the record breaking deficits and debt levels, it is imperative that the Committee not let the taxpayer down. The federal government cannot be all things to all people; it cannot afford to do everything. We must continue to ask ourselves, "What is the appropriate role of the federal government in science, research and development?"

The American people sent a strong message to Congress last fall; we need to get our financial house in order. They expect us to make the tough financial decisions and make the federal government smaller and more efficient. I am very concerned that much of the massive increases in spending proposed by the Administration for Fiscal Year 2012, coupled with the previous years' increases in spending and massive outlays in 2009 with the American Recovery and Reinvestment Act are unsustainable and in many cases unwarranted. The Administration continues to fund agencies and programs that are often duplicative, wasteful and better done in the private sector.

With each program, the Committee must ask the tough questions. Is this program necessary? Can we afford this program? Are these programs constitutional? Is this program already being done? How do we measure success or failure of the program?

Additionally, I continue to be alarmed that the Administration's budget continues to make climate change a priority. As money is dispersed to this end, I believe we need to make sure that whatever conclusions that may be drawn are in fact based on sound science and that any policy initiatives should not be implemented without Congressional approval and oversight and with this Committee's active participation.

Paul C. Broun, M.D.
Member of Congress

Rep. Hultgren - Additional Views and Estimates of President Obama's Budget Request for issues within the Jurisdiction of the Committee on Science, Space and Technology.
March 16, 2011

While I'm encouraged by the support for the Office of Science, I'm troubled by the Administration's priorities within the Office of Science. The 2012 budget request is essentially a freeze at FY2010 levels for High Energy Physics, while other programs within the Office of Science are slated for increases of 21 to 24 percent. The Administration must not lose sight of the importance of basic research in high energy physics and I strongly disagree with the funding disparity in the FY2012 budget.

Additionally, Fermi National Accelerator Laboratory in my district is the only single purpose high energy particle physics lab in the US, and I'm concerned by the lack of clear, long-term support for the Lab and its mission. This is a critical time for Fermilab as it transitions from the highly successful running of the Tevatron and transitions to new projects and programs at the Intensity Frontier, including the Long Baseline Neutrino Experiment (LBNE) at the Deep Underground Science and Engineering Laboratory (DUSEL). There needs to be greater stress on both keeping the National Science Foundation working as strong a partner in the operation of the DUSEL (which serves as a critical component of Fermi Lab's LBNE) and the future of the lab as a competitive global leader in basic research and high energy physics.

Minority Views of the Democratic Caucus of the Committee on Science, Space, and Technology On the FY2012 Budget Request

The nation's research and development agencies have a long history of investing in research and education programs that return very significant economic payoffs to the American people. The President's FY 2012 budget request continues the commitment to investing in our future while at the same time acknowledging the difficult fiscal environment in which we find ourselves. While we can disagree with some of the specific choices and priorities contained in the Administration's FY 2012 budget request, we share the President's goals of maintaining a strong science and technology enterprise and ensuring that our young people are prepared for the technical careers of the future.

The choice before us as a nation is stark: we can focus on the need to create jobs now and in the coming years by making sure that we are taking the necessary steps to ensure that we remain economically strong and competitive in a challenging international marketplace, or we can engage in short-sighted cutting of our capabilities for innovation and education to meet arbitrary budgetary targets. If the past is any guide, it is clear that investments in science, technology and STEM education must be a cornerstone of any serious long-term strategy to keep America competitive.

The budget resolution that these Views and Estimates are intended to inform is being developed even while the *FY 2011* budget remains in play. The House consideration of the FY 2011 budget has been marked by severe cuts to important research and development (R&D) initiatives in order to meet arbitrary fiscal goals. The end result of those cuts, if enacted into law, would be thousands of layoffs and furloughs among the best and brightest of our scientists and engineers; curtailment of critical research activities to protect the public from environmental hazards; fewer innovative technologies to enable the industries of the future; and serious damage to our core scientific and technological capabilities.

The President's FY 2012 budget request, on the other hand, recognizes that even in these challenging economic times, we need not—and should not—sacrifice our future for the sake of crippling cuts to a small fraction of the total federal budget. With vision and perseverance, we can be both fiscally responsible *and* make the necessary investments to keep the American economy competitive in the coming decades while keeping our people and our environment healthy.

Thus, while there are findings in the Majority's Views and Estimates with which we can agree, it is clear that the overall thrust of those Views and Estimates is in the direction of advocating substantial cuts to important research and development programs and initiatives. While there are undoubtedly areas of savings that could be found by careful examination of programs and projects, the broad-brush notion that whole areas of science and technology are not needed to prepare for an uncertain future does not have a credible basis in either fact or analysis. Thus, vague and unsupported claims that agencies like the

Environmental Protection Agency are regulating "based on insufficient or faulty science"—and thus should have their funding cut—do little to advance the debate over appropriate R&D funding priorities nor do they provide thoughtful guidance to the Budget Committee as it attempts to construct an overall federal budget blueprint.

That is not to say that there is nothing of value that can be said about the choices before us as a nation. For example, one need only look at the cuts that were adopted in H.R. 1 to realize that the path advocated in that legislation and in the Majority's Views and Estimates would lead thousands of the most promising scientists and engineers in the nation to lose their jobs and abandon their research. After years of bipartisan calls for young people to come into science and math and engineering, the outcome of enacting H.R. 1 or the policies in the Majority's Views and Estimates would be the same as posting a big "Help Not Needed" sign on every National Laboratory and university throughout the country. That would be a tragedy—and one that the President's FY 2012 budget request seeks to avoid.

Every family understands that there are consumption expenditures and investment expenditures. We sacrifice to make sure our children have shoes, medical care, and a good education. When money is tight, we cut back on restaurant dinners, new clothes for ourselves, and vacation trips--those things that might be nice to have, but are not necessary to keep a roof over our heads today or build a better life for our family tomorrow. Even when times are tough, however, we are willing to take out loans or take on a second job to help cover the costs of college. People understand that shortchanging our children's education will leave them less prepared for what will come. In our private lives we understand that the investments we make today, even when times are hard, will pay dividends in the future. This same logic applies to meeting our public responsibilities.

In short, Democratic members of the Committee on Science, Space, and Technology believe that if we do not invest in education, in new ideas, and in new processes, we will deny our children the capacity to deal effectively with the crises that their generation will have to tackle. It is irresponsible not to invest in the future, whether you are talking about your own children or speaking of the legacy we as a society leave the generations that will succeed us.

The Democratic Members of the Committee thus endorse the President's budget request for FY2012 in the area of research and development. While we might make slightly different recommendations across specific program areas, taken as a whole, the Administration has worked hard to find savings to balance their continuing commitment to investing in our nation's future. We endorse the Administration's approach of guarding from cuts those investments in innovation, education and infrastructure that contribute to the conditions that allow Americans to continue to do what we have done time and again since the founding of the Republic:

invest to keep America economically competitive and strong and to create good jobs now and in the future;

build opportunities for every citizen to unleash their potential to be creative, productive and actively contribute to this great democracy; and
leave for our children a world that is better than the one we inherited.

We should add that these investments will build not just a better society, but also make this country a better place to do business and develop a workforce with the skills to excel, the ambition to create, and the means to succeed.

Programmatic Guidance

While programmatic guidance is of limited utility to the Budget Committee, what follows are specific observations, agency-by-agency, where the agreement or disagreement with the Majority Views and Estimates is significant enough to justify comment.

National Aeronautics and Space Administration (NASA)

While supportive of the President, Democratic members are disappointed with the NASA request, especially in light of the work that Congress undertook last year to forge a constructive path forward for the nation's space program. The compromise that was enacted into law is not reflected in the proposed NASA budget request. The request cuts NASA's overall budget plan and its human exploration budget even further than before, delays the development of the next generation vehicles, and eliminates any concrete destinations or milestones beyond the International Space Station that can inform decisions on needed investments in space technology. We agree with the Majority's view that NASA's FY 2012 request is not reflective of the priorities established in the NASA Authorization Act of 2010 as the Administration has placed a relative higher priority on commercial crew and underfunded development of the Space Launch Vehicle (SLS) and Multiple Purpose Crew Vehicle (MPCV).

Contrary to the Majority's position on Earth Science, Democratic members have been supportive of the higher funding accorded this area in last year's request. NASA has indicated that reduced out-year funding for Earth Sciences will necessitate delaying the start of two missions, CLARREO and DESDynI. While this is unfortunate, Democratic members acknowledge the budgetary challenges facing NASA's Science program. However, we are concerned that delays in initiating these missions could lead to higher development costs and also delay the collection of data. This data would provide significant utility in observing, understanding, and addressing key environmental challenges including complete El Nino/ La Nina cycles, reflected solar radiation and Earth thermal radiation, earthquakes, volcanic eruptions, landslides as well as new observational information for monitoring forests, agricultural resources, and mountain glaciers.

National Science Foundation (NSF)

Democratic Members strongly support fully funding NSF at the levels requested by the President. There is no record to support the Republican views that "... new and expanded Administration priorities continue to excessively divert precious research and

development funds from other worthy endeavors." Innovation in science and the creation of cross-disciplinary science initiatives that tie basic research to technology innovation, at agencies that fund research and development both reflect and help drive creativity across the nation's colleges and universities.

Department of Energy (DOE)

Democratic Members strongly reject the Republican preferences for cuts to programs at the DOE. The cuts outlined in the FY2011 Continuing Resolution would lead to job losses in the thousands spread across the National Labs in California, New Mexico, Washington, Colorado, Illinois, Tennessee, New York, and Virginia, and many thousands more at universities and companies all across the country. Not only would some of the country's best and brightest find their careers interrupted or ended, but the Nation would also lose the fruits of their hard work and creativity. DOE programs and the National Labs fill a void in the U.S. innovation pipeline that industry and universities cannot or will not do alone, tackling some of our most important national challenges at the cutting edge of questions about material sciences, energy sciences, emerging sources of energy, and conservation.

Democratic Members believe that we must take a comprehensive approach to assure a safer, more sustainable energy future for our children, and this includes supporting activities from basic to applied research, and beyond. Assuming that the current level of private investment in energy technologies is sufficient, that companies will do all of the necessary cutting-edge research on their own, or that the marketplace will naturally pick cleaner technologies, grossly oversimplifies the complexity and scale of the energy and environmental challenges that we face today, and threatens our future international competitiveness. With the U.S. accounting for roughly 8 percent of global oil reserves and a quarter of global oil demand, we cannot drill our way to energy independence. If the country is to have any hope of developing a long-term solution to the depletion of fossil fuels, or of reducing pollution from our need to continue to use fossil fuels in many applications for generations to come, those answers will likely be found through research by the National Labs, universities, and companies supported by DOE. However, those answers will be much harder to find if we undercut DOE's vital research efforts.

National Oceanic and Atmospheric Administration (NOAA)

Democratic Members endorse the President's request for NOAA. We are particularly concerned that funds sufficient to launch the full array of weather and climate sensors and satellites be made available in the FY 2012 budget.

National Institute of Standards and Technology (NIST)

Democratic Members are pleased that the President's request provides support for the NIST lab complex as well as the Industrial Technology Services. The budget request is consistent with COMPETES Act goals and continues the Manufacturing Extension Program (MEP) on its doubling path. The MEP remains a very effective tool for

supporting small businesses. This program's focus on improving manufacturing capabilities is almost unique across the Federal government.

Department of Homeland Security (DHS)

The Democratic Members are supportive of the President's request for DHS Science and Technology. We are particularly pleased with the strong support shown in that budget for the Staffing for Adequate Fire and Emergency Response (SAFER) grants which support our Nation's emergency response community. However, the cuts to the Assistance to Firefighter Grants (AFG) program are troubling, and we would prefer that this program be fully funded at the FY2010 level.

Environmental Protection Agency (EPA)

The Majority's Views and Estimates state that: "Due to EPA's disturbing pattern of regulating based on insufficient or faulty scientific evidence, the Committee feels that it is unnecessary to continue EPA's research at existing levels until reforms are undertaken." Democratic Members strongly reject this view and support the President's request for EPA science.

The Majority make specific reference to the Integrated Risk Information System (IRIS). The Majority's characterization of the program is unrecognizable to anyone who has studied the record. EPA is currently trying to gain greater control over the IRIS process, an effort that the Majority describes as resulting in "decreased transparency" so that they can begin adding entries at a pace greater than two or three a year. The assertion that the IRIS "system is being used for ulterior purposes" is not buttressed by analysis. The problem with science at EPA is not that they do not do it well or that they abuse it, but that it is used by those who fear regulation to postpone risk assessments. IRIS entries go through multi-year reviews and some have even been forced to National Academy Assessments, and these endless efforts go on more than a decade without ever leading to an entry. That is not EPA's doing, but rather reflects the efforts of those who use the argument of scientific uncertainty to demand just one more study, one more literature review, one more outside panel before any regulation can ever be approved for action. IRIS has been the subject of multiple hearings by the Investigations and Oversight Subcommittee in the 110th and 111th Congresses as well as multiple reports by the Government Accountability Office (GAO)—the facts are available for anyone to review.

Department of Transportation (DOT)

Democratic Members of the Committee support DOT's continuing research into ways to build and maintain infrastructure in a manner that is energy efficient and reduces impacts on the environment; to identify and address deterioration and other potential safety problems with new and existing infrastructure; and to find efficient, sensible ways to reduce traffic congestion. We particularly support programs that would successfully transition research findings to state and local transportation planners.

Regarding the Federal Aviation Administration (FAA), Democratic Members are supportive of FAA's Research, Development and Technology initiatives, including NextGen, and urge funding of such initiatives in FY 2012 at the level requested by the Administration. In addition, Democratic Members look forward to receiving additional information at an upcoming hearing before finalizing our views on the proposed increase for the FAA's Office of Commercial Space Transportation.

Minority Views of the Democratic Caucus of the Committee on Science, Space, and Technology On the FY2012 Budget Request

Eddie Bernice Johnson

Donna F. Edwards

Ben Ray Luján

Jerry F. Costello

Lynn Woolsey

Hansen Clarke

Brad Miller

Marcia L. Fudge

Daniel Lipinski

Frederica S. Wilson

Paul D. Tonko

J. Luis Gutierrez

Terri Sewell

Zoe Lofgren

Jerry McNerney

Additional Views of Representative Zoe Lofgren
On the FY2012 Budget Request

The President's proposed budget for fiscal year 2012 includes strategic investments in science and research and development. I agree and join with my Democratic colleagues on the Committee in the Minority Views that "if we do not invest in education, in new ideas, and in new processes, we will deny our children the capacity to deal effectively with the crises that their generation will have to tackle."

I would like to further discuss the proposed National Aeronautics and Space Administration (NASA) budget. While I agree with my colleagues that the President's budget should align with the priorities established by Congress in the NASA Authorization Act of 2010 (P.L. 111-267), I do not share my colleagues' belief that the budget proposal conflicts with the Authorization Act or concerns regarding the budget's funding for commercial space. With the end of the NASA space shuttle program, we all agree that we need to ensure our ability to access the International Space Station (ISS). SpaceX, which is headquartered in Hawthorne, California, became the first commercial company to successfully re-enter a spacecraft from low-Earth orbit and recover that spacecraft with their Dragon demonstration in December. The robust funding provided for commercial in the President's budget would help to leverage private sector investments, like SpaceX, to accelerate the commercial sector's capacity to access the ISS. Further, President's budget includes important funding for technology research that will help ensure the United States remains a leader in space.

Zoe Lofgren
Member of Congress

Additional Views on the FY2012 Budget
Representative Marcia L. Fudge

Though I agree, in large part, with the Minority Views of the Democratic Caucus of the Committee on Science, Space, and Technology on the FY2012 Budget Request, I must state my opposition to the stated views on the proposed NASA budget. I believe that the President's Budget Request sets forth the plan needed to develop a robust space and aeronautics industry in the United States. By leveraging private sector funds with federal investments, we will increase our national competition and progress.

However, what is most important to me and my constituents is the proposal's focus on research and development (R&D) within the agency. I believe that we are at a critical time in our history where technology and innovation represent the future of our country. It is the role of the federal government to invest in a diverse portfolio of basic R&D that will carry our space and aeronautics industry forward. If we truly want to build the vehicles of the future, we must make these investments now. I urge my colleagues to protect all R&D funding in the proposal for the sake of our global leadership and future prosperity.

Marcia L. Fudge
Member of Congress

Additional Views Submitted by Mr. Tonko for the
FY2012 Budget Request

The President's leadership on science, clean energy, research, and development is once again on display with the FY 2012 budget request. His goal is clear: we must out-innovate our competitors in a global clean energy race to win the future. We cannot win the future, however, if we pull the rug out from under our nation's feet. We cannot afford to go backward. And yet, it seems as though that is exactly what the new majority in the House of Representatives intends for our country to do. H.R. 1 and recent short-term Continuing Resolutions for FY2011 funding have repeatedly made drastic cuts to scientific programs. These cuts would not only stop innovative research from taking place, but would fire some of the nation's leading scientists. Doing so destroys our ability to lead the innovation economy now, and in the future. Cuts of this magnitude will ensure that our country will lose its leadership role and will jeopardize the recovery from our worst economic crisis since the Great Depression.

While I agree with the Minority's Views and Estimates, I want to also highlight programs related to nanotechnology and their importance to our nation's economic future. I hope this guidance will help show the importance of these investments.

Programmatic Guidance

National Institute of Standards and Technology (NIST)

I support the NIST budget level as proposed by the President to continue to support research in nanotechnology, including additional funds for developing measurements to support the manufacture and production of nanotechnology-based products. These increases will support NIST's programs in user facility instrumentation, and increase the support for measurement research necessary to enable the development of nanomanufacturing technologies in support of the Nanotechnology Signature Initiatives. This focus will help bring our remaining manufactures into the innovation economy by enabling them to manufacture new nanotechnologies here at home. Congress should support this effort as an investment in American technology manufacturing.

National Science Foundation (NSF)

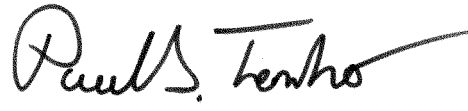
The programs outlined below build on the success of past research and their budget requests reflect an attempt by the Obama Administration to meet the overwhelming demand from industry for assistance.

NSF Nanomanufacturing. The full 2012 request is $57.2 million, which is aimed at enabling scaled-up, reliable, and cost-effective manufacturing of nanoscale materials, structures, devices, and systems. More specifically, the increased funding will support new concepts for high-rate synthesis and processing of nanostructures, nanostructured catalysts, nanobiotechnology methods, surface engineering, design and fabrication methods for devices, and assembly of

devices into nanosystems to be incorporated into larger-scale structures of relevance in industry, sustainability, and medicine. Partnerships between research centers and small businesses in the areas of manufacturing and commercialization will be strengthened while maintaining the same level of NSF investment. Creating partnerships is the most effective way to use taxpayer money and the President's budget should be commended for supporting these efforts.

Major Research Facilities & Instrumentation Acquisition. The 2012 request includes $31.5 million, supporting funding for user facilities, acquisition of major instrumentation, and other activities that develop, support, or enhance the scientific infrastructure for the conduct of nanoscale science, engineering, and technology research and development. Partnerships of research centers with small businesses in the areas of nanomanufacturing and commercialization will be strengthened while maintaining the same level of NSF investment.

Sincerely,



Paul D. Tonko
Member of Congress

SAM GRAVES, MISSOURI
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

March 17, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
United States House of Representatives
309 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

Pursuant to clause 4(f) of Rule X of the Rules of the House and § 301(d) of the Congressional Budget Act of 1974, 2 U.S.C. § 632(d), I am transmitting the "Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2012." Dissenting views will be transmitted separately by Members of the Committee.

The Committee approved the Views and Estimates contained herein on March 15, 2011 by voice vote.

Should you or your staff have further questions regarding this document, please contact the Chief Counsel for the Committee, Mr. Barry Pineles, at x55821.

Sincerely,

Sam Graves
Chairman

Enclosure

Views and Estimates of the Committee on Small Business on Matters to be set forth in the Concurrent Resolution on the Budget for Fiscal Year 2012

Pursuant to clause 4(f) of Rule X of the Rules of the House and § 301(d) of the Congressional Budget Act of 1974, 2 U.S.C. § 632(d), the Committee on Small Business is transmitting herein: (1) its views and estimates on all matters within its jurisdiction or functions to be set forth in the concurrent resolution on the budget for Fiscal Year 2012; and (2) recommendations for improved governmental performance.

The budget request for the Small Business Administration (SBA) in FY 2012 is $985.44 million – an increase of $161.4 million from FY 2010. The two main reasons for the increase are: (1) the need to account for the costs, as required by the Federal Credit Reform Act, of the primary SBA lending programs; and (2) the costs to administer the SBA Disaster Loan Program. The Committee believes that the budget request needs to trim funds from duplicative and ineffective programs and reallocate some of those funds to programs that will be more helpful to America's entrepreneurs.

Capital Access Programs

The Committee has held hearings over the past three years in which numerous small businesses testified that they have had significant difficulty in obtaining needed credit to operate. In some cases, businesses with solid operating histories have seen their credit lines reduced or eliminated. Unlike large enterprises that can seek out funds from commercial debt and equity markets, small businesses must rely on their own personal assets, retained earnings, and commercial bank funds for needed capital. With the retrenchment in the normal commercial credit markets, the SBA capital access programs, provide businesses with necessary capital and credit to create jobs that the economy needs.

7(a) Guaranteed Loan Program

The 7(a) Loan Program is the primary program for providing financial assistance to entrepreneurs. The program utilizes private lenders who make loans and receive guarantees from the SBA that a portion (varying from 50 to 85 percent of the loan) will be repaid by the United States Treasury even if the borrower defaults. Until FY 2006, Congress appropriated funds to supplement the fees charged by the SBA in order to cover the cost of the program as required by the Federal Credit Reform Act.[1] From FY 2005 until FY 2010, fees covered the cost of the program without the need for an appropriation. However, the recent economic downturn in conjunction with existing statutory limits on the fees that the SBA can charge to lenders and borrowers makes it impossible to cover the costs of the program without an additional appropriation. The

[1] Under the Federal Credit Reform Act, the SBA must determine the costs needed to cover potential losses from the cohort of loans made in the fiscal year in which the loans were made. Determining the net present value involves estimating expected loan defaults in the future less any recoveries of collateral on the defaulted loans. According to the agency's estimates, defaults are only expected to rise very modestly; the real issue is the expected recoveries will be lower due to reductions in the value of collateral.

SBA requests budget authority of $129 million which includes an additional $87.5 million of new budget authority. The request would cover the costs associated with issuing guarantees on $16.5 billion in lending. Of this, $14.5 billion is conventional 7(a) loans.[2] Approximately, $125 million of the $129 million would be devoted to conventional 7(a) lending.[3]

Given the reduced access to normal commercial credit for small businesses, the Committee supports the need for funding the 7(a) Loan Program. While the Committee will consider an increase in fees paid by borrowers and lenders to reduce the funds that must be appropriated, that may be counterproductive as it would impose additional costs on small businesses as they are trying to create jobs needed to resuscitate the economy. The Committee also considered reducing the overall size of the conventional 7(a) loan authority from $14.5 billion to $14 billion since the SBA has never reached that loan level. However, given the fact that the savings would be relatively small – about $4.4 million dollars – and could crimp operation of the program if loan demand is unusually high (something that might be expected in a recovering economy), the Committee decided to find savings in other areas of the SBA budget.[4] The Committee concurs with the decision to cease operation of the Community Express Loan program. Those savings should not be transferred to any new pilot program; any such savings should be used to either reduce the subsidy needed to operate the program or used to improve the information technology supporting the agency's lending operations.

However, the Committee strongly disagrees with the establishment of new pilot programs under the 7(a) Loan Program. The pilot programs are established without direction from Congress or input from lenders or borrowers. As such, the programs often have internal problems that affect the overall subsidy rate of the 7(a) Loan Program as demonstrated by the losses in the Community Express Loan Program. The Committee recommends that no funds be allocated from the 7(a) Loan Program or any other account be used to establish any new pilot programs.

The Certified Development Company Loan Program

The Certified Development Company (CDC or colloquially the "504 loan") program utilizes both private and government-guaranteed financing to provide long-term financing on larger capital projects that provide economic development to local communities. Loans made by CDCs must meet certain public policy goals (such as assisting manufacturers or promoting economic development) and demonstrate that the loans will create jobs.

---

[2] SBA's budget request parses the 7(a) Loan Guarantee program into three subsidiary parts: (1) conventional 7(a) loans; (2) 7(a) loans used for revolving lines of credit; and (3) floor plan financing for automobile, boat, recreational vehicle, and manufactured home dealers. Each has a different subsidy calculation. For purposes of these views and estimates, the critical lending component is the conventional 7(a) loans, i.e., loans other than revolving credit or floor plan financing.

[3] For each billion dollars in reduced loan authority, the savings on the total appropriation would be approximately $8.7 million dollars.

[4] If funds are overappropriated, i.e., the SBA never reaches the $14.5 billion in conventional 7(a) lending, those funds could be returned to the Treasury or carried over to defray costs for FY 2013.

Fees are charged to borrowers and lenders to cover the cost of the program in order to drive the subsidy rate to zero, i.e., so that there would be no appropriation needed to cover the cost of the program under the Federal Credit Reform Act. Despite the statutory mandate to maintain a zero subsidy, Congress also limited the size of fees that the SBA could impose on CDCs and borrowers. As with the 7(a) Loan Program, economic conditions (particularly lower than expected recoveries on the value of collateral)[5] have made it impossible for the SBA to continue operating the CDC Program without an appropriation. The SBA requested an $81.8 million dollars subsidy to cover $7.5 billion in lending. Given the value that CDC lending has to small businesses seeking to create jobs, the Committee believes it would be inappropriate to reduce the $7.5 billion in an effort to save money. There are other areas that could reduce the overall SBA budget without undermining the opportunities provided by this program.

Commercial Refinancing under the CDC Program

As an economic development program that was aimed at creating jobs, small businesses could not use loans from CDCs to refinance existing debt.[6] The Small Business Jobs Act of 2010, Pub. L. No. 111-240, created a temporary, two-year program that authorizes refinancing of existing debt using the CDC Loan Program. The program will not require borrowers to create jobs as with conventional CDC loans.

The Committee also is troubled by the potential risk that the program will pose to taxpayers. According to the SBA, that program will have a zero subsidy rate because the program authorized the SBA to charge additional fees to cover any additional cost of this temporary refinancing program. In regulations, published on February 17, 2011, the SBA claimed that the costs would be covered by a new ongoing fee of .2934 percent of the total outstanding amount guaranteed. Given the opacity of the SBA's calculation of the fee, the Committee does not believe that it will cover the subsidy costs of the program, much less the SBA's administrative costs. This is exacerbated by the SBA allowing loans that are 30 days in arrears to be refinanced (calling into question the viability of the business). The risks to taxpayers from this program might be worth it if there was a potential for job creation from the refinancing but that is not required. As a result, the Committee will examine the program for termination. In the interim, no funds should be allocated to cover the SBA's administrative costs in overseeing this program.

Microloans

The Microloan Program is a microfinancing program in which very small loans are made to very high risk customers, usually those that would not consider utilizing banks. The

---

[5] Most of the collateral for CDC loans is in commercial real estate. Although that market has not experienced the precipitous drop that occurred in residential markets, commercial real estate values have declined. As a result, the SBA was required to recalculate the expected value of collateral recovered on defaulted loans and given the decline in the market, estimated recoveries would decline thereby raising the subsidy rate.

[6] The basic argument is that refinancing does not create jobs but simply lowers the costs to a borrower.

SBA makes loans, at below market rates, to intermediaries who then turn around and lend to small businesses. The default rate on loans made to intermediaries is nearly zero but the cost of the program primarily stems from cost between market interest rates and the interest rates charged to intermediaries. The SBA requests an appropriation of $3.8 million to cover lending to intermediaries of $25 million. Given the modest cost of the subsidy and the effectiveness of the program in supporting the underserved, including skilled craftsman who have been laid off from work, the modest investment should continue.

Small Business Lending Intermediary Pilot Program

Under the program, 20 intermediaries will be loaned $1,000,000 each to make loans of up to $200,000 to small businesses. The intermediaries will not have to repay these $1,000,000 loans for a period of two years (either principal or interest) and then the interest rate is one percent. In short, this program could wind up making loans to exactly 100 businesses (each intermediary making $200,000 loans to five businesses). According to Congress, the purpose of the program is to alleviate the lack of credit availability to small businesses. Considering that there are about 28 million small businesses, this program could be limited to a total of less than three-ten thousandths of one percent of the small businesses in the United States. And according to the President's budget, the subsidy rate for this program is almost 30 percent. In contrast, the 7(a) Loan Program subsidy rate is less than one percent. Thus, the program helps very few businesses at a high risk to the government treasury. Given the risk and the lack of assistance provided to small businesses, the $4 million appropriated for the program should be rescinded.

Small Business Investment Company Program

The Small Business Investment Company (SBIC) program provides that holders of securities issued by the SBICs will be repaid by the federal government. The program was instituted in an effort to ensure that small businesses could obtain equity as well as debt financing.[7] Although an oversimplification, the SBIC program operates by the federal government guaranteeing an instrument sold by the SBIC into the commercial market. The SBIC is obligated to repay the federal government generally from proceeds from the investments it makes.

The debenture SBIC program is designed to provide equity injections to small businesses that have been operational and have a track record of cash-flow and profits. Debenture SBICs have invested in enterprises such as Callaway Golf, Outback Steakhouse, Dell Computer, and Nike. The program is financially sound because the structure of repayments ensures that the government will not suffer significant losses.[8] Thus, no changes are needed to the program and it operates on a zero subsidy basis without an

[7] The Committee on Small Business held hearings in the 110th Congress showing that small businesses still have difficulty raising equity capital. This problem has been compounded by additional burdens associated with Sarbanes-Oxley compliance and turmoil in the commercial credit markets.

[8] Without going into detail beyond the scope of this letter, the debenture SBIC program operates in terms more analogous to the SBA's 7(a) and CDC programs.

appropriation. The SBA budget is fully supportive of this program and we concur in that recommendation.

The Renewable Fuels Capital Investment Company Program was created in the 2007 Energy bill and modeled after debenture SBICs as an incentive to invest in renewable fuel facilities. Sufficient incentives already exist commercially to build renewable fuel facilities. Furthermore, other federal programs exist to provide such incentives. Given the duplicative nature of this program, the Committee concurs with the FY 2012 budget request that no funds should be allocated to commence its operation.

The SBA proposes two new initiatives which appear to be operating out of the debenture SBIC program – an impacting investing initiative and an innovation fund. Neither initiative has received authority from Congress. Furthermore, it appears that the initiatives would use existing uncommitted participating debenture funds. However, given the fact that these are new programs without the track record of the current debenture SBIC program, the Committee strongly recommends that no funds be provided from any account for their establishment including any allocation of funds from the existing SBIC program. The Committee on the Budget also should provide further protection to the existing debenture SBIC program by requiring any modifications to the program, whether a pilot program or not, be based on a new subsidy calculation that ensures the current debenture program will operate at zero subsidy without any increase in fees.

The participating security program became operational in 1994. The program was designed to provide equity capital to start-up small businesses – those without a significant operating history. The program operates under a significantly different reimbursement regime than that for the debenture program because the SBICs must wait significantly longer to obtain returns on their equity investments. When the participating security program started, it was quite successful as market conditions were favorable for equity provision to startups. As market conditions changed, the viability of startups changed and the financial health of participating security SBICs changed. There are existing estimates that the financial portfolio, if liquidated today, would result in losses to the federal treasury of $2.4 billion. The program has not provided additional funds to SBICs in more than seven years and the FY 2012 budget request does not seek to provide participating security SBICs with additional funds for investment. The Committee concurs in that recommendation.

Surety Bond Program

Small federal contractors, particularly in the construction industry, are required to post bonds in order to protect the federal government against the failure to complete a project. Title IV of the Small Business Investment Act of 1958 authorizes the SBA to reimburse surety bond writers up to 90 percent of the losses if a small business contractor defaults on a contract to which a surety issued a bond. The program operates on a revolving fund account and sufficient funds exist in the program so that no appropriation is needed. The

Committee concurs that the program should not require any appropriated funds to cover the costs of defaults by contractors.

Disaster Loans

The SBA is the primary provider of assistance to the homeowners and small businesses after a natural disaster. The SBA does not request any additional funds for disaster assistance in FY 2012 because there is sufficient carryover from appropriations that Congress has made in the past to deal with a normal year's disasters. A disaster on the scope of the 9/11 terrorist attacks, Hurricane Katrina, or a major earthquake in California would not be covered by existing funds in the disaster loan account. Typically such disasters require emergency funds that are provided in a supplemental appropriations bill. It would be impossible to ascertain on an a priori basis the level of funds needed to cover a disaster on the scale of a Hurricane Katrina or another terrorist attack. Therefore, the Committee concurs with the SBA request to provide no additional funds for disaster loans.

Management of Capital Access Programs

There are three primary costs that the SBA must face in the management of its capital access programs: (1) personnel to oversee the programs; (2) computer technology necessary to process data; and (3) capabilities to address defaulted loans. In all three instances, the SBA severely misplaces its priorities in the FY 2012 budget request.

The administrative costs associated with the guaranteed loan programs are covered under an appropriation account separate from the rest of the SBA. The FY 2012 request reduces that account by $5 million. The Committee concurs that those savings are reasonable and any additional cuts might jeopardize the ability of the SBA to properly manage an $83 billion loan portfolio which would pose an even greater risk to the federal taxpayer. The Committee on the Budget should allocate the reductions in a manner that ensures full funding of the SBA's lender oversight function and its simplification of standard operating procedures that govern the lending programs.[9]

The administrative costs for operating[10] the disaster loan program also are budgeted under a separate account. In addition, Congress permanently authorized the SBA to transfer unused disaster lending funds to administration of the disaster loan program. Given the drawdown of funds in the disaster funds account, the SBA will be unable to utilize all but a small portion of those funds to administer the disaster loan program. The SBA requests an additional $90.7 million to fund the administrative costs associated with

[9] The Committee expects to examine the use of standard operating procedures, essentially guidance documents, as the primary mechanism for managing the capital access programs. The proliferation of these ad hoc documents are developed without input from the public and impose undue burdens on lenders, particularly small ones.

[10] The administrative costs for this program are not simply those associated with the issuance of disaster loans. Since this is the only direct lending program that the SBA operates, the agency also must service all of these loans until they are sold. In 2008, Congress prohibited the sale of disaster loans for a period of five years after the loans were issued.

the operation of the disaster loan program. This represents an approximately $22 million dollar reduction in the cost of the program from FY 2010. While the Committee is concerned about the increase, it must counterbalance that concern with the ability of the SBA to respond to significant natural disasters. In particular, funds should be set aside so the SBA can mobilize its disaster response reserve corps without undermining the ability to fund disaster lending. If the Committee learned one thing after the 2005 hurricane season, it is that capacity to respond to disasters cannot be developed after the disaster occurs. Undermining the ability of the SBA to respond to such disasters also imposes significant risks to small businesses attempting to rebuild their enterprises and communities.

The information technology needed to manage the SBA guaranteed loan portfolio is outdated and at significant risk. In particular, the agency still has not complied with a statutory mandate to have a robust modern loan management accounting system (LMAS) even though Congress directed the SBA to have it operational by 1997. In its budget request, the SBA touts the savings that come from scaling back the design of the LMAS. However, that scaling back simply means that the SBA will move from a proprietary COBOL-based system to a COBOL-based nonproprietary system in which multiple contractors might bid on maintaining the database. The Committee remains extremely concerned about the vulnerabilities of maintaining an antiquated, non-robust business loan accounting system. The Committee believes that more resources should be applied to modernizing the agency's computer system. However, until a study by the Government Accountability Office (GAO) is complete, the Committee is not yet ready to specify the funds that should be directed at improving the system or even if the system should be maintained by the SBA or some other party. Nevertheless, it is likely that the funds requested in the budget will be inadequate to develop a modern, robust and reliable LMAS. In allocating funds, the Committee strongly endorses an approach that transfers funds from other projects of the Chief Information Officer to modernization of the LMAS.

As already noted, collections on defaulted loans, particularly in the CDC Loan Program, are abysmal. In the FY 2012 Budget Credit Supplement, expected recoveries for the CDC program are expected to be about 23 cents on the dollar. This is about the historical average even in years when collateral values were rising. The best action that Congress can take is to transfer the management of defaulted loans from the SBA to CDCs and reimburse them for expenses in performing that function. The recovery is about half that in the 7(a) Loan Program where many defaults are managed by preferred lenders rather than the SBA. If the rate of recoveries on CDC loans were doubled, it probably would reduce the subsidy cost by half (a savings of at least $40 million). Reimbursing CDCs for their expenses would be less costly than paying SBA employees to seek recovery on defaulted loans. CDCs have a vested interest in maximizing their recoveries because that will in the long-run reduce fees that they are required to pay for the operation of the program. Thus, the Committee strongly endorses eliminating SBA's responsibility for managing defaults and transferring it to CDCs. This will result in a concomitant reduction in SBA personnel.

Entrepreneurial Development Programs

There are a plethora of programs operated by the SBA in conjunction with non-federal partners to provide outreach and technical assistance to small businesses. These programs duplicate each other and programs in other agencies. In its consideration of these programs, the Committee first examined which programs had the broadest missions and best capability of meeting their federal match requirements. After making this identification, the Committee determined that programs with narrow missions or incapable of raising non-federal funds, should not receive any funding or receive significantly reduced amounts of funding. Programs with broad missions and capable of obtaining non-federal funds to help defray costs should not receive cuts or even see a modest increase to cover expenses from an expanded mission.

In particular, the Committee endorses raising slightly the funds available to Small Business Development Center grantees and maintaining the levels of current funding for SCORE. Funds should be reduced for: 7(j) technical assistance; microloan technical assistance; and the National Women's Business Council. Funding should be eliminated for the following existing programs: Women's Business Centers; Veterans Business Centers; Prime Technical Assistance; HUBZone outreach; and the Offices of Native American Affairs, and International Trade. No funds should be made available for the following initiatives: Drug-Free Workplace, Regional Innovation Clusters, and Emerging Leaders programs.

Small Business Development Centers

Small Business Development Centers deliver their services through 63 cooperative agreements with either state agencies or institutions of higher education. To the extent that a state agency is a grantee, the agency typically subcontracts that performance to an institution of higher education located in the state. These 63 grantees have established over 1,000 service centers to provide technical assistance to small businesses for: business strategy development, technology transfer, government procurement, engineering, accounting, etc. The FY 2012 budget request reduces the SBDC funding by $9.6 million. The Committee believes that SBDCs should be granted about $5 million more given the increased responsibilities that for technical assistance that results from reductions in other duplicative outreach programs. Those funds can be transferred from other programs that the Committee suggests for termination.

SCORE

SCORE provides face-to-face counseling from 389 chapter locations with 10,900 SCORE volunteers. SCORE volunteers provide the full gamut of business consultation services from development of business plans to strategic marketing to financing. SBA's SCORE database also enables small businesses to find a SCORE volunteer that best suits the need of the small business. For example, the owner of a restaurant can find SCORE volunteers who were in the food service business. The Committee concurs with the budget request of $7 million.

7(j) Technical Assistance

Section 7(j) of the Small Business Act authorizes the Administrator to contract for the provision of management, technical, and consulting services to participants in the 8(a) government contracting business development program. Unlike other assistance programs in which any interested individual may obtain an appointment and seek advice, this program is limited solely to participants in the 8(a) program. While the assistance is useful for participants, the Committee believes that these services can be provided, in part, by other entrepreneurial development partners and personnel at the agency. Given the current fiscal condition of the United States, the Committee recommends reducing that budget by $1.1 million to $2 million. Better coordination of existing technical assistance by agency personnel, improvement in the mentor-protégé program, and better coordination with SBDCs, SCORE and services from other federal and state agencies should enable participants in the program to obtain needed technical assistance.

Microloan Technical Assistance

The keystone of the Microloan Program is not the lending that is done by intermediaries but rather the training that they provide to their borrowers so that the borrowers can operate their businesses without defaulting on loans. The Committee believes that this is a valuable and irreplaceable component of the microloan program – assisting a new class of entrepreneurs. However, testimony before the Committee reveals that a majority of training provided by microloan intermediaries is not to borrowers but to prospective borrowers, many of whom do not become borrowers. This function can be provided by other programs at the SBA and elsewhere. As a result, the Committee recommends an additional $2.5 million reduction in microloan technical assistance and requiring that all technical assistance provided by microloan intermediaries be provided to borrowers.

National Women's Business Council

The National Women's Business Council is a bipartisan federal advisory council created to serve as an independent source of advice and counsel to the President, Congress, and the SBA on economic issues of importance to women business owners. By interacting with women throughout the country, the Council develops and promotes policies and programs to help women entrepreneurs, the largest growing class of small business owners in the country. The Committee concurs that this mission is valuable but is at a loss to understand the near doubling of the Council's budget. As a result, the Committee believes that the Council, like SCORE, should maintain funding from prior years rather than increase which would translate to $1 million budget not the $1.9 million suggested in the SBA budget.

Women's Business Centers

Women's Business Centers (WBCs) provide training, counseling, and mentoring to women entrepreneurs. WBCs are public/private partnerships in which the federal government provides funds that were to be matched by private donors. However, over time, the centers became more reliant on federal funds thereby undermining the original intent of Congress in creating the WBCs. Furthermore, many of the clients are not women but men. The services provided by WBCs fundamentally are indistinguishable from that provided by SCORE and SBDCs. Given the duplication in mission and the fact that WBCs were not created to obtain permanent federal funding, the program should be terminated. A portion of those funds should be redirected to cover the $5 million increase in funding for SBDCs.

Veterans Business Outreach Centers

Veterans Business Outreach Centers (VBOCs) are modeled on SBDCs and WBCs. The SBA already provides significant assistance to veterans who are seeking to start or already operate small businesses. The VBOCs duplicate services already available from the SBA, other entrepreneurial development partners and programs available from the Department of Veterans Affairs. As a result, the Committee believes that no funding should be made available for funding VBOCs. While eliminating funds for VBOCs, other funds at the SBA for veteran business development should be maintained.

Prime Technical Assistance

Under the Program for Investment in Microentrepreneurs (PRIME), the SBA provides federal funds to community-based, regional, and national organizations that in turn will offer training and technical assistance to low-income and very low-income entrepreneurs with small businesses of five employees or less. The major focus of PRIME is to provide assistance to very small businesses that typically because of their lack of experience and education are unable to gain access to banks and other providers of capital. The services provided by PRIME duplicate other services and the Committee concurs with the SBA FY 2012 budget request to eliminate funding.

HUBZone Program

The basic purpose of the HUBZone Program is to direct federal contracts to small businesses in distressed urban and rural areas to promote economic development of these areas. Contracting officers are authorized to set aside contracts for competition among eligible HUBZone small businesses, sole source, or use bid preferences when large firms and HUBZone small businesses are in competition. HUBZones are distressed urban and rural areas characterized by chronic high unemployment and/or low household income.

Investigations by GAO have revealed vulnerabilities in the program, especially related to self-certification. Funds related to correcting these problems and improving the operations of the HUBZone program are discussed elsewhere in this document. The FY

2012 budget request allocates $2.5 million to the HUBZone program but does not explain how those funds will be utilized. However, the funds are listed under entrepreneurial outreach programs. Given the lack of an explanation and the fact that any outreach duplicate existing efforts by other entrepreneurial development programs at the SBA, the Committee believes that those funds are not needed for the HUBZone program. It is important to note that the proposed elimination of these unexplained funds should not be interpreted as a recommendation to eliminate the HUBZone Program. Rather, the Committee believes that the program can be of significant value if the SBA ultimately removes ineligible firms and contracts are made available to eligible HUBZone firms.

Office of Native American Affairs

The Office of Native American Affairs ensures that American Indians, Alaska Natives, and Native Hawaiians seeking to create, develop and expand small businesses. The services provided by this Office can be provided by other SBA programs. More significantly, there is an entire agency at the Department of Interior – the Bureau of Indian Affairs – that has far greater resources to perform outreach to Native American small businesses. As a result, the Committee urges that the funds for this Office at the SBA be terminated.

Office of International Trade

According to the SBA, the Office of International Trade enhances the ability of small businesses to compete in the global marketplace. The Small Business Jobs Act of 2010 overhauled the operation of this office by, among other things: 1) appropriating $30 million for a state trade and export promotion pilot program; 2) increasing SBA employees located at the Department of Commerce Export Assistance Centers; and 3) adding 10 regional export development officers in the SBA's regional offices.

The Committee believes that the $30 million state grant program should be terminated. First, pilot programs rarely, if ever, are terminated. Second, states have been promoting exports by their businesses for decades; little rationale exists for the federal government to step into that effort.

The rationale for increasing SBA personnel at these Export Assistance Centers also is wanting. Essentially, the argument goes that Commerce Department personnel would be incapable of helping small businesses or explaining various financing programs to these small businesses. The Committee rejects that contention. Commerce Department personnel, with some minor additional training, should be able to handle advice to small businesses.

No rationale exists to assign regional trade finance specialists to SBA regional offices. Small businesses access SBA services through district offices. Placing personnel in regional offices ensures that they are unlikely to come in close contact with small businesses. Furthermore, appropriate training should provide existing district office personnel with sufficient expertise to understand the various options for international

trade finance. As a result, the Committee recommends that funding for these individuals be eliminated.

The Committee certainly understands the importance of international trade to small businesses. However, the current fiscal constraints make it impossible for this office to continue given the fact that it services are duplicated by the Department of Commerce and the Department of Agriculture's Foreign Agriculture Service. As a result, the Committee is recommending that all appropriations for the Office be eliminated, including all programs under the Office of International Trade. In total, this would save approximately $38 million ($30 million for termination of the grant program and $8 million for operation of the Office of International Trade).

Drug-Free Workplace Program

The program was enacted to promote drug-free workplace programs in the small business community. It allows intermediaries, such as SBDCs, to provide employers with guidance regarding their drug free workplace programs. The SBA provides competitive grants to intermediaries that have the best proposals for educating small businesses on developing drug free workplace programs. This program duplicates efforts by the Department of Labor to educate businesses on maintaining drug free workplaces. Therefore, the Committee concurs with the request from the SBA that funding for the program be terminated.

Regional Innovation Clusters

The SBA's Regional Innovative Cluster program awards grants to non-federal entities that in turn would help create clusters (a geographically confined grouping of firms in the same or similar industries). The SBA is asking for $12 million for FY 2012 to expand its existing cluster program. There is no evidence that the government or the private sector can artificially create clusters. Furthermore, the SBA has not provided sufficient information on the number of jobs or other efficiencies that arose from its FY 2010 clusters initiative. As a result, the Committee strongly recommends that no funds be provided for the conduct of this program.

Emerging Leaders Program

This program started in FY 2009 provides training to executives in inner city urban areas and Native American entrepreneurs. Small businesses are evaluated for their growth potential; firms' executives then are provided with 8 months of intensive training. The program originated without any funding; yet over 600 small businesses participated according to the agency. Even though there is no hard data on the success of the program (the data is self-reported by the businesses that went through the program) and the SBA was able to conduct the program without appropriated funds, the SBA is seeking $3 million for this program in FY 2012. The Committee finds that this program duplicates already existing entrepreneurial development programs of the SBA and does not have

good metrics for evaluating the success in the program (other than self-reporting). As a result, the Committee endorses elimination of any funds for this program.

Government Contracting Programs

One of the primary missions of the SBA is to ensure that small businesses receive a "fair proportion of the total purchases and contracts for property and services for the Government in each industry category...." 15 U.S.C. § 644(a). To achieve this objective, Congress created a number of programs designed to increase opportunities for small businesses. The SBA is requesting for FY 2012 a total of about $125 million to operate the various government contracting programs and functions at the agency.

The Committee believes that the SBA undervalues the importance of its mission to ensure that small businesses have a fair shot at winning government contracts. The issue is not about available resources but the correct deployment of those resources. In this regard, the Committee believes that the budget proposal for FY 2012 failed to allocate resources in a manner that maximizes the ability of small businesses to enter the federal procurement marketplace.

PCRs and CMRs

The SBA has three types of individuals devoted to ensuring that small businesses have maximum opportunities to provide goods and services to the federal government. They are procurement center representatives (PCRs), breakout procurement center representatives (breakout PCRs), and commercial marketing representatives (CMRs).

PCRs generally are assigned to contracting activities and work under the supervision of the contracting activity personnel (but report to the Office of Government Contracting at the SBA). They are supposed to: (1) review proposed acquisitions to recommend procurements for setting aside to small businesses or specific categories of small businesses; (2) advise contracting officers whether the acquisition strategy will prevent small businesses from competing; (3) suggest alternative contracting methodologies designed to increase the probability that small businesses will be able to compete for various procurements; (4) recommend small businesses that should be contacted about procurement solicitations; (5) appeal a contracting officer's failure to solicit from small businesses after identification of responsible small business bidders PCR or other sources; (6) review contracting activity compliance with small business contracting requirements of federal laws and federal regulations; and (7) participate in conferences designed to increase small business utilization in federal procurement.

Breakout PCRs must be assigned to major procurement activities (such as defense installation and NASA facilities). These individuals do not replace regular PCRs but work in conjunction with them. *Id.* The breakout PCRs advocate for: (1) use of full and open competition; and (2) the breakout (ergo the name) of items from contracts that could be provided by small businesses. In essence, the breakout PCR is the primary bulwark for the SBA against bundling of contracts (the procurement strategy that consolidates

contract requirements in a way that makes it difficult if not impossible for small businesses to compete for contracts) by major federal procurement activities. There are far fewer breakout center PCRs than PCRs, thus significantly limiting the ability of the SBA to fight contract bundling.

CMRs promote the use of small businesses by prime federal contractors required to submit subcontracting plans, i.e., businesses other than small. They review compliance with federal subcontracting plans. In addition, they perform market outreach to match small businesses and large prime federal contractors. Frequently, CMRs often perform other functions in addition to their efforts to find subcontracting opportunities.

PCRs and CMRs play a vital role in helping small businesses obtain federal procurement opportunities. The number of such individuals at the SBA is well short of their need. PCRs and breakout PCRs require significant procurement and technical knowledge. The functions of a CMR require less proficiency than PCRs but still is a full-time, not a part-time function. Given the technical requirements for these jobs, it would not be easy to simply have other SBA employees perform these functions.

The Committee strongly urges that some of the savings suggested elsewhere in this document be reallocated for hiring a total of 15 PCRs and breakout PCRs. We would expect that the additional PCRs would require no more than $2 million in appropriations. Furthermore, the Committee recommends that budget allocations be rearranged so that CMRs only perform the function of assisting small businesses in obtaining federal contracts. While not cuts, the Committee believes that these employees are so valuable to the hundreds of thousands of small businesses interested in the federal procurement marketplace that their cost will be recouped in savings generated by small businesses that win federal government contracts. In addition, by creating more procurement opportunities for all small businesses, including those owned by women and veterans, the Committee believes that the PCRs and CMRs will provide a greater benefit to these groups than any funds used to support WBCs or VBOCs.

Vulnerabilities in SBA Contracting Programs

There are five major programs developed by Congress to promote small business contracting opportunities. The Small Business Reserve Program requires that contracts of value between $3,000 and $100,000 be set aside only for competition among small businesses if at least two small businesses can perform the contract at a fair market price. The other programs are targeted at specific classes of small businesses are: 8(a) businesses; HUBZone businesses; service-disabled veteran-owned businesses; and women-owned businesses. The programs also enable contracting officers to limit competition to businesses within a specific category and in all cases, except small businesses owned by women, to award contracts on a sole source basis, i.e., without

competition at all. If a contract is awarded under one of these programs, the small business awardee is required to perform the majority of the work.[11]

These contracting programs present a number of vulnerabilities: (1) small businesses might misrepresent their size (and not actually be small); (2) small businesses may misrepresent their status for purposes of eligibility such as not being a woman-owned and controlled business; or (3) small businesses do not perform the necessary quantum of work on the contract. Given these vulnerabilities, there are key defenses – adequate personnel to check the small businesses and updated databases for use by contractors and federal contracting officers.

The Committee believes that the allocation of resources as reflected in the FY 2012 budget request for operation of the specific small business programs generally is adequate and appropriate.[12] However, the Committee believes that a modest sum of not more than $1 million dollars should be transferred from the 8(a) operational budget to the HUBZone program in order to uncover all ineligible firms in the latter program. Finally, the Committee strongly recommends that some of the savings elsewhere set forth in this document be used to speed up the SBA's review of its size standards. They have not been seriously reviewed in nearly 30 years and the economic structure of industries has changed dramatically in that time. This would be of significant benefit to small businesses in the federal procurement arena.

Personnel in the 10 Federal Regions

The SBA provides most of its services to small businesses through 84 district offices that are staffed with personnel knowledgeable on a variety of small business related topics. When a small business owner or entrepreneur has contact with an agency official, it is typically at a district office.[13] Those district offices are overseen by an Office of Field Operations at SBA headquarters in Washington, DC.

Despite this agency structure, the SBA also has ten regional administrators, regional communication officials and support staff. It remains unclear what management function or responsibility these regional administrators or regional offices have. Given that, the Committee believes that the position of regional administrator should be eliminated. Without regional administrators, there would be no reason to have regional offices and the Committee recommends that those offices be shuttered.

Another office at the SBA with ten regional representatives is the Office of the Chief Counsel for Advocacy. The primary responsibility of that office is to monitor agency

[11] This prohibits small firms from acting as fronts for large businesses. The first line of defense against this type of fraud is the agency's contracting officer and the contracting officer technical representative (the individuals who handle post-contract award) not the SBA.

[12] Reductions in spending on this program could be counterproductive because it could lead to an increase in fraud or other abuse of these contracting programs thereby denying legitimate small businesses of valuable opportunities.

[13] The primary exception to this would be when applying for a disaster loan. In those cases, the applicant will be dealing with on-site field personnel and disaster loan call centers.

compliance with the Regulatory Flexibility Act, a statute mandating agencies examine the impact of their proposed and final rules on small businesses. While input from small businesses is quite useful in performing that role, the office does not need regional representatives to obtain that input. As a result, the Committee believes that the Office of the Chief Counsel's regional personnel should be eliminated. However, rather than simply eliminate all ten positions from the Office of the Chief Counsel for Advocacy, the Committee recommends that five additional positions be created to review federal agency compliance with the Regulatory Flexibility Act. This would result in a net savings of five individuals in the office while boosting its capability to fight burdensome regulations inhibiting the ability of small businesses to create jobs.

District Personnel

As already noted, the SBA's primary contact with small businesses is through its district offices. The district offices are, logically enough, headed by a district director. However, in about 75 percent of the offices, there also is a deputy district director. The Committee is of the opinion that district offices do not need a separate, dedicated individual to be the deputy. If the district director is unavailable (due to vacation or illness), that person simply can appoint someone to act temporarily as the district director. The Committee strongly recommends that no monies be allocated to pay for individuals whose sole job is to act as a deputy district director. Instead, deputy district directors should be reassigned to other functions at the agencies that provide direct assistance to small businesses.

Executive Direction

The budget for executive direction, a conglomeration of various offices associated with policy and research has steadily increased since FY 2009. While this line item has increased by nearly $10 million, small businesses have been suffering through one of the worst economic downturns since the Great Depression. This demonstrates that the SBA fails to understand its priorities and mission.

Even more troubling is the fact that no explanation exists for the use of these increased funds. According to the budget documents submitted to the Committee, the additional $10 million is being used to cover the costs of operating the Office of the Chief Counsel for Advocacy. That explanation would be sensible since the Congress now requires the budget for that Office to be a separate line item. While that would at first appear to be a logical conclusion, closer analysis belies that explanation. The budget submission contains two separate costs for operating the Office of the Chief Counsel for Advocacy. Nine million dollars is allocated to that office to cover salaries and research. A different budget table reveals that the cost of running the Office of the Chief Counsel for Advocacy is $19 million. According to the budget submittal, the additional funds are needed to cover the indirect and overhead expenses of the Office of the Chief Counsel. That is an unrealistic estimation of the cost because it defies logic to conclude an office of 46 people in an agency of 2,200 people scattered throughout 84 district and 10 regional offices can account for nearly 17 percent of the SBA's total overhead of $56 million.

Given the increase and the absence of any explanation for the increase, the Committee strongly endorses the elimination of the additional $10 million in Executive Direction.

Headquarters Structure

According to the agency, there about 600 people at SBA headquarters leaving approximately 1,600 people to interact with small businesses in their field operations.[14] Given the fact that there are about 28 million small businesses in the United States, the Committee finds that the agency structure is too concentrated at headquarters in Washington, DC. This would include an Office of Policy with an apparently amorphous mission, a personal office of the Administrator that is the same size as that of the Secretaries of Defense or Agriculture,[15] and a Chief Operating Officer separate from the Deputy Administrator[16] even though the Department of Energy seems to survive with a Deputy Secretary also functioning as the Chief Operating Officer.[17]

The Secretary of Energy recognized that his personal office would have to take a cut and he recommended a 14 percent reduction in the budget for the Office of the Secretary. Nothing in the SBA budget suggests that the Administrator plans to reduce the Office of the Administrator; the recommended budget cuts could from employees that directly serve small businesses. This is unacceptable to the Committee and it recommends a 10 percent reduction in funds for the Office of the Administrator and that no funds should be provided to fund the Office of Policy.

Inspector General

The SBA manages a loan portfolio in excess of $80 billion. It also deals with thousands of small business federal government contractors. As has already been noted in this document, there are significant vulnerabilities in the SBA's operations – vulnerabilities that place the taxpayer at risk and undermine the integrity of the federal procurement process. As the first line of defense against waste, fraud and abuse, the Office of the Inspector General plays a vital role in uncovering significant criminal, civil, and management problems at the SBA. The Committee strongly recommends $2 million in savings recommended elsewhere in this document be transferred to the Inspector General to ensure that office has sufficient resources to root out fraud, abuse, and waste.

---

[14] Not all field personnel are located at district offices. The SBA also has major employment centers to process loans (thereby speeding credit to small businesses) and a disaster loan call center (to help those seeking to rebuild after a disaster).

[15] Secretary Vilsack and Secretary Gates are able to manage much larger agencies (Department of Agriculture and Defense respectively) with only 13 individuals in each of their personal offices.

[16] In testimony to the Committee on March 2, 2011, the Administrator claimed that the position of the Chief Operating Officer was terminated. In fact, the position has not been filled since the incumbent returned to the Federal Trade Commission. Nothing would prevent the Administrator from filling that position absent actions by the Committees on the Budget and Appropriations.

[17] The Department of Energy has roughly 16,000 employees, 90,000 contractor employees and a FY 2012 budget request of $29.5 billion.

SAM GRAVES, MISSOURI
CHAIRMAN

NYDIA M. VELAZQUEZ, NEW YORK
RANKING MEMBER

Congress of the United States
U.S. House of Representatives
Committee on Small Business

2361 Rayburn House Office Building
Washington, DC 20515-6315

March 17, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
United States House of Representatives
309 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), I am writing to advise you of the dissenting views and estimates of the Committee on Small Business with regard to the fiscal year (FY) 2012 budget. These views and estimates are in addition to those that will be submitted by the Committee's majority. While the minority concurs in several areas, there are notable areas of disagreement, which are discussed in greater detail below.

The Committee on Small Business has legislative jurisdiction over the Small Business Administration (SBA) and this letter accordingly focuses on the fiscal year 2012 budget request for this agency and the programs it operates under the authorizations contained in the Small Business Act (15 U.S.C. 631 et seq.) and the Small Business Investment Act (15 U.S.C. 661 et seq.).

FY 2012 SBA BUDGET OVERVIEW

On February 14, 2011, the administration submitted its FY 2012 funding request for SBA to Congress. Through its budget, the agency has outlined its funding proposals for its core programs, ongoing operating expenses, continuing agency modernization efforts and assistance for small businesses impacted by disasters. The Administration's SBA budget requests new funding in the amount of $985 million, which is $161 million or 20 percent higher when compared to the FY 2010 enacted amount of $824 million.

The $161 million increase in the budget request over FY 2010 enacted levels is primarily due to a $132 million increase in loan subsidy costs and a $90 million increase in disaster program administration funding. This increase is partially offset by a decrease of $65 million in salaries and expenses.

The FY 2012 request for core agency funding (salaries and expenses/operating budget) is $599.2 million, an increase of $6.4 million from the FY 2010 enacted level (excluding congressional initiatives). This is a 1 percent increase in core programs. Notable increases include a doubling of the funding for contracting/business development operating expenses and a 33 percent increase in executive direction expenses. In addition, rent increased by more than 20 percent, from $32.3 million in FY 2010 to a requested level of $39 million in FY 2012. The Committee is concerned about both the rise in executive direction and rent expenses.

Within this budget submission, the SBA continues its practice of funding unauthorized pilot programs. Such initiatives include the Small Loan Advantage program, the Community Advantage program, the Impact Investing fund, the Early Stage Innovation fund, Regional Clusters, the Distance Learning Portal, and the Emerging Leaders program. The cost of the last three alone equal more than $15 million and constitute nearly 10 percent of the SBA's non-credit programs budget. The funding of all of these pilot programs should be 1) denied outright and used to reduce the federal deficit or 2) reallocated to agency efforts, including those of the Inspector General, to reduce fraud, waste, and abuse in the SBA's programs.

LENDING AND INVESTMENT PROGRAMS

Many businesses continue to search for access to capital even though SBA's lending and investment programs saw increased activity in the first quarter of FY 2011. While new initiatives were included in both the American Reinvestment and Recovery Act (ARRA) and the Small Business Jobs Act of 2010 (SBJA), overall volume in these programs continue below 2007 levels.

7(a) Loan Program

For FY 2012, the SBA has requested a total of $16.5 billion in program authority for the 7(a) loan program.[1] The program level for the 7(a) program should be set at $15 billion. This is $1.5 billion less than what was requested by the SBA, but should be more than adequate to support all demand for credit in FY 2012.[2] Additionally, at this reduced program level, the SBA will only require $113 million in credit subsidies, a savings of $13 million over the SBA's FY 2012 request.

No funding should be authorized for the Dealer Floor Plan (DFP) financing initiative and no subsidies should be appropriated for this program.[3] Eliminating funding for this program would save $3.1 million in subsidies in FY 2012.

---

[1] This sum is comprised of $14.5 billion in program authority for conventional 7(a) loans, with $32.7 billion in aggregate revolving authority for lines of credit loans, and $15.3 billion in program authority the Dealer Floor Plan program.

[2] Recent lending levels in the 7(a) program were just $12.4 billion in FY 2010 and projected lending in FY 2011 should be less than $15 billion. It should be noted however, that lending in these years was driven by $820 million in loan guaranty and fee incentives which were put in place under the American Recovery and Reinvestment Act (P.L. 111-5) and subsequently extended by provisions of the Small Business Jobs and Credit Act of 2010 (P.L. 111-240), but that these subsidies expired on Dec. 31, 2010. As a result, loan levels are unlikely to exceed the historical high-water mark of $15.2 billion set at the height of the credit bubble in FY 2005.

[3] This program was established under the Small Business Jobs and Credit Act of 2010 (P.L. 111-240).

Additionally, no appropriations should be used to subsidize the SBA Express program in FY 2012 and this program should be discontinued. By eliminating subsidies to loans made under this program, the Committee estimates that approximately $13 million can be saved in FY 2012.

Nor should funds (including those for administrative and credit subsidy expenses) be provided for the purpose of implementing the SBA's new pilot initiatives, the Small Loan Advantage program and the Community Advantage program. These programs are intended to replace the Community Express[4] and Low Doc[5] pilot programs. These programs are being implemented with no Congressional authority.

504 Certified Development Company Program

For FY 2012, the SBA has requested a total of $7.5 billion in program authority for the 504/Certified Development Company (CDC) loan program. The program level for the 504/CDC program should be set at $4 billion. This is $3.5 billion less than what was requested by the SBA, but should be more than adequate to support all demand for 504/CDC credit in FY 2012.[6] Additionally, at this reduced program level, the SBA will only require $43.6 million in credit subsidies, a savings of $38.2 million over the SBA's FY 2012 request.

7(m) Microloan Program

For FY 2012, the SBA has requested $3.765 million for loan making in the microloan program. This is expected to support approximately $25 million in loans to small businesses – a figure that is closely aligned to the historical average for the program. This is adequate and reasonable for FY 2012.

Intermediary Lending Pilot Program

Under provisions passed under P.L. 111-240, the Small Business Jobs and Credit Act of 2010, the SBA has proposed to begin implementation of a new 3-year Small Business Intermediary Lending Pilot Program in FY 2011. For FY 2012, SBA proposes to spend $5 million for the cost of making loans under this program. Funds for making loans under this program have already been appropriated under the Jobs Act, along with $6.5 million for administrative costs.

As is also proposed by the majority in its views and estimates, no program funding should be authorized for this program and all funding for this program should be rescinded. Rescinding funding for this program in its entirety will return $22.5 million in funds to the Treasury for FY 2012.

---

[4] Scheduled to be terminated on April 30, 2011

[5] Discontinued in FY 2005.

[6] Recent lending levels in the CDC program were just $3.5 billion in FY 2010 and projected lending in FY 2011 should be less than $4 billion. It should be noted however, that lending in these years was driven by $820 million in loan guaranty and fee incentives which were put in place under the American Recovery and Reinvestment Act (P.L. 111-5) and subsequently extended by provisions of the Small Business Jobs and Credit Act of 2010 (P.L. 111-240), but that these subsidies expired on Dec. 31, 2010. As a result, loan levels are unlikely to exceed the historical high-water mark of $6.3 billion set in FY 2007.

504 Certified Development Company Refinancing

In mid February, 2010, SBA began operations on a new initiative that was passed under the Small Business Jobs Act of 2010. This program, known as the 504 Certified Development Company Refinancing program, authorized the SBA to refinance non-government guaranteed loans into the CDC program. For FY 2012, SBA requested $7.5 billion in program authority for this program. The lending authority for this program should be set at zero and no funding should be provided for its operation. In this regard, we concur with the majority.

Small Business Investment Company Program

For FY 2012, the Administration has requested $3 billion in program level authority for the SBIC Debentures program and has proposed directing $400 million of this authority toward two new investing subprograms that will operate under the authority of the SBIC program, the Impact Investing initiative and the Early-Stage Innovation Fund. These subprograms are entirely duplicative of the existing SBIC debentures program and are ill-suited to meeting the needs of early-stage or startup firms. Rather than spending additional resources on aggressively marketing a rebranded version of the SBIC program, SBA would be better served to address shortcomings in licensing new SBICs. The proposed program level of $3 billion for the SBIC debenture program is adequate and reasonable, but no additional resources (including those for administrative and credit subsidy expenses) should be allocated for the purpose of implementing the Impact Investing initiative and the Early-Stage Innovation Fund.

In its views and estimates, the majority does not go far enough regarding the agency's proposed SBIC debenture subprograms, which are unproven and unauthorized. While it calls for no funds to be allocated to these new subprograms, it also states that separate credit subsidy rates be established for them. Permitting the agency to construct credit subsidy models would enable the agency to go forward with the subprograms. This would entail administrative costs to issue rules and regulations, as well as funds to build the subsidy models. Instead, these unauthorized programs should be eliminated completely and no funds, including both administrative and credit subsidy expenses, should be provided for these initiatives.

New Markets Venture Capital Program

The SBA has requested that no additional funding be allocated for the NMVC program in FY 2012. With only two years of funding in a total amount of $70 million, the NMVC program is projected to return nearly $5.3 million to the Treasury in FY 2011. Given the cost-effective nature of the program, funding for SBA's untested and unauthorized programs should be reallocated to funding new leverage and operation assistance for this program.

Renewable Fuels Capital Investment Company Program

To date, however, SBA has taken no action to implement the RFCI program.[7] Under the existing statutory framework of the program, no appropriation is necessary to implement the RFCIC program. The Committee believes that the program level for RFCI investments should be set at $1 billion in FY 2012 and that $30 million should be used to implement the operational assistance grants to RFCICs.

Disaster Assistance Program

For FY 2012, the SBA requested a total of $157.3 million for disaster loan making, none of which is new budget authority, but instead will be carried-over from prior years' unspent surplus. This level of budget authority would support approximately $1.1 billion in loan making. The agency's FY 2012 budget also proposes $167 million in new budget authority for administrative costs.

The Committee supports the SBA request for $157.3 million for the loan-making function in FY 2012. However, with regard to the administrative cost request, it is concerning that the agency is proposing to reduce the number of disaster loan making personnel by 134 positions. Previous disasters have shown the agency can face severe challenges when trying to rapidly increase loan making staff during large disasters. The Committee recommends that funding be included to ensure that the level of loan making staff is not reduced from FY 2010 levels.

SBA's proposed program levels for the Immediate Disaster Assistance program and Expedited Disaster Assistance programs of $18 million and $59 million for FY 2012 are reasonable. No appropriation is necessary to support either program.

ENTREPRENEURIAL DEVELOPMENT PROGRAMS

The SBA's requests for the agency's entrepreneurial development programs are insufficient and potentially wasteful. This is due to the agency's continued decision to fund unauthorized and unproven pilot programs at the expense of proven core programs. Doing so is an inappropriate use of taxpayer funds. While the pilot programs make up 10 percent of the agencies entrepreneurial program budget, the agency has provided no meaningful measures for Congress to evaluate their performance with. Until these pilot programs are evaluated and authorized by Congress, these programs should not receive any funding. Instead, the agency should focus on strengthening its existing network of entrepreneurial development service providers.

[7] The Renewable Fuel Capital Investment (RFCI) program was established in December of 2007 under PL 110-140.

The impact of the majority's views and estimate, if adopted as part of the final FY 2012 SBA appropriations legislation, would be to reduce specific resources for veterans, women, minorities, low-income individuals, and Native Americans. By eliminating funding for the Women's Business Centers, Veterans Business Centers, Prime Technical Assistance, HUBZone outreach, and the Office of Native American Affairs, the populations they serve will be left without the dedicated services they need to begin new endeavors. With more than 190,000 veterans from the wars in Iraq and Afghanistan alone, there especially needs to be tailored services for these returning servicemen and women.

Emerging Leaders Initiative

The Emerging Leaders initiative is a pilot training program that is duplicative of existing SBA programs. The SBA already operates three training programs, including SBDCs, WBCs, and SCORE chapters. Entrepreneurial development infrastructure is located in all urban areas as well as in many Native American communities, which are currently responsible for providing services to the businesses also targeted by the initiative. In addition, this imitative has no performance measures and, as a result, its ability to fulfill any policy goal is unascertainable. Therefore, we concur with the majority and request that the program's $3 million funding request should be denied.

Regional Innovation Clusters

This unauthorized program has already cost $20 million since its inception two years ago; however, there has been no evaluation of its impact on job creation and the FY 2012 provides no empirical evidence of the program's success. The goal of clusters is to increase collaboration among entities involved in a particular industry and no evidence has been presented to the Committee that a government initiative can drive such cooperation. Until the SBA provides an evaluation of the cost-benefit of this initiative and the program is authorized by Congress, the agency's funding request should be denied. In proposing to defund this program, we are in agreement with the majority.

Distance Learning Portal

SBA's Distance Learning Portal (currently named the Small Business Training Network) is another unauthorized SBA program that is relying on scarce taxpayer funds. Due to the lack of any justification of the program's value, the agency's request of $571,000 for this initiative in FY 2012 should be denied.

Small Business Development Centers (SBDCs)

The administration's request of $103 million for the SBDC program, which is $10 million less than FY 2010, is not sufficient to meet the needs of small business. While this funding level will be supplemented with $50 million received through the Small Business Jobs Act of 2010, such funding must be tracked separately and cannot be used for core SBDC program funding. In addition, the Jobs Act funding does not require a state match, leaving SBDCs with even less funding. As a result of the cuts to core funding and the inability of Jobs Act funding to fill the void, many SBDCs will have to reduce their permanent training staff, affecting small businesses' ability to receive assistance. As a result, the administration's proposal to reduce spending would exacerbate the already stressed conditions of the SBDC network and result in lower startup rates and job creation.

Women's Business Centers

The administration's request of $14 million for the Women's Business Center program is adequate, although it is below its authorized level of $17.5 million. The FY 2012 funding level is the same level this initiative was funded at in FY 2010. In allocating funding in FY 2012, the agency should give priority to both new and existing centers located in areas of high unemployment. In addition, the agency should ensure that all centers receiving funding in FY 2012 can demonstrate success in creating and maintaining jobs in their local communities.

SCORE

The administration requests $7 million for the SCORE program, which is the fully authorized level. This level of funding is appropriate and will ensure continued resources for the agency's business mentoring services, which are critical for entrepreneurs adjusting to challenging economic conditions. However, the agency's decision to fully fund SCORE, while not doing the same for the Women's Business Center or the Small Business Development center programs, defies logic.

Office of Veterans Business Development

The Administration's request for the SBA's Office of Veterans Business Development (OVBD) of $2.5 million is not sufficient to meet the needs of veterans. Furthermore, the majority's views and estimates, which terminates this program completely, risks creating obstacles for the 190,000 unemployed veterans of the Iraq and Afghanistan wars.

In contrast, the Committee minority requests $10 million in additional funding for the Veterans Business Outreach Center program. The additional spending can be used to increase the numbers of centers, which currently stands at an insufficient level of 16. It is critical that the government does not turn their back on these veterans and ensures that they have the tools to pursue entrepreneurial opportunities after their military service ends.

National Women's Business Council

Concerns persist that the Council is not a sound taxpayer expense. The Council is primarily engaged in research and does not offer any services to businesses. In addition, much of their research could be conducted by SBA's Office of Advocacy. In contrast to the majority's support for this program, we believe that there is no clear rationale to justify the Council's funding in FY 2012.

Microloan Technical Assistance

In its FY 2012 budget request, the agency requests $10 million for Microloan technical assistance, down from $19.2 million in FY 2010. This reduction is concerning given that many unemployed individuals often turn to entrepreneurship. With the unemployment rate still near 9 percent, this program should be fully utilized as a means to increase job creation and increase self-sufficiency.

PRIME

The administration proposes to eliminate this program, citing duplication with the Microloan technical assistance program. While both programs provide funding to micro intermediaries, Microloan technical assistance funds are tied to loan making, while PRIME funds have fewer restrictions and can be used for capacity building and general entrepreneurial training. This enables micro intermediaries to serve all low-income entrepreneurs in their local community, not just individuals seeking financing.

Drug Free Workplace Program

The administration's proposal to defund this initiative is appropriate. Given the financial challenges facing the government, it is not a prudent use of scarce taxpayer funds to purchase drug-testing services from and for viable private sector companies. On this point, we concur with the majority's views and estimates.

Office of Native American Affairs

The administration's request of $1.25 million for this office is adequate. Given the significant impacts of the declining economy in Native American communities, however, the Committee recommends that the agency work to increase delivery to these communities through other programs, including existing SBDCs, WBCs, and SCORE chapters. Such expansion is a cost-effective means to serve a high-unemployment population and increase entrepreneurship.

Office of International Trade

This office's budget has grown from $4.2 million in FY 2008 to a proposed level of $8 million in FY 2012. The doubling of this budget, along with the approval of $60 million in State Trade and Export Promotion (STEP) grants, is frankly startling. While the agency has a reasonable interest in ensuring that small businesses are successful in foreign markets, there are concerns that such substantial budgetary growth is occurring without sufficient oversight, planning, or coordination with other agencies involved in trade promotion activities.

GOVERNMENT CONTRACTING PROGRAMS

SBA's inability to effectively operate and oversee its government contracts programs is concerning. These programs continue to be short-staffed and as a result fraud and abuse continue to deprive legitimate small businesses of federal contracting opportunities. Additionally, while small business contracting goals were met under ARRA, we have yet to see these goals achieved on a government-wide level. Thus, it is the opinion of the Committee that SBA is failing in its obligation to ensure that a fair proportion of federal contracting be placed with small businesses.

Procurement Center Representatives (PCRs)

Small businesses continue to complain about the consequences that the bundling and consolidation of contracts has on their ability to receive federal contracts. Yet, while the cost of government procurement has more than doubled between 2001 and 2010, from $223 to $536 billion, SBA has reduced their number of PCRs to 55, with many of these employees having to split their time between other duties and oversee multiple contracting offices. In FY 2010, there were over 1,000 bundled contracts; however, only 24 appeals were filed by PCRs. The lack of oversight over these bundled contracts deprived hundreds of small businesses of the ability to receive federal contracting opportunities.

For FY 2012, SBA has not requested additional funds to build up their PCR staff. However, it is the opinion of this Committee that significantly more resources need to be devoted to increase the number of PCR staff to 75.

Commercial Marketing Representative (CMRs)

While SBA data indicates there are 34 CMRs currently on staff, only 3 of these employees devote 100 percent of their time to the duties of overseeing subcontracting plans of large prime contractors. Reports from GAO and SBA's Inspector General have indicated that CMRs are reviewing only a fraction of the contracts that they should be reviewing and when done, reviews occur from the desk of the CMR rather than with an on-site review. With many of these subcontracting plans not being properly monitored, large contractors are performing the work themselves and denying small businesses of the ability to grow their capabilities to one day compete for a prime contract.

For FY 2012, this Committee advises that additional funds be used to increase the number of CMRs to 50.

8(a) Program

The Committee does not support the decrease in funding to the 8(a) Program as the program continues to be short staffed. Recently, SBA implemented a system for increased scrutiny of 8(a) applicants that has resulted in a backlog of small businesses waiting for certification. Additionally, a 2010 report GAO noted that the 8(a) staff continues lagging on its annual reviews of participants' eligibility, with reviews occurring late or not occurring at all, meaning that ineligible businesses could remain in the program. The proposed reduction will amplify these problems.

Furthermore, SBA recently published new regulations of the 8(a) Program, the first extensive overhaul of the program in 10 years. These revisions will require additional oversight from field staff as they will have to review participants' compliance with the new regulations. Therefore, the Committee recommends that the budget for this program be increased to enable an increase in staff to reduce the certification backlog and conduct fraud detection and monitoring of firms already in the program.

7(j) Program

The decrease in funding to the 7(j) Technical Assistance Program is inappropriate as it provides essential services to 8(a) participants. From 2008 to 2010, the number of small businesses seeking assistance through this program increased from 2,021 to 3,480. With even more businesses likely to request help because of the economic climate, it is vital that the level of services does not decrease. This program has been proven to help create jobs throughout small businesses and at a time of high unemployment job creation is vital.

HUBZone Program

The HUBZone program continues to be plagued with fraud and abuse. In numerous reports GAO has found that ineligible businesses easily "qualified" to win contracts under the program and received one hundred million dollars of contracts at the expense of other qualified small businesses. In its last investigation GAO was able to certify three bogus firms in the program. While the required information was requested to support the applications, SBA failed to verify that the firms had legitimate principle places of business in HUBZones. For example, one bogus firm certified by GAO was located in a HUBZone but the address given was for the Alamo. Though SBA has stated they have undertaken a re-engineering of the program that requires thorough document examinations, announced and unannounced on-site visits, and continued monitoring of program participants, ineligible businesses are still certified.

Additionally, GAO recently released a report in which it was discovered that SBA had not yet developed outcome measures that directly link to the mission of its HUBZone program, nor had the agency implemented its plans to conduct an evaluation of the program based on variables tied to its goals. Furthermore, when GAO inquired about the effectiveness of the program, SBA provided them with a copy of an Office of Advocacy report from May 2008, which stated that the program has had limited effect. Thus, until this program can show progress in the elimination of fraud and develop metrics to show that it is effective in accomplishing its mission, the Committee continues to believe that the program should be terminated.

Service-Disabled Veteran-Owned Small Business Program

In 2009, GAO found that tens of millions of dollars had been awarded to ineligible businesses in this program as a result of fraud and misrepresentation of the businesses' eligibility. The Committee has pushed for SBA to work in collaboration with the Department of Veterans Affairs to develop a verification method to ensure that veteran contracts are awarded to veterans. However, despite a pledge from the agency to do so, SBA has taken no affirmative steps towards this measure and the FY 2012 budget request does not contain funds to improve oversight of this program.

Women's Procurement Program

After ten years of delays, SBA released its final rule for the Women's Procurement Program in February. SBA has requested $1 million for the development and maintenance of a data repository, eligibility examinations, and the processing of protests. The budget request for this program is insufficient as more staff is needed to oversee protests and third-party certifiers. Therefore, the Committee recommends that additional funds be allocated to increase the number of staff to ensure that this program does not succumb to the fraud and abuse present in other programs.

Small Business Task Force

The Committee does not approve of SBA's $4 million request for follow-up work and compensation for the Interagency Task Force on Federal Contracting Opportunities for Small Business Contracting. SBA has yet to show that the recommendations already implemented through this task force have resulted in more contracting opportunities for small businesses. With other programs that have proven to create jobs and provide contracts to small businesses not being fully-funded or having their budgets cut, the Committee cannot justify funding new initiatives with unproven results.

Small Business Innovative Research (SBIR) Program

SBA does not grant SBIR awards, rather the agency is charged with implementing broad policy and guidelines under which participating federal agencies operate autonomous SBIR programs. Investigations have found that some agencies do not have adequate financial controls in place to safeguard taxpayer dollars and there have been instances of "duplicative funding," in which awardees receive multiple payments from different SBIR-awarding agencies for the same project. SBA has not requested supplemental funding for its oversight of this program.

This Committee recommends that SBA devote additional resources to this program to increase its collaborative efforts with participating agencies in order to strengthen SBIR oversight. Additionally, SBA should establish performance metrics for commercialization, which would help ensure that this program is operating in line with its statutory purpose.

INSPECTOR GENERAL

The Office of the Inspector General continues to be among the fastest growing divisions of the SBA. For FY 2010, this office requested and received 12 new FTEs. For FY 2012, it is requesting an additional 10 new FTEs. For FY 2012, the administration has requested $18.4 million, an increase of $2.1 million, or 13 percent, over the FY 2010 level. In addition, the OIG will receive $1 million dollars through a transfer from the disaster program.

Due to the level of fraud and abuse in the agency's contracting and lending programs, it is certainly appropriate to ensure that the IG maintains necessary funding and staff levels. However, the Committee has been disappointed that such a relatively large and well-funded division would not produce more and better quality investigative reports.

CONCLUSION

Given tight budgetary constraints it is important to scrutinize SBA's FY 2012 budget, as it is nearly 20 percent higher than the FY 2010 enacted levels. While the budget will provide for sufficient funding to operate many of its programs, it chooses to fund unauthorized pilot programs that have not been evaluated at any level. This decision comes not only at the expense of other proven SBA programs, but also diverts funds for reducing fraud and waste. Going forward, the Committee will work to address these shortcomings and craft an SBA budget that meets the needs of small businesses, while ensuring that scarce taxpayer resources are efficiently used. Thank you for your consideration of the Committee's views on this important matter.

With respect,

NYDIA M. VELÁZQUEZ
RANKING MEMBER

U.S. House of Representatives
Committee on Transportation and Infrastructure
Washington, DC 20515

John L. Mica
Chairman

James W. Coon II, Chief of Staff

Nick J. Rahall, II
Ranking Member

James H. Zoia, Democrat Chief of Staff

March 18, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, D.C. 20515

Dear Mr. Chairman:

As required by section 301(d) of the Congressional Budget Act and clause 4(f) of Rule X of the Rules of the House, the Committee on Transportation and Infrastructure transmits its Views and Estimates for the fiscal year (FY) 2012 Budget Resolution. On March 16, 2011, the Committee on Transportation and Infrastructure met in open session and adopted the enclosed FY 2012 Budget Views and Estimates by voice vote with a quorum present.

Thank you for the opportunity to present these Views and Estimates.

Sincerely,

John L. Mica
Chairman

Enclosure

cc: The Honorable Chris Van Hollen, Ranking Member, Committee on the Budget
The Honorable Nick J. Rahall II, Ranking Member, Committee on Transportation and Infrastructure

VIEWS AND ESTIMATES OF THE COMMITTEE ON TRANSPORTATION AND INFRASTRUCTURE FOR FISCAL YEAR 2012

Overview

The Federal government is on an unsustainable fiscal path that poses a critical threat to our economy. To address this threat, the Federal budget deficit must be reduced. As part of this effort, the Committee on Transportation and Infrastructure is recommending funding reductions for many programs within its jurisdiction. In addition, the Committee will closely examine programs within its jurisdiction to determine ways to cut costs, streamline programs, consolidate facilities, eliminate waste, and create efficiencies. As we seek to do more with less, the Committee will also work to ensure that infrastructure investments funded by these programs are those that make sense and will yield the greatest benefit for the least cost. The Committee will also emphasize strategic planning and intermodalism to ensure that our scarce resources are targeted to the most effective investments.

The Committee recognizes that economic growth is affected not just by the aggregate levels of taxes and spending, but also by their composition and structure. Simply put, *how* we cut spending is as important as *how much* we cut spending. Therefore, as we address our long-term fiscal challenges, we must seek reforms that serve not only to reduce the deficit but also to enhance long-term economic growth.

The Committee believes that properly targeted investment in transportation and infrastructure programs is necessary to ensure the safe and efficient movement of people and goods, increase economic growth, and maintain our global economic competitiveness.

The Committee's legislative priorities this year include reauthorization of surface transportation programs, the Federal Aviation Administration (FAA), pipeline safety and hazardous materials transportation safety programs, the Coast Guard, the Economic Development Administration (EDA), and the Federal Emergency Management Agency (FEMA).

This report was circulated to all Members of the Committee on Transportation and Infrastructure for their review and comment, and was approved in a Full Committee meeting on March 16, 2011. The Committee wishes to emphasize that not all Members of the Committee necessarily agree with every aspect of this report. Accordingly, the Committee reserves its flexibility to determine program needs and recognizes the potential for funding changes as the Committee and Congress work their will through the legislative process.

The detailed views and estimates presented below make specific recommendations for programs within the Committee's jurisdiction. These

recommendations are made in recognition of the need to reduce the Federal budget deficit while at the same time make the properly-targeted investments in transportation and other infrastructure that will allow our economy to grow in the future.

Transportation and the Economy

Throughout our nation's history, economic growth, prosperity, and opportunity have followed investments in the nation's infrastructure. From the "internal improvements" of the early 1800s – canals, locks, and roads – to the Interstate Highway System of today, infrastructure investment has been our foundation for economic growth. For example, between 1980 and 1991, almost one-fifth of the increase in productivity in the U.S. economy was attributable to investment in highways.[1]

Our nation's highways, transit and rail systems, pipelines, airlines, airports, harbors, and waterways not only provide the backbone of our economy by moving people and goods, they also employ millions of workers and generate a significant share of total economic output. In 2009, transportation-related goods and services contributed $1.2 trillion, or 8.6 percent, to the total U.S. Gross Domestic Product of $14.1 trillion. Economic growth and vitality are also dependent upon high quality water and wastewater infrastructure systems.

In addition to facilitating economic growth and global competitiveness, our transportation system has a direct and significant impact on the daily lives of nearly all Americans. To the average American, properly targeted investment in transportation infrastructure will mean shorter commutes that save time, fuel, and reduce pollution; lives saved; safer systems to accommodate the transportation of hazardous materials; and fewer delays for the more than 700 million passengers who travel by air each year.

Transportation Trust Funds

To help construct and maintain our nation's infrastructure, Congress established a series of trust funds to collect user fees. These funds include the Highway Trust Fund, the Airport and Airway Trust Fund, the Inland Waterways Trust Fund, and the Harbor Maintenance Trust Fund. Each of these trust funds dedicates user fee revenues in infrastructure programs to finance long-range construction and maintenance activities.

One of this Committee's highest priorities is to ensure that the user fees deposited into these trust funds are in fact used for their intended purposes – to rebuild our nation's infrastructure. These trust funds represent a contract between the government and the user. This contract specified that certain user fees would be levied on the users of highways, airports, inland waterways, and ports. In return, the government pledged to use the receipts to build transportation infrastructure for the taxpayer's use.

[1] "Transportation and the Economy: National and State Perspectives," American Association of State Highway and Transportation Officials, May 1998.

While recent surface and aviation reauthorization acts have upheld the contract for the Highway and Airport and Airway Trust Funds, the two remaining funds face unique challenges for addressing both the Inland Waterways and Harbor Maintenance needs of the nation. The Inland Waterways Trust Fund balance by the end of fiscal year (FY) 2012 is estimated to be $63 million. The Harbor Maintenance Trust Fund balance at the end of FY 2012 is estimated to be $6.93 billion. These user fees should be made available for their intended purposes and not used to mask the federal budget deficit.

Budget Process Reforms

Given the Transportation and Infrastructure Committee's commitment to achieving budget reforms for the transportation trust funds, other budget process legislation is of significant interest to this Committee.

The Transportation and Infrastructure Committee would strongly oppose changes to transportation spending under the guise of "budget reform" that fail to recognize the unique nature of Trust-Funded programs, or negatively impact the ability of states or other relevant planning entities to have some traditional spending level guarantees that have been established for highway, transit, and aviation programs.

The Committee does not support the proposal in the FY 2012 President's Budget to shift all funding for surface transportation programs to the mandatory side of the budget because this proposal fails to recognize the need to link Trust Fund revenues to spending to adequately establish the use fee-based premise of the Trust Fund. The Committee is concerned that, under the Statutory Pay-As-You-Go Act of 2010 (P.L. 111-139) and the recently adopted House "Cutgo" rule, the administration's proposed budgetary treatment would not link Trust Fund revenues to Trust Fund spending, thereby resulting in a growing Trust Fund balance over time.

Eliminating Waste in the Management of Federal Real Property

Given the vast real estate holdings of the federal government, poor asset management and missed market opportunities cost taxpayers significant sums of money. For this reason, in 2003, the Government Accountability Office (GAO) placed real property management on its list of "high risk" government activities, where it remains today. GAO conducts biennial reviews on high-risk areas within the Federal government to bring focus to specific areas needing added attention and oversight. Areas are identified as "high" risk due to their greater vulnerabilities to fraud, waste, abuse, and mismanagement, or a need for broad-based transformation to address major economy, efficiency, or effectiveness challenges.

The key reasons the GAO identified federal real property as high risk are:

- excess and underutilized real property,
- deteriorating and aging facilities,
- unreliable property data; and
- over-reliance on costly leasing.[2]

Unfortunately, despite executive orders and memoranda issued during two administrations and acts of Congress intended to improve the management of federal real property, these problems persist.[3] The GAO noted recently in the 2011 High Risk report issued in February 2011 that some progress has been made in some of these areas but that "federal agencies continue to face long-standing problems, such as overreliance on leasing, excess property, and protecting federal facilities."[4]

The high risk activities of Federal real property are significant. Considerable amounts of vacant or underperforming assets can translate into significant costs associated with their operation, maintenance, and security. For example, in FY 2009, the federal government spent $1.7 billion in annual operating costs for under-utilized buildings and $134 million, annually, for excess buildings.[5]

The dispersal of independent leasing authorities to various agencies has compounded the waste. Often agencies, which obtain such authority to circumvent General Services Administration (GSA) and the standard processes to ensure cost controls, lack the experience and expertise to make prudent decisions. For example in 2010, the Securities and Exchange Commission (SEC) entered into a sole-source lease of 900,000 square feet of prime office space in Washington, D.C. which is now under investigation by the SEC Inspector General. That lease was "negotiated" over the course of a few days and bound the federal government to pay approximately $500 million over ten years without any of the standard cancellation clauses that are typical in government leases. Not long after signing this lease, the SEC determined it did not need the space, having based its projected need on new staffing that had not been fully authorized or funded.

The proper management of Federal assets will be a major focus of the Committee's oversight activities during the 112th Congress.

---

[2] *See* High Risk Series: Federal Real Property, U.S. General Accountability Office, GAO-03-122, January 2003.

[3] *See,* for example, Executive Order 13327, Federal Real Property Asset Management, signed by President George W. Bush, February 4, 2004; Presidential Memorandum, Disposing of Unneeded Federal Real Estate, signed by President Barack Obama, June 10, 2010; Public Buildings Cooperative Use Act of 1976; Public Law 108-447, Division H, Title IV, Section 412, December 8, 2004 (providing enhanced flexibility to GSA in real property management).

[4] High Risk Series: Managing Federal Real Property, U.S. General Accountability Office, GAO-11-278, February 2011, p. 58.

[5] FY2009 Federal Real Property Report, Federal Real Property Council, September 2010, p. 5.

Emergency Management

The Committee recognizes the inherent tension between providing disaster relief in an expeditious manner while at the same time minimizing waste, fraud, and abuse. Nevertheless, the Committee expects the Federal Emergency Management Agency (FEMA) to fulfill its obligation to be a good steward of the public's funds and trust. The Committee recognized the importance of this issue when it passed the Post-Katrina Emergency Management Reform Act of 2006, which includes Subtitle F, "Prevention of Waste Fraud and Abuse" (6 U.S.C. 791 -797). In 2007, the Committee continued to provide oversight to prevent waste, fraud, and abuse by holding the following oversight hearings to examine whether FEMA was carrying out these duties: "Post-Katrina Temporary Housing: Dilemmas and Solutions" (March 2007); and "FEMA's Emergency Food Supply System" (April 2007).

Often delays in the recovery process relate to burdensome regulations and policies. While the Stafford Act, which governs the response and recovery process, is broad and flexible, regulations and FEMA policies have created an enormous amount of "red tape" and simply do not work effectively in large-scale disasters. Slow recovery following a major disaster results in increased costs due to delays and stifles job creation and economic recovery in the affected areas.

The Committee will continue its vigorous oversight of FEMA's disaster relief program and emergency management operations to ensure the effective use of funds.

Aviation

The aviation industry is a key engine for the economy, generating $1.2 trillion in annual economic activity and supporting 11 million jobs. As such, maintaining and improving our nation's aviation system is critical to the resurgence and continued growth of the U.S. economy and job creation. But it must be done in a cost-effective, streamlined, and efficient manner in partnership with the private sector.

Since airline deregulation in 1978, air travel has become an essential form of transportation for much of the nation. The number of commercial air travelers has grown dramatically since then, from 312 million travelers in 1980 to a record-high of 765 million in 2007.

This unprecedented number of air travelers pushed our nation's air traffic control system and over-crowded airports to the brink of gridlock. In 2007, travelers experienced the highest percentage of late arrivals – 24.2 percent – in the 13 years since DOT has collected such data.

Increased fuel costs and a slowing economy caused enplanements to decline in 2008 and 2009, and overall on-time performance improved. However, as the economy began to recover, the number of passengers began to increase again in 2010, and is

projected to exceed one billion by 2021. Absent air traffic control modernization efforts and improvements in aviation system capacity and efficiency, delays will likely increase significantly as the number of air travelers rebounds and continues to grow in the future.

The decrease in passenger enplanements and fuel consumption over the last few years has likewise impacted the Airport and Airway Trust Fund (Trust Fund). The Trust Fund provides the primary source of funding for the FAA's capital programs and receives revenues from a variety of excise taxes paid by users of the national airspace system. The Trust Fund also provides funding for the FAA's Operations account and the Essential Air Service Program. According to the Government Accountability Office (GAO), during the recent recession, Trust Fund revenues declined from $12.4 billion in FY 2008 to $10.9 billion in FY 2009, in part because of the 7 percent decline in domestic passenger traffic during that period.

According to the GAO, from FY 2000 through FY 2010, total FAA expenditures grew about 60 percent. However, during this same timeframe the Trust Fund's revenue contribution only increased 12 percent, while the contribution of general revenues from the U.S. Treasury increased to cover a larger share of FAA's operations expenditures. In fiscal year 2010, FAA's expenditures totaled about $15.5 billion, with Trust Fund revenues covering about $10.2 billion, or 66 percent, of those expenditures.

Since 1970, Trust Fund revenues have generally exceeded spending commitments from FAA's appropriations, resulting in a surplus. This surplus is referred to as the Trust Fund's uncommitted balance. According to the GAO, over the last decade, uncommitted balance in the Trust Fund has decreased significantly; from over $7 billion in FY 2001 to about $770 million in FY 2010.

The health of the Trust Fund and the ability of the FAA to meet their obligations given the state of the Federal budget and the size of the Federal deficit must be taken into consideration.

As part of the Committee's efforts to reduce spending, the Committee recommends reducing funding for the FAA's operating, capital, and airport grant accounts, in total, to the FY 2008 level. Specific recommendations are discussed below.

FAA Facilities & Equipment

Capital funding for our air traffic control system is necessary to increase system capacity, efficiency, and allow for growth in the economy. The efforts to maintain and modernize the Federally-operated air traffic control system are funded by the FAA's Facilities & Equipment (F&E) account.

The FAA has embarked upon on a major Next Generation Air Transportation System (NextGen) program to increase system capacity, safety, and efficiency. In 2007, the interagency Joint Planning and Development Office (JPDO) issued both an Enterprise Architecture and a Concept of Operations for NextGen. These documents provide a

high-level blueprint for how to technologically transform the National Airspace System and triple capacity by the year 2025. In January 2009, the FAA issued a mid-term architecture, focusing on objectives through the year 2018. Despite the completion of these documents, the cost of transitioning to the NextGen remains uncertain.

As it continues to develop and implement NextGen, the FAA also needs to properly fund the maintenance and upkeep of existing infrastructure. H.R. 658, the "FAA Reauthorization and Reform Act of 2011", as reported by the Committee on Transportation and Infrastructure, streamlines NextGen development and implementation processes, sets performance metrics, and requires accountability for the programs.

Consolidation of assets made possible by NextGen efficiencies will lead to savings in maintenance and upkeep costs. H.R. 658 as reported by the Committee allows for efficiency and consolidation of old, obsolete, and unnecessary FAA facilities. Many of FAA's air traffic control facilities are over 30 years old and are located and based on old technology. As the FAA and aviation users transition to newer, satellite-based technology, the number and location of FAA facilities must be adjusted as well. The last major FAA facility consolidation, the Potomac Terminal Radar Approach Control facility (TRACON) saved the FAA $1 million annually, even after taking into consideration the cost of the new, consolidated facility. The potential cost savings from FAA facility consolidations and realignments are enormous.

The FAA will also need to reform or eliminate unnecessary programs, duplicative functions, and wasteful practices to best manage the taxpayers' money.

To ensure that our nation's air traffic control system remains safe, reliable, and efficient, and is ready to accommodate the significantly increased number of passengers anticipated in the near future, the Committee recommends that the F&E program be funded at $2.6 billion in FY 2012, consistent with the funding level in H.R. 658, the "FAA Reauthorization and Reform Act of 2011", as ordered reported by the Committee on Transportation and Infrastructure on February 16, 2011. This amount is sufficient to fund the FAA's priority NextGen projects while maintaining the existing air traffic control system through 2014. The Committee believes that the FAA can achieve greater cost efficiencies through better project management and avoiding past problems with programs that were over-budget and delayed.

Airport Improvement Program (AIP)

AIP funding is derived from the Airport and Airway Trust Fund, which is supported by excise taxes paid by aviation users. The Committee emphasizes that the primary purpose of the Trust Fund is to meet the capital needs of the aviation system. AIP funding has increased significantly over the last decade. Additionally, the American Recovery and Reinvestment Act of 2009 (P.L. 111-5) provided an additional $1.1 billion in airport improvement grants. Given the current budget realities, this pace of funding cannot be maintained. Therefore, the Committee recommends a funding level of $3.0

billion for AIP in FY 2012; a $515 million reduction from the FY 2010 appropriated level.

The AIP program is one source of funding for airport development projects that are necessary to maintain a safe and efficient aviation system. Based on the latest National Plan of Integrated Airport Systems (NPIAS) report dated September 27, 2010, the FAA estimates that between 2011 and 2015 there will be $52.2 billion of AIP-eligible infrastructure development in all segments of civil aviation.

An airport trade association's Capital Needs Survey, conducted in September - December 2010, estimates that airport capital development costs for AIP-eligible and other necessary projects will total approximately $80.1 billion during the same time frame (2011-2015), an average annual cost of $16.0 billion. This survey covers a larger scope of projects than is eligible for assistance under the AIP program, providing a much broader and larger estimate of the amount of airport capital funding that the trade group believes is needed.

Airport development projects are financed by a variety of funding sources, including airport cash flow, revenue and general obligation bonds, Federal/State/local grants, and non-Federal Passenger Facility Charges (PFCs) that are locally imposed. According to the FAA, AIP grants and PFC collections together account for about 40 percent of annual U.S. airport capital spending needs. In 2009, airports received over 69 percent of their infrastructure funding from new bonds and PFCs; PFCs provided airports with $2.5 billion for local infrastructure investments and airports raised $5.4 billion in new bonds.

FAA Operations and Maintenance

As part of the Committee's efforts to reduce spending, the Committee recommends $9.168 billion for FAA Operations in FY 2012. This is $655 million less than the Administration's request. It is also a decrease of $182 million, or 1.9 percent, below the FY 2010 enacted and FY 2011 Continuing Resolution levels, and is consistent with the authorized funding level in H.R. 658, the "FAA Reauthorization and Reform Act of 2011", as reported by the Committee.

Pursuant to Section 103 of H.R. 658, the FAA is directed to accommodate this budget cut through reductions in non-safety-related activities and expenditures. This requirement was included to ensure that FAA continues to focus on its greatest priority, the safe operation of the Nation's aviation system. The FAA will also need to reform or eliminate unnecessary programs, duplicative functions, and wasteful practices to best manage the taxpayers' money.

Cost growth within the FAA Operations account is, in part, the result of the 2009 arbitration decision which provided a final settlement for the National Air Traffic Controllers Association (NATCA) Collective Bargaining Agreement. This Agreement increases the pay scales for air traffic controllers over a three-year period. The total cost

of the contract is approximately $669.1 million between 2010 and 2012. This cost is back-loaded with the minimum pay band levels for controllers increasing 30 percent by 2012. Certified Professional Controllers will receive a $9,300 increase in average base pay and new hires will receive a $45,665 increase in average base pay over three years. Unlike most Federal employees, the Federal pay freeze does not apply to controllers. The Committee notes that this Agreement fails to take into consideration current budget realities and the salaries of other FAA employees.

H.R. 658 also allows for expansion of the FAA's Contract Tower Program. Low-activity towers currently staffed by FAA employees cost, on average, roughly $2 million. H.R. 658 would allow airports with low-activity towers to choose to opt out of FAA-staffed towers and instead opt into the Contract Tower program, where contract air traffic controllers provide the same services, with the same safety requirements, and at a reduced cost of roughly $500,000 per tower. Since both types of towers are funded by the FAA's Operations Account, conversions to contract towers will achieve big savings – roughly $1.5 million per tower on average. Conversions would be accomplished at the request of airports and only after requirements are met, including a benefit-cost analysis. This cost-effective program has the potential to save the government approximately $400 million over the four-year period covered by H.R. 658 (FYs 2011-2014).

Essential Air Service

Funding for the Essential Air Service (EAS) program has increased over the past 10 years, from $50 million in 2001 to $200 million in FY 2010. Before September 11, 2001, a total of 106 communities required EAS subsidy (32 in Alaska and 74 elsewhere in the United States). As of March 1, 2011, there are 154 communities requiring EAS subsidy (including 44 in Alaska), a 45 percent increase compared to 2000. The cost of funding the current array of contracts in FY 2011 is approximately $184 million. This does not assume any new communities require subsidy, or any subsidy increases are required as contracts expire and are re-let.

The EAS program is a good example of a taxpayer-subsidized program that has gone unchecked. In FY 2010, 34 EAS communities averaged fewer than 10 passengers per day and 22 EAS communities had so few passengers using the service that, on average, there were more pilots on-board the flights than passengers. Also in FY 2010, 16 EAS communities had subsidies in excess of $500 per passenger, which means taxpayers subsidized service in these 16 communities by more than $1,000 per passenger on a round-trip basis. One community, Ely, Nevada, had a subsidy per passenger of $4,112, which equates to $8,224 on a round-trip basis.

While important to many communities across the United States, it has become clear that major revisions, including elimination or sunsetting of some service, and changes to qualifying criteria are needed in this program.

Coast Guard and Maritime Transportation

United States Coast Guard

The Coast Guard – one of 22 agencies, and the only military service, in the Department of Homeland Security -- protects the safety, security and personal freedom of American seafarers, recreational boaters, cruise ship passengers, dock workers and others who go to sea, or live or work on or near America's coasts. The Coast Guard is the only military service with domestic law enforcement authority. The Service has 14 statutory missions including rescuing those in distress, keeping our ports and waterways safe for navigation, and protecting the U.S. maritime borders from drug and migrant smugglers.

The President requests $8.677 billion in discretionary appropriations for the Coast Guard in FY 2012, $82 million (or -0.9 percent) less than the annualized level provided by the FY 2011 Continuing Resolution which expires March 18, 2011. For FY 2012, the Committee recommends $8.759 billion to carry out Coast Guard missions, the amount consistent with the level provided in the FY 2011 Continuing Resolution.

Operating Expenses (OE)

The President requests $6.820 billion for Coast Guard operating expenses, an increase of $18 million over the FY 2011 annualized Continuing Resolution level. The Committee recommends funding Coast Guard operating expenses at President's request. These funds are necessary to protect property and human life, defend our borders against drug and migrant smugglers, and secure our ports, and waterways against terrorists.

The budget request for OE does not include $258.3 million for Overseas Contingency Operations, which the administration proposes to appropriate to the Department of Defense (DoD) in FY 2012 and then make available to the Coast Guard. The Committee recommends this funding continue to be appropriated directly to the Coast Guard to provide more accurate accounting of the resources available to the Service to carry out its missions. Doing so would place the Committee recommendation for OE at $7.078 billion.

The Committee supports the 1.6 percent pay raise for Coast Guard military servicemembers included in the FY 2012 budget request. This amount maintains parity in pay with DOD military servicemembers.

The Committee supports the proposal to decommission three PC-179 vessels, and one High Endurance Cutter.

The Committee also opposes the President's request for $8 million to purchase and install equipment at the Department of Homeland Security (DHS) Enterprise Data Centers necessary to migrate the Coast Guard data center. DHS has implemented an initiative to consolidate the data centers serving each of its component agencies into a single data center. The effort may provide long term cost savings for DHS, but not the

Coast Guard. This project should not be funded at the expense of important Coast Guard missions.

Reserve Training

The President requests $136.8 million for training of Coast Guard Reserve personnel in FY 2012, a $3.1 million (or 2.4 percent) increase over the FY 2011 annualized Continuing Resolution level. The Committee recommends funding for this account at the level requested. Reserves have been called up frequently in the last several years. Most notably, call ups have occurred to respond to 9/11, Katrina, the Haiti earthquake and the DEEPWATER HORIZON oil spill. It is imperative to keep reservists adequately trained to respond to such emergencies.

Environmental Compliance and Restoration (EC&R)

The President requests $16.7 million for environmental compliance and restoration in FY 2012, a $3.5 million (or 26.5 percent) increase over the FY 2011 annualized Continuing Resolution level. This increase is necessary to move forward with decommissioning of assets which will reduce Coast Guard operating costs and increasing the efficiency of those operations in the future. The Coast Guard currently has a backlog of 459 environmental cleanup projects with an estimated combined cost of $338 million.

Acquisitions, Construction, and Improvements (AC&I)

The President's budget requests $1.422 billion for Coast Guard capital acquisitions in FY 2012, a reduction of $98.1 million from the FY 2011 annualized Continuing Resolution level. Coast Guard capital acquisition programs fund the acquisition, construction, and physical improvements of Coast Guard owned and operated vessels, aircraft, facilities, aids to navigation, information management systems and related equipment. This account supports domestic shipbuilding capacity critical for expanding jobs, growing our economy, and protecting our national security.

The Committee strongly opposes President Obama's proposed reduction. The Committee supports funding AC&I at $1.504 billion, $16 million less than the FY 2011 annualized Continuing Resolution level, but $82 million more than the President's request. These cuts threaten the ability of the Coast Guard to protect lives and property, defend our borders, and secure our ports, waterways, and coasts.

The Committee is very concerned with the Office of Management and Budget's (OMB) recent decision to force the Service keep certain capital acquisition funds sitting idle for several years rather than spending those funds for much needed capital improvements. OMB is now requiring the Coast Guard to have funds available not only to cover the cost of long lead time materials and production, but also the cost of post production activities before entering into a construction contract for the fifth National Security Cutter (NSC). Because it will delay the delivery of NSC #5 through NSC #8, the imposition of this policy is estimated to add $180 to $240 million to the cost of NSC

acquisition. OMB is not applying this policy to the procurement of vessels for the Navy, or weapons systems for any of the other Armed Services. The Committee objects to the requirement that funds be available for post production activities prior to awarding a construction contract for the Coast Guard's fifth NSC.

Research, Development, Testing and Evaluation (RDT&E)

The President requests $19.8 million for RDT&E in FY 2012, a $5 million decrease (-20 percent) from the FY 2011 annualized Continuing Resolution level. The Committee supports the President's request.

Alteration of Bridges

The Alteration of Bridges Program authorizes the Coast Guard to share with a bridge's owner the cost of altering or removing railroad and publicly owned highway bridges which are determined by the Service to obstruct marine navigation. Consistent with the FY 2012 budget request and the FY 2011 Continuing Resolution, the Committee does not support providing any funding for this program in 2012.

Federal Maritime Commission

The President requests $26.2 million for the Federal Maritime Commission, an increase of $0.7 million (or 3 percent) over the annualized level provided by the FY 2011 Continuing Resolution. The Committee recommends $22.1 million for the FMC in FY 2012, an amount equal to the FY 2008 enacted level.

Economic Development, Public Buildings, and Emergency Management

Economic Development

The Committee has jurisdiction over five existing economic development programs: the Economic Development Administration (EDA), the Appalachian Regional Commission, the Denali Commission, the Delta Regional Authority, and the Northern Great Plains Regional Authority. In addition, the "Food, Conservation, and Energy Act of 2008" (P.L. 110-246) authorized the creation of three new regional commissions: the Southeast Crescent Regional Commission, the Southwest Border Regional Commission, and the Northern Border Regional Commission.

The Committee is committed to reviewing the economic development programs and believes there are opportunities to consolidate and streamline them.

Public Buildings

In the area of public buildings, the Committee intends to address a number of issues concerning the Public Buildings Service of GSA. These issues include the continued viability of the Federal Buildings Fund (FBF), GSA's courthouse construction program, the over-reliance on leased space, redeveloping or disposing of vacant or under-utilized space, realigning federal properties to maximize usage, and reigning in the dispersal of independent authorities.

The FBF, the primary source of funding for GSA's capital investment program, while receiving consistent funding over the past several years, is barely maintaining its present position to take advantage of the market and create a balanced portfolio of properties through construction or purchase of new Federal buildings and the repair of existing buildings. The FBF is supported by lease payments charged to Federal agencies occupying space in GSA facilities. GSA is increasingly relying on the use of leased space. The Committee recommends that the administration carefully review the need for any new space and base determinations of whether to lease or own on what would provide the greatest return on investment to the taxpayer. The administration should address issues related to the high number of old buildings in the federal inventory that drain resources from the FBF and are no longer efficient for modern office space.

In addition, GSA's repair and alteration program in previous years has failed to meet projected demand for the modernization of GSA's aging inventory of Federal buildings that are retained. While GSA outlines criteria it uses to develop its priorities for repairs and alteration, very often the Committee receives proposals for modernization of buildings that are barely used. GSA must work to ensure that its repair and alteration funds are consistent and in line with other property initiatives – such as improving space utilization and the disposal of under-used assets.

The FY 2012 repair and alteration request is $868.9 million; an 81 percent increase above the FY 2011 annualized Continuing Resolution level of $479.8 million. The requested amount will fund repairs and alterations at Federal buildings and judicial facilities. The marked requested increase in FY 2011 and FY 2012 is a result of the significant decrease in the FY 2010 repair and alteration program due to the investments of the American Recovery and Reinvestment Act. Given that the FY 2012 budget request recommends funding to be paid wholly from the revenue collected by the FBF, the Committee recommends fully funding the FY 2012 repair and alteration program, which will allow for an increase in the level of renovations being made to Federally-owned buildings. This funding will allow GSA to locate more Federal employees in government-owned space, which will reduce the amount of office space being leased from the private sector and thereby reduce overall costs.

GSA has requested $839.6 million for the construction and acquisition of new facilities, a 179.9 percent increase from the FY 2011 annualized Continuing Resolution level of $300 million. This request includes funding for continued agency consolidations,

new border stations, funds for general infrastructure and development activities, and funds for non-prospectus level construction.

The Committee will continue to monitor GSA's leasing program. The Committee continues to be concerned about the rising amount of leased space being used to meet the requirements of the civilian branch of the Federal Government where Federal facilities are not available. The leasing program is increasing from year to year, largely as a result of the scoring rules implemented pursuant to the Budget Enforcement Act of 1990, which force GSA into short-term, expensive leases, to avoid the budget impact of a capital lease.

Emergency Management

Department of Homeland Security

The failed response to Hurricane Katrina made evident many shortcomings at the Federal level, in general, and with the Department of Homeland Security (DHS) and the Federal Emergency Management Agency (FEMA), in particular. Most of these shortcomings can be directly tied to FEMA's placement in the DHS bureaucracy. Since 2003, the Committee has held hearings showing a clear correlation between the absorption of FEMA into DHS and the deterioration of FEMA's effectiveness. Another reason for this trend is that since becoming a part of DHS, FEMA's emergency management mission has shifted toward a disproportionate focus on terrorism at the expense of other hazards. The country requires FEMA to once again function with the nimbleness and flexibility that was its hallmark before being placed within the DHS bureaucracy.

Federal Emergency Management Agency

Homeland Security Grants – The FY 2012 President's Budget requests $1 billion for the State Homeland Security Grant Program. The administration proposes consolidating a number of the all-hazards grant programs into the Homeland Security grant programs. The Committee does not support the administration's proposal for transferring all-hazards programs into homeland security programs. While typically consolidation may result in cost savings and the streamlining of overhead, consolidating all-hazards grant programs into terrorism-related grant programs would seriously undermine our Nation's readiness in preparing for all disasters – natural and man-made. The result could be that communities that are known to be prone to natural disasters such as wildfires, floods, hurricanes, and earthquakes will not be adequately prepared, potentially costing more dollars for response and recovery. As a result, the Committee recommends consolidating the multiple terrorism preparedness grants and reducing their funding levels. While savings also can be achieved in the all-hazards grant programs, they should not be combined with the terrorism grants.

Mitigation – For FY 2012, Pre-Disaster Mitigation (PDM) is authorized for $200 million. The FY 2012 President's Budget requests $84.9 million for the PDM program, $15.1

million or 15.1 percent less than the FY 2011 annualized Continuing Resolution level. Effective disaster mitigation spending reduces the costs incurred in managing the consequences of natural disasters. Studies have shown that for every dollar invested in mitigation, three dollars are saved in damages from a disaster. The Committee supports lower funding for these mitigation programs and will work to ensure funding is targeted to those projects that maximize the return on investment.

Disaster Relief – For disaster relief programs administered by FEMA, the Committee recommends funding sufficient to meet the needs of communities hit by disasters. The FY 2012 President's Budget requests $1.8 billion, $321.6 million or 21.8 percent more than the FY 2011 annualized Continuing Resolution level.

Emergency Management Performance Grants (EMPG) – The EMPG program is the Federal Government's principal grant program to build basic State and local emergency management capability. The EMPG program is authorized at $950 million for FY 2012. For FY 2012, the President's Budget requests $350 million, which is $10 million or 2.9 percent above the FY 2011 annualized Continuing Resolution amount. The President proposes consolidating the funding for Emergency Operations Centers into this grant program. As a result, the total funding between the two programs would be $50 million less than the FY 2011 annualized Continuing Resolution (see below). The Committee supports this consolidation and reduction in overall costs.

Emergency Operations Centers – The President's Budget proposes no funding for EOCs in FY 2012, a $60 million or 100 percent decrease from the FY 2011 annualized Continuing Resolution level. As noted above, under the President's Budget, this program would be consolidated into the EMPG program. The Committee supports this consolidation.

Fire Grants – The Firefighter Assistance grants include funding for the Staffing for Adequate Fire and Emergency Response Grants (SAFER) and Assistance to Firefighter Grants. The FY 2012 President's Budget requests $670 million, $140 million or 17.3 percent less than the FY 2011 annualized Continuing Resolution level. The Committee supports the lower funding for these grants.

Smithsonian Institution

The FY 2012 President's Budget request for the construction and revitalization of Smithsonian facilities is $225 million, an increase of $100 million or 80 percent above the FY 2011 annualized Continuing Resolution level. The Committee recommends funding the Smithsonian Institution's construction and revitalization program at a level that will allow it to meet its basic needs while continuing its research and outreach activities.

Architect of the Capitol

The Architect of the Capitol's (AOC) FY 2012 budget request includes $119.6 million for House Office Buildings, $67.9 million for libraries and grounds, $12.3 million for the Botanic Gardens, and $142.1 million for the Capitol power plant. The total for these accounts is $65.2 million or 23.6 percent above the FY 2011 annualized Continuing Resolution level. The request also includes $50 million for the House Historic Building Revitalization Fund, which will be used for needed renovations to the Cannon House Office Building. The Committee intends to continue to exercise aggressive oversight over the Capitol buildings and grounds.

John F. Kennedy Center for the Performing Arts

The FY 2012 President's Budget requests $36.9 million for the John F. Kennedy Center for the Performing Arts (Kennedy Center). These funds are exclusively for the Operations and Maintenance (O&M, $23.2 million) and Capital Repair and Restoration (CR&R, $13.7 million) activities of the Kennedy Center. This level is $3.1 million or 7.8 percent less than the amount enacted in the FY 2011 annualized Continuing Resolution, and is less than the FY 2008 funding level. P.L. 110-338 authorizes appropriations for the John F. Kennedy Center for the Performing Arts through FY 2012. In FY 2012, a total of $40.5 million is authorized for the Kennedy Center, including $23.5 million for maintenance, repair, and security, and an additional $17 million for capital projects. The performing arts programming and administrative support for the Kennedy Center is financed by ticket sales, auxiliary and investment income, and through private donations. The Committee supports the President's request of lower funding levels.

Federal Protective Service (FPS)

The FY 2012 President's Budget requests $1.26 billion for the FPS, $146.5 million or 13.1 percent above the FY 2011 annualized Continuing Resolution level. The FPS is charged with protecting federal buildings and facilities. It is funded through a revolving account that receives fees collected from Federal tenants. The Committee intends to continue its oversight of building security and the FPS's Contract Guard program.

Highways and Transit

The most recent long-term authorization of the Federal surface transportation program, the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) (P.L. 109-59), expired at the end of FY 2009. Since that time, Federal highway, highway safety, and public transportation programs have been operating under a series of short-term extensions, the most recent of which extends the programs through September 30, 2011.

In its FY 2012 budget request, the administration has provided the funding outline for a six-year $556 billion reauthorization of the surface transportation programs. The $556 billion funding request includes a $50 billion investment in FY 2012 to front-load the reauthorization proposal. The request proposes to rename the Highway Trust Fund the "Transportation Trust Fund." This new trust fund would include the current Highway Account and Mass Transit Account as well as two new accounts for Passenger Rail and the proposed National Infrastructure Bank.

The administration's proposal is silent on how the Transportation Trust Fund will have sufficient revenue to fund these new programs. The proposal assumes a "placeholder revenue increase" of $435 billion over a 10-year period but does not identify how to pay for this revenue increase. The Budget proposal does include a statement that the administration will work with Congress to ensure that the proposed funding increase does not increase the deficit.

The Committee continues to support the user-financed approach that, until recently, has provided the sustainable revenue necessary to finance our surface transportation needs. However, the Committee cannot support the administration's proposed reauthorization funding level because it fails to specifically identify how to pay for the $435 billion revenue gap. The Committee is prepared to evaluate the administration's proposal for paying for these funding increases when the administration transmits their full reauthorization proposal to Congress.

The budget request also proposes to significantly restructure the surface transportation programs. Under this proposal several programs are eliminated and dozens of programs are consolidated. The Committee is supportive of eliminating surface transportation programs that are no longer in the Federal interest and consolidating programs that overlap or are duplicative. However, the budget request does not include legislative language on how the administration plans to restructure the surface transportation programs. The Committee will evaluate the administration's proposal when it transmits is full reauthorization proposal to Congress.

The Highway Trust Fund (HTF) is facing ongoing problems of solvency due to the declining revenues going into the trust fund. According to the Congressional Budget Office (CBO)[6], under current levels of spending, absent additional revenues or a General Fund (GF) transfer, the cash balance of the Highway Account of the HTF would be $4.2 billion at the end of FY 2012. Similarly, CBO estimates that the cash balance of the Mass Transit Account of the HTF would be $4.4 billion at the end of FY 2012 under current spending levels.

The Committee is committed to writing a long-term surface transportation authorization bill that keeps the HTF solvent without additional transfers from the General Fund. Given that the existing revenues from the existing user fees are not adequate to support the investment needs, the Committee will consider ways to meet the challenges and needs by doing more with less. This includes but is not limited to

[6] Estimates based on CBO's winter baseline, issued in January 2011.

programs and policies that promote innovative financing and public private partnerships. While these tools are not substitutes for traditional grant funding, they will allow states and local governments to leverage limited Federal resources.

The Committee is also committed to accelerating the project delivery process for surface transportation projects. According to the "Highway Planning and Project Development Process" timeline put together by the Federal Highway Administration, the Federal project delivery process can take up to 15 years from planning through construction.[7] An analysis conducted by the National Surface Transportation Policy and Revenue Committee found that a $500 million project that took 14 years to complete would see its cost double due to the impact of delays and inflation.[8] The next surface transportation authorization bill will make major improvements to the project delivery process resulting in significant project cost savings allowing states and public transit agencies to do more with less.

The Committee is interested in exploring ways to better leverage the existing HTF revenues. The Committee will consider expanding and improving existing DOT loan programs such as the Transportation Infrastructure Finance and Innovation Act (TIFIA) program and the Railroad Infrastructure Finance (RRIF) program. The Committee will evaluate the administration's proposal to create a National Infrastructure Bank when the administration transmits their full reauthorization proposal to Congress.

Highways

The FY 2012 President's Budget proposes a $556 billion six-year reauthorization of the surface transportation programs, of which $336 billion is for road and bridge improvements and construction. In FY 2012 the administration proposes $70.4 billion for the Federal-Aid Highway program. This is $28.6 billion (69.5 percent) above the FY 2010 enacted and FY 2011 annualized Continuing Resolution levels. Current HTF revenue cannot support this level of investment, and the Budget proposal is silent on how to generate the additional revenues to fully support these programs. The Committee cannot support the proposed funding increases because the administration's budget proposal does not identify a way to pay for these increases without increasing the deficit. The Committee is prepared to evaluate the administration's proposal for paying for these funding increases when the administration transmits their full reauthorization proposal to Congress.

The Committee supports streamlining the number of highway programs to increase efficiency and flexibility. Currently, there are over 55 separate highway programs. The Committee believes that many of these programs should be consolidated and replaced with a relatively small number of core highway programs. The Committee intends to address this issue as part of the upcoming reauthorization of surface transportation programs.

---

[7] Federal Highway Administration, November 2008.

[8] "Transportation for Tomorrow," Report of the National Surface Transportation Policy and Revenue Commission, p. 12, December 2007.

Transit

The administration's budget request proposes total budget authority of $22.35 billion for the Federal Transit Administration (FTA) programs in FY 2012. The authorized level for federal transit programs under the current extension of the Safe, Accountable, Flexible, Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU) is $10.53 billion, so the President's Budget request represents a 112 percent increase above current authorized funding levels. Current HTF revenue cannot support this level of investment and the administration does not propose how to pay for this increase in spending. The Committee cannot support the proposed funding increases because the administration's budget proposal does not identify a way to pay for these increases without increasing the deficit. The Committee is prepared to evaluate the administration's proposal for paying for these funding increases when the administration transmits their full reauthorization proposal to Congress.

The President's Budget proposes to restructure the federal transit programs, bringing the total number of programs down to four. The Committee is supportive of restructuring the Federal surface transportation programs and eliminating programs that are no longer in the Federal interest and of consolidating programs that overlap or are duplicative. However, the Committee will wait until the administration transmits its full reauthorization proposal to Congress before it takes a position on the administration's proposed programmatic restructuring.

Railroads, Pipelines, and Hazardous Materials

Federal Railroad Administration

The Committee reauthorized the Federal Railroad Administration's (FRA) rail safety program in the 110th Congress through enactment of the Rail Safety Improvement Act of 2008 (P.L. 110-432). Prior to enactment of the Rail Safety Improvement Act (RSIA), the FRA's rail safety program had not been reauthorized since 1994.

Major provisions of the RSIA include changes in hours-of-service standards for certain railroad workers; mandating the installation of positive train control (PTC) on most major rail lines by December 31, 2015; directing the FRA to study the use of cell phone and other personal electronic devices in the locomotive cab and prohibit the use of such devices if the study supported such a prohibition; strengthening track and grade crossing safety; enhancing rail worker training, and establishing a program at the National Transportation Safety Board to assist victims and their families involved in a passenger rail accident.

The administration's proposal of $223 million for FRA Safety and Operations activities represents a 29 percent increase over the FY 2010 funding level. FRA also proposes to increase its personnel by 166 positions, growing the agency from 917 positions to 1,083 FRA employees, an 18 percent increase in staff. The new positions

include 50 regional safety inspectors, 35 headquarters and regional rail safety staff, 42 high-speed and intercity passenger rail grants managers, 6 researchers, 10 policy positions, as well as 14 positions within the Administrator's office.

To offset some of this cost increase, the administration proposes (as it did in FY 2011) to establish a new rail safety user fee on railroad carriers, specifically to cover the cost of FRA safety inspectors. The offsetting collections are budgeted at $80 million. There is no current statutory authority for imposing such a fee, and imposing a safety user fee on railroads would divert scarce resources that are necessary for safety-related investments in rail infrastructure, technology and equipment. The Committee strongly opposes the authorizing language included in the budget that would prescribe these user fees. The Committee also strongly opposes out-of-control growth in government bureaucracies, and rejects the proposed increase in funding and staffing for the Federal Railroad Administration.

Passenger Rail

The President's Budget requests $8.046 billion for passenger rail-related activities. Of this total, almost $4.2 billion is requested in direct appropriations for Amtrak operating and capital subsidies.

Amtrak has averaged an appropriation of $1.34 billion annually over the last five fiscal years. In the 2009 Stimulus Act, Amtrak received an additional $1.3 billion for capital grants, doubling its annual funding.

Amtrak

Amtrak was created in 1970 under the Rail Passenger Service Act, which established a national passenger rail route network and on May 1, 1971, Amtrak began operations. Since its inception, the railroad has required a federal subsidy for every year of its 40-year history. In total, Amtrak has received more than $37.5 billion in federal subsidies since its creation.

Today, the federal government's subsidy of Amtrak's capital and operating costs results in an average per-ticket subsidy of $54.48. The subsidy is much higher on some routes. For example, the Sunset Limited from New Orleans to Los Angeles averages a per ticket subsidy of $390.50.

On February 7, 2011, Amtrak submitted its General and Legislative Annual Report to Congress for FY 2012 which requests a total of $2.212 billion in FY 2012. The President's Budget is difficult to compare directly to the current authorization and appropriations structure, but requests $459 million for Amtrak operations, $280 million for debt service, and a massive $3.452 billion for various Amtrak capital expenses, including $1.184 billion for ADA compliance.

The Committee supports reducing appropriations for Amtrak and pressing for full enactment of private sector participation initiatives included in the Passenger Rail Improvement Act of 2010.

The Northeast Corridor – a Mismanaged and Underutilized Asset

The Northeast Corridor (NEC) is one of the most valuable transportation assets in the United States, providing the only continuous physical link, along with I-95, between the major population centers of Washington, D.C., Baltimore, Philadelphia, New York City, and Boston. The Northeast mega-region is the most densely populated area in the United States, with 18 percent of the nation's population living in just two percent of its land area. Taken as a whole, the NEC region would be the sixth largest economy in the world with a GDP of $2.59 trillion, and a population equal to the United Kingdom.

Amtrak owns and controls 363 miles of the 457-mile NEC. In 1976 Amtrak acquired most of the NEC assets from the freight rail operator Conrail as part of the disposition of the bankrupt Penn Central Transportation Company's assets. Conrail, the consolidated government-supported freight operator, did not want to operate passenger services, and essentially donated this valuable property to Amtrak.

Amtrak has proven itself to be poorly equipped to own and manage this critical asset. Other than in the NEC, Amtrak relies almost entirely on the privately owned freight railroad network. The nation's freight railroads host Amtrak on about 22,000 miles of track, while Amtrak owns only 650 miles of track nationwide.

Over the last three decades, Amtrak and the FRA have mismanaged two major capital improvement projects that have left the NEC far short of international high-speed standards, at a total cost to taxpayers of nearly $6 billion. The Acela, promoted by Amtrak as a high-speed train, averages only 78 miles per hour (mph) between DC and New York, and 66 mph between New York and Boston. Internationally, high-speed trains can average 150 mph and many nations are upgrading systems to achieve 220 mph top speeds. Amtrak failed in even the simple task of purchasing the Acela trainsets, an acquisition that resulted in a major lawsuit, delays, cost overruns, and change orders to the trains that limited the effectiveness of the technology.

In late 2010, Amtrak proposed a "Vision Plan" to bring the NEC up to world-class high-speed rail standards by building dedicated high-speed tracks on new rights-of-way between Washington, D.C. and Boston. Unfortunately, this vision would cost $117 billion and take 30 years to implement. Amtrak's historical failure to successfully execute capital projects strongly suggests that the United States should explore alternative solutions for future high-speed rail service on the NEC.

Bringing true high-speed rail to the Northeast Corridor will be a net economic gain, resulting in reduced air and highway congestion, increased productivity, and development opportunities. The line will be profitable and will not require federal subsidy. To make this kind of successful high-speed rail a reality, the expertise and

investment capital of the private sector must be utilized, in conjunction with state and local participation.

Pipelines and Hazardous Materials Safety Administration

The Committee expects to reauthorize the Pipeline and Hazardous Materials Safety Administration's (PHMSA) hazardous material safety program in the 112th Congress; the prior authorization expired in 2008.

The President's Budget requests $50 million and 209 full-time equivalent (FTE) staff for PHMSA's hazardous materials safety program, an increase of 27 FTE over the current staffing level. Of the $50 million requested, $11.7 million is proposed to be funded by a new Special Permits and Approvals Fee. This user fee would be collected from companies and individuals involved in the transport of hazardous materials seeking special permits and approvals from the Hazardous Materials Regulations. The fee would range from $700 to $3,000 and would be assessed on a per application basis. Governments and foreign entities would be exempt from the user fee. The Committee is concerned that the fees the administration has proposed would hit small U.S. businesses disproportionately hard, and the Committee opposes this proposal.

With respect to pipelines, the Committee expects to reauthorize PHMSA's pipeline safety program in the 112th Congress; the program expired September 30, 2010. The program was last reauthorized at the end of the 109th Congress through enactment of the Pipeline Inspection, Protection, Enforcement and Safety Act of 2006.

The President's Budget requests $120.9 million and 225 FTE staff, an increase of 19 new FTE's. Of the $120.9 million requested, $4.5 million is proposed to be funded by two new Pipeline Safety user fees. The design review fee would support PHMSA's oversight of major new construction programs like the Alaska Natural Gas Pipeline project. This fee will recover PHMSA's oversight costs from project applicants for design review, consulting, and field support for any new pipeline construction projects over 10 miles in length in the United States. In FY 2012, an estimated $4.0 million would be collected from this fee. PHMSA is also proposing to charge a special permit fee charged for special permit applications to cover the costs incurred for technical studies or environmental analysis from special permit applicants. In FY 2012, an estimated $500 thousand would be collected from this fee.

Water Resources and Environment

Army Corps of Engineers

The President recommends $4.631 billion as the total budget for the Corps of Engineers for FY 2012. This represents a decrease of $298 million (-6 percent) below the $4.929 billion annualized level provided by the FY 2011 Continuing Resolution. The Committee supports Federal investment in the Civil Works program at the total level

recommended by the President as part of an overall strategy to significantly reduce federal spending.

More importantly, the Committee believes that the funds in the budget need to be focused on the missions of the Corps of Engineers that provide an economic return on investment – these are the missions of navigation and flood damage reduction. While aquatic ecosystem restoration is an important mission of the Corps, those projects do not typically generate long term jobs nor as high an economic return on investment as do navigation and flood damage reduction projects. For FY 2012, the Congress must focus on creating jobs and restoring economic health.

Two aquatic ecosystem restoration projects are unique in their size and complexity and are an exception to the limitation on funding this class of project. The Committee recommends continued investment in Everglades and Coastal Louisiana restoration because of the significant economic benefits that are associated with those projects.

In addition, the Committee recommends that the Corps focus on the larger and more complex projects where its expertise and financial resources are best used. The smaller Continuing Authority Program projects should be limited to no more than half of each of its program amounts.

Investigations

The Corps must conduct new studies to determine where there is Federal interest in water resource development. The President's Budget requests $104 million to conduct studies in FY 2012. This is the same as the FY 2011 annualized Continuing Resolution.

The President's Budget continues a recent trend in Presidential budget requests for the Investigations account that have proposed funding levels far below the Corps' capability, and have had a negative impact on the continued development of justified projects.

In addition, an underfunded Investigations account places the nation at risk of losing the skills developed by Corps personnel as they plan and design civil works projects. Because the Corps is both a civilian and a military organization, these skills directly benefit the Corps' military mission, as demonstrated by the current deployments of Corps personnel to Iraq and the substantial involvement of Corps districts and laboratories in managing infrastructure improvements in Iraq. The Corps also responds to domestic and international emergencies, such as Hurricane Katrina in August 2005.

The Committee recommends a minimum appropriation of $150 million for the Investigations account in FY 2012 to support the core capabilities of the agency and maintain a steady flow of good investment options that will provide economic benefits.

Construction

The President's Budget requests $1.48 billion for project construction in FY 2012, a decrease of $210 million below the FY 2011 annualized Continuing Resolution level of $1.69 billion. The Committee supports an appropriation of $1.53 billion. The Committee recognizes that not all worthwhile projects will be funded for construction under this recommendation, however believes that this is the amount of investment that can be made at this time. The Committee is concerned that low funding levels for the Construction account will increase the cost of completing projects and will delay the national economic and ecosystem restoration benefits that these investments provide. For this reason, it is important that funding be focused on those projects that provide the most economic return on investment – typically the navigation and flood damage reduction projects. In addition, the Committee supports funding the projects in the Construction account at the Corps' capability level so that they could be completed in an efficient manner.

Operation and Maintenance

The President's Budget requests $2.314 billion for project operation and maintenance in FY 2012, a decrease of $47 million below the FY 2011 annualized Continuing Resolution of $2.361 billion. As part of the Committee's efforts to reduce Federal spending, the Committee recommends an appropriation of $2.268 billion for operation and maintenance in FY 2012. The Committee would also recommend that the these funds be focused on navigation and flood damage reduction projects so that the economic benefits of those projects can be more fully realized.

Harbor Maintenance Trust Fund

The Harbor Maintenance Trust Fund is supported by taxes paid by users of ports and is meant to pay for harbor maintenance projects. The Committee remains concerned that the Fund is not being fully utilized for its intended purpose. At the end of FY 2011, the estimated balance in this fund is expected to be $6.12 billion. The Committee believes that this practice is a breach of trust between the federal government and those who pay the taxes. In addition, currently, only one-third of the nation's federal navigation projects are at their authorized depths and widths. This results in ships having to lighten their load, increasing the cost of transportation. The Committee recommends that for FY 2012 all the revenue collected in FY 2011 be fully used for the authorized purposes.

Inland Waterways Trust Fund

Revenues in the Inland Waterways Trust Fund are derived from a 20-cent-per-gallon tax on diesel fuel used by commercial vessels engaged in inland waterway transportation, plus investment income. The Trust Fund is used to pay one-half of the costs associated with the construction, replacement, expansion, and major rehabilitation of Federal inland waterways projects. Currently, the Corps is using the money at the

same rate that it is collected and that is insufficient to maintain an efficient construction schedule for existing projects or to begin any significant new investments. The budget calls for using $77.1 million from the fund in FY 2012, resulting in an estimated balance of $63 million at the end of FY 2012.

The Committee is aware that the current rate of revenue collection and investments is not sustainable in the long term. Some have proposed new methods of collecting revenue to allow for greater investments in inland navigation infrastructure. Recognizing that water transportation is typically more economical, more fuel efficient, and less polluting per ton-mile than other modes of transportation, the Committee continues to express reservations regarding any proposal to raise the costs of shipping goods along the inland waterway system.

Regulatory Program

The President's budget requests $196 million for the regulatory program. This is $6 million more than the FY 2011 annualized Continuing Resolution level of $190 million. The requested funding provides for costs incurred to administer laws pertaining to regulation of activities affecting U.S. waters, including wetlands, in accordance with the Rivers and Harbors Act of 1899, the Clean Water Act, and the Marine Protection, Research and Sanctuaries Act of 1972. The Committee concurs with the $196 million recommended funding level and expects the additional funds to be used to expedite permit processing.

Formerly Utilized Sites Remedial Action Program (FUSRAP)

The President's budget requests $109 million for FUSRAP for FY 2012. This is $25 million less than the FY 2011 annualized Continuing Resolution level of $134 million. FUSRAP provides for the cleanup of certain low-level radioactive materials and mixed wastes, which are located mostly at sites contaminated as a result of the nation's early atomic weapons development program. This program was transferred from the Department of Energy to the Corps in the FY 1998 Energy and Water Development Appropriations Act. The Committee recommends an appropriation of $59 million for this account.

Mississippi River and Tributaries

The President's budget requests $210 million for FY 2012 for planning, construction, and operation and maintenance activities associated with Mississippi River and Tributaries water resources projects located in the lower Mississippi River Valley from Cape Girardeau, Missouri to the Gulf of Mexico. This is $50 million less than the FY 2011 annualized Continuing Resolution of $260 million. The Committee supports an appropriation of $233 million for this account.

Flood Control and Coastal Emergencies (FCCE)

The Administration's budget request proposes $27 million for the Corps of Engineers' Flood Control and Coastal Emergencies (FCCE) account. The Corps has authority under P.L. 84-99 for emergency management activities, including disaster preparedness, emergency operations (flood response and post flood response), rehabilitation of flood control works threatened or destroyed by flood, protection or repair of federally authorized shore protective works threatened or damaged by coastal storms, and the provision of emergency water due to drought or contaminated sources. This includes $4 million in support of the Silver Jackets, an interagency program that creates federal support teams for communities experiencing local flood emergencies and prevents emergencies through flood risk management solutions. Funds for the Corps' FCCE account are typically provided on an emergency basis through supplemental appropriations acts. The Committee recommends a total of $4 million for the FCCE account, to be used in support of the Silver Jackets program.

Natural Resources Conservation Service (Small Watershed Program)

Under authority of the small watershed program, authorized in the Watershed Protection and Flood Prevention Act of 1954 (P.L. 83-566) and the Act of December 22, 1944 (P.L. 78-534), NRCS provides technical and financial assistance to local organizations to install measures for watershed protection, flood prevention, agricultural water management, recreation, and fish and wildlife enhancement. Depending on its size and cost, a project may be carried out administratively or with Congressional approval by the House Agriculture Committee (projects with a structure up to 4000 acre feet of storage capacity) or the Transportation and Infrastructure Committee (projects with a structure over 4,000 acre feet of storage capacity) and comparable Senate committees. There are more than 11,000 such structures under the NRCS authority nationwide.

Watershed Surveys and Planning

The watershed surveys and planning account funds the studies needed to carry out the small watershed program. The President's budget requests no money for the Watershed Surveys and Planning Program (studies), and no funds were included in the annualized Continuing Resolution for FY 2011. The Committee recommends no funds for this account.

Watershed and Flood Prevention Operations

The Watershed and Flood Prevention Operations Account funds both the Small Watershed Program, discussed above, and the Emergency Watershed Protection Program, which provides assistance to State and local governments after a flood or other emergency has taken place. The President's FY 2012 budget requests no money for this account. For FY 2011, the annualized Continuing Resolution contained $30 million for the Small Watershed Program. The Committee recommends $30 million for this account in FY 2012.

Watershed Rehabilitation Program

In 2000, Congress amended the Watershed Protection and Flood Prevention Act to allow NRCS to provide assistance to rehabilitate flood protection dams that had been built with assistance provided under that Act and have now reached the end of their useful lives, creating threats to property and lives. The President's FY 2012 budget request includes no funding for the Watershed Rehabilitation Program to provide technical and financial assistance for upgrading or removing aging dams. The FY 2011 annualized Continuing Resolution level for this account is $40.2 million. The Committee recommends $40.2 million for this account in FY 2012.

Environmental Protection Agency

For water infrastructure programs administered by the Environmental Protection Agency (EPA), the Committee recommends that limited funds be focused on programs that will have the greatest impact on local economies and job creation, such as the State Revolving Loan Fund Program, Brownfields, and Superfund programs. These programs generally lead to construction projects and turn contaminated land into usable property with an enhanced economic value. Further, these programs provide an opportunity to leverage state, local, and private funds to achieve greater economic and environmental benefits. The Committee supports programs that directly assist communities and businesses in their efforts to meet regulatory requirements.

The Committee does not support the administration's proposal to reinstate the Superfund tax on businesses. The Superfund program is designed to be principally a cost recovery statute, but the tax the administration is proposing would be aimed mostly at where the money is, not where the responsibility lies, and as a result, the taxes would unfairly penalize a substantial amount of companies who did not cause any pollution and had no contact with any Superfund site. During these challenging economic times, increasing the tax burden on businesses will only stifle investment, slow recovery, and slow the creation of new jobs.

Clean Water State Revolving Loan Funds

The Clean Water State Revolving Loan Fund (SRF) program is a highly successful program administered by states to provide low interest loans to local communities around the country to make wastewater infrastructure improvements and to address other water quality needs. To date, Congress has provided $17 billion in grants to help capitalize 51 Clean Water SRFs. With the 20 percent state match and the fact these SRFs earn interest, receive loan repayments, and are used to secure state bonds, the return on this Federal investment has been greater than two to one. These federal capitalization grants have resulted in SRFs funding over $74 billion in loans to date for wastewater infrastructure projects.

For FY 2012, the President's budget is requesting $1.55 billion to further capitalize these funds, a decrease of $550 million below the FY 2011 annualized Continuing Resolution level of $2.1 billion. The Committee supports the President's request for lower funding.

While there is a need for Federal investment in wastewater infrastructure, it is clear that the Federal government cannot meet this need alone. It is going to take a partnership of Federal, State, and local governments, and where appropriate, the private sector, to meet this challenge.

To this end, it is important that all entities who are looking for ways to maximize their investments in wastewater infrastructure and other water pollution control activities seek out innovative and alternative ways of raising capital and increasing investment to supplement the "traditional" ways of funding these programs. Our nation needs to have at its disposal a wide range of funding mechanisms and funding sources available to meet our nation's clean water needs. There is a tremendous amount of capital from other public and private sources potentially available for investment in our infrastructure, and there is a need to learn more about innovative and alternative ways of accessing it.

The Committee supports a shift in the focus of EPA's water program away from creating new unfunded regulatory mandates and toward finding additional ways to leverage current resources to pay for the multitude of regulatory mandates on the regulated community that EPA already has in place.

Nonpoint Source

The nonpoint source management program authorized by section 319 of the Clean Water Act has been very helpful to States and local governments in addressing nonpoint source water quality issues around the nation. For FY 2012, the President's Budget is requesting $164 million for EPA's nonpoint source management program, a decrease of $36 million below the FY 2011 Continuing Resolution level.

The Committee supports the President's request for lower funding. The Committee notes that the EPA needs to focus on additional ways to leverage current resources under the Clean Water Act for addressing nonpoint sources with the resources available from other Federal and State programs. For example, there are programs and resources under the U.S. Department of Agriculture and other agencies that support complementary efforts aimed at improving water quality. EPA needs to improve its coordination with these other agencies and programs to maximize the collective water quality benefit from these programs.

State Water Management Programs

The foundation of the Clean Water Act has long been the Federal-state partnership in implementing the provisions of the Act. In support of this partnership, the Federal funding is provided to the states for state water quality management programs

under Section 106 of the Clean Water Act. Prevention and control measures supported by state water quality management programs include Clean Water Act permitting, pollution control activities, surveillance, monitoring, enforcement, local governmental training, and public information. For FY 2012, the President's Budget requests an appropriation of $250.3 million for state water quality management programs under section 106 of the Clean Water Act, an increase of $21 million above the FY 2011 annualized Continuing Resolution level. These funds go directly to States to help communities meet federal environmental requirements. The Committee supports the requested increase.

Superfund

For FY 2012, the President's Budget requests an appropriation of $1.236 billion for the Superfund program administered by the EPA, a decrease of $70 million below the FY 2011 annualized Continuing Resolution level. The Committee supports the President's request for lower funding. The economic benefits from the Superfund program are derived from the cleanups that occur under the program, which return sites to productive use. Therefore, the Committee recommends that EPA devote a larger proportion of the funding for on-the-ground removal and remedial activities, and less for program overhead, to maximize the economic return from the program. As with other accounts, the EPA should give highest priority to projects that create the most jobs and economic activities.

Brownfields

The Brownfields program was authorized under the Small Business Liability Relief and Brownfields Revitalization Act (P.L. 107-118). This program authorizes brownfields site assessments, cleanup, research, and technical assistance, which enables local communities and private landowners to assess and physically clean-up sites, putting valuable urban land back into productive use. The results are jobs created during the cleanup and more jobs created during the economic development generated by the land coming into productive use. The President's FY 2012 Budget requests $148.5 million for the brownfields program, a $1 million decrease below the FY 2011 annualized Continuing Resolution level. The total request of $148.5 million includes $99 million for direct grants to assess and cleanup brownfields, and $49.5 million to support state response efforts to clean up brownfields sites. The Committee supports funding at the level requested by the President. The Committee recommends that EPA devote a larger proportion of the funding for on-the-ground removal and remedial activities, and less for program overhead, to maximize the economic return from the program.

Saint Lawrence Seaway Development Corporation

The Saint Lawrence Seaway Development Corporation is a wholly-owned government enterprise created in 1954 to construct, operate, and develop jointly with Canada a seaway between Montreal and Lake Erie. Funding for operation and maintenance of Seaway facilities is appropriated from the Harbor Maintenance Trust

Fund, which derives its revenue from a 0.125 percent tax on the value of cargo loaded or unloaded at U.S. ports, as well as from tolls collected on the Saint Lawrence Seaway.

The Saint Lawrence Seaway Development Corporation has developed a 10-year U.S. Asset Renewal Program Capital Investment Plan for navigation infrastructure and facilities, including lock operation upgrades and maintenance, waterway management, tunnel and bridge maintenance, and facility upgrade and maintenance. The total cost of the 10-year asset renewal program is $164,605,000, which is authorized by section 5015 of the Water Resources Development Act of 2007 (Pub. L. 110-114).

The Committee strongly supports sufficient appropriations in FY 2012 and beyond to carry out the long-term asset renewal plan of the Seaway.

REPUBLICANS
JEFF MILLER, FLORIDA, CHAIRMAN
GUS M. BILIRAKIS, FLORIDA
CLIFF STEARNS, FLORIDA
DOUG LAMBORN, COLORADO
DAVID P. ROE, TENNESSEE
DAN BENISHEK, MICHIGAN
ANN MARIE BUERKLE, NEW YORK
JEFF DENHAM, CALIFORNIA
BILL FLORES, TEXAS
TIM HUELSKAMP, KANSAS
BILL JOHNSON, OHIO
JON RUNYAN, NEW JERSEY
MARLIN A. STUTZMAN, INDIANA

HELEN W. TOLAR, STAFF DIRECTOR
AND CHIEF COUNSEL

U.S. House of Representatives
COMMITTEE ON VETERANS' AFFAIRS
ONE HUNDRED TWELFTH CONGRESS
335 CANNON HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
http://veterans.house.gov

DEMOCRATS
BOB FILNER, CALIFORNIA, RANKING
CORRINE BROWN, FLORIDA
SILVESTRE REYES, TEXAS
MICHAEL H. MICHAUD, MAINE
LINDA T. SÁNCHEZ, CALIFORNIA
BRUCE L. BRALEY, IOWA
JERRY MCNERNEY, CALIFORNIA
JOE DONNELLY, INDIANA
TIMOTHY J. WALZ, MINNESOTA
JOHN BARROW, GEORGIA
RUSS CARNAHAN, MISSOURI

MALCOM A. SHORTER
DEMOCRATIC STAFF DIRECTOR

March 18, 2011

The Honorable Paul Ryan
Chairman
The Honorable Chris Van Hollen
Ranking Democratic Member
Committee on the Budget
207 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan and Ranking Member Van Hollen:

Pursuant to section 301(d) of the Congressional Budget Act of 1974 and House Rule X, clause 4(f), and with the approval of the undersigned Members of the Committee on Veterans' Affairs (Committee), we write to provide our Views and Estimates on the fiscal year (FY) 2012 budget for veterans' programs within the Committee's jurisdiction. Our comments will focus on programs and services administered by the U.S. Department of Veterans Affairs (VA) and the Administration's Fiscal Year 2012 budget request for VA.

General Comments

In preparing the Committee Views and Estimates, we are mindful of the enormous challenges threatening our Nation's security. Deficits and resulting debt of staggering proportions have hastened the need for difficult choices to be made across Government. As was stated in the final report of the President's National Commission on Fiscal Responsibility and Reform, "[t]he problem is real. The solution will be painful. There is no easy way out. Everything must be on the table. And Washington must lead."

We are also mindful of our obligation to those who continue to defend America against her enemies. For nearly a decade, we have remained a Nation at war, a war fought by less than one percent of our citizenry. The demands placed on those serving in our Armed Forces—multiple deployments, the stress of extended separation from loved ones, the physical and psychological wounds of war, and the often painful readjustment to civilian life in the midst of economic uncertainty—have never been greater. Our Nation's service members continue to do what their country asks of them, enduring hardships that few of us could fathom. They are the reason this Committee exists; it is now our privilege and duty to serve them and all who have gone before them.

These challenges—fulfilling our commitments to veterans and getting our fiscal house in order---need not be opposed to each other. We must never balance the budget on the backs of veterans,

but we also cannot allow limited resources to be used ineffectively. Veterans are not only beneficiaries of VA's health and benefits programs, they are also taxpayers. They want meaningful employment for themselves and their loved ones. Like all of us, they, too, have a tremendous stake in America's economic prosperity, a stake they have invested in up front through their honorable service. We believe no constituency is better suited to help guide us through these turbulent times.

Overall Spending Projections

Discretionary Spending

The President's fiscal year (FY) 2012 VA budget request for discretionary programs is $61.9 billion, including an estimated $3.1 billion in estimated medical collections (receipts from billing insurance companies and collecting copayments for care associated with non service-related disabilities). Consistent with Public Law 111-81, the Administration has also requested a $55.832 billion advance appropriation for VA medical care for fiscal year 2013, including an estimated $3.291 billion in medical collections.

VA's discretionary budget from FY 2003 through FY 2011 (assuming enactment of full-year appropriations for remaining VA accounts as outlined in H.R. 1) has increased approximately 115 percent, with annual percentage increases frequently exceeding double digits. Thus, given that the President's request for FY 2012 represents, roughly, a 3.5 percent annual increase, it can certainly be characterized as a more modest blueprint than we have seen in recent years. During the Committee's hearing in February on VA's budget request, VA Secretary Shinseki assured the Committee that the Administration's budget request was sufficient to meet VA's obligations. The Committee accepts VA's characterization of its request but will be carefully monitoring VA's fiscal condition over the course of the upcoming fiscal year.

The more important question is whether the President's request is sufficient to meet our obligations to veterans. On the whole, we believe it is. We support the President's request for overall discretionary spending for FY 2012 and the FY 2013 advance for medical care, although we do recommend shifting resources among certain accounts as we will outline below. We also have serious concerns with new accounting mechanisms in the President's budget that makes it difficult to adequately judge the actual resource needs of VA's health care system. We will discuss those concerns below.

Mandatory Spending

The President requests $70.312 billion for VA mandatory spending programs, an increase of 5.5 percent over FY 2011 levels. VA mandatory spending has increased 105 percent from FY 2003 through FY 2011, an increase largely attributable to growth in the overall disability compensation rolls and rising average disability levels, as well as the creation of the Post-9/11 GI Bill education benefit. The Committee notes that for FY 2012, 83 percent of the amount requested for mandatory spending is attributable to compensation and pension payments.

Although we must be sensitive to the constituency that VA mandatory spending programs serve, we feel compelled to highlight that both Republican and Democratic Administrations and Congresses have, in the past, joined in calling for restraint in the growth of VA entitlement spending in an overall effort to reduce Federal budget deficits. In the same spirit, and with a sober understanding of the fiscal crisis our country is facing, we believe the time is right to look at past reconciliation measures reported from the House and Senate Veterans' Affairs Committees to serve as guides for any future mandatory spending restraint measures the Budget Committee may require. In past years, veterans' organizations only supported these restraint efforts to the extent they were extraordinarily sensitive to the veterans who would be affected by them and packaged as part of an overall, concerted effort to control entitlement growth across the Federal Government. We believe veterans will, as they have in the past, rise to the task if such an undertaking is again asked of them.

Veterans' Medical Care

For FY 2012, the President's budget requests $50.851 billion (exclusive of estimated medical collections) for the three VA medical care appropriation accounts. The request is $240 million higher than what the Administration requested one year ago, when it submitted its FY 2012 advance appropriation request for VA medical care, and is the same amount for FY 2012 VA medical care contained in H.R. 1, legislation passed by the House of Representatives on February 19, 2011. The Administration also requests an FY 2013 advance appropriation of $52.541 billion (exclusive of estimated medical collections).

The Administration's revised request for FY 2012 is explained by factoring in a $713 million rescission due to the cumulative impact of the statutory freeze on pay raises for Federal employees in 2011 and 2012, and a $953 million increase attributable to *potential* increased reliance on the VA health care system due to economic employment conditions. Because the Administration is not convinced whether the $953 million will, in fact, be needed to meet health care needs of the system, it has labeled the $953 million as a "contingency fund," i.e., to be appropriated, but only released for obligation if events dictate.

The Administration has requested the ability to carry over, from one year to the next, money it claims is associated with certain management savings. It asserts that, contrary to recent budget submissions (which assumed no carryover of unobligated balances from one year to the next), the ability to carryover savings is critical in a multi-year planning process where one year's request builds upon another.

Finally, the Administration assumes the availability of $3.078 billion in medical collections (receipts from copayments and insurance billings associated with care provided for non service-connected conditions) in FY 2012. This estimate is a downward revision of the original FY 2012 advance request collections assumption of $3.679 billion. The VA has also decreased its collections estimate for FY 2011 by $473 million to an amount that is $34 million higher than the amount collected in FY 2010.

We applaud the goals outlined in the President's request. Those goals include eliminating veteran homelessness; increasing accessibility for veterans whose access to care may be limited

by geography, disability, or other complications; overcoming barriers and other factors associated with health care quality for women veterans; implementing the mental health strategic plan to provide appropriate mental health services system-wide; and preventing suicide among our veterans.

We are encouraged by VA's intent to increase resources for prosthetics by 39 percent. However, we are concerned about the ability of VA to meet the needs of the younger and more active amputees with the latest technology and provide consistent and coordinated care throughout the system. We intend to aggressively oversee this program to ensure funds are effectively utilized to provide state-of-the-art prosthetic care for both recently combat-injured veterans and veteran amputees from all eras.

Family caregivers are often at the core of what sustains the treatment and recovery of a wounded, ill, or injured servicemember. However, when a family member assumes this role, there are many challenges they themselves may face including lost income, travel and relocation costs, child care concerns, exhaustion, and emotional or psychological stress. Recognizing the commitment and struggles of family caregivers, Congress enacted Public Law 111-163, the Caregivers and Veterans Omnibus Health Services Act. This law requires VA to establish a comprehensive program of assistance for family caregivers. We are disappointed with VA's delay in implementing this important program and the initial implementation plan submitted to Congress, which fails to meet Congressional intent. Further, we are deeply troubled with the FY 2012 budget submission that allocates only $66 million to implement the enhanced programs for caregivers under sections 101 through 104 of Public Law 111-163. The Committee is committed to getting this right for veterans and their caregivers and intends to ensure that the program is implemented expeditiously, fully meets Congressional intent, and is appropriately funded.

Contingency Fund

Each of the last three budget cycles occurred in the heart of the economic recession, but the budget requests and actual appropriation levels during that three-year period (FY 2009, FY 2010, and FY 2011) relied on health care utilization data that predated the recession. Unlike the request for FY 2012, the budget requests for those years did <u>not</u> incorporate an "unemployment economic variable" when projecting what resources would be necessary to sustain the medical care system. It is reasonable to assume that if an unanticipated surge in demand because of declining economic conditions was to occur and have an impact on VA resources, one might have expected it to occur already.

In fiscal years 2009, 2010, and 2011, VA assumed no carryover of unobligated balances from one year to the next. However, actual medical care carryover from FY 2009 to FY 2010 was well over $1 billion; actual carryover from FY 2010 to FY 2011 was nearly $1.5 billion; and there is now an assumed carryover of $1.1 billion from FY 2011 to FY 2012. Thus, it is reasonable to conclude that <u>even in the absence of current data on the effects of the recession on veterans' reliance on VA's health care system, VA received sufficient resources to meet the health care needs of America's veterans</u>. Not only did VA have unanticipated unobligated balances to carry over, it also improved on its key quality measures (another indicator of whether resources provided were sufficient). Although we are sensitive to the abundance of caution the

Administration wishes to take by requesting a contingency fund in the event it is needed, we believe there are other means available to monitor and meet the needs of the system that do not require providing what amounts to a $953 million advance supplemental.

We also have institutional concerns regarding the feasibility of advocating that an appropriation be provided that is expended solely at the discretion of the Executive Branch. When Congress appropriates resources, it is with the full expectation that those resources be expended. If the Executive Branch believes that it has been provided with too many resources, then it can request that Congress rescind those funds.

Carryover and Management Savings

In past Administrations' budget submissions, no carryover of funds for medical care was assumed for fiscal years 2009, 2010, and 2011. With this year's request, the Administration does assume a carryover from FY 2011 into FY 2012, and from FY 2012 into FY 2013, but the Administration characterizes the carryover as evidence of savings realized from certain management actions it has undertaken or will soon undertake.

Although we agree that carryover of funds from one year to the next is a prudent use of taxpayer dollars and must absolutely be built into a subsequent year's budget request, we disagree with characterizing such carryover as evidence of savings achieved due to management actions. To the extent VA is able to account for specific savings associated with planned management actions, we would expect those savings to already be reflected in VA's current resource request. For example, it is reasonable to assume that as VA becomes more efficient in purchasing goods and services for use in its health care system, that those savings will be built into the Enrollee Health Care Projection Model VA uses to justify its appropriation request. To ask Congress to appropriate the full amount VA assumes it can save by being more efficient strikes us as antithetical to how a business or family would budget. Again, we agree that permitting VA to carry money over into a subsequent fiscal year is, and always has been, an important aspect of how VA manages its resources effectively. We do not agree with VA's new attempt to characterize such carryover as evidence of savings. We intend to follow up with the Government Accountability Office to determine whether the management savings VA claims it can achieve are, in fact, directly or indirectly factored into its Enrollee Health Care Projection Model forecasting of resource needs.

Medical Collections

As noted previously, the Administration has revised its estimate for FY 2012 medical collections downward, from $3.679 billion to $3.078 billion. We are concerned with such a large re-estimate given that VA's collections efforts have generally exceeded original budget estimates. Further, it is our understanding that as VA expands the number of Congressionally-directed Consolidated Patient Accounting Centers nationwide, it will become more efficient in its medical collections efforts. Notwithstanding all of the above, VA relied on its Enrollee Health Care Projection Model estimates of total resource need when it revised its collections estimates for FY 2012. We, therefore, will accept the revised estimate but keep a watchful eye on this critical source of revenue going forward.

Recommendation

We believe the amounts contained in H.R. 1 for VA medical care in FY 2012 are in line with what is required to meet the health care needs of the VA system. We also believe those amounts will provide a reasonable measure of protection should resources be strained by unanticipated demand for care or an unexpected shortfall in revenue from collections. We further believe that careful monitoring by Congress of VA's health care expenditures has been, and will continue to be, accomplished via a diligent examination of quarterly reports submitted to Congress. These reports look at planned versus actual spend-through rates, as well as specific quality measures, to ensure the needs of the health care system are being met. Should data from these quarterly reports suggest additional resources are necessary, the Administration and Congress will work together to bridge any urgent budgetary gap that may arise.

It should be noted that adoption of the medical care funding levels proposed in H.R. 1 would be tantamount to providing nearly all ($713 million out of $953 million) of the Administration's proposed contingency fund. We do not believe, however, that these funds should be held by the Office of Management and Budget as a contingency. Instead, the funds should be released to the field for use in providing medical care to veterans and to supplement resources for implementation of the family caregiver provisions of Public Law 111-163. Should the funds not be needed, we would expect it to be reflected in carryover of unobligated balances and adjustment of appropriation needs going forward or a rescission request from the Administration.

The Committee anticipates that conclusive action will soon be taken on the FY 2011 spending bill, which includes FY 2012 advance appropriations for VA medical care accounts. The Committee believes that the difference between this expected amount and the Administration's revised request, $240 million, should be allocated among other VA accounts to address specific needs outlined below.

Veterans' Medical and Prosthetic Research

For FY 2012, the Administration requests $509 million for medical and prosthetic research, a reduction of $72 million from the expected level of funding for FY 2011 under a continuing resolution. The VA medical and prosthetic research program makes significant contributions to the advancement of medicine, defining new standards of care, and improving the lives of our veterans and all Americans. The program accomplishes this through conducting research focused on injuries, illnesses and conditions related to military service and by serving as an effective recruitment and retention tool for high quality clinician-investigators who care for our veterans. With the increasing number of veterans with debilitating combat injuries, including post-traumatic stress disorder, incurred in the Global War on Terror, this is not the time to cut this valuable research program dedicated to benefiting the clinical treatment needs of our veterans.

We recommend an additional $72 million to restore the level of funding to FY 2011 levels. However, at the same time, we are disturbed by reports that a substantial portion of the medical and prosthetic research appropriation for FY 2010 was not spent in a timely fashion and was

carried over to FY 2011. There are more than a sufficient number of worthy research proposals to justify full funding of the medical and prosthetic research account and we find it unacceptable that research to develop potentially life-saving treatments would be held up by management failures. It is our understanding that the inability to expend all of the research funds in FY 2010 may be attributed in part to failures in hiring, contracting and information technology (IT) procurement necessary for the conduct of VA-funded research projects. We expect VA to immediately conduct a review to identify the reason these funds were not expended and promptly implement a corrective strategy to prevent a future such occurrence.

Information Technology

For FY 2012, the Administration requests $3.161 billion for the Office of Information and Technology (OI&T). Although we generally support the request, concerns remain in several areas. One of these concerns is a lack of a clearly-defined IT strategy, including how VA intends to address previously-identified, current, and future weaknesses in information security. We believe that resolving these security issues and better defining a long-term IT strategy will not only help VA better address the needs of veterans, it will also enable better coordination between VA and the Department of Defense in transitioning servicemembers to veteran status.

We are also concerned about a large influx of human capital specifically under the control of OI&T without a clear definition of what job positions these employees will have or what the long-term plan is for them once IT milestones have been reached and goals accomplished. The Administration's FY 2012 budget request supports a staffing level of 7,345 full time equivalents (FTE) and another 182 reimbursable FTE under OI&T, an increase of 674 FTE, or nearly 10 percent, over FY 2010 staffing levels. A clearer definition of the job roles, titles, and locations of both existing employees as well as the significant number of new employees would greatly increase transparency and accountability for VA's IT performance and accomplishments.

Lastly, we remain concerned about a lack of cost-benefit analyses being provided before VA undertakes major IT projects. Given a recent history of several multi-million dollar programs being cancelled after a period of time with no result to show for the expenditure, a cost-benefit analysis provided in advance of undertaking large-scale IT programs would provide better stewardship of taxpayer dollars and clearly identify intended goals and milestones.

Construction Programs

For FY 2012, the Administration requests a total of $1.271 billion for VA's four construction accounts: Major Construction ($590 million); Minor Construction ($550 million); State Extended Care Facility Construction Grants ($85 million); and State Cemetery Construction Grants ($46 million). The total resource request would, assuming amounts for FY 2011 are funded at the President's requested level, translate to a reduction of $478 million, or 37.6 percent. Further, consistent with the requirements of section 905 of Public Law 111-275, the Administration proposes to allocate $136 million in major construction funding derived from bid savings.

VA's new Strategic Capital Investment Planning (SCIP) process is a 10-year plan designed to identify and prioritize specific capital investment options to meet service delivery gaps in the areas of safety, security, utilization, access, seismic protection, facility condition assessments, parking and energy. SCIP projects a 10-year resource need of between $53 and $65 billion.

VA's total capital request (including facility leases, equipment, and non recurring maintenance needs not covered under the four construction accounts named above) for FY 2012 is $2.876 billion. At the present rate, it would take 20 years to meet the minimum resource need identified in the SCIP 10-year plan. We are, therefore, concerned that the SCIP plan is unrealistic on its face and would like the opportunity to engage the Administration on the plan going forward. Given that the stated needs of the system are vast, we recommend providing resources above the President's request for major and minor construction totaling $168 million.

General Administration

The Administration's FY 2012 request for General Administration is $48.225 million, a 33.5 percent increase over FY 2009 levels. General Administration funding covers certain VA support offices, such as the Office of the Secretary, the Office of Management, the Office of Policy and Planning, and the Office of Congressional and Legislative Affairs, and one office (the Board of Veterans' Appeals) providing direct services to veterans. For your review, below is a chart of expected three-year increases in entities funded under the General Administration account. As you will see, growth in these central office support functions has been substantial:

General Administration Accounts	FY 2009	President's FY 2012 Request	% Increase
Office of the Secretary	$7.146 M	$10.104 M	+41.2%
Board of Veterans' Appeals	$68.582 M	$78.006 M	+13.7%
General Counsel's Office	$74.343 M	$84.073 M	+13.08%
Management Office	$37.546 M	$46.222 M	+23.1%
Human Resources Office	$61.901 M	$74.343 M	+20.1%
Policy and Planning Office	$14.602 M	$28.647 M	+96.2%
Security and Preparedness Office	$12.025 M	$19.873 M	+65.26%
Public Affairs Office	$10.005 M	$23.981 M	+140%
Congressional Affairs Office	$4.379 M	$6.585 M	+50.37%
Acquisition & Construction Office	$45.243 M	$76.391 M	+68.85%
Total General Administration	**$335.8 M**	**$448.225 M**	**+33.5%**

Although we do not doubt that many of these support offices serve important oversight, planning, and coordination functions, and even administer some grant programs providing direct assistance to veterans (such as the grant program to support the U.S. Paralympic adapted sports program administered by the Office of Public and Intergovernmental Affairs), we cannot support growth on the order that is proposed in several General Administration accounts, especially during a time of fiscal austerity. Therefore, we recommend realignment of a minimum $17.5 million (excluding any grant program providing direct assistance to veterans) out of General Administration to support programs where those resources could be more effectively used, particularly those providing direct services to veterans.

Veterans Benefits Administration

The Administration proposes $2.019 billion for the Veterans Benefits Administration, a decrease of $130 million compared with the expected full-year FY 2011 appropriation. The decrease in spending is largely attributable to an expected reduction of staffing for education claims filed under the new, Post-9/11 GI Bill. The reduction was anticipated in light of VA's rollout of an information technology tool allowing for automated processing of Post-9/11 GI Bill claims.

Compensation and Pension Service

We are deeply concerned about the growing size of the backlog of claims for VA disability compensation. Since January 2009, the backlog of disability claims has grown by 103 percent, and this budget projects that the average days to complete a claim will rise from 165 days in FY 2010 to 230 days in FY2012. These numbers grew despite the nearly 4,000 additional employees VA has hired since 2007.

Additionally, VA recently established new regulations to make it easier for Vietnam veterans who were exposed to the Agent Orange herbicide to receive service-connected compensation. This decision has resulted in significant increases in workload for disability compensation as a result of the regulatory change.

We believe a multi-faceted approach is necessary for the Veterans Benefits Administration to overcome the challenges it faces. This approach includes a paradigm shift that involves placing a high level of priority on quality of work as well as quantity. To do so, VA must place greater emphasis on employee training and accountability.

We have long recognized the need for technological improvements to VA's business process, including the development of a paperless, rules-based adjudication system. To accomplish this goal, VA is requesting $148 million to fund the Veterans Benefit Management System. We agree with this request, but will be conducting vigorous oversight during the course of the fiscal year to ensure VA meets the 2012 deadline for implementation.

Vocational Rehabilitation Service

We also draw attention to the needs of veterans being served under the Vocational Rehabilitation and Employment (VR&E) program. Unlike other VA benefit programs, VR&E is a "high touch" program that begins with a detailed evaluation of the impact of a service-connected disability on a veteran's ability to obtain and maintain satisfactory employment. The process consists of formal testing and evaluation by professional counselors who hold advanced degrees in vocational rehabilitation-related fields. Evaluation is followed by development and implementation of a rehabilitation plan focused on maximizing the veteran's employability. Nearly 90 percent of VR&E participants are attending formal training including college degree programs.

The President has requested 1,286 direct FTE to provide vocational rehabilitation services, an increase of 129 FTE above the FY 2011 VR&E direct FTE level, including support staff on board at this time. However, given the caseload increase of roughly 10,000, the FTE increase will do little to reduce the average caseload from the current 135 to 150 veterans per counselor. Therefore, we recommend a reallocation of $5.5 million from the General Administration account to support an additional 50 professional VR&E counselors to shorten both the time needed to begin receiving VR&E services and to increase the quality of those services.

National Cemetery Administration

For FY 2012, the Administration proposes $251 million for the National Cemetery Administration (NCA), which would continue flat-line funding for the second straight year. We generally concur with the President's request for NCA, but recommend an additional $2 million be included to continue the National Shrine Commitment at NCA. This additional funding would ensure the highest possible standards for all of our veterans' final resting places, and would be used for infrastructure projects such as irrigation, renovation of historic structures, headstone cleansing, and road resurfacing.

VA Inspector General

The Administration proposes a second straight year of flat funding for the Office of the Inspector General, proposing $109 million in funding for FY 2012. The Inspector General's Office provides critical oversight of VA's programs and services to eliminate waste, fraud and abuse. It also conducts periodic reviews of VA health care services to ensure applicable processes governing patient safety are being adhered to. In light of the need to eliminate wasteful spending, the mission of the Inspector General's Office is more important now than ever. Therefore, we recommend a $10 million increase in this account relative to the President's request.

Conclusion

These views reflect the best judgment of the undersigned Members of the Committee as of this date. We have submitted additional questions regarding the Administration's budget proposal and will conduct a series of oversight hearings in the coming months on other facets of the request. If we or the Committee staff can provide assistance regarding the views contained in this letter, please don't hesitate to contact us.

Sincerely,

JEFF MILLER
Chairman

BOB FILNER
Ranking Democratic Member

Doug Lamborn

David P Roe

Joe Donnelly

Corrine Brown

Linda T. Sánchez

Bill Johnson

Cliff Stearns

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

March 16, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

Dear Mr. Chairman:

As required by Section 301(d) of the Congressional Budget Act of 1974 (P.L. 93-344) and in response to your letter of February 18, 2011, this letter transmits the Views and Estimates of the Committee on Ways and Means on those aspects of the Federal budget for the fiscal year 2012 that fall within the Committee's jurisdiction.

The current pace of the economic recovery is insufficient and far too many Americans remain unemployed. As such, the Committee's overarching focus will be to promote policies that spur private sector job creation and economic growth. These policies include reforming the tax code to make American employers more competitive, expanding trade especially through providing new opportunities to grow exports of American made goods and services and by reducing the burden placed on American employers by the recent rapid growth in budget deficits, reducing the national debt, and eliminating inefficient and counter-productive government regulation.

I. Legislative Issues with Budgetary Impact

A. Human Resources – The Committee will work to help more unemployed Americans find jobs, including by reviewing the operation of current State and Federal unemployment benefits and programs and developing improvements as needed. In addition, the Committee will review how improvements to information systems could improve customer service, as well as the operation of several programs under its jurisdiction whose authorization expires at the end of FY 2011. These include the Temporary Assistance for Needy Families (TANF) and Child Care and Development Block Grants created in the 1996 welfare reform law, as well as the Promoting Safe and Stable Families and Child Welfare Services and related programs. The Committee will also continue its general oversight over the Human Resources programs under its jurisdiction, including reviewing benefits provided under multiple programs that may merit consolidation.

B. Medicare and Other Health Care Issues – The Committee will closely oversee the implementation of the new health care overhaul and its impact on federal spending,

the economy, those who are currently insured, Medicare beneficiaries, and health care providers. In addition, the Committee will look for ways to reform the Medicare program to ensure its sustainability for current and future beneficiaries. The Committee will also examine policies that reduce the cost of health insurance, increase health care quality and improve outcomes, encourage transparency, and eliminate waste, fraud, and abuse.

C. Social Security – The Committee will address the financial challenges facing Social Security, as well as the program's role in providing economic security for our nation's retirees, survivors, individuals with disabilities, and their families. The Committee will conduct strong oversight of the SSA's efforts to increase efficiency and productivity, which are essential given the combination of growing retirement workloads, sustained unemployment, and limited funding. It will continue to monitor backlogs and applicant waiting times for decisions on disability claims and appeals, as well as other service delivery challenges and their impact on workers and beneficiaries.

Assessing program effectiveness, reducing waste, fraud, and abuse, preventing overpayments and ensuring only those who are disabled continue to receive benefits will be a continued focus of the Committee. The Committee will also monitor the impact of the SSA's role in work authorization enforcement, examine ways to enhance the protection of Social Security numbers, and review options to strengthen Social Security's disability and return to work programs.

D. Tax – The Committee recognizes that a complex, burdensome, anti-growth tax code is an obstacle to economic recovery and job creation. Accordingly, a primary focus of the Committee's tax agenda will be on efforts to simplify and reform the tax code for individuals, families, and employers, with the express purpose of spurring the robust job creation and economic growth necessary to reduce the stubbornly high unemployment rate. In addition, the Committee will consider appropriate tax relief measures for individual taxpayers, families, and employers, while also closely scrutinizing the revenue recommendations contained in the President's Fiscal Year 2012 Budget.

E. Trade – The Committee seeks to increase economic opportunities for American workers and businesses through the expansion of trade opportunities, adherence to trade agreements and rules by our trading partners and by the United States, and the elimination of foreign trade barriers to our goods and services by opening new markets and by enforcing U.S. rights. The Committee intends to consider three signed and pending trade agreements – with Colombia, Panama, and South Korea – by July 1, 2011. The Committee will continue its oversight of systemic problems in U.S.-China trade relations, including issues related to China's consistent lack of protection and enforcement of U.S. intellectual property rights, indigenous innovation requirements, use of industrial subsides, export restraints on key products such as rare earth minerals, and currency undervaluation. The Committee expects to continue its oversight responsibilities with respect to the World Trade Organization negotiations

and accessions, as well as new bilateral and regional trade agreements such as the Trans-Pacific Partnership. The Committee will continue to be active in overseeing the budgets and activities of agencies within its jurisdiction, as well as the operation of trade preference programs and the Trade Adjustment Assistance programs. The Committee will continue work concerning noncontroversial bills to eliminate or reduce duties on products not made in sufficient quantities in the United States, in accordance with Committee guidelines and House Rules.

II. The Fiscal Year 2012 Budget

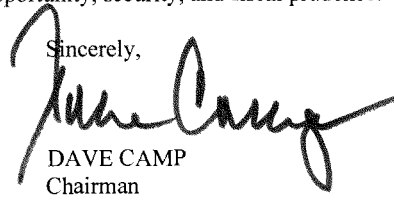
The Committee is reviewing the President's Fiscal Year 2012 Budget. This review will provide the Committee the opportunity to assess the effectiveness of the President's budget in promoting job creation and economic growth, reduce budget deficits and debt, and ensure the long term sustainability of programs within the Committee's jurisdiction.

III. Public Debt Limit

The current statutory public debt limit already is nearly equal to the gross domestic product of the United States. While the Committee recognizes its responsibility to ensure that the United States meets all its obligations, the current growth of the national debt is not sustainable. Current debt levels are already a threat to economic growth and unless action is taken, the projected increase in the national debt will threaten the economic foundation of the country. Thus the Committee intends to pursue policies to slow and ultimately reverse the growth in the national debt and prevent the need for future increases in the statutory debt limit.

The Committee on Ways and Means looks forward to working with the Committee on the Budget as we promote prosperity, opportunity, security, and fiscal prudence.

Sincerely,



DAVE CAMP
Chairman

COMMITTEE ON WAYS AND MEANS

U.S. HOUSE OF REPRESENTATIVES
WASHINGTON, DC 20515

March 16, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
207 Cannon House Office Building
Washington, DC 20515

The Honorable Chris Van Hollen
Ranking Member
Committee on the Budget
B-71 Cannon House Office Building
Washington, D.C. 20515

Dear Chairman Ryan and Ranking Member Van Hollen:

Today Ways and Means Committee Republicans forwarded to you and your colleagues a letter transmitting the "views and estimates" of the Committee on Ways and Means as required by Section 301(d) of the Congressional Budget Act of 1974. I am writing to advise you that the Committee Democrats do not concur with many of the statements and priorities presented in that correspondence and to provide you with our perspectives on budget priorities within our Committee's jurisdiction.

In February, the economy created 222,000 private sector jobs and the national unemployment rate dropped to 8.9 percent. These are encouraging signs, but families are still struggling with deep unemployment as job creation is too slow. Two months after taking control of the House, Republicans have yet to offer a single piece of legislation focused on creating jobs. Instead, they have abandoned workers negatively affected by globalization by allowing the Trade Adjustment Assistance program to expire and proposed a continuing resolution for 2011 that will recklessly cost jobs -- from schools to police departments -- and has hundreds of economists now warning against it.

We believe the Committee's priorities should include promoting job-creating tax policies, extending proven job-creating tax policies that have expired, reviewing tax reform proposals, protecting Medicare and Social Security, overseeing implementation of the Affordable Care Act and continuing efforts to strengthen our health care system, increasing economic opportunity, assisting unemployed workers and struggling families, and expanding and shaping international trade to maximize the benefits and minimize the downsides of globalization, while at the same time overseeing expanded programs to assist workers negatively affected by globalization as they transition through economic uncertainty to new employment opportunities.

Trade

The Democratic Members of the Committee support expanding and shaping international trade to create equitable, broad-based growth for all Americans, and to raise living standards both here and abroad. Democrats are extremely disappointed that the Committee has allowed the 2009 bipartisan reforms to the trade adjustment programs to expire, leaving workers, firms, farmers, and communities negatively affected by international trade with fewer meaningful options to regain their footing. Democrats will continue to press for immediate, long term renewal, as well as the immediate long term renewal of the Andean preference program, and the Generalized System of Preferences.

The Committee should also focus on eliminating foreign trade barriers and unfair trade practices that affect U.S. producers and service providers, including by supporting meaningful trade agreements. In December 2010, the Obama Administration addressed major deficiencies in the 2007 Korea-U.S. Free Trade Agreement (KORUS) by obtaining concessions from South Korea to open its historically closed auto market. With that achievement, the Committee should work with the Administration on passage of KORUS, which is the most commercially significant free trade agreement concluded in almost two decades, without delay. Committee Democrats also support efforts by the Administration to meaningfully address outstanding issues with the Panama and Colombia Free Trade Agreements. With respect to Colombia, this requires resolving long standing, serious concerns about a labor regime that suppresses the ability of workers to be represented in the workplace, and unaddressed violence against workers, which together, create a climate that, to date, makes it impossible for many workers to exercise their basic labor rights. The time frame for consideration of these FTAs is contingent on resolution of the important outstanding issues, as Ambassador Kirk recently testified before the Committee.

The Committee should also focus on eliminating foreign trade barriers through the use of U.S. law, and addressing currency manipulation in a manner consistent with our WTO obligations, as was done in legislation passed by the 111th Congress. The Committee should continue its oversight responsibilities related to the World Trade Organization (WTO), both with respect to the on-going negotiations and accessions, as well as decisions by the WTO's Appellate Body. The Committee has a duty to provide active oversight to ensure U.S. rights under such agreements, including the ability to address unfair trade, are not curtailed. The Committee should also work with the Administration to ensure it has the tools and resources necessary to effectively address practices by our major trading partners, such as the People's Republic of China, which distort trade and investment.

The Committee should play an active role in providing guidance for and oversight of the Trans-Pacific Partnership Agreement negotiations.

The Committee should continue to oversee the budget and activities of the trade-related agencies, and to ensure the effective functioning of the advisory committees established under the Trade Act of 1974. Committee Democrats look forward to continuing the bipartisan work begun last

Congress on the Customs and Trade Agency Reauthorization bill. The Committee should also explore ways to improve the efficacy of U.S. preference programs, including to better address the needs of the poorest countries. The Committee should also restore its bipartisan work on legislation to temporarily suspend duties on products not produced domestically to make U.S. companies more competitive – work that has been derailed by House Republicans' misinterpretation of such legislation as an "earmark." Finally, the Committee should work with the Administration as it implements its National Export Initiative and seeks to address global trade imbalances.

Health

Committee Democrats will continue to protect the Affordable Care Act. This law stands as major entitlement reform for Medicare. It lowers cost-sharing, extends Medicare solvency, reduces program expenditures by 0.5 percent of GDP, and modernizes the health care delivery system. The law also slows growth in national health expenditures and shrinks the deficit by $210 billion in the first ten years and $1.4 trillion over the first two decades. It extends coverage, lowers group health insurance premiums, and protects individuals from insurance company abuses and denials of care. The Republican letter sets forth a plan to monitor ACA implementation. The Republican oversight plan should be expanded to include the uninsured, as absent the Affordable Care Act, their ranks will grow by 33 million.

The Republican letter describes the work the Committee plans with regard to Medicare, stating it will "look for ways to reform the Medicare program to ensure its sustainability for current and future beneficiaries." We fear that this suggests Budget Chairman Ryan's plan to convert Medicare to a voucher program. We note that the Affordable Care Act strengthens the Medicare program's financial future for beneficiaries and taxpayers, advances program innovations to better reward high quality, coordinated care, and authorizes new fraud-fighting tools. Committee Democrats will defend the Medicare program against any attacks that attempt to dismantle it, cut benefits or shift costs onto beneficiaries.

The Committee must also pursue a fix to the Medicare physician payment system, which faces a cut in payment rates of -29.5 percent in 2012. Legislation passed in the House of Representatives in the last Congress offered a comprehensive solution to this perennial problem. Unfortunately, only one Republican joined us in voting for that bill. We hope that rather than fighting reform, the Republican majority will show newfound interest in seeking a real solution to this problem. Additional efforts of the Committee must focus on ongoing oversight of programs within our jurisdiction as well as efforts to combat fraud, waste and abuse. We look forward to continued review of the President's anti-fraud proposals.

Social Security

The primary Republican Social Security proposal is Budget Chairman Ryan's plan, which would privatize Social Security and make deep cuts in guaranteed benefits while creating $1.2 trillion in

new debt by 2056. For this reason, the Majority's plan to "address the financial challenges facing Social Security" during this Congress concerns us. Protecting Social Security for the 54 million senior citizens, widows, disabled workers, and children who depend on it now, as well as the 160 million workers who are paying into Social Security, is a top priority for Democrats. Fortunately, Social Security currently has a Trust Fund balance of $2.6 trillion and its trustees project that it will be able to pay full benefits until 2037 and about 75 percent of benefits thereafter. We are fully committed to protecting Social Security for current beneficiaries and future generations, and we are concerned that the plan the Majority is considering will harm Social Security, rather than strengthen it.

We look forward to continuing our bipartisan efforts to reduce waiting times for disabled Social Security applicants, support the Social Security Administration's efforts to reduce waste, fraud, and abuse, and protect Social Security numbers. We are, however, very concerned by recent House actions to reduce administrative funding for SSA to a level that would force staff furloughs and delay claims processing, and we hope to work in a bipartisan way to achieve an appropriate funding level.

Human Resources

While the labor market has shown steady improvement, a significant jobs deficit remains compared to the start of the recession in December of 2007. Millions of Americans therefore continue to struggle with unemployment. To help jobless workers, Democratic Members of the Committee support both a strong unemployment insurance (UI) system and job placement and training services. This means maintaining the Federal role in providing assistance to laid-off workers as the economy continues to recover, rejecting devastating cuts to job training programs included in Republican budget plans, and evaluating proposals to address solvency issues within the UI system.

Democrats on the Committee also recognize the need to reauthorize the Temporary Assistance for Needy Families program to better enable it to support struggling families and promote work. Additional priorities for the Committee should include extending and improving important child welfare programs, such as the Promoting Safe and Stable Families Program.

Tax Policy

The Republican letter cites the "anti-growth" tax code as an obstacle to economic recovery and calls for reform and simplification. The desire to simplify and reform the tax code is shared by both parties. Creating jobs and promoting growth by providing targeted tax cuts for businesses and tax incentives for infrastructure construction and the development of green technologies are among the principal policy objectives of both Congressional Democrats and the President. Committee Democrats have already introduced legislation that includes an extension of the successful Build America Bonds program and other provisions to help finance infrastructure investments and create jobs. The Build America Bonds program alone has helped to finance

more than $181 billion in infrastructure investment. The Republican letter and their agenda to date do not give any indication that they intend to pursue targeted job creation efforts in the near term.

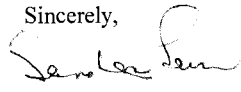
Notably absent from the Republican discussion of taxes, as well, is any mention of the role the tax code will need to play in raising revenue to address long-term deficits. The temporary extension of the Bush tax cuts for the wealthiest Americans passed in December added to the debt and is now forcing painful cuts in critical services, adding to the basic inequity of a policy skewed to the most fortunate. Nearly 80% of the benefit of the extending the upper-income tax cuts went to the wealthiest one-fifth of one percent of taxpayers - those with income over $1 million. Democrats favor extending tax relief for working families, but any discussion of providing further tax breaks for the wealthiest people must be considered in the context of our country's future revenue needs.

The Public Debt Limit

We appreciate that the Majority acknowledged their responsibility to act when we reach the statutory public debt limit over the next several months. We hope this means that they will not take the course advocated by some in their party who would play games with the full faith and credit of the United States of America. To do otherwise would undermine our economic recovery and risk another financial crisis.

We appreciate this opportunity to share our views. We look forward to working with you to craft this year's budget resolution.

Sincerely,



Sander M. Levin
Ranking Member

Congress of the United States
JOINT ECONOMIC COMMITTEE
(CREATED PURSUANT TO SEC. 5(a) OF PUBLIC LAW 304, 79TH CONGRESS)
Washington, DC 20510-6602

March 15, 2011

The Honorable Paul Ryan
Chairman
Committee on the Budget
309 Cannon House Office Building
Washington, DC 20515

Dear Chairman Ryan:

Thank you for inviting me to submit my views on the budget resolution for fiscal year 2012 to the Committee on the Budget. You identified the critical challenges that Congress now faces and the serious risks to the U.S. economy of continuing down an unsustainable fiscal course. Clearly, Congress must initiate a fiscal consolidation to reduce federal budget deficits and stabilize the level of federal debt as a percentage of the gross domestic product (GDP).

As you know, the Joint Economic Committee is charged with reviewing and responding to the *Economic Report of the President together with the Annual Report of the Council of Economic Advisers* (ERP). The Committee is also charged by the *Full Employment and Balanced Growth Act of 1978* (15 U.S.C. 3101 *et seq.*) to provide the Budget Committees with views, recommendations, and appropriate analyses of the goals set forth by in the ERP. I must express my disappointment that both the ERP and the Budget of the U.S. Government for Fiscal Year 2012 exhibit a noticeable lack of urgency in addressing the serious fiscal challenges facing the nation. Both the ERP and the Budget made clear that the President believes that the federal government, not the free enterprise system, will lead the way in creating more jobs. I know you share my view that the President's beliefs are misguided.

I believe that it is important to address the contention of the Obama Administration and some economists that reducing federal spending at this time will pose a threat to the current economic recovery. A review of actual historical data suggests that there is little or no support for such a contention. In fact, there is ample evidence from the United States and abroad to suggest that the opposite is true.

Several months ago, I asked the Republican staff of the Joint Economic Committee to survey the published economic literature on fiscal consolidations and to study fiscal consolidations initiated by other developed countries – our economic competitors – over the last four decades. I wanted to know: (1) what characteristics made fiscal consolidations more or less likely to succeed in their deficit-reduction and debt-stabilization goals, and (2) how did fiscal consolidations affect economic growth.

Today, I am releasing a Joint Economic Committee Republican Staff Commentary, entitled "Spend Less, Owe Less, Grow the Economy," that provides the answers to these questions. A copy of this Commentary is attached, and I ask that it be entered into the record.

During the last four decades, many developed countries launched fiscal consolidations to address their unsustainably large government budget deficits and their rapidly accumulating government debt. Economists have examined these fiscal consolidations extensively and have published numerous articles in major economics journals that provide answers to the questions that I asked.

The empirical, peer-reviewed literature on fiscal consolidations is well established and reflects mainstream economic thought. However, these studies' findings on fiscal consolidation have, so far, been largely absent from the political debate about the federal budget in the United States. Let me share those findings with you because they should influence Congressional deliberations on the budget resolution.

First, the composition of fiscal consolidations largely determines whether they succeed or fail in reducing government budget deficits and stabilizing government debt. In the literature, this is known as the **"success" criterion**.

In 2009, Alberto Alesina (Nathaniel Ropes Professor of Political Economics at Harvard University) and Silvia Ardagna (Associate Professor of Economics at Harvard University) examined 107 large fiscal adjustments (defined as a cyclically adjusted improvement in the primary balance of at least 1.5% of GDP in one year) in 21 Organization for Economic Cooperation and Development (OECD) member-countries from 1970 to 2007. Alesina and Ardagna defined a successful fiscal adjustment as a cumulative reduction in the government debt-to-GDP ratio of at least 4.5 percentage points three years after the beginning of a fiscal adjustment. Alesina and Ardagna identified 21 successful large fiscal adjustments in 10 OECD member-countries. After examining these episodes, Alesina and Ardagna concluded that successful fiscal consolidations were based predominately or entirely on government spending reductions.

In 2010, Andrew Biggs (Resident Scholar at the American Enterprise Institute for Public Policy), Kevin Hassett (Senior Fellow and Director of Economic Policy Studies at the American Enterprise Institute for Public Policy), and Matt Jensen (American Enterprise Institute for Public Policy) found that fiscal consolidations that were successful in achieving their goals of budget deficit-reduction and debt-stabilization averaged 85% spending cuts and 15% revenue increases, while unsuccessful fiscal consolidations averaged 47% spending cuts and 53% revenue increases. Furthermore, Biggs, Hassett, and Jensen show that the degree of success correlates to a larger share of spending cuts.

Moreover, the revenue increases in most successful fiscal consolidations were not from tax increases, especially not from higher marginal income tax rates. Instead, revenue increases often came from non-tax sources such as privatizations of government-owned enterprises, asset sales, and higher user fees for government-provided services.

Second, the composition of fiscal consolidations also determines how they affect economic growth and job creation in the short term. In the literature, this is known as the **"growth" criterion**.

While most economists agree that reducing government spending will accelerate long-term economic growth and job creation, there is disagreement about the short-term effects. Keynesian economists in the Obama Administration and in the private sector, such as Mark Zandi, argue that fiscal consolidations are necessarily contractionary in the short term because either cutting governing spending or raising taxes reduces aggregate demand.

In contrast, neoclassical economists contend that Keynesian economists and their models minimize the role that expectations play in the economic decision-making of households and firms. In recent years, Alberto Alesina, Francesco Giavazzi (Professor of Economics at Bocconi University, Visiting Professor at the Massachusetts Institute of Technology, and President of the Innocenzo Gasparini Institute for Economic Research), and other neoclassical economists have revived the traditional view that fiscal consolidations based predominately or entirely on government spending reductions have expansionary "non-Keynesian" effects. These "non-Keynesian" effects may offset some or all of the contractionary "Keynesian" reduction in aggregate demand in the short term. Neoclassical economists have identified two sources of "non-Keynesian" growth effects from reducing government spending: (1) increases in major household purchases, and (2) increases in business investment in structures, equipment, and software.

In 1990, Francesco Giavazzi and Marco Pagano (Professor of Economics at the University of Naples Federico II) argued that fiscal consolidation programs based predominately or entirely on government spending reductions provide a short-term boost to personal consumption expenditures and residential fixed investment. They found that when government budget deficits are persistently high and the level of government debt is rising rapidly as a percentage of GDP, households expect the government to levy large tax increases on them, either imminently or sometime in the future, in order to service the government's debt burden. Fiscal consolidations that reduce government spending as a percentage of GDP decrease short-term uncertainty about taxes and diminish the specter of large tax increases in the future. In turn, higher expectations for permanent disposable income create a positive wealth effect among households. Consequently, households will purchase more homes and durable consumer goods such as motor vehicles in the short term.

In 2002, Alberto Alesina, Silvia Ardagna, Roberto Perotti (Professor of Economics at Bocconi University), and Fabio Schiantarelli (Research Fellow at the Institute for the Study of Labor at Boston College) found that "[f]iscal adjustments which rely mostly on spending cuts, particularly in transfers and government wages, are associated with a surge in growth during and immediately after the adjustment . . . changes in business investment explain a large part of the change in GDP growth around these large fiscal stabilizations."

Like households, firms expect large tax increases, either imminently or sometime in the future, when they observe that increased government spending causes large government budget deficits and a rapidly rising level of government debt as a percentage of GDP. Fiscal consolidations that reduce government spending as a percentage of GDP reduce short-term uncertainty about taxes rising to pay for the spending and thereby allay fears about large tax increases in the future. Moreover, fiscal consolidations that decrease the number and compensation of government workers increase the availability and reduce the cost of skilled labor to private firms. The combination of improved expectations about taxes and lower labor

costs increases the expected after-tax rate of return on new business investment. Consequently, private firms will boost their investment in non-residential fixed assets in the short term.

Examining data for 18 OECD member-countries from 1960 to 1986, Alesina, Ardagna, Perotti, and Schiantarelli estimated how an increase in primary government spending (i.e., all government spending except interest payments) and its major components—government employee compensation, transfer payments, and government consumption—would affect private investment as a percent of GDP. The authors found that an increase in primary government spending equal to one percentage point of GDP would decrease private investment by 0.15 percent of GDP in the same period and by 0.74 percent of GDP cumulatively over five years. Alesina et al. also found that an increase in government employee compensation equal to one percentage point of GDP would decrease private investment by 0.48 percent of GDP in the same period and by 2.56 percent of GDP cumulatively over five years. Similarly, an increase in government transfer payments equal to one percentage point of GDP would decrease private investment by 0.21 percent of GDP in the same period and by 1.05 percent of GDP cumulatively over five years.

In their examination of all OECD member-countries from 1970 to 2007, Alberto Alesina and Silvia Ardagna found that fiscal consolidations based predominately or entirely on government spending reductions may be expansionary in the short term. Alesina and Ardagna defined expansionary fiscal adjustments as episodes in which the difference between (a) the average GDP growth rate in the first year of an episode and the following two years, and (b) the weighted average GDP growth rate for the G-7 countries is in the 75th percentile of all such differences. Using this definition, Alesina and Ardagna found 26 episodes of expansionary large fiscal adjustments in nine OECD member-countries.

For these expansionary "non-Keynesian" growth effects to offset significantly or even overwhelm the contractionary Keynesian reduction in aggregate demand in the short term, fiscal consolidation programs must be based predominately or entirely on government spending reductions. Increasing the marginal income tax rate on labor income through higher individual income or payroll tax rates reduces both the quantity and quality of work that households provide, thus reducing real GDP. Likewise, increasing the marginal income tax rate on capital income through higher individual or corporate income tax rates, higher taxes on capital gains and dividends, or lengthening tax depreciation schedules reduces individual saving and business investment, thus reducing real GDP.

Certain government spending reductions generate significantly larger pro-growth effects than others. For "non-Keynesian" growth effects to be significant, government spending reductions must be viewed as large, credible, and politically difficult to reverse once made. Some examples of such reductions are:

1. **Decreasing the number and compensation of government workers**. Generally, government workers are well-educated and have significant skills. A smaller government workforce increases the available supply of educated, skilled workers for private firms, thus lowering labor costs.
2. **Eliminating agencies and programs.**

3. **Eliminating transfer payments to firms**. Generally, government provides transfer payments to firms to entice them to engage in otherwise unprofitable and unproductive activities. If eliminating transfer payments causes firms to cease these activities, there are immediate gains in efficiency. For example, the United States could increase efficiency by eliminating subsidies for Amtrak or ethanol.
4. **Reforming and reducing transfer payments to households**. Reforming major programs of transfer payments to households, such as government pension and health insurance benefits for the elderly, to make them sustainably solvent in the long term increases the credibility of fiscal consolidations. Even if current beneficiaries are exempt from any change, the reforms are phased in slowly, and any short-term spending reductions are very small, these reforms will enhance the credibility of fiscal consolidations. Moreover, reforming government pension and health insurance benefits for the elderly in the future will induce younger workers to increase their current saving, to work more, and retire later, thus boosting real GDP growth.

In 2010, Salvador Barrios (European Commission), Servaas Deroose (European Commission, Deputy Director-General for Economic and Financial Affairs), and Lucio Pench (European Commission) found that quick, decisive government spending reductions (called "cold showers") are effective in achieving successful fiscal consolidations because they send a signal about "political will." This approach is viewed as more effective than cuts phased-in or scheduled for the distant future.

In 2002, Andrew Hughes-Hallett (University Professor and Co-Director at the Center for Emerging Market Policy at George Mason University), Rolf Strauch (Economist at the Center for European Integration Studies at Bonn University), and Jürgen Von Hagen (Director at the Center for European Integration Studies at Bonn University, Director at the Institute for International Economics, and Vice Rector of Bonn University) found that the likelihood of sustaining a fiscal consolidation program increases when governments simultaneously address all politically sensitive budget reductions (e.g., transfer payments to households and firms, subsidies, and the number and compensation of government workers).

In addition to a review of the empirical studies about fiscal consolidations in developed countries, the Joint Economic Committee Republican Staff Commentary, entitled "Spend Less, Owe Less, Grow the Economy," also examines Canada, Sweden, and New Zealand as case studies of countries that put their fiscal houses in order and boosted economic growth simultaneously through fiscal consolidations based on government spending reductions. These case studies provide Congress with examples of the economic growth benefits that hard-working Americans can enjoy if Members have the courage to reduce discretionary spending and reform entitlement programs.

In conclusion, the answers to the two questions that I asked the JEC Republican Staff to answer are clear based on abundant empirical evidence.

- First, a fiscal consolidation plan must be based on federal spending reductions, including reforms to major entitlement programs, if it is to succeed in placing the United States on a sustainable fiscal course. Any plan that contains significant federal tax increases is likely to fail.

- Second, a properly structured fiscal consolidation plan based on federal spending reductions will have significant "non-Keynesian" growth effects, which will offset the contractionary "Keynesian" effects on aggregate demand, and likely boost economic growth and job creation in the short term as well as the long term.

Sincerely,

Kevin Brady
Vice Chairman Designate
Joint Economic Committee
U.S. Congress

Attachment

Joint Economic Committee
Republicans Representative Kevin Brady
Vice Chairman Designate

REPUBLICAN STATE COMMENTARY

Spend Less, Owe Less, Grow the Economy

Executive Summary

March 15, 2011

View the full commentary at: http://tinyurl.com/4c4gvx9

SPENDING REDUCTIONS TRUMP TAX INCREASES. Fiscal consolidations are programs to reduce government budget deficits and stabilize government debt as a percentage of GDP. Such programs theoretically may consist of reductions in government spending or increases in government receipts (principally tax increases but also higher user fees, and asset sales).

Fiscal consolidation programs are far more likely to achieve their goals for government budget deficit reduction and debt stabilization if they are based predominately or entirely on government spending reductions than if tax increases play a significant role. Moreover, a decrease in government spending as a percentage of GDP accelerates long-term economic growth and may even boost short-term economic growth as well.

Economists Andrew Biggs, Kevin Hassett, and Matt Jensen demonstrated that the degree of success in reducing budget deficits and stabilizing the debt-to-GDP ratio correlates to the share of spending cuts in fiscal consolidation programs. Biggs, Hassett, and Jensen found that successful fiscal consolidations averaged 85% spending cuts and 15% revenue increases, while unsuccessful fiscal consolidations averaged 47% spending cuts and 53% revenue increases.

HIGH TAXES ARE THE BANE OF ECONOMIC GROWTH. Most economists agree that fluctuations in business investment in equipment, software, and structures drive the economic cycle, but there is disagreement on what causes this volatility. According to Keynesian economists, large government budget deficits push up real interest rates and thus dampen business investment. In the Keynesian model, large government budget deficits consequently are bad for long-term economic growth, but the model is not sensitive to whether spending cuts or tax increases are used to reduce the deficit. Empirical studies have found a small, statistically significant relationship between (1) both government budget deficits and debt and (2) real interest rates, but have not found a systematic relationship between (1) real interest rates and (2) business investment.

In contrast, neoclassical economists view excessive government spending as the main problem. The current level of federal spending—a projected 24.7% of GDP in fiscal year 2011—is far above the optimum level for maximizing U.S. economic growth over time, according to empirical studies. Higher individual income or payroll tax rates reduce both the quantity and quality of work that households provide and reduces individual saving. Higher taxes on corporate income, capital gains, and dividends reduce business investment, as does lengthening tax depreciation schedules. Once government grows beyond its optimum size, it no longer provides sufficient benefits to offset the negative growth effects of the disincentives to work, save, and invest from increased taxation.

SHORT-TERM ECONOMIC GROWTH EFFECTS. Keynesians hold that fiscal consolidation programs are contractionary in the short term, because they reduce aggregate demand. However, large government budget deficits create expectations for higher taxes to service government debt and affect the economy in the short term as well as the long term. Consequently, fiscal consolidation programs that reduce government spending decrease short-term uncertainty about taxes and diminish the specter of large tax increases in the future for both households and businesses. These "non-Keynesian" factors can boost GDP growth in the short term as well as the long term because:

- Households' expectations of higher permanent disposable income create a wealth effect, which stimulates purchases of consumer durables and home buying thus driving up personal consumption expenditures and residential investment in the short term.
- Businesses expecting higher after-tax returns boost their investment in non-residential fixed assets in the short term.

WHAT AND HOW TO CUT. Certain kinds of government spending reductions generate significantly larger pro-growth effects than others. For the "non-Keynesian" effects to be significant, government spending reductions must be viewed as large, credible, and politically difficult to reverse once made. Some examples are:

- **Decreasing the number and compensation of government workers**. A smaller government workforce increases the available supply of educated, skilled workers for private firms, thus lowering labor costs.
- **Eliminating agencies and programs.**
- **Eliminating transfer payments to firms**. Since government transfer payments entice firms to engage in otherwise unprofitable and unproductive activities, eliminating transfer payments will increase efficiency as firms cease these activities.
- **Reforming and reducing transfer payments to households**. Making major government programs, such as pension and health insurance benefits for the elderly, sustainably solvent will boost real GDP growth by (a) enhancing the credibility of fiscal consolidation plans, and (b) inducing younger workers to work more, save more, and retire later. This is true even if the reforms exempt current beneficiaries, are phased-in slowly, and any short-term spending reductions are very small.

EXTENSIVE EMPIRICAL SUPPORT FOR SPENDING CUTS. Gabriele Giudice, Alessandro Turrini, and Jan in 't Veld (2003) identified 11 episodes based on size and 19 episodes based on duration of "pure" expansionary fiscal consolidations that consisted predominately or entirely of government spending reductions as a percentage of GDP in EU member-states over 33 years. Alberto Alesina and Silvia Ardagna (2009) made the same finding for 26 episodes in nine OECD member-countries between 1970 and 2007. The IMF strikes a cautionary note on short-term expansionary "non-Keynesian" factors offsetting contractionary Keynesian reductions in aggregate demand. But, the IMF is in agreement with the other studies that fiscal consolidation programs based predominately or entirely on government spending reductions—especially in transfer payments to households and firms—are better for the economy in the short term than programs in which tax increases play a significant role.

NON-TAX GOVERNMENT REVENUES. It is important to note that while tax increases are contractionary, increases in other types of government receipts may be expansionary. In particular, government asset sales and the privatization of government-owned enterprises and commercial functions both generate government receipts and increase economic efficiency. Since government asset sales and privatizations are politically difficult to reverse, they also may have expansionary "non-Keynesian" effects in the short term.

CONCLUSION. The United States cannot maintain the current level of federal spending as a percentage of GDP—let alone allow it to escalate—without seriously damaging its economy. Numerous studies have identified expansionary "non-Keynesian" effects from government spending reductions that offset at least some and possibly all of the contractionary "Keynesian" effects on aggregate demand. In some cases, these "non-Keynesian" effects may be strong enough to make fiscal consolidation programs expansionary in the short term as well the long term. A number of developed countries have successfully reduced government spending, government budget deficits, and stabilized the level of government debt. Fiscal consolidation programs in Canada, Sweden, and New Zealand, among others, achieved their goals for government deficit reduction and government debt stabilization and boosted their real GDP growth rates by reducing government spending.

Obama Administration officials have emphasized the risk of starting a fiscal consolidation program now while ignoring the risk of delay. There are significant external risk factors to the U.S. economy in both the short term and the long term that cannot be foreseen, such as: 1) resurging price inflation, (2) loss of confidence in the U.S. dollar as the world's reserve currency, (3) euro-zone sovereign debt defaults, and (4) war in the Middle East. But, the United States will be in a better position to respond to any of these challenges by reducing federal spending sooner rather than later.

Joint Economic Committee
Republicans
Representative Kevin Brady
Vice Chairman Designate

Republican Staff Commentary

Spend Less, Owe Less, Grow the Economy

March 15, 2011

I. INTRODUCTION

The global financial crisis and the subsequent recession increased government outlays for transfer payments to households and reduced tax receipts in the United States and other developed countries. In addition, the U.S. and some other governments recapitalized failing banks, insurers, and other firms and initiated Keynesian "stimulus" programs containing one-time rebates, even higher transfer payments to households, and additional government spending on infrastructure. Consequently, government budget deficits and government debt as a percentage of GDP rose sharply. According to the International Monetary Fund (IMF):

> *[B]ased on current likely policies... advanced economies will continue to run sizable primary deficits* [i.e., government non-interest outlays less government receipts] *over the medium term, leading the average general government gross debt ratio—which has already ballooned by close to 20 percentage points of GDP since the onset of the crisis—to rise by a further 20 percentage points by 2015, reaching about 110 percent of GDP.*[1]

Soaring federal spending. The current and prospective levels of U.S. government spending are extremely troubling. Federal outlays averaged 19.4% of GDP during most of the post World War II period (fiscal years 1947–2007). During the last three fiscal years, federal outlays have soared 26.6%—from $2.73 trillion, equal to 19.6% of GDP, in fiscal year 2007 to $3.46 trillion, equal to 23.8% of GDP, in 2010. In its January 2011 baseline for fiscal years 2012 to 2021, the Congressional Budget Office (CBO) projected that federal outlays will be 24.7% of GDP in the current fiscal year and 24.0% of GDP in fiscal year 2021 [fig.1]. In June 2010, the most recent long-term projection, the CBO projected that federal outlays would climb to 35.2% of GDP in 2035 in the alternative fiscal scenario under current policies [fig. 2].

Ballooning federal debt. This explosion in federal spending has caused an unprecedented deterioration of the fiscal condition of the federal government. At the end of fiscal year 2007, gross federal debt was $9.00 trillion, equal to 64.4% of GDP, while publicly held

Highlights

- Fiscal consolidations are programs to reduce government budget deficits and stabilize debt as a percentage of GDP.
- Fiscal consolidation programs that rely predominately or entirely on spending reductions are more likely to achieve their goals of government budget deficit reduction and debt stabilization as a percentage of GDP than programs that rely primarily on tax increases.
- In the long term, fiscal consolidation programs that reduce government spending as a percentage of GDP accelerate economic growth.
- In the short term, fiscal consolidation programs that rely predominately or entirely on spending reductions have expansionary "non-Keynesian" effects that may offset the contractionary Keynesian reduction in aggregate demand.
- In some cases, "non-Keynesian" effects may be strong enough to make fiscal consolidation programs expansionary in the short term.
- Eliminating agencies and programs; cutting the number and compensation of government workers; and reducing transfer payments to households and firms have strong "non-Keynesian" effects.
- Reforming government pension and health insurance programs for the elderly to make them sustainably solvent may also have strong "non-Keynesian" effects even if reforms are phased in slowly, do not affect current beneficiaries, and do not significantly reduce government outlays in the short term.

federal debt was $5.05 trillion, equal to 36.2% of GDP. During fiscal year 2010, the federal government ran a $1.29 trillion budget deficit (8.9% of GDP). At the end of fiscal year 2010, gross federal debt reached $13.53 trillion (93.2% of GDP), while publicly held federal debt was $9.02 trillion (62.1% of GDP) [fig. 3]. In its January 2011 baseline, the CBO projected that publicly held federal debt will grow to 76.7% of GDP in 2021. In June 2010, the CBO projected that publicly held federal debt would climb to 185% of GDP in 2035 in the alternative fiscal scenario under current policies [fig. 4].

High government debt slows growth. A high level of federal debt as a percentage of GDP will slow U.S. economic growth. In "Growth in a Time of Debt," economists Carmen Reinhart and Kenneth Rogoff (2010) observed, "The sharp run-up in public sector debt will likely prove one of the most enduring legacies of the 2007–2009 financial crisis in the United States and elsewhere."[2] Analyzing 20 developed countries between 1946 and 2009, Reinhart and Rogoff found a distinct threshold for gross government debt equal to 90 percent of GDP. For developed countries above this threshold, the median real GDP growth rate is 1 percentage point lower than developed countries below this threshold, and the mean average real GDP growth rate is almost 4 percentage points lower. Reinhart and Rogoff warned, "Seldom do countries simply 'grow' their way out of deep debt burdens."[3] Rather, Reinhart and Rogoff found that countries that have accumulated large gross government debts as a percentage of GDP must take comprehensive action to reduce their debt levels.

Unsustainable fiscal course. On February 24, 2010 in a hearing of the Committee on Financial Services, then Ranking Member Representative Spencer Bachus asked Federal Reserve Chairman Ben Bernanke whether the U.S. government was on an "unsustainable" fiscal course. "[G]iven the numbers that the CBO and the OMB have projected, that is right," Bernanke replied. "I do think that it is very important that we begin to look at the path, the trajectory of the deficit as it goes forward." Bernanke continued, "[I]t would be very helpful even to the current recovery to markets' confidence if there were a sustainable credible plan for a fiscal exit."[4]

Risk for a credit rating downgrade. On January 13, 2011, *The Wall Street Journal* reported

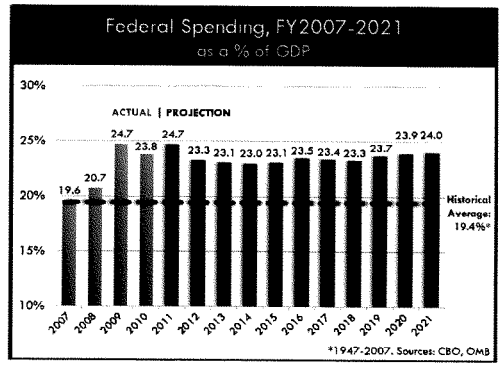


Figure 1

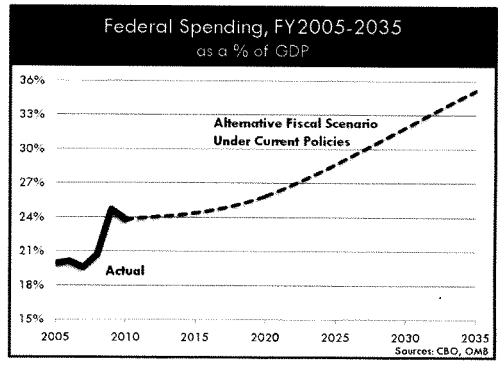


Figure 2

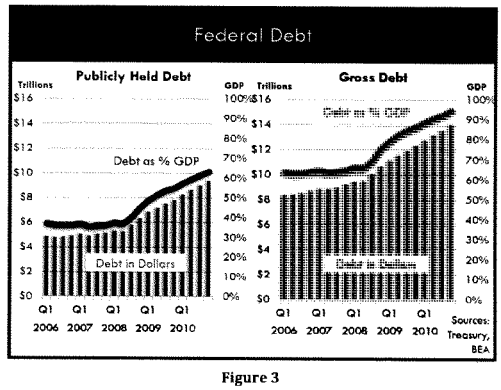


Figure 3

that Standard and Poor's and Moody's Investors Services cautioned the United States on its credit rating, expressing concern over a deteriorating fiscal situation.[5] The next day, *The Wall Street Journal* reported that the European debt crisis had thinned the ranks of triple-A sovereigns, with Spain and Ireland falling by the wayside. The article warned that the government debt crisis is moving toward the core of the global financial system, leading to speculation that France, Germany, the United Kingdom, and the United States could lose their triple-A ratings.[6]

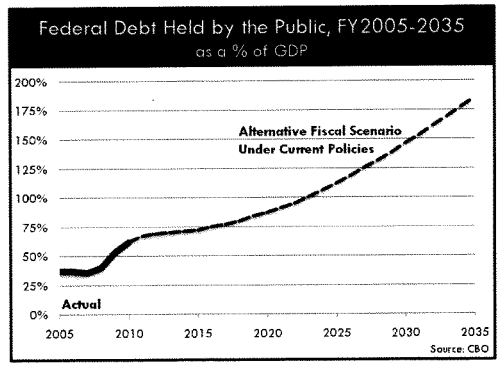


Figure 4

Fiscal consolidation. To create a "credible plan for a fiscal exit" and avoid a government debt crisis, U.S. policymakers should initiate a fiscal consolidation program that would reduce government budget deficits and stabilize government debt as a percentage of GDP. Theoretically, a fiscal consolidation program may accomplish its goals by either reducing government spending or increasing government receipts (including tax increases, higher user fees, and asset sales). A growing body of empirical studies proves that fiscal consolidation programs based predominately or entirely on government spending reductions are far more likely to be successful in achieving their goals of government budget deficit reduction and government debt stabilization than fiscal consolidation programs in which tax increases play a significant role. In fact, empirical studies have found that fiscal consolidation programs that reduce government spending as a percentage of GDP will boost the real GDP growth rate in the long term. These studies also suggest that fiscal consolidations based predominately or entirely on government spending reductions may even boost the real GDP growth rate in the short term under certain circumstances.

II. COMPETING THEORIES: FISCAL CONSOLIDATION AND ECONOMIC GROWTH

A. KEYNESIAN VIEW

Keynesian theory. Keynesian economists hold that fiscal consolidation programs are contractionary in the short term, but may be expansionary in the long term. According to Keynesians, either deceasing government outlays or increasing government receipts reduces the real GDP growth rate in the short term.

As for spending reductions, Keynesians say:

1. Decreasing the number of government workers or their compensation lowers government consumption;
2. Decreasing government outlays for infrastructure lessens government investment; and
3. Decreasing transfer payments to households shrinks personal consumption expenditures as most of these transfer payments go to households with a high marginal propensity to consume.

As for tax increases, Keynesians say:

1. Higher taxes on households (including higher individual income, payroll, and consumption taxes) decrease personal consumption expenditures; and
2. Higher taxes on firms (including higher individual and corporate taxes) decrease non-residential fixed investment (i.e., business investment in productive assets such as equipment, software, and structures).

Keynesians agree with the conventional view that fiscal consolidation programs may boost economic growth in the long term. Fiscal consolidation programs decrease the government's demand for funds in the credit market by reducing government budget deficits and slowing the accumulation of government debt. All other things being

equal, a smaller demand for credit reduces its price. Therefore, real interest rates fall.[7] Over time, lower real interest rates will spur business investment in productive assets, accelerating the real GDP growth rate.

Keynesians are generally indifferent about whether fiscal consolidation occurs through government spending reductions or tax increases. According to Keynesian theory, the size of government budget deficits or surpluses, not the level of government spending or taxes, affects real interest rates and business investment. The composition of fiscal consolidation programs is therefore irrelevant.

How government budget deficits and debts affect real interest rates. While Keynesian theory may sound plausible, it is not well supported. First, the relationship between government budget deficits or surpluses (or government debt) and real interest rates is more complex and smaller than Keynesians contend. Increases in federal budget deficits due to temporary factors—e.g., recession or war—which financial market participants expect to be transitory and reversed do not affect real interest rates. However, a permanent increase in federal budget deficits does elicit a small, but statistically significant increase in real interest rates.

For example, Engen and Hubbard (2004) found that "an increase in government debt equivalent to one percentage point of GDP" would increase real interest rates by 2 to 3 basis points.[8] Moreover, Laubach (2009) found that a projected increase in the federal budget deficit equal to 1% of GDP raises the five-year-ahead 10-year forward Treasury rate by 20 to 29 basis points. Alternatively, Laubach found that a projected increase in the federal debt held by the public equal to 1% of GDP increased the five-year-ahead 10-year forward Treasury rate by 3 to 4 basis points.[9]

"Higher government debt as a percentage of GDP, in the long term, reduces business investment."

Relationship among government budget deficits and debt, real interest rates, and business investment. Second, recent empirical studies have found that government debt, the real interest rate, and business investment are not as statistically related as Keynesians contend. In a study examining whether additional government debt "crowds out" private investment through a higher real interest rate, Traum and Yang (2010) found "no systematic relationship among [government] debt, the real interest rate, and [business] investment."[10]

- **Short term.** Additional government debt, in the short term, may either "crowd in" or "crowd out" business depending on what caused government debt as a percentage of GDP to increase. If higher government debt as a percentage of GDP is due to a reduction in "distortionary taxes"—e.g., high marginal tax rates on capital income – that increase the after-tax rate of return on business investment, then higher government debt is associated with a short-term increase in business investment. On the other hand, if higher government debt as a percentage of GDP is due to an increase in government spending as a percentage of GDP—particularly for higher government consumption and transfer payments to households and firms—then higher government debt is associated with a short-term decrease in business investment.
- **Long term.** Higher government debt as a percentage of GDP, in the long term, reduces business investment. Imposing higher taxes in order to service the increase in government debt as a percentage of GDP drives this negative long-term relationship with business investment.

Traum and Yang analyzed the effects of the *Omnibus Budget Reconciliation Act of 1993* (OBRA 1993) and the *Economic Growth and Tax Relief Reconciliation Act of 2001* (EGTRRA 2001) on business investment.

- **OBRA 1993.** President Bill Clinton signed OBRA 1993 into law on August 10, 1993. Among other things, OBRA 1993 (1) increased the top federal individual income tax rate to 39.6%, (2) increased the top federal corporate income tax rate to 35%, (3) removed the earnings cap on the Medicare payroll tax, (4) increased the taxable portion of Social Security benefits, and (5) increased the federal motor vehicle fuel tax by 4.3 cents. The capital and labor tax increases in OBRA 1993 reduced the real stock of federal debt by 11% below what it would have otherwise been in the second quarter of 1997, while the reductions in federal spending as a percentage of GDP between 1993 and 1996 reduced the real stock of federal debt by another 6% below what it would have otherwise been in the second quarter of 1997. Despite a reduction in federal debt held by the public from 49.3% of GDP at the end of fiscal year 1993 to 45.9% of GDP at the end of fiscal year 1997, business investment was about 7% lower than it would have otherwise been without the OBRA

1993 tax increases. When government spending reductions, which have a positive effect on business investment, are also included with the OBRA 1993 tax increases, business investment was still about 0.5% lower than it would have otherwise been.

- **EGTRRA 2001**. President George W. Bush signed EGTRRA 2001 into law on June 7, 2001. Among other things, EGTRRA 2001 (1) reduced federal marginal individual income tax rates from a range of 15% to 39.6% to 10% to 35% in phases through 2006, (2) made major changes to qualified retirements plans, and (3) phased-out the estate tax by 2010. The EGTRRA 2001 tax reductions increased the real value of federal debt by 7% over what it would have otherwise been at the end of the fourth quarter of 2002. Nevertheless, the EGTRAA 2001 tax reductions increased output and business investment by 0.8% and 2.2%, respectively, above what they would have otherwise been at the end of the fourth quarter of 2002.[11]

B. NEOCLASSICAL VIEW

Neoclassical economists have a different view of fiscal consolidations. According to neoclassical economists, the composition of fiscal consolidation programs largely determines:

1. Whether programs succeed in achieving their objectives for government budget deficit reduction and government debt stabilization; and
2. How programs affect the real GDP growth rate in both the short term and the long term.

Optimal size of government. Unlike Keynesians, neoclassical economists focus on government spending as a percentage of GDP rather than government budget deficits or government debt as a percentage of GDP to assess the burden that government imposes on the private sector. Determining the appropriate level of government spending necessarily requires an analysis of the appropriate size of government. On the one extreme, anarchy discourages individuals from working, saving, and establishing firms to invest in productive assets. On the other extreme, an extremely large government makes large transfer payments and levies very high taxes that discourage work, saving, and investment. At both extremes, very little economic growth occurs. Between these extremes, the optimal size of government, as measured by government spending as a percentage of GDP, maximizes the real GDP growth rate over time.

"Increasing government spending slows economic growth."

The optimal size of the U.S. government varies through time based on many factors, some of which include (1) external threats, (2) the assignment of governmental functions among the federal government, states, and localities, and (3) demographics. Vedder and Galloway (1998) found that the optimal level of federal spending was 17.5% of GDP for 1947 through 1996 and 11.1% of GDP for 1796 through 1996.[12] While the precise government spending-to-GDP ratio for the optimal size of the federal government is debatable, most neoclassical economists agree that the current level of federal spending—a projected 24.7% of GDP in fiscal year 2011—is far above the optimal level.

- Landau (1983, 1986), Grier and Tullock (1989), and Barro (1991) found a consistently negative relationship between government spending as a percentage of GDP and the real GDP growth rate, meaning that increasing government spending slows economic growth.[13]
- Examining the effects of government size and fiscal volatility on growth for OECD member-countries and EU member-states from 1970 to 2004, Afonso and Furceri (2007) found that both larger government and fiscal volatility reduced the real growth rate per capita of GDP for both sets of countries.[14] In particular, they conclude that "a percentage point increase in the share of total revenue (total expenditure) would decrease output by 0.12 and 0.13 percentage points respectively for the OECD and for the EU countries."[15]
- Based on an analysis of 107 countries between 1970 and 1985, Engen and Skinner (1992) found that increasing tax revenue by 10 percentage points of GDP reduces the medium-term (15 years) real GDP growth rate by 3.2 percentage points annually. Moreover, Engen and Skinner also found that a 10 percentage point increase in government spending as a percent of GDP that is fully paid for through higher taxes would reduce the medium-term real GDP growth rate by 1.4 percentage points. The findings of

Engen and Skinner refute the Keynesian contention that it is the government budget deficit, not the level of government spending that is the drag on economic growth.[16]

Economic efficiency. To neoclassical economists, reducing government spending as a percentage of GDP increases economic efficiency by shifting financial, physical, and labor resources from the government to the private sector. In turn, greater economic efficiency boosts long-term economic growth. The private sector is generally more efficient than government because (1) private firms and government pursue different goals, and (2) private firms face competitive discipline, while governments have monopoly power.

- **Different goals**. Private firms pursue the goal of wealth maximization and align the interests of firm managers and workers with those of the owners through incentive-based compensation (e.g., stock options). In contrast, governments pursue multiple and often conflicting goals because of the inherently divergent interests of elected officials, government employees, and citizens cannot be as easily aligned. For example, some elected officials may seek re-election or election to higher office by promising unsustainable transfer payments to households knowing the bills will come due years later. Some agency officials may seek to enlarge unnecessarily their agency's budget to increase their own compensation and prestige. Some individuals and private firms may capture the government, hoping to use its regulatory, spending, or taxing power to gain some advantage.[17]
- **Competitive discipline**. Competition forces private firms to respond to price signals, increase the quantity and quality of their output, and reduce waste. In contrast, most governmental functions are legal monopolies (e.g., armed forces and police) or near monopolies (e.g., K-12 public schools). Because of the lack of competition, government is insensitive to price signals, indifferent to increasing the quantity or quality of its output, and prone to waste.[18]

III. EMPIRICAL EVIDENCE: FISCAL CONSOLIDATION AND ECONOMIC GROWTH

"Non-Keynesian" effects. For decades, Keynesians asserted that reducing government spending as a percentage of GDP had opposing short-term and long-term effects on economic growth (i.e., reducing government spending would be contractionary in the short term, but expansionary in the long term). In recent years, however, Alberto Alesina, Francesco Giavazzi, and other neoclassical economists have revived the traditional view that fiscal consolidation programs based predominately or entirely on government spending reductions have expansionary "non-Keynesian" effects that may offset some or all of the contractionary "Keynesian" reduction in aggregate demand in the short term.

"Non-Keynesian" effects on major household purchases. First, Giavazzi and Pagano (1990), Perotti (1999), and Giavazzi et al. (2000) argued that fiscal consolidation programs based predominately or entirely on government spending reductions provide a short-term boost to personal consumption expenditures and residential fixed investment. When government budget deficits are persistently high and the level of government debt is rising rapidly as a percentage of GDP, households expect the government to levy large tax increases on them, either imminently or sometime in the future, in order to service the government's debt burden. Fiscal consolidation programs that reduce government spending as a percentage of GDP decrease short-term uncertainty about taxes and diminish the specter of large tax increases in the future. In turn, higher expectations for permanent disposable income create a positive wealth effect among households. Consequently, households will purchase more homes and durable consumer goods such as motor vehicles in the short term.[19]

"...changes in business investment explain a large part of the change in GDP growth around these large fiscal stabilizations."
--Alesina et al.

"Non-Keynesian" effects on business investment. Second, Alesina et al. (2002) found that "[f]iscal adjustments which rely mostly on spending cuts, particularly in transfers and government wages, are associated with a surge in growth during and immediately after the adjustment . . . changes in business investment explain a large part of the change in GDP growth around these large fiscal stabilizations."[20]

Like households, firms expect large tax increases, either imminently or sometime in the future, when they observe increased government spending causing large government budget deficits and a rapidly rising level of government debt as a percentage of GDP. Fiscal consolidation programs that reduce government spending as a percentage of GDP reduce short-term uncertainty about taxes rising to pay for the spending and allay fears about large tax increases in the future. Moreover, fiscal consolidation programs that decrease the number and compensation of government workers increase the availability and reduce the cost of skilled labor to private firms. The combination of improved expectations about taxes and lower labor costs increases the expected after-tax rate of return on new business investment. Consequently, private firms will boost their investment in non-residential fixed assets in the short term.[21]

Examining data for 18 OECD member-countries from 1960–1986, Alesina et al. (2002) estimated how an increase in primary government spending and its major components—government employee compensation, transfer payments, and government consumption—would affect private investment as a percent of GDP. The authors found that an increase in primary government spending equal to one percentage point of GDP would decrease private investment by 0.15 percent of GDP in the same period and by 0.74 percent of GDP cumulatively over five years. Alesina et al. (2002) also found that an increase in government employee compensation equal to one percentage point of GDP would decrease private investment by 0.48 percent of GDP in the same period and by 2.56 percent of GDP cumulatively over five years. Similarly, an increase in government transfer payments equal to one percentage point of GDP would decrease private investment by 0.21 percent of GDP in the same period and by 1.05 percent of GDP cumulatively over five years.[22]

Cutting government spending. For these expansionary "non-Keynesian" factors to offset significantly or even overwhelm the contractionary Keynesian reduction in aggregate demand in the short term, fiscal consolidation programs must be based predominately or entirely on government spending reductions. Increasing the marginal income tax rate on labor income through higher individual income or payroll tax rates reduces both the quantity and quality of work that households provide, reducing real GDP. Likewise, increasing the marginal income tax rate on capital income through higher individual or corporate income tax rates, higher taxes on capital gains and dividends, or lengthening tax depreciation schedules reduces individual saving and business investment, also reducing real GDP.

"Certain government spending reductions generate significantly larger pro-growth effects than others."

Certain government spending reductions generate significantly larger pro-growth effects than others. For "non-Keynesian" factors to be significant, government spending reductions must be viewed as large, credible, and politically difficult to reverse once made. Some examples of such reductions are:

1. **Decreasing the number and compensation of government workers**. Generally, government workers are well-educated and have significant skills. A smaller government workforce increases the available supply of educated, skilled workers for private firms, thus lowering labor costs.
2. **Eliminating agencies and programs.**
3. **Eliminating transfer payments to firms**. Generally, government provides transfer payments to firms to entice them to engage in otherwise unprofitable and unproductive activities. If eliminating transfer payments causes firms to cease these activities, there are immediate gains in efficiency. For example, the United States could increase efficiency by eliminating subsidies for Amtrak or ethanol.
4. **Reforming and reducing transfer payments to households**. Reforming major programs of transfer payments to households, such as government pension and health insurance benefits for the elderly, to make them sustainably solvent in the long term increases the credibility of fiscal consolidation plans. Even if current beneficiaries are exempt from any change, the reforms are phased in slowly, and any short-term spending reductions are very small, the credibility of fiscal consolidation plans will be enhanced. Moreover, reforming government pension and health insurance benefits for the elderly in the future will induce younger workers to increase their current saving, to work more, and retire later, thus boosting real GDP growth.

Asset sales and privatization. While tax increases are contractionary, increases in other types of government receipts may be expansionary. In particular, government asset sales and the privatization of government-owned enterprises and commercial functions both generate government receipts and increase economic efficiency. Since government asset sales and privatizations are politically difficult to reverse, they may also have an expansionary "non-Keynesian" effect in the short term.

IV. EVALUATING FISCAL CONSOLIDATION PROGRAMS

There are two empirical criteria for evaluating a fiscal consolidation program:

1. **Success criterion.** Did a fiscal consolidation program actually achieve the goals of reducing government budget deficits and stabilize government debt as a percentage of GDP?
2. **Growth criterion.** Did a fiscal consolidation program accelerate the real GDP growth rate?

Government budget deficit reduction and government debt stabilization. Many empirical studies have found that successful fiscal consolidation programs focused on cutting government spending as a percentage of GDP. Many successful fiscal consolidations also reformed tax systems to lower marginal income tax rates and reduce the after-tax cost for business investment in productive assets while eliminating "special interest" tax preferences for specific firms, industries, and locations. Lilico, Holmes, and Sameen (2009) found that successful fiscal consolidation programs were comprised of at least 80% government spending reductions and no more than 20% tax increases.[23]

Alesina and Ardagna (2009) examined 107 large fiscal adjustments (defined as a cyclically adjusted improvement in the primary balance of at least 1.5% of GDP in one year) in 21 OECD member-countries (Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States) from 1970 to 2007. Alesina and Ardagna defined a successful fiscal adjustment as a cumulative reduction in the government debt-to-GDP ratio of at least 4.5 percentage points three years after the beginning of a fiscal adjustment. Alesina and Ardagna identified 21 successful large fiscal adjustments in 10 OECD member-countries: Austria (2005), Denmark (2005), Finland (1998), Ireland (2000), Italy (1982), the Netherlands (1972, 1973, 1993, 1996), New Zealand (1993, 1994), Norway (1979, 1980, 1989, 1996), Sweden (1986, 1987, 2004), and the United Kingdom (1977, 1988, 2000). After examining these episodes, Alesina and Ardagna concluded that successful fiscal consolidations were based predominately or entirely on government spending reductions.[24]

Biggs, Hassett, and Jensen (2010) found strong evidence that government spending reductions outweigh revenue increases in successful consolidations regardless of the methodology used to identify consolidations.[25] They found that across both methods for identifying consolidations—Alesina's cyclically adjusted primary balance method (excludes interest payments and business cycle effects) and the IMF's action-based method (spending cuts and tax increases explicitly for deficit or debt reduction)—successful fiscal consolidations averaged 85% spending cuts and 15% revenue increases, while unsuccessful fiscal consolidations averaged 47% spending cuts and 53% revenue increases [fig. 5]. Further, they show that the degree of success correlates to a larger share of spending cuts [fig. 6].

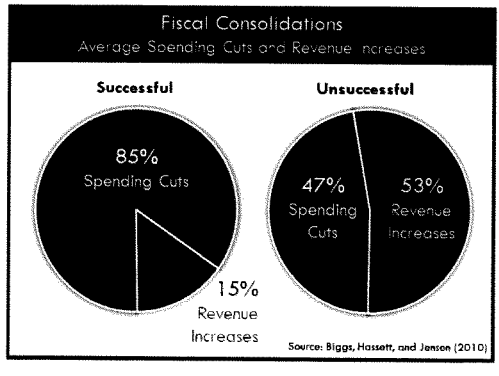


Figure 5

Economic growth effects. Examining Denmark and Ireland in the 1980s, Giavazzi and Pagano (1990) found that large fiscal consolidation programs based predominately or entirely on government spending reductions were expansionary.[26]

Alesina and Ardagna (1998) examined fiscal adjustments in 15 countries (Australia, Belgium, Canada, Denmark, Finland, Greece, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, the United Kingdom, and the United States) during the 1980s. After eliminating Spain (1986–7) and the United Kingdom (1988) because their improvement in the government budget balance was due exclusively to high growth rates, five fiscal adjustments involved both government spending reductions and tax increases. Fiscal adjustments in Ireland (1987–9), Australia (1987), Belgium (1984–5), and Italy (1993, 1994–5) were based on government spending reductions. Alesina and Ardagna concluded that "regardless of the initial level of debt, a large fiscal adjustment that is expenditure-based and is accompanied by wage moderation and devaluation is expansionary. However, no large tax-based fiscal adjustment can be expansionary even if accompanied by devaluation."[27]

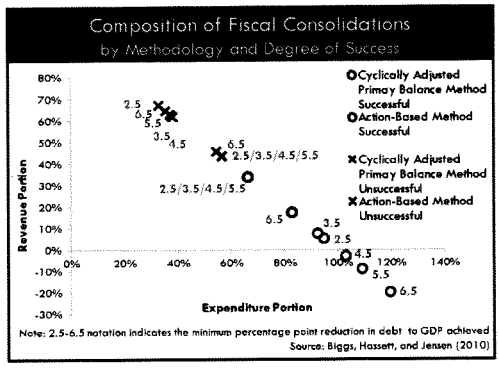


Figure 6

Giudice, Turrini and Veld (2003) studied the fiscal policy conducted by 14 EU member-states over a period of 33 years. There have been 49 (based on size) and 74 (based on duration) episodes of fiscal consolidation. About half of them (24 and 43, respectively) have been connected with higher economic growth. Of that half, 11 and 19, respectively, are considered to be "pure" growth episodes in which growth cannot be attributed to a concomitant monetary policy or devaluation of the exchange rate. Giudice, Turrini and Veld found that the size of the adjustment and the size of the initial debt (in percent of GDP) do not seem to play a significant role. By contrast, Giudice, Turrini and Veld found the composition of fiscal adjustment is of high importance. Fiscal consolidation programs based predominately or exclusively on government spending reductions are more likely to enhance growth than programs that involve significant tax increases.[28]

Ahrend et al. (2006) found that both policy interest rates (e.g., the target federal funds rate in the United States) and long-term interest rates are more likely to decline when fiscal consolidations rely on government spending reductions rather than tax increases.[29] Using a dynamic general equilibrium model, Cournède and Gonand (2006) found that tax increases are a much more costly way, in terms of real GDP growth, to achieve fiscal sustainability than government spending reductions.[30]

"Fiscal consolidation programs based predominately or entirely on government spending reductions may be expansionary even in the short term."

Alesina and Ardagna (2009) stressed that fiscal consolidation programs based predominately or entirely on government spending reductions may be expansionary even in the short term. Alesina and Ardagna defined expansionary fiscal adjustments as episodes in which the difference between (a) the average GDP growth rate in the first year of an episode and the following two years, and (b) the weighted average GDP growth rate for the G-7 countries is in the 75th percentile of all such differences. Using this definition, Alesina and Ardagna found 26 episodes of expansionary large fiscal adjustments in nine OECD member-countries: Finland (1973, 1996, 1998, 2000), Greece (1976, 2005, 2006), Ireland (1976, 1987, 1988, 1989, 2000), the Netherlands (1996), New Zealand (1993, 1994, 2000), Norway (1979, 1980, 1983, 1996), Portugal (1986, 1988, 1995), Spain (1986, 1987), and Sweden (2004).[31]

The IMF (2010), however, claimed that Alesina and Ardagna (2009) suffered from methodological issues that may have caused them to overstate the expansionary effects of fiscal consolidations in the short term.[32] Instead, the IMF used an "action-based" method to identify fiscal consolidations that relies on an examination of ex-ante

official plans with the goals of government budget deficit reduction and/or government debt stabilization. The IMF found that fiscal consolidations were contractionary overall, but that government spending reductions have much smaller contractionary effects. According to the IMF, a fiscal consolidation equal to 1% of GDP based on tax increases caused a 1.3% decrease in GDP and a 0.6 percentage point increase in the unemployment rate after two years, while a fiscal consolidation equal to 1% of GDP based on government spending reductions caused a 0.3% decrease in GDP and 0.2 percentage point increase in the unemployment rate after two years.[33]

Among different kinds of government spending reductions, the IMF found that a reliance on reductions in transfer payments caused GDP to increase by 0.2% after two years, while reductions in government consumption and investment caused to GDP to decline by 0.4% and 0.6%, respectively, after two years. However, these results were within the margin of error.

"'Cold shower' fiscal consolidations send convincing signals to financial markets about the political will of governments to achieve fiscal retrenchment."

While the IMF strikes a more cautionary note than Alesina and Ardagna (2009) or Giudice, Turrini, and Veld (2003) about the ability of expansionary "non-Keynesian" factors to offset contractionary Keynesian reductions in aggregate demand in the short term, the IMF and these other studies agree that fiscal consolidation programs based predominately or entirely on government spending reductions—especially in transfer payments to households and firms—are better for the economy in the short term than fiscal consolidation programs in which tax increases play a significant role.

Keys for success. Barrios, Langedijk, and Pench (2010) found that quick, decisive government spending reductions (called "cold showers") are effective in achieving successful fiscal consolidations because they send a signal about "political will."[34] This study examined financial crises in EU member-states and OECD member-countries from 1970 to 2008. Barrios, Langedijk, and Pench found that countries facing high levels of government debt or those at risk of slow GDP growth would be better off with sharp and sustained reductions in government spending because "cold shower" fiscal consolidations send convincing signals to financial markets about the political will of governments to achieve fiscal retrenchments. This approach is viewed as more effective than cuts phased-in or scheduled for the distant future.

Von Hagen, Hughes-Hallett, and Strauch (2002) found that the likelihood of sustaining a fiscal consolidation program increases when governments simultaneously address all politically sensitive budget reductions (e.g., transfer payments to households and firms, subsidies, and the number and compensation of government workers).[35] Additional empirical studies found that government spending reductions (especially in government employment and transfer payments) are also more likely to generate lasting fiscal consolidation and better economic performance—e.g., Ardagna (2004);[36] Hughes and McAdam (1999);[37] McDermott and Wescott (1996);[38] Von Hagen and Strauch (2001);[39] Alesina and Perotti (1996);[40] and Alesina and Bayoumi (1996).[41] The OECD (2007) explains the prevalence of cuts to transfer programs in successful consolidations as due to several reasons:

"'[A] greater weight on cuts in social spending tended to increase the chances of success."
--OECD

> *[A] greater weight on cuts in social spending tended to increase the chances of success. A reason for this could be that governments more committed to achieving fiscal sustainability may also be more likely to reform politically sensitive areas. As a by-product of doing so, they may at the same time bolster the credibility of the consolidation strategy, thereby improving its chances of success.*[42]

Political consequences of fiscal consolidation. In general, Alesina and Ardagna (1998) found that successful fiscal consolidations were not politically fatal to the governments that enacted them. "[I]t is not the case that governments which engage in large fiscal adjustments are systematically kicked out of office. Just the opposite: in the vast majority of cases, the government that implemented the adjustment was reappointed. This result is consistent with the statistical results of Alesina, Perotti, and Tavares (1998)."[43]

This appears to be true even when governments address transfer payments to households. In their fiscal consolidation programs, both Canada and Sweden reformed their government old-age pension systems to make

them financially sustainable over the long term. Yet the Canadian and Swedish governments that enacted these sweeping reforms were subsequently re-elected.

V. SUCCESS STORIES

Over the last four decades, a number of developed countries have successfully reduced government spending and government budget deficits, and stabilized the level of government debt through fiscal consolidation programs. The OECD and many economists have studied fiscal consolidation programs in developed countries. Below is a discussion of three large fiscal consolidations—in Canada, Sweden, and New Zealand—that both achieved their goals for government deficit reduction and government debt stabilization and boosted their real GDP growth rates by reducing government spending.[44]

- **Canada: 1993–2006** [fig.7].[45] On October 25, 1993, the Liberal Party led by Jean Chrétien won a majority government, ousting the Progressive Conservative government. Upon taking office, Prime Minister Chrétien and his Finance Minister Paul Martin faced a deteriorating fiscal outlook. In eight years under the Progressive Conservative governments of Prime Ministers Brian Mulroney and Kim Campbell, general government spending had increased from 47.5% of GDP to 52.2% of GDP in 1993. General government spending refers to combined federal, provincial, and local government spending after eliminating the double counting of intergovernmental transfers. Federal spending rose nominally from C$109.2 billion in the Canadian fiscal year (CFY) April 1, 1984 to March 31, 1985 to C$162.4 billion CFY 1993–4, while declining slightly as a percentage of GDP from 24.3% in CFY 1984–5 to 22.3% in CFY 1993–4.

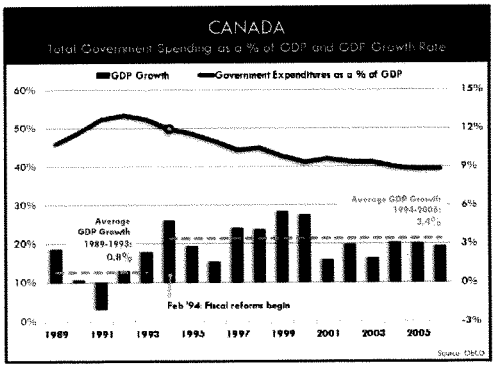


Figure 7

In February 1994, Prime Minister Chrétien and Minister of Finance Martin embarked on a fiscal consolidation program. They thought that significant tax increases would slow Canada's economic growth and weaken its international competitiveness. They were convinced that Canadian voters would accept tough, previously unacceptable federal spending cuts to avoid higher federal income and value-added taxes. Acting on these beliefs, Martin issued a specific fiscal consolidation program for federal spending reductions and guidelines on how the Liberal government would make other federal spending reductions in the future. The fiscal consolidation program created deadlines and objective benchmarks to judge the Liberal government's performance.

The federal spending reductions and program reforms included:

1. **Reforming Canada's Employment Insurance (EI) benefit program** by reducing the duration of benefits, increasing the amount of time people needed to be employed to qualify for the benefits, and reducing the maximum benefit from 60% to 55% of previous pay. As a result of these changes, EI benefit payments fell from C$17.1 billion in CFY 1993–4, to C$11.4 billion in CFY 1997–8;
2. **Reforming the Canadian Pension Plan (CPP) for the elderly** by moving from a "pay-as-you-go" system to a hybrid between a "pay-as-you-go" system and a fully funded plan. After extensive negotiations with the provinces, the combined employer-employee contribution rate was increased from 5.85% in 1997 to 9.9% in 2003. Under the management of an independent board, the CPP

used the additional revenues to accumulate a diverse portfolio of financial assets—including stock—to make the CPP sustainably solvent over the next 75 years;

3. **Cancelling the EH-101 helicopter program**. Defense expenditures fell from C$11.1 billion, equal to 1.5% of GDP, in CFY 1993–4 to $9.0 billion, equal to 1.1% of GDP, in CFY 1997–8;
4. **Reducing transfer payments to Canadian provinces and private firms**. Transfers to the provinces fell from C$26.9 billion, equal to 3.7% of GDP, in CFY 1993–4 to C$20.5 billion, equal to 2.6 percent of GDP, in CFY 1997–8; and
5. **Substantially reducing the operating budgets of federal departments**.

In four years, Martin reduced nominal federal outlays from C$164.2 billion, equal to 22.3% of GDP, in Canadian fiscal year 1993–4 to C$157.9 billion, equal to 17.9% of GDP, in CFY 1997–8. Consequently, general government spending fell from 52.2% of GDP in 1993 to 44.3% of GDP in 1997. Martin's federal spending reductions transformed a federal budget deficit of C$38.5 billion in CFY 1993–4, equal to 5.3% of GDP, into a federal budget surplus of C$3.0 billion, equal to 0.3% of GDP in CFY 1997–8.

Over the next nine Canadian fiscal years, nominal federal outlays grew at an average annual rate of 5.8% to C$222.2 billion, equal to 15.3% of GDP, in CFY 2006–7. Because of strong economic growth, however, general government spending continued to decline from 44.3% of GDP in 1997 to 39.4% of GDP in 2006. And, Canada continued to enjoy federal budget surpluses throughout this period.

Federal spending reductions followed by years of restrained growth in federal spending helped to reduce Canada's federal debt. Canada's net federal debt (gross federal debt less federal financial assets) rose steadily both nominally and as a percent of GDP during the 1970s and 1980s. By end of calendar year 1993, net federal debt was C$471 billion, equal to 64.8% of GDP. Net federal debt peaked nominally at C$588 billion at the end of 1997 and at 69.1% of GDP at the end of 1996. By the end of 2006, net federal debt had fallen to $508 billion, equal to 35.5% of GDP.

Canada's fiscal consolidation program had a positive effect on economic growth. Canada's real GDP growth rate, which had averaged a mere 0.8% in the five years (1989–1993) before fiscal consolidation began, rose to an average of 3.4% between 1994 and 2006.

This fiscal consolidation program proved popular with Canadian voters. The Chrétien-led Liberals won reelection with majority governments on June 2, 1997 and on November 27, 2000. After Martin became leader of the Liberal Party, he won a minority government in the June 28, 2004 election.

- **Sweden: 1994–2000** [fig. 8].[46] Sweden's economy deteriorated severely in the early 1990s as a result of a bursting housing bubble and banking crisis reminiscent of the one the United States recently experienced. The unemployment rate skyrocketed from 2% in the first quarter of 1990 to over 11% in less than three years. The average GDP growth rate during the three years from 1991 to 1993 was -1.5%.

  Sweden's fiscal condition also deteriorated during the same period. General government expenditures rose from 58% of GDP in 1988 to 71% of GDP in 1993, and central government debt rose to approximately 76% of GDP. The Swedish government also made large transfer payments to recapitalize failing banks.

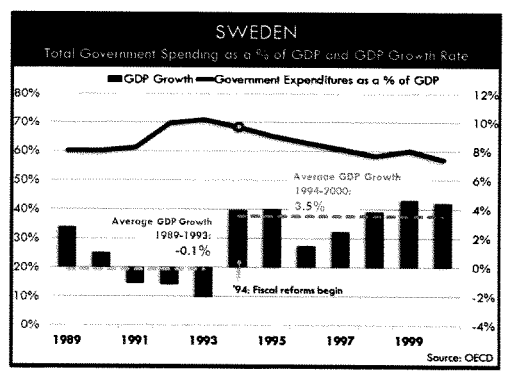


Figure 8

However, the fiscal deterioration was not solely a result of the bursting housing bubble and banking crisis. Similar to the U.S. experience, the Swedish central government had been on an unsustainable long-term fiscal trajectory for many years—the crisis exacerbated the problem.

From 1975 to 1994, Sweden's debt-to-GDP ratio grew at an average rate of 5.2%. In the early 1980s and the early 1990s, the country experienced rising deficits stemming from a rapidly increasing ratio of government spending to GDP. Revenues to GDP lagged during the same period, falling from an average of 61% during the period 1986–1990 to 57% in 1993. And, on top of that, Swedish demographics were placing the sustainability of the public pension system into grave doubt.

On October 7th, 1994, Ingvar Carlsson became Prime Minster of Sweden, backed by the Swedish Social Democratic Party. Over the next six years, his administration and that of his successor, Göran Persson, also of the Social Democratic Party, instituted a fiscal consolidation program focused on reforming the budget process, tightening transfer payments to businesses and households, and increasing certain taxes.

One particularly hard fought reform was an overhaul of the Swedish pension system, which was initially agreed to in 1994 and implemented beginning in 1998. Prior to the reform, Sweden's pension was much like the U.S. Social Security program—tax-financed, pay-as-you-go and facing sustainability issues due to an aging population. Swedish policymakers faced two choices: partially privatize the system or cut benefits and increase taxes. They chose a partially privatized reform package including four major features:

1. Workers were allowed to invest 2.5% of the total 18.5% mandatory set-aside of income;
2. Payroll taxes funded notional accounts with the remaining 16%, with beneficiaries receiving benefits based on the taxes paid during their working life rather than a defined benefit;
3. A minimum pension benefit was guaranteed to the poor, to be paid out of general revenues; and
4. Current and near-retirement workers remained under the old system.

As a result of these various reform efforts, Sweden's fiscal health shifted from a government budget deficit of over 11% of GDP in 1993 to a surplus of 3.6% of GDP in 2000 and the central government debt-to-GDP ratio was reduced from 71% in 1993 to 57% in 2000.

Once Sweden's fiscal condition improved after the adoption of a fiscal consolidation program, the government announced a medium-term target (a surplus of 2% of GDP over the cycle) in order to avoid repeating the same fiscal mistakes. Fiscal rules with embedded expenditure limits have proven to be associated with larger and longer adjustments, and with higher success rates.

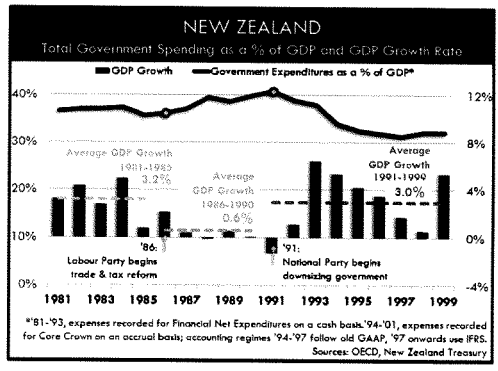
Sweden's fiscal consolidation program boosted the Swedish economy. In the five years prior to the program's launch, real GDP contracted by an average of 0.1% per year. Between 1994 and 2000, Sweden enjoyed an average real GDP growth rate of 3.5% per year.

- **New Zealand: 1986–1996** [fig. 9].[47] For several decades before David Lange led the Labour Party to win a majority government in the July 16, 1984 election, successive National Party and Labour Party governments had steadily expanded the crown's (i.e., central government's) role in New Zealand's economy. The period was characterized by persistent and heavy intervention into the economy, including (1) the institution of protectionist policies (e.g., import tariffs and licensing fees, foreign exchange controls, and foreign direct investment restrictions); (2) strict internal regulations; and (3) major agricultural subsidy programs. New Zealand's government controlled a vast web of crown departments and crown-owned enterprises operating in the communications, energy, manufacturing, and transportation industries. By 1984, crown spending was 36.1% of GDP.

As a result, productivity and income growth rates in New Zealand fell relative to other developed countries. For example, from 1960 to 1984, real GDP per capita increased by an annual average of only 1.4% in New Zealand, approximately half that of other OECD member-countries. Inflation, as measured by the annual CPI rate, rose to 17 percent in June 1982. New Zealand ran persistent government budget deficits that escalated to NZ$2.3 billion, equal to 6.3% of GDP, in the New Zealand fiscal year ending on March 31, 1984.

Consequently, New Zealand accumulated an unsustainable level of crown debt of $21.9 billion, equal to 60.7% of GDP in NZ FY1984.

In 1984, Prime Minister David Lange and Minister of Finance Roger Douglas launched a comprehensive reform program focused on reducing government intervention in the economy. Among the program's features were steep reductions in personal income tax rates (the top rate was reduced from 66% to 33% in October 1986) and the corporate tax rate (reduced from 48% to a flat 33% in October 1986), the removal of the great majority of agriculture subsidies, and substantial deregulation of virtually all industries.



The Labour government was re-elected on August 15, 1987. By the New Zealand fiscal year ending on June 30, 1991, crown spending had slightly risen to NZ$30.3 billion, equal to 40.7% of GDP.[48] Although the crown budget deficit was NZ$2.6 billion, equal to 3.4% of GDP, the crown debt had been stabilized at NZ$43.9 billion, equal to 59.1% of GDP.

Figure 9

After the National Party won the October 22, 1990 election, Prime Minister Jim Bolger and Minister of Finance Ruth Richardson slashed crown spending and expanded upon Labour's reforms to liberalize the labor market. Over the next three New Zealand fiscal years, crown spending fell to NZ$28.5 billion, equal to 33.8% of GDP. For the first time since 1978, the crown recorded a budget surplus of NZ$679 million, equal to 0.8% of GDP, in NZ FY 1994. The National government was re-elected on November 6, 1993. By NZ FY 1996, crown spending had been slashed to NZ$30.5 billion, equal to 31.8% of GDP, while budget surpluses reduced crown debt to NZ$41.9 billion, equal to 43.7% of GDP.

Both Labour and National governments made fundamental reforms in crown operations. Whole ministries were eliminated or consolidated, and the overall structure of the government was simplified. Using a corporatize-then-privatize model, major state-owned monopoly enterprises were introduced to market forces. Senior employees were given efficiency-based incentives. Several fiscal accountability and transparency initiatives were enacted during the period. The number of government employees was cut from approximately 88,000 in 1984 to approximately 36,000 in 1996—a nearly 60% reduction.

Fiscal consolidation took much longer in New Zealand than in Canada and Sweden to accelerate economic growth because most of the spending cuts did not occur until 1991. The real GDP growth rate accelerated to 4.7% in 1993 after a decade of sluggish growth.

VI. IS THIS THE WRONG TIME TO DO THE RIGHT THING?

According to the Business Cycle Dating Committee of the National Bureau of Economic Research, the latest U.S. recession ended in June 2009. Although the economy has been recovering for 20 months, payroll job growth remains exceedingly weak by historical standards. Against this backdrop, the fiscal policy debate in Washington rages on. Keynesian economists who backed President Obama's more than $800 billion stimulus plan in February 2009 now oppose significant federal spending reductions. Now is no time for austerity, they say.[49] However, economist John Taylor of Stanford University and of the Hoover Institute rebutted these

"...the surest way to reduce unemployment is to increase private investment as a share of GDP."
--John Taylor

Keynesian claims in recent testimony before the House Committee on Financial Services:

> *Some say we need to wait to start reducing government purchases because of the high unemployment and the fragile recovery. Some even say we need to increase spending before we start reducing it. But there is no convincing evidence that a gradual and credible reduction in government purchases as a share of GDP will increase unemployment. Indeed, the history of the past two decades shows that lower levels of government purchases as a share of GDP are associated with lower unemployment rates. The same history suggests that the surest way to reduce unemployment is to increase private investment as a share of GDP: Over the past two decades, when investment increased as a share of GDP, unemployment fell. In other words, unemployment is inversely correlated with private investment. . . . So reducing the share of government spending and focusing on increasing the share of private spending . . . is a proven way to create jobs and reduce unemployment.*[50]

VII. CONCLUSION

The current fiscal condition of the U.S. government is perilous. During fiscal year 2011, the CBO projects that federal spending will be 24.7% of GDP, well above the average of 19.4% of GDP for fiscal years 1947–2007, and will remain far above its post World War II average for the next decade. Moreover, the CBO projects that federal spending will increase to 35.2% of GDP by 2035 in the alternative fiscal scenario under current policies. The United States cannot maintain this level of federal spending—let alone allow it to escalate—without seriously damaging its economy.

The abundant empirical evidence is clear and irrefutable; increasing federal spending as a percentage of GDP will slow economic growth in the long term. Therefore, U.S. policymakers should embark on a fiscal consolidation program based on reducing federal spending as a percentage of GDP.

Keynesians warn that significant federal spending reductions now would weaken the current economic recovery. During the last two decades, however, numerous studies have identified expansionary "non-Keynesian" effects from government spending reductions that offset at least some and possibly all of the contractionary "Keynesian" effects on aggregate demand. In some cases, these "non-Keynesian" effects may be strong enough to make fiscal consolidation programs expansionary in the short term as well the long term.

According to empirical studies, fiscal consolidation programs that (1) eliminate government agencies and programs; (2) cut the number and compensation of government workers; and (3) reduce transfer payments to households and firms have strong expansionary "non-Keynesian" effects. Fiscal consolidation programs that reform government pension and health insurance programs for the elderly to make them sustainably solvent in the long term may also have strong positive "non-Keynesian" factors even if reforms are phased in slowly, do not affect current beneficiaries, and do not significantly reduce outlays in the short term.

Obama Administration officials have emphasized the risk of starting a fiscal consolidation program now while ignoring the risk of delay. There are significant external risk factors to the U.S. economy in both the short run and the long run that cannot be foreseen, such as: (1) resurging price inflation, (2) loss of confidence in the U.S. dollar as the world's reserve currency, (3) euro-zone sovereign debt defaults, and (4) war in the Middle East. But, the many examples cited in this commentary show that the United States will be in a better position to respond to any of these challenges by reducing federal spending sooner rather than later.

---

[1] "Navigating the Fiscal Challenges Ahead," International Monetary Fund, Fiscal Monitor, May 14, 2010, p. 5, *available at* http://www.imf.org/external/pubs/ft/fm/2010/fm1001.pdf.

[2] Reinhart, C. M. and Rogoff, K.S., "Growth in a Time of Debt," *American Economic Review*, V. 100(2), p. 577, May 2010.

[3] *Ibid.*

[4] Testimony of Federal Reserve Chairman Ben Bernanke, Committee on Financial Services, Hearing Transcript, Feb. 24. 2010, pp. 15–6, *available at* http://financialservices.house.gov/Media/file/hearings/111/Printed%20Hearings/111-102.pdf.

[5] "News Hub: S&P & Moody's Warn on U.S. Credit Rating," *Wall Street Journal*, Jan. 13, 2011, *available at* http://online.wsj.com/video/news-hub-sp--moodys-warn-on-us-credit-rating/85C0D4F1-4786-44ED-8C62-E9DF52108C2A.html?KEYWORDS=moody%27.

[6] Barley, R., "The Triple-A Debt Threat," *Wall Street Journal*, Jan. 14, 2011, *available at* http://online.wsj.com/article/SB10001424052748703583404576079862342374014.html?KEYWORDS=moody%27s.

[7] Nominal interest rates are composed of three parts: (1) the real interest rate that reflects the supply and demand for funds in the credit market, (2) an inflation factor that reflects expectations about price inflation in the future, and (3) a credit-specific default risk factor.

[8] Engen, E. and Hubbard, R. G., "Federal Government Debt and Interest Rates," *National Bureau of Economic Research*, Working Paper No. w10681, Aug. 2004, *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=579211.

[9] Laubach, T., "New Evidence on the Interest Rate Effects of Budget Deficits and Debt," *Journal of the European Economic Association*, V. 7(4)(Jun. 2009), pp. 858–885.

[10] Traum, N. and Yang, S., "Does Government Debt Crowd Out Investment? A Bayesian DSGE Approach," Congressional Budget Office, Working Paper Series, April 2010, *available at* http://www.cbo.gov/ftpdocs/114xx/doc11430/04-2010-Working_Paper-Crowding_Out.pdf.

[11] *Ibid.*

[12] Vedder, R. K. and Gallaway, L. E., "Government Size and Economic Growth," *Joint Economic Committee*, Dec. 1998, *available at* http://www.house.gov/jec/growth/govtsize/govtsize.pdf.

[13] Landau, D., "Government Expenditure and Economic Growth: A Cross-Country Study," *Southern Economic Journal*, V. 49, Jan. 1983, pp. 783–92; Landau, D., "Government and Economic Growth in the Less Developed Coutnries: An Empirical Study for 1960–1980," *Economic Development and Cultural Change*, 1986, pp. 35–75; Grier, K. and Tullock, G., "An Empirical Analysis of Cross-National Economic Growth: 1951–1980," *Journal of Monetary Economics*, V. 24, pp. 259–76; Barro, R. J., "A Cross-Country Study of Growth, Saving, and Government," in *National Saving and Economic Performance*, University of Chicago Press and National Bureau of Economic Research, Chicago, IL, 1991.

[14] Afonso, A. and Fuceri, D., "Government Size, Composition, Volatility and Economic Growth," *European Central Bank*, Directorate General Economics, Working Paper No. 849, Jan. 2008, *available at* http://www.ecb.int/pub/pdf/scpwps/ecbwp849.pdf.

[15] *Ibid.*

[16] Engen, E. M., and Skinner, J., "Fiscal Policy and Economic Growth," *National Bureau of Economic Research*, Working Paper No. 4223, *available at* http://www.nber.org/papers/w4223.

[17] For classic articles on private versus public sector provision, *see* Alchian, A.A., *Some Economics of Property Rights*, Rand Corporation, Santa Monica, CA, 1961; Borcherding, T.E, Bush, W., and Spann, R., "The Effects on Public Spending of the Divisibility of Public Outputs in Consumption, Bureaucratic Power and the Size of the Tax-Sharing Group," in *Budgets and Bureaucrats: The Sources of Government Growth*, Duke University Press, Durham, NC, 1977, pp. 211–28; De Alessi, L., "An Economic Analysis of Government Ownership and Regulation: Theory and the Evidence from the Electric Power Industry," *Public Choice*, V. 19(1), 1974, pp. 1–42; Niskanen, W.A., "Bureaucrats and Politicians," *Journal of Law and Economics*, V. 18(4), 1975, pp. 617–43.

[18] Explanations for the superior performance of the private sector over the public sector have been examined from a variety of perspectives, but a central theme is the idea that public ownership leads to the pursuit of objectives that detract from economic welfare maximization. The principal-agent, property rights and public choice theories conclude that enterprises operating under public ownership will be less efficient compared to their private sector counterparts. See e.g., Boardman, A. E. and Vining, A. R., "Ownership and Performance in Competitive Environments: A Comparison of the Performance of Private, Mixed, and State-Owned Enterprises," *Journal of Law and Economics*, V. 32(1), 1989, pp. 1–33; Vining, A.R. and Boardman, A.E., "Ownership versus competition: Efficiency in Public Enterprise," Public *Choice*, V. 73(2), 1992, pp. 205–39.

[19] *See* Giavazzi F. and Pagano M, "Can Severe Fiscal Constractions be Expansionary? Tales of Two Small European Countries," *National Beureau of Economic Research*, Macroeconomics Annual, 1990, *available at* http://www.nber.org/papers/w337; Perotti, R., "Fiscal Policy in Goods Times and Bad," *Quarterly Journal of Economics*, V. 114(4), Nov. 1999, 1399–1436; and Giavazzi, F., Jappelli, T., and Pagano, M., "Searching for Non-Linear Effects of Fiscal Policy: Evidence from Industrial and Developing Countries," *European Economic Review*, V. 44(7), 2000, 1259–89.

[20] Alesina, A., Ardagna, S., Perotti, R., and Schiantarelli, F., "Fiscal Policy, Profits, and Investment," *American Economic Review*, V. 92(2), Jun. 2002, pp. 571–589.

[21] *Ibid.*

[22] *Ibid.*

[23] Lilico, A., Holmes, E., and Sameen, H., "Controlling Spending and Government Deficits: Lessons from History and International Experience", *Policy Exchange*, Nov. 2009, *available at* http://www.policyexchange.org.uk/images/publications/pdfs/Controlling_Public_Spending_-_Nov_09.pdf.

[24] Alesina, A. and Ardagna, S., "Large Changes in Fiscal Policy: Taxes Versus Spending," *National Bureau of Economic Research*, Working Paper No. 15438, Oct. 2009, p. 3, 7, *available at* http://www.nber.org/papers/w15438.

[25] Biggs, A., Hassett, K., and Jensen, M., "A Guide for Deficit Reduction in the United States Based on Historical Consolidations That Worked," *American Enterprise Institute*, Economic Policy Working Paper No. 2010–04, Dec. 27, 2010, *available at* http://www./aei.org/paper/100179.

[26] Giavazzi, F. and Pagano, M., *supra* note 19.

[27] *See also* Alesina, A. and Ardagna, S., "Tales of Fiscal Adjustments," *Economic Policy*, V. 13(27), Oct. 1998, pp. 489–545.

[28] Giudice, G., Turrini, A., and in 't Veld, J., "Can Fiscal Consolidations be Expansionary in the EU? Ex-post Evidence and Ex-ante Analysis," *European Commission*, Directorate-General for Economic and Financial Affairs, Economic Paper No. 195, Dec. 2003, *available at* http://ec.europa.eu/economy_finance/publications/publication_summary6930_en.htm.

[29] Ahrend, R., Catte, P. and Price, R., "Factors Behind Low Long-Term Interest Rates," *Organization for Economic Co-Operation and Development, Financial Market Trends*, Financial Market Trends No. 92, Vol. 2007(1), pp. 99–141.

[30] Cournède, B. and Gonand, F., "Restoring Fiscal Sustainability in the Euro Area: Raise Taxes or Curb Spending?," *Organization for Economic Co-operation and Development*, Economics Department Working Papers, No. 520, Oct. 30, 2006, *available at http://www.oecd.org/officialdocuments/displaydocumentpdf/?cote=ECO/WKP(2006)48&doclanguage=en*.

[31] Alesina, A. and Ardagna, S., "Large Changes in Fiscal Policy: Taxes Versus Spending," *National Bureau of Economic Research*, Working Paper No. 15438, Oct. 2009, p. 3, 7, *available at* http://www.nber.org/papers/w15438.

[32] In particular, the IMF cited the issue of endogeneity—i.e., that certain factors within the model were unaccounted for yet influenced their measurement. Leigh, D. et al., "Will It Hurt? Macroeconomic Effects of Fiscal Consolidation," in "World Economic Outlook: Recovery, Risk, and Rebalancing," *International Monetary Fund*, Oct. 2010, *available at* http://www.imf.org/external/pubs/ft/weo/2010/02/pdf/c3.pdf.

[33] "Regional Economic Outlook: Europe—Building Confidence," *International Monetary Fund*, World Economic and Financial Survey, Oct. 2010, *available at* http://www.imf.org/external/pubs/ft/reo/2010/eur/eng/ereo1010.htm.

[34] Barrios, S., Langedijk, S., and Pench, L. "EU Fiscal Consolidation After the Financial Crisis: Lessons from Past Experiences," *European Commission*, Directorate-General Economic and Financial Affairs, Economic Paper No. 418, July 2010, *available at* http://ec.europa.eu/economy_finance/publications/economic_paper/2010/ecp418_en.htm.

[35] Von Hagen, J., Hughes-Hallett, A., and Strauch, R., "Budgetary Consolidation in Europe: Quality, Economic Conditions, and Persistence," Journal of the Japanese and International Economies, V. 16(4), Dec. 2002, pp. 512–35.

[36] Ardagna, S., "Financial Markets' Behavior Around Episodes of Large Changes in the Fiscal Stance," *European Central Bank*, Working Paper Series No. 390, Sep. 2004, *available at* http://www.ecb.int/pub/pdf/scpwps/ecbwp390.pdf.

[37] Hughes-Hallet, A. and McAdam, P. (eds), *Analyses in Macroeconomic Modelling*, Kluwer Academic Publishers, 1999.

[38] McDermott, C. J. and Wescott, R., "An Empirical Analysis of Fiscal Adjustments," *International Monetary Fund*, Working Paper No. 96/59, June 11, 1996, *available at* http://www.imf.org/external/pubs/cat/longres.cfm?sk=2018.0.

[39] Von Hagen, J. and Strauch, R., "Fiscal Consolidation: Quality, Economic Conditions and Success," *Public Choice*, V. 109, 2001, pp. 327–46.

[40] Alesina, A. and Perotti, R., "Fiscal Discipline and the Budget Process," *American Economic Review*, V. 86(2), 1996, pp. 401–7, *available at* http://ideas.repec.org/a/aea/aecrev/v86y1996i2p401-07.html.

[41] Alesina, A. and Bayoumi, T., "The Costs and Benefits of Fiscal Rules: Evidence from U.S. States," *National Bureau of Economic Research*, Working Paper No. 5614, Jun. 1996, available at http://www.nber.org/papers/w5614.

[42] "Fiscal Consolidation: Lessons from Past Experience," *Organization for Economic Co-Operation and Development*, Economic Outlook No. 82, Dec. 2007, *available at* http://www.oecd.org/dataoecd/21/33/38628499.pdf.

[43] Alesina, *supra* note 27.

[44] "Restoring Fiscal Sustainability: Lessons for the Public Sector," *Organizatian for Economic Co-Operation and Development*, Public Governance Committee, Working Party of Senior Budget Officials, 2010, p. 10–11, *available at* http://www.oecd.org/dataoecd/1/60/44473800.pdf. For other supporting materials, *see* "Deficit Reduction: Lessons From Around the World," Committee for a Responsible Federal Budget, Sep. 21, 2009, *available at* http://crfb.org/document/deficit-reduction-lessons-around-world; *Organization for Economic Co-Operation and Development, supra* note 42;; "Red Ink Rising: A Call to Action to Stem the Mounting Federal Debt," Peterson-Pew Commission on Budget Reform, Dec. 2009, *available at* http://www.pewtrusts.org/our_work_report_detail.aspx?id=56451; Lilico, *supra* note 23; Cottarelli, C. and Viñals, J., "A Strategy for Renormalizing Fiscal and Monetary Policies in Advanced Economies," *International Monetary Fund*, Staff Position Note No. SPN/09/22, Sep. 29, 2009, *available at* http://www.imf.org/external/pubs/ft/spn/2009/spn0922.pdf;;; "International Examples of Spending Consolidations," *Her Majesty's Treasury*, Fiscal Consolidation Slide Deck, Feb. 1, 2009, *available at* http://www.hm-treasury.gov.uk/foi_fiscal_consolidation_010210.htm;.

[45] For additional supporting documents, *see* Henderson, D. R., "Canada's Budget Triumph," *George Mason University*, Mercatus Center, Working Paper, Sep. 30, 2010, *available at* http://mercatus.org/publication/canada-s-budget-triumph; Bourgon, J., "Program Review: The Government of Canada's Experience Eliminating the Deficit, 1994–1999—A Canadian Case Study," Centre for International Governance Innovation, Institute for Government, Sep. 2009, *available at* http://www.instituteforgovernment.org.uk/pdfs/Canada's_deficit.pdf

[46] For additional supporting documents, *see* Bonato, L., Tsounta, E. and Balassone, F., "Sweden: Selected Issues," *International Monetary Fund*, Country Report No. 04/245, Aug. 2004, *available at* http://www.imf.org/external/pubs/ft/scr/2004/cr04245.pdf; and Normann, G. and Mitchel, D., "Executive Summary: Pension Reform in Sweden—Lessons for American Policymakers," *Heritage Foundation*, Jun. 29, 2000, *available at* http://thf_media.s3.amazonaws.com/2000/pdf/bg1381es.pdf

[47] For an additional supporting document, *see* O'Quinn, R. and Ashford, N., "The Kiwi Effect," *Adam Smith Institute*, Nov. 26, 1996, *available at* http://www.adamsmith.org/publications/government/the-kiwi-effect/

[48] New Zealand switched from a fiscal year ending on March 31 to a fiscal year ending on June 30 in 1989.

[49] *See e.g.*, Blanchflower, David G., "Conservative Austerity Idea is Failing," Bloomberg, Opinion, Jan. 27, 2011, *available at* http://www.bloomberg.com/news/2011-01-28/conservative-austerity-idea-is-failing-commentary-by-david-blanchflower.html.

[50] Testimony of John B. Taylor, Committee on Financial Services, Prepared Transcript, Jan. 26. 2011, p. 3, *available at* http://financialservices.house.gov/media/pdf/012611jtaylor.pdf.