

Senate Hearings

Before the Committee on Appropriations

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

Fiscal Year 2005

108th CONGRESS, SECOND SESSION

H.R. 5041/S. 2825

AMERICAN BATTLE MONUMENTS COMMISSION	FEDERAL DEPOSIT INSURANCE CORPORATION:
CONSUMER PRODUCT SAFETY COMMISSION	OFFICE OF INSPECTOR GENERAL
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE	GENERAL SERVICES ADMINISTRATION: FEDERAL CITIZEN INFORMATION CENTER
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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT	NATIONAL CREDIT UNION ADMINISTRATION
DEPARTMENT OF THE ARMY—CIVIL	NATIONAL SCIENCE FOUNDATION
DEPARTMENT OF VETERANS AFFAIRS	NEIGHBORHOOD REINVESTMENT CORPORATION
ENVIRONMENTAL PROTECTION AGENCY	NONDEPARTMENTAL WITNESSES
EXECUTIVE OFFICE OF THE PRESIDENT: OFFICE OF SCIENCE AND TECHNOLOGY POLICY	SELECTIVE SERVICE SYSTEM
	U.S. CHEMICAL SAFETY AND HAZARD INVESTIGATION BOARD
	U.S. COURT OF APPEALS FOR VETERANS CLAIMS

VA, HUD, and Independent Agencies Appropriations, 2005 (H.R. 5041/S. 2825)

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

SECOND SESSION

ON

H.R. 5041/S. 2825

AN ACT MAKING APPROPRIATIONS FOR THE DEPARTMENTS OF VETERANS AFFAIRS AND HOUSING AND URBAN DEVELOPMENT, AND FOR SUNDRY INDEPENDENT AGENCIES, BOARDS, COMMISSIONS, CORPORATIONS, AND OFFICES FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2005, AND FOR OTHER PURPOSES

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

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**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

THURSDAY, FEBRUARY 26, 2004

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

The subcommittee met at 10 a.m., in room SD-192, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Mikulski and Johnson.

EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF SCIENCE AND TECHNOLOGY POLICY

STATEMENT OF JOHN H. MARBURGER, III, DIRECTOR

NATIONAL SCIENCE FOUNDATION

STATEMENT OF ARDEN L. BEMENT, JR., ACTING DIRECTOR

ACCOMPANIED BY:

WARREN M. WASHINGTON, CHAIR, NATIONAL SCIENCE BOARD
MARY E. CLUTTER, ASSISTANT DIRECTOR, BIOLOGICAL SCIENCES
CHRISTINE C. BOESZ, INSPECTOR GENERAL

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI [presiding]. In the spirit of bipartisanship, which is a characteristic of this subcommittee, I will start the hearing while we await the arrival of Senator Bond. Senator Bond is at the Banking Committee hearing to introduce the nominee for the Secretary of HUD and will be joining us shortly. We expect Senator Bond shortly, but if not, we will go ahead with our witness testimony. We do expect a vote between 11:00 and 11:30.

I want to welcome Dr. Marburger, Dr. Bement, and Dr. Washington to today's hearing. This is a very important hearing. We are tremendously interested in the issues to be presented by our panel; from the National Science Foundation, as well as the Chairman of the National Science Board, and, of course, the president's science advisor.

In terms of the National Science Foundation, it is my belief that the NSF is absolutely critical to our economy. The future tech-

nologies and future jobs depend upon National Science Foundation research. I believe that America needs to be safer, stronger, and smarter, and if we want safer, stronger, and smarter, there is no other agency than the National Science Foundation who can make such a tremendous contribution to our country.

NSF must lead the way in developing new technology, new thinking, new ideas, and new science to strengthen both our national security and our economic security. This is not just my view. Carly Fiorini, the Chair of Hewlett Packard, said, "We must focus on developing the next generation industries and the next generation talent and fields like biotech, nanotech, digital media distribution, around issues like IT security, mobility, manageability, that is going to create long-term growth here at home, while raising our living standards in the process. These will be the new ideas, for the new products, for the new jobs that won't be on a fast track to Mexico or a slow boat to China."

Twenty years ago, President Reagan created the President's Commission on Industrial Competitiveness. We were then facing other kinds of challenges to our economy. The Commission offered three recommendations on how to make sure America continued to lead the way in terms of economic competitors. First, promote research and development of new ideas and new technologies, improve education and training, and lower budget deficits. That triad, for the future of this country, is as relevant today as it was when the Commission made its report.

Following this simple formula, 35 million new jobs were created from the late 1980's until the late 1990's, the longest period of economic expansion in history. During the 1990's, I wrote my own vision of how we could cooperate with the Commission's recommendation. I proposed an idea that we should use both basic and other applied research. I talked about strategic application of our research, not that we pick winners or losers, not that we have a European industrial policy, but that we organize our thinking in the way NIH does, like you do not have a national institute of microbiology, you have a national institute of heart, or the national institutes of viruses and allergies, and so on.

I am so proud that we win the Nobel Prizes, but I want to make sure we win the markets at home. That is why we believe we must focus our efforts on, first of all, basic science, in developing the new talent in the fields of basic science, and then also to promote cutting-edge technologies, like nanotech and biotech and info-tech. But in order to find that next generation of talent, we have to strengthen our educational system, K through 12, undergraduate, graduate, and post-doctoral.

We need to strengthen the role of our community colleges. We were so pleased the President talked about it in the State of the Union. It is the training ground for a high-tech workforce, but unfortunately, the budget that has been sent to this committee falls short in these very noble goals.

The proposed National Science Foundation budget is extremely disappointing. It is only 3 percent above last year. This is not satisfactory to this subcommittee, who, again, working on a bipartisan basis, said that we wanted to double the National Science Founda-

tion's budget the way Congress has been working towards doubling the National Institutes of Health's budget.

The increase barely accounts for inflation. I believe that it's not a National Science Foundation budget. I believe it's an OMB budget. In the omnibus bill last year, Senator Bond and I gave NSF a 4 percent increase over fiscal year 2003. We, again, will continue to work to double the National Science Foundation's budget. In order to meet that goal, we will need to have almost a 30 percent increase over the next few years.

A year ago, the President signed the NSF reauthorization act. It authorized the doubling of the NSF budget over 5 years. Under the authorization, we should be funding NSF at \$7.3 billion, but the 2005 budget provides only \$5.7 billion. If ever there was a call, because of the crisis that our Nation could face in the need for talent and the need for the basic ideas that are being developed, I believe that we need to treat this as a crisis.

Every major report on long-term economic growth cites the need for increases in scientific research and a smarter workforce. Strategic research is the foundation of future economic growth. The jobs of tomorrow will come from the research of today, but not with a 3 percent increase.

Nanotechnology is a good example. It could be the next breakthrough. We are already seeing it in carbon nanotubes and nanocircuits. Nanotech offers the ability to rejuvenate our manufacturing sector and create new high-paying quality jobs. I want to know, of course, in our conversation, where we stand with nanotech.

Let us move on, though, to education. I was so troubled to see that the education component was cut by 18 percent, compared to last year. This is the time we should be increasing our commitment to education, not cutting it, and not rearranging programs between NSF and other agencies. Graduate enrollment in science and engineering is down 50 percent over the past 10 years. Well, where is this new talent going to come from? Fifty percent of all graduate students are foreign nationals. That is not being prickly about them. It is being alarmed about ourselves.

Two years ago, again, working with my colleague, Senator Bond, at the suggestion of Dr. Colwell we increased the stipends for graduate research to \$30,000. We understand that has made a tremendous difference. Many often, those foreign nationals come with huge subsidies from their own country to learn in America, but America needs to learn that it has to do the same thing for our own kids right here.

While we are making progress with graduate students, we are losing ground with undergraduates. The biggest cut seems to come in the tech talent program, which Senator Bond and I created 2 years ago to get more undergraduate students in math, science, and engineering programs. We need a strong, steady, consistent level of support. We also need to support our K through 12 students and other informal education programs that get kids involved.

I also want to talk about the community colleges. Yes, we need to focus on wonderful academic centers of excellence. Two, Maryland and Hopkins, are in my own State, but we also have to focus

on the community college. I believe NSF can do more to help our community colleges educate and train the high-tech workers we need.

While we are working on the PhD students, and we should, there is this whole other group of people who can go into the tech fields, forensic tech, biotech, lab tech that we can focus on. In my own home State, Capital College, in Prince George's County, trains technicians who work at Goddard, operating satellite and communication systems. This marvelous school is a commuter school. It is a day-hop school. But I will tell you, for a lot of the young men and women in my own community who cannot or would not want to go to Maryland or one of the other schools, this is the gateway to opportunity, and boy, does Goddard need them.

There are many other things that we can talk about in informal science and in workforce readiness, but I believe that you know kind of the issues we are talking about. The other issue is to make sure that just as we want no child left behind, we need to make sure that the historically black colleges are, again, really strengthened and supported, because, again, this offers a cornucopia of talent for our country if we then get behind them.

So I know that this is what we want to talk about with the National Science Foundation. To the Board, Dr. Washington, I look forward to hearing your comments to know what the Science Board's vision is for the National Science Foundation, what you think about the world in which we find ourselves, and the world we want to live in. We have great respect for you, sir, and look forward to hearing from you.

Dr. Marburger, we are also very pleased to always hear from the President's science advisor on what are the administration's priorities. And we know that there have been some very troubling accusations about the administration engaging in junk science, and we would like to hear your views on that today and give you the opportunity to talk about how we are going to keep sound science as part of every agency.

PREPARED STATEMENT

Having said that, again, I want to welcome you on behalf of myself and Senator Bond. Know that we view this hearing as a very cordial and collegial dialogue. America is counting on us to not play politics with science and not play politics with the future of our competitiveness in the world. Senator Johnson.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

Welcome Dr. Marburger, Dr. Bement and Dr. Washington.

The National Science Foundation is critical to our economy. Future technologies and future jobs depend upon NSF research. I believe in an America that is safer, stronger and smarter. NSF must lead the way in developing new technologies to strengthen our national security and our economic security.

This is not just my view. In a recent Wall Street Journal article, Carly Fiorina, the Chairman of Hewlett-Packard, said: "We must focus on developing next generation industries and next generation talent—in fields like biotechnology, nanotechnology and digital media distribution; around issues like IT security, mobility and manageability that will create long term growth here at home while raising our living standards in the process."

JOBS

Almost 20 years ago, President Ronald Reagan created the President's Commission on Industrial Competitiveness. This Commission offered three recommendations on how to improve America's economic competitiveness: (1) promote research and development of new technologies; (2) improve education and training; and (3) lower budget deficits.

Following this simple formula, 35 million new jobs were created from the late 1980's through the late 1990's—the longest period of economic expansion in history.

PRIORITIES

In the early 1990's, I offered my own vision of what government's role in research should be. I proposed the radical idea that we should support both basic and applied research. I believed we needed to start focusing on the strategic application of our research. We win the Nobel Prizes and they win market share.

That's why I believe we must focus our effort on promoting cutting edge technologies like nanotechnology, information technology and biotechnology.

We have to strengthen our educational system—all the way from K–12, undergraduate, graduate and post-doctoral. We need to strengthen the role of our community colleges, which have become the training ground for the high tech workforce.

Unfortunately, the budget that has been sent to this Committee falls short in many of these areas.

BUDGET SUMMARY

The proposed NSF budget for 2005 is just 3 percent above last year. The research budget—the very core of NSF's budget—is increased by just 3 percent over last year. This barely accounts for inflation.

A year ago, I was disappointed with the NSF budget. I am still disappointed. This is not an NSF budget. It's an OMB budget.

In the Omnibus, Senator Bond and I gave NSF a 7 percent increase over last year. Senator Bond and I are committed to doubling NSF's budget. It's bi-partisan and bi-cameral. But we cannot do it alone. In order to meet that goal, we will need a 20 percent increase this year.

Just over a year ago, the President signed the NSF Authorization Act. It authorized the doubling of NSF's budget over 5 years. Under the NSF Authorization, NSF should be funded at \$7.3 billion for fiscal year 2005. But the fiscal year 2005 budget provides only \$5.7 billion for NSF—\$1.7 billion less than was promised in the authorization.

We need to do more than just keep up with inflation.

Senator Bond and I have led a bi-partisan effort to double NSF research but we can't do it alone.

RESEARCH

Every major report on long-term U.S. economic competitiveness has cited the need for a major increase in scientific research. Basic research (physics, chemistry, etc.) and strategic research (nano, bio and info) are the foundations of future economic growth. The jobs of tomorrow will come from the research of today. But not with 3 percent increases.

More funding for basic and applied scientific research means more jobs for our economy. Our competitors are not waiting. We cannot afford to lose our advantage in science and technology.

NANOTECHNOLOGY

Nanotechnology could be the next industrial revolution. We are already seeing breakthroughs in carbon nano-tubes and nano-circuits. The potential to transform our economy is almost limitless.

Nanotechnology offers us the ability to rejuvenate our manufacturing sector and create new high paying, high quality jobs. I want to know where we stand with Nano and where we are going. What industries and sectors are we focusing on and what goals are we setting?

EDUCATION

The education budget is cut by 18 percent compared to last year. This is the time we should be increasing our commitment to education, not cutting it. Our economy needs more scientists, engineers and researchers. Graduate enrollment in science

and engineering is down 50 percent over the past 10 years. Fifty percent of all graduate students are foreign nationals.

Stipends

Two years ago, I led the effort to increase graduate stipends. At that time, stipends were \$18,500. Now, thanks to Senator Bond and I, stipends are \$30,000. Since we began raising the stipends, NSF has seen a significant increase in graduate fellowship applications.

While we are making progress with graduate students, we seem to be losing ground with undergraduates. The budget proposes to cut undergraduate education. The biggest cut is in the Tech Talent program. Senator Bond and I created this program 2 years ago to get more undergraduate students interested in math, science and engineering.

This cut is the wrong approach.

We need a strong, steady and consistent level of support for education starting with K-12, undergraduate, graduate, post-graduate.

Community Colleges

This is where our community colleges can play a role. NSF can't just focus on the Johns Hopkins and the Marylands. It must also focus on the Anne Arundel Community Colleges of this country. NSF can do more to help our community colleges educate and train the high-tech workers we need. Whether part time or full time, community colleges are the main source of higher education for large segments of our society.

Technicians of all kinds are in high demand and our community colleges are the training ground for these technicians. For example, in Maryland, Capitol College in Prince George's County trains technicians who work at Goddard operating satellites and communications systems. They offer a variety of programs to meet Goddard's needs and the needs of local contractors who work with Goddard.

Our community colleges are not only training grounds for technical skills, they are also stepping stones for higher education and lifetime learning.

Informal Science (Science Museums)

Senator Bond and I have been major supporters of NSF's informal science program. We increased this program from \$50 million to \$62 million because of its value to education. Supporting our science museums and science centers have been very successful as a teaching tool for kids.

There is no reason to cut this program as the budget proposes.

This program has been a great vehicle for translating and teaching the lessons from Hubble, Mars and the other successful science programs that we have seen. NASA has had 8 billion hits to its website since January 2—all because of Mars and Hubble.

Informal science brings these magnificent discoveries directly to kids and gets them excited about science. It also brings parents and children together. Parents and children can go to the science centers and science museums and learn together.

WORKFORCE READINESS

We do not have a jobs shortage in this country. We have a skills shortage. Almost every job today requires a working knowledge with technology. We have heard from numerous CEOs about the lack of technical skills in our workforce.

Math and science test scores show that U.S. 8th grade students finish behind students in Singapore, Japan, South Korea and five other countries.

The Labor Department estimated that 60 percent of the new jobs being created in our economy today will require technological literacy. Yet, only 22 percent of the young people entering the job market now actually possess those skills.

Women and minorities are the fastest growing part of our workforce, but represent a tiny fraction of our science and technology workforce.

We need more support for our Historically Black Colleges and Universities. The HBCU THRUST program and the Louis Stokes Alliance are a critical part of this effort and need more support, not less.

We have annual discussions about visas for foreign students and workers to fill high tech jobs in the United States. I welcome foreign students and workers to the United States. But there should be sufficient U.S. workers filling these jobs.

NSF needs to be the leader in creating more science and engineering students and more science and engineering workers.

OFFICE OF SCIENCE AND TECHNOLOGY POLICY (OSTP)

We look to the Office of Science and Technology Policy to set national policy guidance across scientific disciplines. I want to know about the White House policy on balancing the competing needs of the various scientific disciplines—the life sciences versus the physical sciences.

We have doubled funding for NIH—what about funding for NSF? Is there a long term vision? What is the plan to integrate science policy with economic policy? How do we stack up compared to our international competitors?

National Science Board

And finally, I'd like to know from Dr. Washington what the Science Board's vision is for NSF's future. Where do we go from here and how do we get there?

I hope OMB will someday get the message. NSF has broad bi-partisan support to double its funding. It's critical to our future, to our economy and to our security. Without a significant increase in NSF funding, we will continue to win the Nobel prizes while our competitors win market share.

This is about jobs and our economy and our Nation's future. It's about economic security and national security.

STATEMENT OF SENATOR TIM JOHNSON

Senator JOHNSON. Thank you, Senator Mikulski. I share your very able observations that you have shared here today, and I am very appreciative of your leadership and Senator Bond's leadership on this committee. I will be very brief, but I do have a few thoughts that I would like to share on the record.

I strongly support efforts to increase funding for the National Science Foundation, and I commend the Chairman and the ranking member for their extraordinary leadership and dedication to double NSF's annual budget. NSF is critical to support scientific exploration and science education, and to preserve our Nation's status as an economic and technological force in the world.

The EPSCoR program, for example, is critical to enhance the capacity of small States to contribute to our technological achievements and innovation. I am enthusiastic that the NSF has selected Dr. Sherry Farwell to lead the Foundation's EPSCoR program.

Dr. Farwell has been a great asset in his current position at the South Dakota School of Mines and Technology. And while we are sad to see him leave South Dakota, we acknowledge that our loss is our Nation's gain. I will continue to be a strong supporter of EPSCoR, and I am confident that Dr. Farwell will serve the NSF with distinction in the coming years.

Secondly, the NSF has recently announced that it will conduct meetings in March with scientists from around the Nation to evaluate the merits of establishing a national underground science program. Such a program has far-reaching opportunities to unlock many existing mysteries about the origins of the universe. Successful deep experiments at the Homestake Mine in South Dakota, for example, have already contributed to the award of a 2002 Nobel Prize for physics to Dr. Ray Davis of the University of Pennsylvania.

I congratulate the NSF for the deliberate and thoughtful science approach to consider developing such a program. There appears to be strong support within the science community that such a program will contribute significant opportunities to advance numerous disciplines in science. I support the NSF's efforts to thoroughly peer-review the science as well as various proposals to establish the most beneficial research facilities. As the NSF and the science

community review the merits of the science and specific proposals, I hope that you will keep us informed of your findings and intentions.

Thirdly, lastly, I want to raise for Dr. Marburger my concern that we develop a more coordinated Federal policy towards remote sensing technologies. Last May, a malfunction aboard the LANDSAT-7 satellite resulted in significant degradation of the image data that the satellite may collect. The LANDSAT program has collected and distributed a 32-year continuous record of the land surfaces of the world. This data, which is collected and distributed by the U.S. Geological Survey, is a significant resource for applications by various entities throughout the Federal Government, including the USAID, the Department of Agriculture, the Department of Defense, Homeland Security, and Environmental Applications.

In fact, the program has become so successful that a significant portion of the program's budget is recovered through outside data sales, but currently, there appears to be no real plan in place to replace this critical hardware. It is critical that we take all necessary actions to restore the full capabilities of the program and recapture the markets for this valuable data.

The current difficulties we are experiencing, however, are exacerbated by what appears to be a lack of clear remote sensing mission. Over the last 32 years the responsibilities over the program have been shifted between several agencies, and this has led to some confusion and lack of consistent leadership. I believe that we need to establish a clearly defined remote sensing mission. The U.S. Geological Survey is, I believe, uniquely positioned to work with all the various Federal and private entities which utilize this data, and that we should provide the USGS the task and responsibility of coordinating and implementing that process. I hope that the Office of Science and Technology Policy will support this important goal.

So Mr. Chairman, Madam ranking member, thank you for your leadership. I also thank the distinguished panelists for their leadership on the critical areas of science. And I look forward to working with Senator Bond as he chairs this committee and we commence on what no doubt will be a difficult fiscal year, but one where science should continue to play a very leading role. Thank you, again.

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND [presiding]. Thank you very much, Senator Johnson, and I think you were the master of understatement when you said it is going to be a difficult fiscal year. I just came with mixed emotions from a hearing where I did something that causes me qualms. I recommended my very good friend, Alfonso Jackson, to be Secretary of HUD. Given the fiscal problems he faces, I hate to do that to a friend and a good man.

We are here today to talk about the National Science Foundation, the Science Board, and the Office of Science and Technology Policy. I welcome Dr. Marburger, Dr. Bement, and Dr. Washington. Thank you very much for joining us today. I know that Dr. Bement has recently come into the temporary position. I am interested in

hearing your first impressions of the Foundation, and in understanding how you are going to handle your responsibilities as both acting director of NSF and as director of NIST. It sounds like more than a 40-hour-a-week job.

As many of you know, Senator Mikulski and I have been, and we will continue to be extremely strong supporters of the NSF and a robust budget for the NSF. As a result, this is an important hearing, because it gives us an opportunity to talk about the critical role that NSF plays in the economic, scientific, and intellectual growth of the Nation.

Science and technology is our future, make no mistake about it. When we talk about jobs, we will not be talking about the manufacturing of T-shirts and sneakers. We will be talking about the development of cutting-edge technologies that should speed the flow of information, which will improve the quality of crops and food to feed the world, and which will make the quality of life for people everywhere better.

This vision of the world is what NSF is all about, the strategic Federal investment in scientific research, particularly the funding and support of NSF has directly led to innovative developments in scientific knowledge and dramatically increased the economic growth of this Nation. Unfortunately, while Federal support in life sciences continues to receive significant increases, the combined share of the funding for the physical sciences and engineering has not kept pace. I am alarmed by this disparity, because the decline in funding for physical sciences has put our Nation's capabilities for leading the world in scientific innovation at risk, and equally important, at risk of falling behind other advanced nations.

Most experts believe that investment in the physical sciences and engineering not only benefits specific industries, but all major research areas. A scientist working on basic research in all disciplines makes new discoveries and better understands the world around us. Their research can cross disciplines and have decisive impacts on many scientific areas, including biomedical research.

In the words of Harold Varmus, the former director of the National Institutes of Health, "Scientists can wage an effective war on disease only if we harness the energies of many disciplines, not just biology and medicine." To put it plainly, supporting NSF supports NIH, and I believe that funding for NSF should keep pace with funding for NIH. But unfortunately, this is not happening.

Senator Mikulski and I have led an effort in Congress to double NSF's budget. We were pleased with the PCAST, when it recommended to the President, "Beginning with the FY04 budget and carrying through the next four fiscal years, funding for physical sciences and engineering across all relevant agencies be adjusted upward to bring them collectively to parity with the life sciences". I am sorry that the memo did not get to OMB.

I was very disappointed that the budget request only provided NSF with \$5.75 billion for 2005, an increase of only \$167 million, or 3 percent over the 2004 level. I am not great at math, but I believe about a 14.7 percent increase is what is needed to get you to doubling of the budget in 5 years. This is even less of an increase as proposed in last year's budget.

OMB's budget request for NSF is especially disappointing, given the scientific, economic, and educational importance of its programs. However, with major funding shortfalls throughout the VA-HUD accounts, it is going to be a major and perhaps impossible challenge to find any additional funds for NSF for 2005.

I remain committed to NSF, but this year's budget is the most difficult we have seen in years. I want to work with the administration, but we need to find ways to increase the NSF budget as we move forward, if not this year, at least next year. Maybe, Dr. Marburger, you can hand-carry the PCAST recommendation to OMB.

It is a tight budget year. Tough choices will have to be made. I acknowledge Dr. Bement's testimony, stating that in a year of tight budgets, it was necessary to set priorities and make informed, but tough choices. I could not agree more with that statement. But looking at the priorities made in the NSF's budget, I must disagree with the choices made even within the budget.

The most troubling choices in the budget request are cuts to programs that support smaller or under-represented research institutions. OMB proposes only \$84 million for EPSCoR, a program cut by 11 percent from the 2004 level. It is key to the continued growth of science research in underserved States. Minority programs at NSF are another example. The Lewis-Stokes Alliance for Minority Participation is flat-funded, and the HBCU Undergraduate's Program, historically black colleges and universities, is cut by \$4 million, or 16 percent.

Further, the administration cuts \$4 million from the CREST program, supporting centers for research at minority institutions. These cuts are unacceptable. Our lack of new scientists and engineers is becoming a national crisis, and we are not attracting young students, especially minorities, into these disciplines. In the past, we relied on foreign students to stay in the United States and fill the gap created by retiring engineers and scientists. This is no longer the case. We need to grow new engineers and scientists, and these minority NSF programs represent a tremendous opportunity to develop these new engineers and scientists.

Informal Science education takes a cut in this budget request of \$12 million, or 20 percent. Very troubling. The program has been highly successful. And the programs receiving funding have received national recognition, including an Emmy, for their efforts to reach the public and engage them in science. I have seen firsthand the value of informal science education at the St. Louis Science Center, where children of all ages are able to receive hands-on experience in scientific activities.

The cut to the Tech Talent or "STEP" program, also disappoints me. At a time where the number of U.S. undergraduates in engineering and math is declining, a 40 percent reduction in this program is puzzling.

I also have a strong interest in nanotechnology. The fiscal year 2005 request provides an increase of \$52 million over the 2004 level. There is a tremendous amount of excitement about nanotechnology, because of its far-reaching benefits, from computers, to manufacturing processes, to agriculture, to medicine. As NSF is the lead agency in Federal nanotechnology research, I am

encouraged to see the request reflect the importance of this emerging research field.

Despite the promises of nanotechnology, there is a growing “public anxiety and nascent opposition” to nanotechnology, according to a recent Washington Post report. I agree with the view that nanotechnology is the foundation for the next industrial revolution. I am troubled with the Post’s view that, “[i]f nano supporters play their cards wrong by belittling public fears, the industry could find itself mired in a costly public relations debacle, even worse than the one that turned genetically engineered crops into Frankenfood”.

I think it is critical that the Federal Government and the research community act together in educating the public about science. We cannot afford public fears to go unaddressed. This pseudoscience, this hysteria fawned by groups with their own agendas, is unacceptable.

As everybody knows, I am a big supporter of plant biotechnology, because it is generating exciting possibilities for improving human health and nutrition. Impressive research is being done with plant genomics, which can eventually be a very powerful tool for addressing hunger in many developing countries, such as those in Africa and Southeast Asia.

The 2005 budget request provides \$89 million for the NSF plant genome program. This keeps the funding level with the amount appropriated in fiscal year 2004. I am pleased that at least one of my priorities is not cut. Nevertheless, the level of funding is not enough to meet the goals of the National Science and Technology Council’s report, which recommends the Federal Government invest \$1.3 billion over the next 5 years on plant genome research.

In addition to my concerns about funding, I have a couple of policy and programmatic areas of concern. I am interested in the National Science Board’s operations, now that the Board has had a year to operate with its own budget to meet its statutory responsibilities. With its own budget and authority to hire its own staff, I want to know how the Board is making its statutory responsibility to provide the Congress and President with independent science policy advice and oversight.

PREPARED STATEMENT

Lastly, there are some points about the National Academy of Sciences’ report on large facility projects. The Foundation’s process for prioritizing its large facility projects has been a concern to me. As a matter of fact, I have wondered whether there is a process. At my request, along with Senator Mikulski and the chair and ranking member of the Senate authorizing committee, we asked the NAS to set forth criteria to rank and prioritize large research facilities supported by NSF. The Academy presented their recommendations to the NSF last month. I support the recommendations and expect NSF to implement them as soon as possible and to present the Committee with a revised MREFC request based on these criteria. NSF must have a priority-setting process that is credible, fair, rational, and transparent. Until we get that, it is going to be difficult for me to support any new MREFC proposals.

I look forward to hearing the testimony of all the witnesses today, and I thank you for giving me the time to express some of my views and concerns.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

The subcommittee will come to order. This morning, the VA–HUD and Independent Agencies Subcommittee will conduct its budget hearing on the fiscal year 2005 budgets for the National Science Foundation, the National Science Board, and the Office of Science and Technology Policy. I welcome back Dr. John Marburger from OSTP, and Dr. Warren Washington from the National Science Board to our subcommittee. I also want to welcome Dr. Arden Bement, the acting director of NSF to today’s hearing. I know that you have recently come into this temporary position, and I am interested in hearing your first impressions about the Foundation. I am especially interested in understanding how you are handling your responsibilities as both acting director of NSF and as director of NIST.

As many of you know, I have been and will continue to be a strong supporter of NSF and a robust budget for NSF. As a result, this is a very important hearing because it gives me the opportunity to talk about the critical role NSF plays in the economic, scientific and intellectual growth of this Nation. Science and technology is the future. When we talk about jobs, we will not be talking about the manufacturing of t-shirts and sneakers; we will be talking about the development of cutting edge technologies that will speed the flow of information, which will improve the quality of crops and food to feed the world, and which will make the quality of life for people everywhere better. This vision of the world is what NSF is all about. The strategic Federal investment in scientific research, and particularly the funding support at NSF, has directly led to innovative developments in scientific knowledge and dramatically increased the economic growth of this Nation.

Unfortunately, while Federal support in life sciences continues to receive significant increases, the combined share of the funding for the physical sciences and engineering has not kept pace. I am alarmed by this disparity because the decline in funding for the physical sciences has put our Nation’s capabilities for leading the world in scientific innovation at risk and, equally important, at risk of falling behind other industrial nations. Most experts believe that investment in the physical sciences and engineering not only benefits specific industries, but all major research areas. As scientists working on basic research in all disciplines make new discoveries and better understand the world around us, their research can cross disciplines and have decisive impacts on many scientific areas, including biomedical research. In the words of Dr. Harold Varmus, the former Director of the National Institutes of Health, “scientists can wage an effective war on disease only if we . . . harness the energies of many disciplines, not just biology and medicine.” To put it plainly, supporting NSF supports NIH. And I believe that funding for NSF needs to begin to keep pace with the funding for NIH. Unfortunately, this is not happening.

My good friend and colleague Senator Mikulski and I have led an effort in Congress to double NSF’s budget. We were pleased when PCAST recommended to the President, “beginning with the fiscal year 2004 budget and carrying through the next four fiscal years, funding for physical sciences and engineering across all relevant agencies be adjusted upward to bring them collectively to parity with the life sciences.”

With this in mind, I was disappointed that the budget request only provided NSF with \$5.75 billion for fiscal year 2005—an increase of only \$167 million or 3 percent increase over the fiscal year 2004 enacted level. This proposed increase is even less than the increase proposed in last year’s budget request.

OMB’s budget request for NSF is disappointing given the scientific, economic, and educational importance of its programs. However, with major funding shortfalls throughout the VA–HUD account, it is going to be a major and perhaps an impossible challenge to find additional funds for NSF for fiscal year 2005. I am committed to NSF, but this year’s budget is the most difficult I have seen in years. I want to work with the Administration, but we need to find ways to increase NSF’s budget as we move forward, if not this year, next year.

This is a very tight budget year and tough choices will have to be made. I acknowledge Dr. Bement’s testimony where you state, “in a year of very tight budgets, it was necessary to set priorities and make informed, but tough choices.” I could not agree with that statement any more. However, looking at the priorities made in NSF’s budget, I strongly disagree with some of the choices.

The most troubling choices in the budget request are the cuts to programs that support smaller or underrepresented research institutions. For example, the Administration proposes only \$84 million for the EPSCoR program—a cut by 11 percent from the fiscal year 2004 level of \$95 million. This program is key to the continued growth of science research in underserved States.

Minority programs at NSF are another example. The Louis Stokes Alliances for Minority Participation program is flat funded in the request, and the HBCU Undergraduates Program is cut by \$4 million, or 16 percent. Further, the Administration cuts \$4 million from the “CREST” program that supports centers for research at minority institutions. These cuts are unacceptable to me. Our lack of new scientists and engineers is becoming a national crisis, and we are not attracting young students, especially minorities, into these disciplines. In the past, we relied on foreign students to stay in the United States and fill the gap created by retiring engineers and scientists. This is no longer the case. We need to grow new engineers and scientists and these minority NSF programs represent a tremendous opportunity to develop these new engineers and scientists.

Informal Science education receives a cut of \$12 million, or 20 percent. Again, very troubling. This program has been highly successful and the programs receiving funding have received national recognition, including an Emmy, for their efforts to reach the public and engage them in science. I have seen first hand the value of Informal Science Education funding at the St. Louis Science Center where children of all ages are able to receive hands-on experience in scientific activities.

The cut to the tech talent or “STEP” program also disappoints me. At a time where the number of U.S. undergraduates in engineering and mathematics is declining, a 40 percent reduction in this program is puzzling.

I also have a strong interest in nanotechnology. The fiscal year 2005 request provides an increase of \$52 million over the fiscal year 2004 level for this important program. There is a tremendous amount of excitement about nanotechnology because of its far-reaching benefits from computers to manufacturing processes to agriculture to medicine. As NSF is the lead agency in the Federal nanotechnology research effort, I am encouraged to see the request reflect the importance of this emerging research field.

Despite the promises of nanotechnology, there is growing “public anxiety and nascent opposition” to nanotechnology, according to a recent Washington Post article. I agree with the view that nano is the foundation for the next industrial revolution. However, I am troubled with the Post’s view that “if nano’s supporters play their cards wrong . . . by belittling public fears . . . the industry could find itself mired in a costly public relations debacle even worse than the one that turned genetically engineered crops into Frankenfood.” It is critical that the Federal Government and the research community act together in educating the public about the science. We cannot afford public fears to go unaddressed.

As everyone knows, I am a big supporter of plant biotechnology because it has generated exciting possibilities for improving human health and nutrition. The impressive research being done with plant genomics can eventually be a very powerful tool of addressing hunger in many developing countries such as those in Africa and Southeast Asia. The fiscal year 2005 budget request provides \$89 million for the NSF plant genome program. This keeps the funding level with the amount appropriated in fiscal year 2004. I am pleased that at least one of my priorities is not cut. Nevertheless, level funding is not enough to meet the funding goals of the National Science and Technology Council’s report, which recommends the Federal Government to invest \$1.3 billion over the next 5 years on plant genome research.

In addition to my concerns about funding, I have a couple of policy and programmatic areas of concern. First, I am interested in the National Science Board’s operations now that the Board has had a year to operate with its own budget to meet its statutory responsibilities. With its own budget and authority to hire its own staff, I would like to know how the Board is meeting its statutory responsibility to provide the Congress and the President with independent science policy advice and oversight.

Lastly, I would like to raise a few points about the recent National Academy of Sciences report on Large Facility Projects. The Foundation’s process for prioritizing its large facility projects has been a concern to me. At my request, along with Senator Mikulski and the Chairs and Ranking Members of the Senate authorizing committees, we asked the National Academy of Sciences to develop a set of criteria to rank and prioritize large research facilities supported by NSF. The Academy presented their recommendations to the NSF last month. I support the Academy’s recommendations and expect NSF to implement them as soon as possible and to present the Committee with a revised MREFC request based on the Academy’s criteria. NSF must have a priority-setting process that is credible, fair, rational, and

transparent. Until then, it will be difficult for me to support any new MREFC proposals.

I look forward to hearing the testimony of all the witnesses today and I will now turn to my colleague and ranking member, Senator Mikulski, for her statement.

Senator BOND. We will start first with Dr. Marburger. Welcome, Doctor.

STATEMENT OF JOHN H. MARBURGER, III

Dr. MARBURGER. Thank you very much, Chairman Bond. It is a pleasure to be here. Ranking Member Mikulski. I welcome the opportunity to present important highlights from the President's fiscal year 2005 Federal research and development budget, including the request for NSF, which we are all looking forward to hearing more detail about from its new acting director, Dr. Bement.

I very much appreciate the productive relationship with this committee and look forward to its continuation. Your continued support of the Nation's research enterprise is critical to maintaining U.S. leadership in science and technology, and I certainly agree with the very positive comments about the importance of science and technology to our Nation's economic well-being and competitiveness.

This budget, the President's budget, focuses on winning the war on terrorism, securing our homeland, and sustaining the economic recovery now under way. But it also focuses, as you have noted, Mr. Chairman, on controlling and reducing the deficit, while implementing pro-growth policies.

When national and homeland security needs are excluded from this budget, all other discretionary spending growth amounts to less than a one-half percent increase. This necessarily restricts funding available to R&D programs. The overall picture for fiscal year 2004 R&D investment, however, is positive, in my opinion, and reflects the administration's conviction that science and technology is basic to our three primary goals.

With this budget, total R&D investment during this administration's first term will be increased 44 percent, to a record \$132 billion in 2005. The non-security portion of R&D growth from fiscal 2004, from last year to this year, is 2.5 percent. The non-defense R&D share of total discretionary outlays is 5.7 percent, which is the third highest level in 25 years.

This budget reflects input from numerous expert sources, including the President's Council of Advisors on Science and Technology, which you mentioned, and from the science agencies, through an extensive interagency process, with which this committee is fully familiar.

In my oral testimony, I am simply going to touch on highlights. There is more detail in my written testimony, and I, of course, will be prepared to answer questions about any aspect of it. But let me draw attention to some priorities that cut across all agencies, particularly education and workforce development, not confined solely to the National Science Foundation. A cluster of programs fostering innovation has received priority, including manufacturing R&D, networking, and information technology, and, of course, the National Nanotechnology Initiative.

Physical sciences and engineering enhancement, which you mentioned in your opening remarks, Mr. Chairman, which includes many programs at the National Science Foundation and NASA, does receive some priority emphasis in this budget, and finally, a better understanding of the global environment and climate change. These are all designated as priorities in a memorandum from the Office of Management and Budget and my office, earlier in 2004, and I believe those priorities are reflected in this admittedly difficult budget year.

This committee also appropriates the budget for OSTP, my office. Senator BOND. That is why you are here.

Dr. MARBURGER. I am grateful for that. It is a very important reason. There are bigger fish. The National Science Foundation obviously plays a very important role, and the other agencies for which you appropriate, but I am pleased to have the responsibility in the White House for prioritizing and recommending Federal R&D programs, and for coordinating interagency research initiatives.

The 2005 request for OSTP is \$7.081 million, which is a 1.4 percent increase from the previous year's, or current year's, enacted level. We have modest increases for the usual things—personnel, rental payments to GSA, and our supplies, materials, and equipment needs. The request also contains a decrease of \$48,000 in communications due to a realignment of telecommunications infrastructure costs to the Office of Administration.

We do operate as efficiently as we can. We also are participating in the President's management agenda, and we are confident that we can fulfill our obligations to Congress and the administration to provide high-quality science advice and coordination within this requested budget.

So let me hit some agency highlights. I will be brief about the National Science Foundation budget, because you will hear more about it from other panelists. This budget does provide \$5.75 billion for NSF, which is a 3 percent increase over the 2004 enacted level, considerably more, I might add, than the less one-half percent increase for the entire non-security discretionary budget. Since 2001, with the assistance of this committee, which we gratefully acknowledge, the National Science Foundation budget has increased by 30 percent during this administration.

The budget provides over a billion dollars for NSF awards that emphasize the mathematical and physical sciences. These programs have increased 31 percent in this administration.

NSF participates strongly in the administration's cross-agency priority programs that I mentioned earlier in info, nano, and biotechnology, climate science, and education. The budget provides \$761 million for NSF's role in the National Information Technology R&D Initiative, and \$210 million for climate change science, \$305 million for NSF's lead role in the National Nanotechnology Initiative, which is a 20 percent increase in that initiative from this current year level.

Science and math education is strongly supported in this budget, with funds for 5,500 graduate research fellowships and traineeships, an increase of 1,800 in this administration. Annual stipends in these programs have increased to a projected \$30,000,

compared with \$18,000 in the 2001 budget. We are quite grateful for your support and leadership in these issues.

Science infrastructure funding, which is an investment in the future, is provided to initiate construction in several important projects within the major research equipment area.

Let me just say a few words about other important agencies. The National Aeronautics and Space Administration. I recently testified before the House Science Committee on the President's vision for a sustainable, affordable program of human and robotic exploration of the solar system, and will be glad to answer further questions about it here, if you have them.

The budget requests \$16 billion for NASA, \$16.2 billion in 2005, and \$87 billion over 5 years, going forward, which is an increase of a billion over the fiscal year 2004 5-year plan for NASA. NASA will reallocate \$11 billion within this 5-year amount toward new exploration activity.

The budget does also include continued growth in space science, which is a very important mission for NASA, with a request for \$4.1 billion in fiscal year 2005, an increase of \$1.5 billion over the 4 years of this administration, a 50 percent increase in space science.

This budget supports the next generation of space observatories that will be used to better understand the origin, structure, and evolution of the universe. I might add that the National Science Foundation contributes significantly to that mission as well, and I am pleased with the cooperation between NSF and NASA, particularly on planning for deep space observations.

Within the Environmental Protection Agency, this budget provides nearly three-quarters of a billion dollars for EPA science and technology. We believe EPA is enhancing its overall scientific program to ensure that its efforts to safeguard human health and the environment are based on the best scientific and technical information.

In my written testimony, I described an important memorandum of understanding that was recently executed between EPA and the Department of Energy, which sets a very positive pattern of inter-agency cooperation for the future. It is a move that I am very pleased to see.

Within the Department of Veterans Affairs, the fiscal year 2005 budget provides approximately three-quarters of a billion dollars, \$770 million, for science and technology at the VA. After taking into consideration the significant funding the Department receives from other government agencies and private entities to support VA-conducted research, the total VA R&D program resources are at \$1.7 billion. It is a significant amount of research for that agency.

The VA will soon begin to use increased funding from private companies for the indirect administration costs of conducting research in VA facilities. The 2005 budget also reflects a restructuring of total resources in the research business line, as first shown in the current year budget.

PREPARED STATEMENT

I mentioned earlier a set of cross-agency priorities that are described in detail in my written testimony. I will not mention them

further here. I would be very glad to answer questions about them, but I do want to end by saying that this administration is taking pains to ensure that funds appropriated for science are wisely expended. There is a description of the President's management agenda, as applied to science, in my written testimony.

I will be glad to answer questions about it. Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Dr. Marburger.
[The statement follows:]

PREPARED STATEMENT OF JOHN H. MARBURGER, III

Mr. Chairman and members of the Subcommittee, I welcome the opportunity to present important highlights of the President's fiscal year 2005 Federal research and development budget, including the request for the Office of Science and Technology Policy (OSTP).

I have appreciated my close and productive relationship with this Subcommittee and look forward to working with you again this year as you make important choices to optimize the Federal R&D investment. Your continued support of our country's research enterprise is yet another reason why the U.S. Government leads the world in science, engineering, technology, and productivity.

No Federal budget is ever "business as usual"—the stakes are simply too high. Yet, as we look together at the fiscal year 2005 budget, we should pause to consider the truly unique global forces shaping today's budgetary priorities. In his State of the Union address, the President reminded us that "our greatest responsibility is the active defense of the American people." This includes winning the war on terrorism, and securing our homeland. The President's budget focuses on these important goals and reinforces another critical priority, the economic recovery now underway. The Administration is also determined, without compromising the above priorities, to control and reduce the deficit, as we continue to implement pro-growth policies. The President has proposed a fiscally responsible budget that meets the Nation's expanding national and homeland security needs while limiting all other discretionary spending growth to less than 0.5 percent. This necessarily leads to smaller increases, and even decreases, for some categories, including some R&D programs. Nevertheless, the overall picture for fiscal year 2005 R&D investment is quite positive, reflecting the Administration's strong support for science and technology.

With the President's fiscal year 2005 budget, total R&D investment during this Administration's first term will be increased 44 percent, to a record \$132 billion in 2005 as compared to \$91 billion in fiscal year 2001. That equates to increases of nearly 10 percent each year. Significantly outpacing the fiscal year 2005 overall "non-security" discretionary spending growth of 0.5 percent, the non-security R&D growth rate is 2.5 percent. Science and technology drive economic growth. They help improve our health care, enhance our quality of life, and play an important role in securing the homeland and winning the war on terrorism. These increases reflect the Administration's appreciation of the importance of a strong national R&D enterprise for our current and future prosperity. The President's budget, as in years past, also continues to emphasize improved management and performance, to maintain excellence and sustain our national leadership in science and technology.

In my prepared statement I will review the broad goals of the President's budget, provide detail on OSTP's budget, and give an overview of the request for Federal research priorities that cut across multiple agencies and research disciplines.

THE PRESIDENT'S FISCAL YEAR 2005 R&D BUDGET

The President's fiscal year 2005 budget request commits 13.5 percent of total discretionary outlays to R&D, the highest level in 37 years. Not since 1968, during the Apollo program, have we seen an investment in research and development of this magnitude. Of this amount, the budget commits 5.7 percent of total discretionary outlays to non-defense R&D, the third highest level in 25 years.

Clearly demonstrating the President's commitment to priority investments for the future, Federal R&D spending in the fiscal year 2005 Budget is the greatest share of GDP in over 10 years. In fact, the last time Federal R&D has been over 1 percent of GDP was in 1993. And even more noteworthy, fiscal year 2005 non-defense R&D is the highest percentage of GDP since 1982.

Not all programs can or should receive equal priority, and this budget reflects choices consistent with recommendations from numerous expert sources. The pri-

ority programs in the Federal R&D budget build upon exciting areas of scientific discovery from hydrogen energy and nanotechnology to the basic processes of living organisms, the fundamental properties of matter, and a new vision of sustained space exploration. In particular, this budget responds to recommendations by the President's Council of Advisors on Science and Technology (PCAST) and others about needs in physical science and engineering.

The budget also reflects an extensive process of consultation among the Federal agencies, OMB, and OSTP, to thoroughly evaluate the agency programs and priorities, interagency collaborations, and directions for the future. The National Science and Technology Council (NSTC) continues to provide a valuable mechanism to facilitate this interagency coordination. This process of collaborative review resulted in guidance to agencies issued by OSTP and OMB last June, concerning their program planning, evaluation, and budget preparation, and culminating in the budget you see before you today.

An important component of this budget is an increase in funding for education and workforce development, which are essential components of all Federal R&D activities and continue to be high priorities for the Administration. As President Bush has stated, "America's growing economy is also a changing economy. As technology transforms the way almost every job is done, America becomes more productive, and workers need new skills."

As in previous years, this R&D budget highlights the importance of collaborations among multiple Federal agencies working together on broad themes. I will describe three high-priority R&D initiatives for fiscal year 2005: (1) a cluster of programs fostering innovation, which includes manufacturing R&D, networking and information technology, and the National Nanotechnology Initiative; (2) physical sciences and engineering enhancement, which includes many programs at the National Science Foundation and NASA; and (3) a better understanding of the global environment and climate change.

Office of Science and Technology Policy (OSTP)

The Office of Science and Technology Policy, which I lead, has primary responsibility in the White House for prioritizing and recommending Federal R&D, as well as for coordinating interagency research initiatives. The fiscal year 2005 request for OSTP is \$7,081,000, which is a 1.4 percent increase from the fiscal year 2004 enacted level. Some of the changes for this fiscal year include increases for personnel, rental payments to GSA, and supplies, materials, and equipment. The budget request also contains a decrease of \$48,000 in communications due to a realignment in telecommunications infrastructure costs to the Office of Administration.

The estimate for fiscal year 2005 reflects OSTP's commitment to operate more efficiently and cost-effectively without compromising the essential element of a top-caliber science and technology agency—high quality personnel. OSTP continues to freeze or reduce funding in many object classes, such as travel and printing, to meet operating priorities. OSTP will continue to provide high quality support to the President and information to Congress, as well as to fulfill significant national and homeland security and emergency preparedness responsibilities.

AGENCY BUDGET HIGHLIGHTS

National Science Foundation (NSF)

The 2005 Budget provides \$5.75 billion for NSF, a 3 percent increase over the 2004 enacted level. Since 2001, the NSF budget has increased by 30 percent.

The budget provides over \$1 billion for NSF awards that emphasize the mathematical and physical sciences, including mathematics, physics, chemistry, and astronomy. These programs have increased by 31 percent since 2001.

NSF participates strongly in this Administration's cross agency priority programs in information- and nano-technology, climate science, and education. This budget provides \$761 million for NSF's role in the National Information Technology R&D initiative, focusing on long-term computer science research and applications; \$210 million for climate change science; and \$305 million for NSF's lead role in the National Nanotechnology Initiative, a 20 percent increase from the 2004 level.

Science and math education is strongly supported in this budget, with funds for 5,500 graduate research fellowships and traineeships, an increase of 1,800 since 2001. Annual stipends in these programs have increased to a projected \$30,000, compared with \$18,000 in 2001.

The redirection of the Math and Science Partnerships (MSP) in the Department of Education reflects a desire to focus the program on integrating research-proven practices into classroom settings. The Budget requests \$349 million total for the joint MSP program in 2005, a \$61 million increase over the 2004 level. This increase

in the MSP program is a key component of the President's Jobs for the 21st Century Initiative. This initiative will better prepare high school students to enter higher education or the workforce since 80 percent of the fastest-growing jobs in the United States require higher education and many require math and science skills. Eighty million dollars of the overall program remains in NSF to continue ongoing commitments.

Science infrastructure funding, an investment in the future, is provided to initiate construction for the National Ecological Observation Network (NEON), the Scientific Ocean Drilling Vessel, and a set of experiments in fundamental physics called "Rare Symmetry Violating Processes" (RSVP).

National Aeronautics and Space Administration (NASA)

The President has committed the United States to a sustainable, affordable program of human and robotic exploration of the solar system. This vision supports advanced technology development with multiple uses that will accelerate advances in robotics, autonomous and fault tolerant systems, human-machine interface, materials, life support systems, and spur novel applications of nanotechnology and micro-devices. All of these advances, while pushing the frontiers of space, are likely to spur new industries and applications that will improve life on Earth.

To support this and other NASA missions, the Budget requests \$16.2 billion in fiscal year 2005 and \$87 billion over 5 years, an increase of \$1 billion over the fiscal year 2004 5-year plan. NASA will reallocate \$11 billion within this 5-year amount toward new exploration activities. Robotic trailblazers to the Moon will begin in 2008, followed by a human return to the Moon no later than 2020. The pace of exploration will be driven by available resources, technology readiness, and our ongoing experience.

The 2005 Budget supports a variety of key research and technology initiatives to enable the space exploration vision. These initiatives include refocusing U.S. research on the International Space Station to emphasize understanding and countering the impact of long-duration space flight on human physiology. In addition, the agency will pursue optical communications for increased data rates throughout the solar system, space nuclear power to enable high-power science instruments, advanced in-space propulsion technologies, and systems that enable robots and humans to work together in space.

The Budget continues the growth in space science with a request for \$4.1 billion in fiscal year 2005, an increase of \$1.5 billion, or over 50 percent, since 2001. This budget supports the next generation of space observatories that will be used to better understand the origin, structure, and evolution of the universe.

Although exploration will become NASA's primary focus, the agency will not forsake its important work in improving the Nation's aviation system, in education, in earth science, and in fundamental physical science.

Environmental Protection Agency (EPA)

The fiscal year 2005 budget provides nearly three-quarters of a billion dollars for EPA science and technology. The EPA is enhancing its overall scientific program to ensure that its efforts to safeguard human health and the environment are based on the best scientific and technical information.

One example of this enhancement was announced February 18 by Administrator Leavitt when he signed a Memorandum of Understanding with Energy Secretary Abraham. The purpose of the MOU is to expand the research collaboration of both agencies in the conduct of basic and applied research related to: (1) environmental protection, environment and energy technology, sustainable energy use, ecological monitoring, material flows, and environmental and facilities clean-up; (2) high-performance computing and modeling; and (3) emerging scientific opportunities in genomics, nanotechnology, remote sensing, bioinformatics, land restoration, material sciences, molecular profiling, and information technology, as well as other areas providing promising opportunities for future joint efforts by EPA's and DOE's research communities.

Two particular areas of note in the EPA request are homeland security research and water quality monitoring. EPA's homeland security research program will result in more efficient and effective threat detection and response for water systems. Additionally, EPA will develop practices and procedures that provide elected officials, decision makers, the public, and first responders with rapid risk assessment protocols for chemical and biological threats. On water quality, EPA will address the integration of different scales and types of monitoring to target effective water quality management actions and document effectiveness of water quality management programs.

Department of Veterans Affairs (VA)

The Fiscal Year 2005 Budget provides approximately three-quarters of a billion dollars (\$770 million) for science and technology at the VA, a 9 percent increase since fiscal year 2001. After taking into consideration the significant funding the Department receives from other government agencies and private entities to support VA-conducted research. Total VA R&D program resources are \$1.7 billion.

The proposed budget provides for clinical, epidemiological, and behavioral studies across a broad spectrum of medical research disciplines. Some of the Department's top research priorities include improving the translation of research results into patient care, special populations (those afflicted with spinal cord injury, visual and hearing impairments, and serious mental illness), geriatrics, diseases of the brain (e.g. Alzheimer's and Parkinson's), treatment of chronic progressive multiple sclerosis, and chronic disease management.

VA will soon begin to use increased funding from private companies for the indirect administration costs of conducting research in VA facilities. The 2005 Budget also reflects a restructuring of total resources in the Research Business Line as first shown in the 2004 Budget.

PRIORITY INITIATIVES

The 2005 budget highlights high-priority interagency initiatives described briefly below. These initiatives are coordinated through the National Science and Technology Council (NSTC) for which my office has responsibility for day-to-day operations. The Council prepares research and development strategies that cross agency boundaries to form a consolidated and coordinated investment package.

Innovation.—The Fiscal Year 2005 Budget calls for research and development investments to promote technological innovation in high-priority areas including manufacturing technology; information technology, and nanotechnology; the creation of incentives for increased private sector R&D funding; and stronger intellectual property protections. These investments will stimulate innovation and enhance U.S. competitiveness.

—*Manufacturing Technology.*—The President's Budget requests increased funding for a number of programs that strengthen manufacturing innovation, including those within the National Science Foundation's Design, Manufacture and Industrial Innovation Division—up 27 percent since 2001 to \$66 million—and the Manufacturing Engineering Laboratory at the National Institute of Standards and Technology (NIST)—up 50 percent since 2001 to \$30 million. The Fiscal Year 2005 Budget sustains funding for the Manufacturing Extension Partnership at the Department of Commerce at the 2004 level and proposes to implement reforms to improve the efficiency and effectiveness of the program.

—*Networking and Information Technology.*—Since 2001, funding for Networking and Information Technology R&D (NITRD) has increased by 14 percent to over \$2 billion, and the R&D funded by this effort has laid the foundation for many of the technological innovations that have driven the computer sector forward. The President's Fiscal Year 2005 Budget sustains this significant investment. One half of the NITRD budget is controlled by this Subcommittee and you have increased the funding of that part of the program by 26 percent since fiscal year 2001.

—*Nanotechnology.*—The President's Budget includes \$1 billion in funding to increase understanding, and develop applications based upon, the unique properties of matter at the nanoscale—that is, at the level of clusters of atoms and molecules. Funding for nanotechnology R&D has more than doubled since 2001. Nearly 35 percent of the President's request for funding of the National Nanotechnology Initiative is within this Subcommittee's purview. I want to thank this Subcommittee for its recognition of the importance of the nanotechnology R&D under your jurisdiction, which has increased by 67 percent since fiscal year 2001.

Physical Sciences and Engineering.—Research in the physical sciences and engineering is an essential component of space exploration, nanotechnology, networking and information technologies, biomedical applications, and defense technologies. Physical science research leads to a better understanding of nature and, indeed, our universe. Research in this area also complements a number of critical investments in other areas such as those being made in the life sciences. The 2005 Budget strengthens our Nation's commitment to the physical sciences and engineering, devoting significant resources to this priority area. The policy priority regarding the physical sciences responds to input and recommendations from PCAST.

Key activities in the physical sciences may be seen in selected programs in NSF, NASA's Space Science Enterprise, DOE's Office of Science, and the National Insti-

tute of Standards and Technology and National Oceanic and Atmospheric Administration in the Department of Commerce. Using these activities as a barometer of the health of physical science funding, the 2005 Budget requests \$11.4 billion, \$2.6 billion more than the fiscal year 2001 funding level. That's a 29 percent increase under this Administration. Within this total, Space Science grows 56 percent, from \$2.6 billion to \$4.1 billion over the last 4 years. And within NSF, the Mathematical and Physical Sciences, Geosciences, Computer and Information Science and Engineering, and Engineering Directorates rise 31 percent, from \$2.3 billion to over \$3 billion.

Climate Change and Global Observations.—For fiscal year 2005, the Administration is proposing to maintain funding at approximately \$2 billion for the Climate Change Science Program to increase our understanding of the causes, effects, and relative impacts of climate change phenomena. Nearly three-quarters of this climate change research money is allocated to NASA, NSF, and EPA, which are all agencies within this Subcommittee's jurisdiction. The Administration considers the development of an integrated, comprehensive, coordinated, and sustained global Earth observation system to be of high importance for numerous activities such as improved weather forecasts, improved land and ecosystem management, and improved forecasts of natural disasters such as landslides, floods, and drought; which all have high impact on national economic security and public health. Accurate and sustained global observations are critical for understanding our climate and how climate changes on various time scales. Environmental observations are also a critical component in an effective national response strategy for natural and terrorist incident management.

The Administration's 2005 Budget has accelerated by \$56.5 million the research on aerosols, oceans, and carbon cycle to contribute to filling knowledge gaps identified in the U.S. Climate Change Science Program Strategic Plan, which last week received high marks after a 6-month review from an independent committee convened by the National Research Council. Global observations of vertical distributions of size, composition, physical and optical properties of aerosols will help determine whether and by how much the overall effect of aerosols enhances heating or cooling of the atmosphere. With new observations from satellite, ships and land stations, the uncertainty about the role of aerosols in climate science is expected to be halved in 10 years.

Knowledge of regional sources and sinks of the global carbon cycle, essential for long term predictions of climate, require innovative new observations. Measurements of vertical profile of carbon dioxide in North America will be enhanced from land-based towers and aircraft. Additionally, the vast expanse of the world ocean is highly under sampled. The Administration will accelerate deployment of moored and free-drifting buoys to measure ocean temperature, salinity and other variables to observe the unsteady characteristics of ocean circulation. These measurements and the Administration's other observational assets contribute to the global Earth observation system.

MANAGING THE FEDERAL RESEARCH BUDGET

Research and development are critically important for keeping our Nation economically competitive, and will help solve the challenges we face in health, defense, energy, and the environment. Recognizing this, the Administration is investing in R&D at a rate of growth significantly greater than most other domestic discretionary spending. We all share the responsibility for ensuring the American people that these funds are invested wisely. Therefore, consistent with the Government Performance and Results Act, every Federal R&D dollar must be evaluated according to the appropriate investment criteria.

As directed by the President's Management Agenda, the R&D Investment Criteria were first applied in 2001 to selected R&D programs at DOE. Through the lessons learned from that DOE pilot program, the criteria were subsequently broadened in scope to cover other types of R&D programs at DOE and other agencies. To accommodate the wide range of R&D activities, a new framework was developed for the criteria to address three fundamental aspects of R&D:

- Relevance.*—Programs must be able to articulate why they are important, relevant, and appropriate for Federal investment;
- Quality.*—Programs must justify how funds will be allocated to ensure quality; and
- Performance.*—Programs must be able to monitor and document how well the investments are performing.

In addition, R&D projects and programs relevant to industry are expected to meet criteria to determine the appropriateness of the public investment, enable compari-

sons of proposed and demonstrated benefits, and provide meaningful decision points for completing or transitioning the activity to the private sector.

OSTP and OMB are continuing to assess the strengths and weaknesses of R&D programs across the Federal Government in order to identify and apply good R&D management practices throughout the government.

CONCLUSION

Mr. Chairman and members of the Subcommittee, I believe this is a good budget for science and technology. It is based on well-defined, well-planned, collaboratively-selected priorities. In a difficult budget year, this Administration remains committed to strong, sound research and development as the foundation for national security and economic growth and jobs. I would be pleased to respond to questions.

Senator BOND. I hope that next year if you are working on a budget that you can take your opening statement to OMB. You are preaching to a choir up here. We need to have some funds.

Dr. Bement.

STATEMENT OF ARDEN L. BEMENT, JR.

Dr. BEMENT. Thank you, Chairman Bond, Senator Mikulski, members of the Committee. I am pleased to appear before you today, my fourth working day since becoming Acting Director of NSF. I want to provide for you a quick overview of the NSF budget request for fiscal year 2005 and then find out what issues are of great concern to the Committee, which you have already provided.

As you undoubtedly know, NSF works hard to open new frontiers in research and education. And we have our eye on the biggest prize, namely, economic and social prosperity, and very importantly, security benefitting all citizens.

The most powerful mechanism for keeping our Nation prosperous and secure is keeping it at the forefront of learning and discovery. That is NSF's business, to advance fundamental research in science and engineering, to educate and train scientists and engineers, and to provide the tools to accomplish both of these.

First, the big picture. This year, NSF is requesting \$5.745 billion. That is an increase of \$167 million, or 3 percent more than last year. In spite of the significant challenges facing our Nation in security, defense, and the economy, NSF is, relatively speaking, doing well. An increase of 3 percent is a wise investment that will keep us on the right path. NSF is grateful for the leadership and the vision of this committee in that effort.

Having said that, in a year of very tight budgets, it was necessary to set the priorities and make informed, but tough, choices; never an easy job, and particularly difficult when opportunities to make productive investments are as plentiful as they are today in research and education.

The largest dollar increase is in the Research and Related Activities account, \$201 million, or 5 percent above the fiscal year 2004 level. The largest decrease in the budget will be in the Education and Human Resources Directorate, with the major share of the decrease due to the consolidation of the Math and Science Partnership at the Department of Education.

Nevertheless, NSF is increasing its investments in people, science and engineering students and researchers, as well as public understanding and diversity participation in science and engineering throughout all the directorates.

I will begin with the investment of Organizational Excellence. This investment will streamline and update NSF operations and management by allowing us to address mounting proposal pressure, add new skills to the workforce, and improve the quality and responsiveness for our customers. In fiscal year 2005, an increased investment of \$76 million in this area will ensure continued productive investments and continually improved performance in the future.

Today's science and engineering challenges are also more complex. Increasingly, they involve multi-investigative research, as well as strong emphasis on interdisciplinary research. Increasing award size and duration across-the-board therefore remains one of NSF's top long-term priorities. NSF will make additional progress in fiscal year 2005 with an increase in the average annual award. That brings the total increase from \$90,000 to \$142,000 since 1998, an increase of 58 percent.

Attracting the Nation's best talent into science and engineering fields will be facilitated by increasing the level of graduate stipends from a base of \$15,000 in 1999, to \$30,000 today. In fiscal year 2005, the number of fellows will increase from 5,000 to 5,500 for NSF's flagship graduate education programs.

NSF's five focused priority areas are slated to receive more than \$537 million in 2005. As the lead agency in the administration's national nanotechnology initiative, support for Nanoscale Science and Engineering will increase by 20 percent, to \$305 million. Support for Biocomplexity in the Environment and the Mathematical Sciences will continue at 2004 levels.

The Human and Social Dynamics priority area will receive \$23 million to investigate the impacts of change on our lives and the stability of our institutions, with special emphasis on the way people make decisions and take risks. The budget includes \$20 million to start NSF's Workforce for the Twenty-First Century priority area, critical, because it focuses on U.S. citizens and broadening participation.

Researchers need access to cutting-edge tools to tackle today's complex and radically different research. The fiscal year 2005 investment in tools is \$1.5 billion, an increase of \$104 million. It continues an accelerated program to revitalize and upgrade the Nation's aging research infrastructure through investments in cutting-edge tools of every kind. Nearly \$400 million of the fiscal year 2005 investment in tools supports the expansion of state-of-the-art cyber infrastructure.

PREPARED STATEMENT

Mr. Chairman, although I have been at NSF only a matter of days, as a former member of the National Science Board, I am very familiar with the agency, its history, and its goals. I recognize the need to identify clear priorities in a time of tight budgets, and, therefore, to make tough choices. NSF's fiscal year 2005 investments will have long-term benefits for the entire science and engineering community, and contribute to security and prosperity for our Nation.

Mr. Chairman, I would be happy to respond to any questions.
[The statement follows:]

PREPARED STATEMENT OF ARDEN L. BEMENT, JR.

Chairman Bond, Senator Mikulski, and Members of the Committee, I am pleased to appear before you today. For more than 50 years, the National Science Foundation (NSF) has been a strong steward of America's science and engineering enterprise. Although NSF represents roughly 3 percent of the total Federal budget for research and development, it accounts for one-fifth of all Federal support for basic academic research and 40 percent of support for basic research at academic institutions, outside of the life sciences. Despite its small size, NSF has an extraordinary impact on scientific and engineering knowledge and capacity.

During NSF's five decades of leadership, groundbreaking advances in knowledge have helped reshape society and enabled the United States to become the most productive Nation in history. The returns on NSF's strategic investments in science, engineering, and mathematics research and education have been enormous. Much of the sustained economic prosperity America has enjoyed over the past decade is the result of technological innovation—innovation made possible, in large part, by NSF support for fundamental research and education.

In our 21st century world, knowledge is the currency of everyday life, and the National Science Foundation is in the knowledge business. NSF's investments are aimed at the frontiers of science and engineering, where advances in fundamental knowledge drive innovation, progress, and productivity.

The surest way to keep our Nation prosperous and secure is to keep it at the forefront of learning and discovery. That is NSF's business—to educate and train scientists and engineers, advance fundamental research and engineering, and provide the tools to accomplish both. The NSF fiscal year 2005 budget request aims to do that, and I am pleased to present it to you today.

Let me begin with the big picture. This year the National Science Foundation is requesting \$5.745 billion. That's an increase of \$167 million, or 3 percent more than in the fiscal year 2004 enacted level.

In light of the significant challenges that face the Nation—in security, defense, and the economy—NSF has, relatively speaking, fared well. An increase of 3 percent, at a time when many agencies are looking at budget cuts, is certainly a vote of confidence in the National Science Foundation's stewardship of these very important components of the Nation's goals.

Nonetheless, in a year of very tight budgets, NSF has had to set priorities and make informed choices in a sea of opportunity and constraint. That is never an easy job, but it is particularly difficult when opportunities to make productive investments are as plentiful as they are today in research and education.

The NSF Fiscal Year 2005 Budget Request addresses these opportunities and challenges through an integrated portfolio of investments in People, Ideas, Tools, and Organizational Excellence. The NSF budget identifies what we see as NSF's most pressing needs during the coming year:

—*Strengthen NSF management to maximize effectiveness and performance.*—The Fiscal Year 2005 Request assigns highest priority to strengthening management of the investment process and operations. The budget request includes an increase of over \$20 million to strengthen the NSF workforce and additional investments of over \$50 million to enhance information technology infrastructure, promote leading-edge approaches to eGovernment, and ensure adequate safety and security for all of NSF's information technology and physical resources. It's a sizable increase, especially in a constrained environment, but it's really the minimum needed to keep pace with a growing workload and expanding responsibilities.

—*Improve the productivity of researchers and expand opportunities for students.*—Boosting the overall productivity of the Nation's science and engineering enterprise requires increasing average award size and duration. The recent survey of NSF-funded principal investigators provides convincing evidence that an increase in award size will allow researchers to draw more students into the research process, and increasing award duration will foster a more stable and productive environment for learning and discovery. The level proposed for fiscal year 2005 represents a 58 percent increase over the past 7 years in average annual award size.

—*Strengthen the Nation's performance with world-class instruments and facilities.*—In an era of fast-paced discovery and technological change, researchers need access to cutting-edge tools to pursue increasingly complex avenues of research. NSF investments not only provide these tools, but also develop and creatively design the tools critical to 21st Century research and education. Consistent with the recent recommendations of the National Science Board, invest-

ment in infrastructure of all types (Tools) rises to \$1.47 billion, representing 26 percent of the Fiscal Year 2005 Budget Request.

Targeted investments under each of NSF's four strategic goals will promote these objectives and advance the progress of science and engineering.

NSF STRATEGIC GOALS: PEOPLE, IDEAS, TOOLS AND ORGANIZATIONAL EXCELLENCE

The National Science Foundation supports discovery, learning and innovation at the frontiers of science and engineering, where risks and rewards are high, and where benefits to society are most promising. NSF encourages increased and effective collaboration across disciplines and promotes partnerships among academe, industry and government to ensure that new knowledge moves rapidly and smoothly throughout the public and private sectors.

NSF's investment strategy establishes a clear path of progress for achieving four complementary strategic goals: People, Ideas, Tools and Organizational Excellence. "People, Ideas and Tools" is simple shorthand for a sophisticated system that integrates education, research, and cutting-edge infrastructure to create world-class discovery, learning and innovation in science and engineering. Organizational Excellence (OE)—a new NSF strategic goal on a par with the other three—integrates what NSF accomplishes through People, Ideas and Tools with business practices that ensure efficient operations, productive investments and real returns to the American people.

People.—The rapid transformations that new knowledge and technology continuously trigger in our contemporary world make investments in people and learning a continuing focus for NSF. In our knowledge-based economy and society, we need not only scientists and engineers, but also a national workforce with strong skills in science, engineering and mathematics. Yet many of today's students leave secondary school without these skills. Fewer young Americans choose to pursue careers in science and engineering at the university level. Of those that do, fewer than half graduate with science or engineering degrees. The Fiscal Year 2005 Request provides \$1.065 billion for programs that will address these challenges.

To capture the young talent so vital for the next generation of discovery, we will increase the number of fellowships from 5,000 to 5,500 for NSF's flagship graduate education programs: the Integrative Graduate Education and Research Traineeships (IGERT), Graduate Research Fellowships (GRF), and Graduate Teaching Fellows in K-12 Education (GK-12).

Ideas.—New knowledge is the lifeblood of the science and engineering enterprise. Investments in Ideas are aimed at the frontiers of science and engineering. They build the intellectual capital and fundamental knowledge that drive technological innovation, spur economic growth and increase national security. They also seek answers to the most fundamental questions about the origin and nature of the universe, the planet and humankind. Investments totaling \$2.85 billion in fiscal year 2005 will support the best new ideas generated by the science and engineering community.

Increasing grant size and duration is a fundamental, long-term investment priority for NSF. Larger research grants of longer duration will boost the overall productivity of researchers by freeing them to take more risks and focus on more complex research goals with longer time horizons. More flexible timetables will also provide researchers with opportunities to provide expanded education and research experiences to students. Investments in fiscal year 2005 bring NSF average annual research grant award size to approximately \$142,000, an increase of \$3,000 over fiscal year 2004—a 58 percent increase since 1998. Average annual award duration will continue at approximately 3.0 years.

Tools.—The fiscal year 2005 request for Tools totals \$1.47 billion, an increase of \$104 million over the Fiscal Year 2004 Estimate. The increase continues an accelerated program to revitalize and upgrade the Nation's aging infrastructure through broadly distributed investments in instruments and tools. Progress in research and education frequently depends upon the development and use of tools that expand experimental and observational limits. Researchers need access to cutting-edge tools to tackle today's complex and radically different avenues of research, and students who are not trained in their use are at a disadvantage in today's technology-intensive workplace.

Organizational Excellence (OE).—With activities that involve over 200,000 scientists, engineers, educators and students and with over 40,000 proposals to process each year, NSF relies on efficient operations and state-of-the-art business practices to provide quality services and responsible monitoring and stewardship of the agency's investments. NSF's Request includes \$363.05 million to support Organizational

Excellence (OE). This represents an increase in the share of the total NSF budget for OE from 5 percent in fiscal year 2004 to 6 percent in fiscal year 2005.

A number of considerations have elevated the Organizational Excellence portfolio in NSF's Fiscal Year 2005 Request. For 20 years NSF staffing has remained level as the total budget and workload increased significantly, and the work has become more complex. Proposals increasingly involve large, multidisciplinary and interdisciplinary projects and require sophisticated monitoring and evaluation. NSF is also committed to maintaining its traditional high standards for stewardship, innovation and customer service. Key priorities for fiscal year 2005 include award monitoring and oversight, human capital management and IT system improvements necessary for leadership in eGovernment, security upgrades and world-class customer service.

It is central to NSF's mission to provide effective stewardship of public funds, to realize maximum benefits at minimum cost and to ensure public trust in the quality of the process. The fiscal year 2005 investment in Organizational Excellence will streamline and update NSF operations and management by enhancing cutting edge business processes and tools. It will also fund the addition of 25 new permanent employees to address mounting workplace pressure, add new skills to the workforce and improve the quality and responsiveness of customer service.

PRIORITY AREAS

Before providing a few highlights of the budget, it should be noted that the priority-setting process at NSF results from continual consultation with the research community. New programs are added or enhanced only after seeking the combined expertise and experience of the science and engineering community, NSF management and staff, and the National Science Board.

Programs are initiated or enlarged based on considerations of their intellectual merit, broader impacts of the research, the importance to science and engineering, balance across fields and disciplines, and synergy with research in other agencies and nations. NSF coordinates its research with our sister research agencies both informally—by program officers being actively informed of other agencies' programs—and formally, through interagency agreements that spell out the various agency roles in research activities. Moreover, through the Committee of Visitors process there is continuous evaluation and feedback of information about how NSF programs are performing.

Producing the finest scientists and engineers in the world and encouraging new ideas to strengthen U.S. leadership across the frontiers of discovery are NSF's principal goals. NSF puts its money where it counts—94 percent of the budget goes directly to the research and education that keep our knowledge base strong, our economy humming and the benefits to society flowing.

America's science and engineering workforce is the most productive in the world. To keep it that way, we have to attract more of the most promising students to graduate-level studies in science and engineering.

Since its founding in 1950, NSF has supported 39,000 fellows. Next year NSF will increase Fellowships from 5,000 to 5,500 for NSF's prestigious graduate education programs: the Integrative Graduate Education and Research Traineeships (IGERT), Graduate Research Fellowships (GRF), and Graduate Teaching Fellows in K-12 Education (GK-12).

Attracting the Nation's best talent has been facilitated by increasing the level of graduate stipends from a base of \$15,000 in 1999 to \$30,000 in fiscal year 2004. Stipend levels will remain at the \$30,000 level in fiscal year 2005.

Today's science and engineering challenges are more complex. Increasingly, they involve multi-investigator research, as well as a strong emphasis on interdisciplinary research. So, increasing award size and duration—across the board—remains one of NSF's top long-term priorities. In fiscal year 2005 the average annual award will increase by \$3,000. That brings the total increase to 58 percent since 1998.

Opportunities to advance knowledge have never been greater than they are today. NSF invests in emerging areas of research that hold exceptional potential to strengthen U.S. world leadership in areas of global economic and social importance. This year, NSF is requesting funding for five priority areas with very promising research horizons: biocomplexity, nanoscale science and engineering, mathematical sciences, human and social dynamics, and the 21st century workforce.

Biocomplexity in the Environment explores the complex interactions among organisms and their environments at all scales, and through space and time. This fundamental research on the links between ecology, diversity, the evolution of biological systems, and many other factors will help us better understand and, in time, predict

environmental change. In fiscal year 2005, Biocomplexity in the Environment will emphasize research on aquatic systems.

The Human and Social Dynamics priority area will explore a wide range of topics. These include individual decision-making and risk, the dynamics of human behavior, and global agents of change—from democratization, to globalization, to war. Support will also be provided for methodological capabilities in spatial social science and for instrumentation and data resources infrastructure.

Mathematics is the language of science, and is a powerful tool of discovery. The Mathematical Sciences priority areas will focus on fundamental research in the mathematical and statistical sciences, interdisciplinary research connecting math with other fields of science and engineering, and targeted investments in training.

NSF's investment in Nanoscale Science and Engineering targets the fundamental research that underlies nanotechnology—which very likely will be the next “transformational” technology.

Investments in this priority area will emphasize research on nanoscale structures and phenomena, and quantum control. NSF is the lead agency for the government-wide National Nanotechnology Initiative (NNI). NSF is requesting \$305 million, an increase of nearly \$52 million or 20 percent. This is by far NSF's largest priority area investment.

To operate in an increasingly complex world, we have to produce a general workforce that is scientifically and technologically capable, and a science and engineering workforce that is world class by any measure.

The fiscal year 2005 request provides \$20 million to initiate the Workforce for the 21st Century priority area. This investment will support innovations to integrate NSF's investments in education at all levels, from K–12 through postdoctoral, as well as attract more U.S. students to science and engineering fields and broaden participation.

BUDGET HIGHLIGHTS

In fiscal year 2005, NSF will make significant investments in NSF's diverse Centers Programs. Centers bring people, ideas, and tools together on scales that are large enough to have a significant impact on important science and engineering challenges. They provide opportunities to integrate research and education, and to pursue innovative and risky research. An important goal beyond research results is developing leadership in the vision, strategy, and management of the research and education enterprise. The total investment for NSF's Centers Programs is \$457 million, an increase of \$44 million in fiscal year 2005. Here are some highlights of the Centers.

- Thirty million dollars will initiate a new cohort of six Science and Technology Centers. A key feature of these centers is the development of partnerships linking industry, government, and the educational community to improve the transfer of research results, and provide students a full set of boundary-crossing opportunities.
- Twenty million dollars will continue support for multidisciplinary, multi-institutional Science of Learning Centers. These centers are intended to advance understanding of learning through research on the learning process, the context of learning, and learning technologies. The Centers will strengthen the connections between science of learning research and educational and workforce development.
- The budget request provides for two new nanotechnology centers; two or three centers that advance fundamental knowledge about Environmental Social and Behavioral Science; three Information Technology Centers, and additional funding for the NSF Long Term Ecological Research network. An additional \$6 million will fund a number of mathematical and physical science centers, including: Chemistry Centers, Materials Centers, Mathematical Sciences Research Institutes, and Physics Frontiers Centers.

Today, discoveries emerge from around the world. It is essential that American scientists and engineers have opportunities to engage with the world's top researchers, to lead major international collaborations, and to have access to the best research facilities throughout the world and across all the frontiers of science and engineering. The fiscal year 2005 budget to carry out these activities through NSF's Office of International Science and Engineering is \$34 million, an increase of \$6 million, or 21 percent over the fiscal year 2004 estimate.

Finally, NSF will initiate an Innovation Fund at \$5 million. The Fund provides an opportunity for the Foundation to respond quickly to rapidly emerging activities at the frontiers of learning and discovery.

TOOLS—OPENING UP NEW VISTAS

Researchers need access to cutting-edge tools to tackle today's complex and radically different research tasks. If students are not trained in their use, they will be at a disadvantage in today's technology-intensive workplace. The fiscal year 2005 investment in Tools totals \$1½ billion, an increase of \$104 million. This continues an accelerated program to revitalize and upgrade the Nation's aging research infrastructure through investments in cutting-edge tools of every kind.

Nearly \$400 million of the fiscal year 2005 investment supports the expansion of state-of-the-art cyberinfrastructure. New information and communication technologies have transformed the way we do science and engineering. Providing access to moderate-cost computation, storage, analysis, visualization and communication for every researcher will make that work more productive and broaden research perspectives throughout the science and engineering community.

In fiscal year 2005, there are three continuing and three new projects funded by the proposed \$213 million investment in Major Research Equipment and Facilities Construction.

NEON, the National Ecological Observatory Network, is a continental scale research instrument with geographically distributed infrastructure, linked by state-of-the-art networking and communications technology. NEON will facilitate studies that can help us address major environmental challenges and improve our ability to predict environmental change. Funding for NEON planning activities is included in the fiscal year 2004 estimate.

The Scientific Ocean Drilling Vessel is a state-of-the-art drill ship that will be used by the Integrated Ocean Drilling Program (IODP), an international collaboration. Cores of sediment and rock collected from the ocean floor will enhance studies of the geologic processes that modify our planet. Investigators will explore the history of those changes in oceans and climate, and the extent and depth of the planet's biosphere.

The Rare Symmetry Violating Processes (RSVP) includes two highly sensitive experiments to study fundamental symmetries of nature. RSVP will search for the particles or processes that explain the predominance of matter that makes up the observable universe. It will focus on questions ranging from the origins of our physical world to the nature of dark matter.

NSF plans to invest in major research equipment and facilities construction projects over the next several years. We expect to start funding for two additional projects; Ocean Observatories and an Alaska Regional Research Vessel in fiscal year 2006.

In making these critical investments, NSF continues to put a very strong emphasis on effective and efficient management.

CONCLUSION

Mr. Chairman, the budget highlights presented above only begin to touch on the variety and richness of the NSF portfolio. NSF supports research programs to enhance homeland security. This includes the Ecology of Infectious Diseases program, jointly funded with NIH, and the Microbial Genome Sequencing program, jointly funded with the Department of Agriculture. NSF participates on the National Interagency Genome Sequencing Coordinating Committee, where programs have attracted a great deal of interest from the intelligence community, and have been touted as the best. The Critical Infrastructure Protection program, and cybersecurity research and education round out important contributions to enhancing homeland security.

Additionally, as part of the Administration's Climate Change Research Initiative, NSF supports research to reduce uncertainty related to climate variability and change, with the objective of facilitating decision making and informing the policy process.

Mr. Chairman and Members of the Committee, I hope that this brief overview conveys to you the extent of NSF's commitment to advancing science and technology in the national interest. I am aware and appreciative of this subcommittee's long-standing bipartisan support for NSF. I would be happy to respond to any questions that you have.

Senator BOND. Thank you very much, Dr. Bement.
Dr. Washington, welcome. It is good to have you back.

STATEMENT OF WARREN M. WASHINGTON

Dr. WASHINGTON. Chairman Bond, Senator Mikulski, and Senator Johnson, I appreciate the opportunity to testify before you today in my capacity as Chair of the National Science Board.

On behalf of the Board, I thank the subcommittee for its long-term commitment to a broad investment in science, engineering, math, and technology research and education.

As part of the National Science Board's responsibilities, in December, the Board prepared a report to Congress with recommendations for the allocation of the steady and substantial increase in NSF's budget that was authorized as part of the NSF Authorization Act of 2002. The recommendations of this report were provided at a very broad level and assumed the implementation of authorized increase to \$9.8 billion in fiscal year 2007. This funding level will significantly increase NSF's ability to address many unmet needs identified by the Board.

For example, we have over 1,000 excellent rated proposals that cannot be funded, which results in lost opportunities for discovery. While the Board is aware of the current funding realities, we feel strongly that the current positive momentum for significant annual increases to NSF's budget should be maintained. The National Science Board approved the fiscal 2005 budget request that was submitted to OMB and generally supports the budget request before you today. It is a step in the right direction for addressing important national interests identified by Congress.

The Board fully supports the Foundation's integrated portfolio of investments in People, Ideas, Tools, and Organizational Excellence. The strategy, the vision embodied in these four broad areas, provides an effective roadmap for guiding NSF's future. It blends support for the core discipline, with encouragement for interdisciplinary initiatives.

The National Science Board has carefully examined and endorsed five priority areas identified in the fiscal year 2005 request: Bio-complexity in the Environment, Human and Social Dynamics, Mathematical Sciences, Nanoscale Science and Engineering, and Workforce for the Twenty-First Century.

The Board has assessed the current state of the U.S. S&E academic research infrastructure. Our findings and recommendations are published in the "Science and Engineering Infrastructure for the Twenty-First Century: The Role of the National Science Foundation" report. The Board has identified a pressing need to address mid-sized infrastructure projects.

The Board's recent report entitled, "The Science and Engineering Workforce: Realizing America's Potential," underscores that the United States is in a long-distance race to retain its essential global advantage in S&E human resources and sustain our world leadership in science and technology. A high-quality, diverse, and adequately sized workforce that draws on the talents of all of the U.S. demographic groups and on talented international students and professionals, is crucial for maintaining our leadership.

I should point out that there was an article that came out yesterday in the science magazine "Nature", reaffirming our views on this.

PREPARED STATEMENT

Education is a core mission of NSF. The NSF shares in the responsibility for promoting quality math and science education as intertwining objectives in all levels of education across the United States. NSF has the mandate, depth of experience, and well-established relationships to build the partnerships for excellence in education. The Board, therefore, strongly urges continued full funding of the math and science partnerships at NSF. Mr. Chairman, I would like to submit for the record a written statement from the National Science Board "In Support of the Math and Science Partnership Program at NSF". So you have that in your file.

Senator BOND. Thank you very much, Dr. Washington.
[The statement follows:]

PREPARED STATEMENT OF WARREN M. WASHINGTON

Chairman Bond, Senator Mikulski, and Members of the Committee, I appreciate the opportunity to testify before you. I am Warren Washington, Senior Scientist and Section Head of the Climate Change Research Section at the National Center for Atmospheric Research. My testimony today is in my capacity as the Chair of the National Science Board.

On behalf of the National Science Board and the widespread and diverse research and education communities that we all serve, I thank this Committee for its long-term commitment to a broad portfolio of investments in science, mathematics, engineering, and technology research and education.

The Congress established the National Science Board (NSB) in 1950 and gave it dual responsibilities:

- Oversee the activities of, and establish the policies for, the National Science Foundation (NSF); and
- Serve as an independent national science policy body to render advice to the President and the Congress on policy issues related to science and engineering research and education.

As part of this latter responsibility, and as directed by the Congress, the Board prepared "A Report to Congress on the Budgetary and Programmatic Expansion of the National Science Foundation". The report received formal Board approval on December 4, 2003, and has been delivered to the Congress, as well as to the White House Office of Science and Technology Policy and Office of Management and Budget. The purpose of this report was to provide the Congress with recommendations for the allocation of the steady and substantial increase in NSF's budget that was authorized as part of the NSF Act of 2002.

It is important to note that the recommendations of this report were provided at a very broad level and assumed full implementation of the authorized increase in NSF's budget to \$9.8 billion in fiscal year 2007. This funding level will significantly enhance NSF's ability to address many unmet needs identified by the Board. However, the Board is also cognizant of the current realities of the demands on a finite Federal budget. The present Federal budget realities will require the NSF and the Board to adjust the planned budget and programmatic expansion to fit actual yearly increments. Nevertheless, the Board feels strongly that the current positive momentum for annual increases to the NSF budget should be maintained in order to enhance NSF's ability to address these unmet needs, and ensure continued U.S. leadership in the international science, engineering and technology enterprise.

I would like to provide some general comments regarding the NSF fiscal year 2005 budget request, then update you on National Science Board activities over the last year and some of our priorities for the coming year.

2005 BUDGET REQUEST

The National Science Board has reviewed and approved NSF's fiscal year 2005 budget request that was submitted to OMB, and generally supports the budget request before you today. It is a step in the right direction for addressing the important national interests identified by Congress.

The Board fully supports the Foundation's integrated portfolio of investments in People, Ideas, Tools, and Organizational Excellence. The strategic vision embodied in these four broad categories provides an effective roadmap for guiding NSF's future. It thoughtfully blends support for the core disciplines with encouragement for

interdisciplinary initiatives, brings together people from diverse and complementary backgrounds, provides necessary infrastructure for research and science education, and strengthens the Foundation's management of the enterprise.

The National Science Board has carefully examined the five priority areas identified in NSF's fiscal year 2005 budget request: Bio-complexity in the Environment, Human and Social Dynamics, Mathematical Sciences, Nano-scale Science and Engineering, and Workforce for the 21st Century. We wholeheartedly agree that these areas represent the frontier of science and engineering, and hold exceptional promise for new discoveries, educational opportunities, and practical applications.

The Board has assessed the current state of the U.S. S&E academic research infrastructure, examined its role in enabling S&E advances, and identified requirements for a future infrastructure capability. Our findings and recommendations are published in "Science and Engineering Infrastructure for the 21st Century: The Role of the National Science Foundation". A key recommendation is to increase the share of the NSF budget devoted to S&E infrastructure from 22 percent to more like 27 percent in order to provide adequate small- and medium-scale infrastructure and needed investment in cyber-infrastructure. The Board identified a pressing need to address mid-sized infrastructure projects and to develop new funding mechanisms to support them. Funding could potentially be in a number of programs, so that NSF program officers can make decisions between the mid-level infrastructure and next individual or center research grant, based on broader research community input through the merit review process.

The Board's recent report entitled "The Science and Engineering Workforce—Realizing America's Potential" underscores that the United States is in a long-distance race to retain its essential global advantage in S&E human resources and sustain our world leadership in science and technology. A high quality, diverse and adequately sized workforce that draws on the talents of all U.S. demographic groups and talented international students and professionals is crucial to our continued leadership and is a vital Federal responsibility. The Board has concluded that it is a National Imperative for the Federal Government to step forward to ensure the adequacy of the U.S. science and engineering workforce. But the Federal Government cannot act alone. All stakeholders must participate in initiating and mobilizing efforts that increase the number of U.S. citizens pursuing science and engineering studies and careers. At the same time, however, Federal science officials should ensure that international researchers and students continue to feel welcome in the United States and continue their partnerships in the U.S. science and technology enterprise.

Education is a core mission of NSF. NSF not only promotes research, but also shares in the responsibility for promoting quality math and science education as intertwining objectives at all levels of education across the United States. NSF's highly competitive peer-review process is second to none for openly and objectively identifying, reviewing, selecting, funding and providing stewardship for the very best science, technology, engineering and mathematics (STEM) proposals and programs in research and education. NSF has the mandate, depth of experience, and well-established relationships to build the partnerships for excellence in STEM education. The Board, therefore, strongly urges that continued, full funding of the Mathematics and Science Partnerships Program at NSF be sustained over the long term as an essential component of a coordinated Federal effort to promote national excellence in science, mathematics and engineering.

OVERVIEW OF NSB ACTIVITIES DURING THE LAST YEAR

During the last year, the Board has accomplished a great deal in terms of our mission to provide oversight and policy direction to the Foundation. In terms of providing oversight for the Foundation, the Board has:

- Reviewed and endorsed the Office of Inspector General Semi-annual Reports to Congress, and approved NSF management responses,
- Approved the NSF fiscal year 2005 budget request for transmittal to OMB,
- Approved the NSF Major Facilities Management and Oversight Guide,
- Approved the Foundation's Merit Review Report, and
- Provided review and decisions on 12 major awards or proposal funding requests.

In terms of providing policy direction to the Foundation, the Board has:

- Issued an official statement on role of NSF in supporting S&E infrastructure (NSB-03-23),
- Reviewed and approved the NSF Strategic Plan 2003-2008 (August), and
- Developed a broad set of recommendations for allocation of authorized increases in funding resources to the Foundation.

In terms of advice to the President and the Congress, the Board has:

- Published the Infrastructure Report (NSB-02-190),
- Published the Workforce Report (NSB-03-69),
- Reported on Delegation of Authority in accordance with Section 14 of the NSF Act of 2002.
- Developed and delivered a budget expansion report in accordance with Section 22 of the NSF Act of 2002,
- Prepared and approved the 2004 S&E Indicators Report,
- Provided testimony to Congressional Hearings,
- Interacted with OSTP in meetings and forums on S&E issues, and
- Responded to specific questions and inquiries from Senators and Representatives.

In 2003 the Board meetings and deliberations became much more open in accord with the Sunshine Act. In an effort to facilitate more openness, we:

- Approved new guidelines for attendance at NSB meetings,
- Provided public notice of all our meetings in press releases, the Federal Register and on the NSB website,
- Treated tele-conferences of committees as open meetings,
- Provided much more information to the public in a more timely manner regarding meeting discussions and decisions, and
- Encouraged public comment during the development of Board publications.

I am pleased to report that this new openness has been embraced by Board Members and well received by the press and other members for public. The Office of Inspector General has also just completed their audit of the Board's compliance with the Sunshine Act, and found us fully compliant. We look forward to working with both the Inspector General and the General Counsel to further enhance our procedures and policies in this regard.

During the last year, and especially since August 2003, the Board has made a major effort to increase and improve our outreach and communications with the Congress, other agencies, various interest groups and the outside S&E research and education community.

During 2003 the Board initiated examination of issues related to:

- The process by which Major Research Equipment and Facilities proposals are developed, prioritized and funded,
- NSF policies for Long-lived Data Collections, and
- The identification, development and funding of innovative or high-risk research.

FISCAL YEAR 2005 NSB BUDGET

The administration's Fiscal Year 2005 Budget Request of \$3.95 million for the NSB will be adequate to support Board operations and activities during fiscal year 2005. The request seeks resources to carry out the Board's statutory authority and to strengthen its oversight responsibilities for the Foundation. We expect that the Foundation will continue to provide accounting, logistical and other necessary resources in support of the NSB and its missions, including expert senior S&E staff serving as a cadre of executive secretaries to Board committees and task forces.

At the urging of Congress, in fiscal year 2003 the Board began examining options for augmenting its professional staffing levels. At its May 2003 meeting, the Board decided to begin a process to assess the feasibility of recruiting for positions that would broaden its policy support, provide additional legal advice, and enhance the Board's capabilities in advanced information technology. As an initial step in this process, in August 2003 the Board appointed a new NSB Executive Officer who also serves as the NSB Office Director. At the direction of the Congress, the NSB Executive Officer now reports directly to the NSB Chair. The Board is very pleased with this arrangement.

In October 2003, I notified you, Senator Bond, that I had charged the NSB Executive Officer with identifying options for broadening the NSB Office staff capabilities to better support the broad mission of the NSB. The NSB Office staff provides the independent resources and capabilities for coordinating and implementing S&E policy analyses and development and provides operational support that are essential for the Board to fulfill its mission. By statute, the Board is authorized five professional positions and other clerical staff as necessary. In consultation with the Congress, the Board has defined these professional positions as NSB senior science and engineering policy staff, and the clerical positions as NSB staff that support Board operations and related activities. The full impact of increasing the number of professional positions closer to the statutory level is expected to occur in fiscal year 2005, with increased attention to addressing new skill requirements.

In addition to the NSB Office's essential and independent resources and capabilities, external advisory and assistance services are especially critical to support pro-

duction of NSB reports, and supplement the NSB staff's general research and administration services to the Board. These external services provide the Board and its Office with the flexibility to respond independently, accurately and quickly to requests from Congress and the President, and to address issues raised by the Board itself.

Enhanced Board responsibilities established in the NSF Authorization Act of 2002 and directed by Congressional Report language include: an expanding role in prioritizing and approving Major Research Equipment and Facilities Construction projects; new requirements for meetings open to the public; and responsibilities for reporting on the Foundation's budgetary and programmatic expansion, with specific focus on the projected impact on the science and technology workforce, research infrastructure, size and duration of grants, and underrepresented populations and regions. The National Academies, in response to a Congressional request, recently released a report of their study examining how NSF sets priorities among multiple competing proposals for construction and operation of large-scale research facility projects to support a diverse array of disciplines. Recommendations from this study are being considered with due diligence by the Board as they develop and implement options for meeting their enhanced responsibilities.

The Board will continue to review and approve NSF's actions for creating major NSF programs and funding large projects. Special attention will be paid to budget growth impacts on the S&T workforce, expanded participation in higher education, national S&T infrastructure, and the size and duration of NSF grants.

This year the Board will expand its ongoing examination of its role and responsibilities regarding the NSF's Major Research Equipment and Facilities Construction (MREFC) program. We will factor into this examination the recommendations of the National Academies report on the MREFC program, and develop a process for implementing appropriate modifications to the Board's involvement with the MREFC program. The Board has just received the National Academies report and will comment on it directly to Congress after we have given it careful consideration.

Effective communications and interactions with our constituencies contribute to the Board's work of identifying priority science and technology policy issues, and developing policy advice and recommendation to the President and Congress. To this end, the Board will increase communication and outreach with the university, industry and the broader science and engineering research and education community, Congress, Federal science and technology agencies, and the public. These activities will support U.S. global leadership in discovery and innovation based on a continually expanding and evolving S&T enterprise in this country, and will insure a principal role for NSF programs in providing a critical foundation for science and engineering research and education.

CLOSING REMARKS

The horizon of scientific discovery and engineering achievements stretch far and wide, but are clouded by uncertainty and risk. Experience has shown us that as we reach out to the endless frontier we have realized benefits beyond our dreams. Together, we have confidently faced the uncertainties, boldly accepted the risks, and learned from both our victories and setbacks. But the journey is not short or cheap. It requires careful planning, wise investments, and a long-term commitment.

A STATEMENT OF THE NATIONAL SCIENCE BOARD: IN SUPPORT OF THE MATH AND SCIENCE PARTNERSHIP PROGRAM AT THE NATIONAL SCIENCE FOUNDATION

Education is a core mission of the National Science Foundation (NSF). NSF not only promotes research, but also shares in the responsibility for promoting quality math and science education as intertwining objectives at all levels of education across the United States. NSF's highly competitive peer-review process is second to none for openly and objectively identifying, reviewing, selecting, funding and providing stewardship for the very best science, technology, engineering and mathematics (STEM) proposals and programs in research and education.

Science and mathematics competency is becoming ever more essential to individuals and nations in an increasingly global workforce and economy. STEM education is a special challenge for the highly mobile U.S. population, because it demands a sequential, cumulative acquisition of knowledge and skills. To raise U.S. student performance to a world-class level, all components of the U.S. education system must achieve a consensus on a common core of mathematics and science knowledge and skills. These core competencies must be embedded consistently in instructional

materials and practices everywhere and at all levels, without precluding locally held prerogatives about the content of curricula.¹

The NSF's Math and Science Partnerships (MSPs) are important tools for addressing a critical—but currently very weak—link between pre-college and higher education. This major new national initiative, outlined in NSF's 2002 Authorization Act, has received strong and broad support from Congress and was signed into law by President Bush. It provides for the collaboration between pre-college and college to promote excellence in teaching and learning; therefore facilitating the transitions for students from kindergarten through the baccalaureate in STEM disciplines. The added benefit for our Nation is those students who do not choose STEM careers become the informed scientifically literate voting citizens we need for the 21st Century.

We do not have the luxury of time for further political debate on how to bring our Nation's education system up to a world-class level in science and mathematics—much less to achieve world leadership in these critical competencies.² NSF has the mandate, depth of experience, and well-established relationships to build the partnerships for excellence in STEM education. The Board, therefore, strongly urges that continued, full funding of the MSP Program at NSF be sustained over the long term as an essential component of a coordinated Federal effort to promote national excellence in science, mathematics and engineering.

Senator BOND. All of the written statements will be included in the record as full. We are faced with a projected vote at 11 o'clock. I will keep my first round of questions short, and ask for short answers. If we have a vote at 11 o'clock, we will come back, and I want to have an opportunity for Senator Mikulski and Senator Johnson to ask questions.

CHALLENGE OF SERVING IN DUAL CAPACITIES

First, let me talk about the dual hat you are wearing, Dr. Bement, with the Director of NIST and Acting Director of NSF. I would like to know how you intend to balance the roles in each and what your plans are during your time as Acting Director at NSF.

Dr. BEMENT. Thank you, Senator. The only way anyone could carry on such a prodigious challenge is to have two outstanding deputy directors. And I do have two outstanding deputy directors, Dr. Bordogna at the National Science Foundation, and Dr. Semerjian. Both people are highly talented, highly experienced, and I have known them and worked with them for some time.

You mentioned 40 hours a week. Well, I work more than 40 hours a week, but so does everyone at the National Science Foundation. In fact, our recent study indicates that a large fraction of them work 50 or 60 hours a week, and that is a concern, because—

Senator BOND. We work more than that up here, but you are doing important work.

Dr. BEMENT. The other thing I would say is that I am trying to limit my travel and stick to my knitting. So I will stay very focused.

GOALS AS NEW NSF DIRECTOR

Senator BOND. Yes, but what do you want to do at NSF? I know the time and all that, but do you have any specific objective or objectives?

Dr. BEMENT. Well, I could give you a fuller answer if I had 2 or 3 more days, but—

¹ NSB 98–154, NSB 99–31, <http://www.nsf.gov/nsb/documents>.

² NSB 03–69, <http://www.nsf.gov/nsb/documents>.

Senator BOND. All right. I understand you have——

Dr. BEMENT [continuing]. With the 4 days that I have, I do feel that one of my major priorities is to deal with the staff issues, not only in bringing on highly talented assistant directors, whose positions are being vacated, but also to deal with the internal workload, and furthermore, to facilitate more E-systems within the Foundation.

Senator BOND. I understand that you have only been on board 4 days. Maybe after you have been there for a week or so and some of the discussions we have today, if you would submit——

Dr. BEMENT. I would be glad to. I will have more discussion with you later on, but I am developing an agenda.

Senator BOND. Send us a memo basically on what you think you can do.

[The information follows:]

AGENDA AND GOALS OF ARDEN L. BEMENT, JR.

Since my appointment is acting and expected to be of relatively short duration, my agenda is to focus on the sustainability of current NSF priorities, goals, and research areas as reflected in the fiscal year 2005 budget submission and to address emerging needs of the science, technology, engineering, and mathematics (STEM) communities served by the NSF.

I will also dedicate myself to being a good steward for NSF by focusing on near-term issues and priorities. In particular, I will work closely with the NSB, the Appropriations Committees, and the administration to achieve the following:

- Greater transparency in MREFC management and oversight to include pre-construction planning and assessment, life-cycle budgeting, and cost and management oversight;
- Long-term human-resource planning to assure efficiency and effectiveness of operations, and the further building of a learning organization through training and competence building;
- Sustainable NSF budget levels to pursue the objectives of the NSF Authorization Act of 2002, administration priorities, and the needs and opportunities identified by the STEM communities served by the NSF;
- Continuing close cooperation with the Department of Education to assure that resources flow to math and science teachers under the Math and Science Partnership Initiative to achieve improved student performance in math and science education; and
- Pursuing programs that will increase minority STEM faculty by means of the “Workforce for the 21st Century” priority area and supporting EHR programs. This has been identified by the NSB as being paramount for increasing the numbers of STEM minority students who attain a degree.

SELECTION AND APPOINTMENT OF NEW NSF DIRECTOR

Senator BOND. Dr. Marburger, do you know what the time is for announcing a new director, to allow Dr. Bement to go back to NIST? Do you have any idea on when that is going to work?

Dr. MARBURGER. An aggressive search is underway. Outstanding candidates have been identified and approached. I am very optimistic that we are not talking about very long periods of time. I hesitate to give a deadline, but months would be an appropriate scale.

BALANCE BETWEEN FUNDING FOR PHYSICAL AND LIFE SCIENCES

Senator BOND. That is very good. Maybe, Dr. Marburger, you can tell me, in light of the PCAST report, recommending substantial increases, and as the co-chair of the PCAST, you approved the recommendation. Can you explain why the NSF budget request from OMB is again so inconsistent with the PCAST report? Is there any-

thing you can do to reestablish or to bring some balance between the funding for the life sciences and the physical sciences?

Dr. MARBURGER. Yes, sir. I believe that funding for physical sciences should be a priority, and I believe it is a priority. We are facing a difficult budget situation, and I believe that the 3 percent increase, as meager as it may seem to those used to hearing much larger numbers, is, nevertheless, a very significant signal in this difficult budget period, of the intention and priority that this administration places on this area. If we could find a way to get more in there, I think it would be very good, but I believe this budget does permit the United States to sustain its leadership in these vital areas.

Senator BOND. Thank you, Dr. Marburger.

Senator Mikulski.

Senator MIKULSKI. Thank you very much, Mr. Chairman. I think one of the things Senator Bond and I are concerned about, Dr. Bement, is that you do have two jobs, and because the National Institutes of Standards, NIST, is in my State, we know the extraordinary work that goes on there.

Senator Bond, you might be interested to know, they are doing research on why the World Trade Center collapsed, and not necessarily for forensic purposes, but what will we need to do as we build higher to make sure that buildings are safe, its occupants are safe, that the people who come to do rescue missions would be safe, et cetera. This is a big job. And then for you now to be doing double duty, it is like being in the Marines and the infantry at the same time. It is a little hard.

Dr. BEMENT. Well, at least I have a common mission, in some respects.

Senator MIKULSKI. Yes. Well, we recognize the stress on you. Know that this Senator is very deeply disturbed by the administration's proposed budget of NSF. We believe that it is underfunded. We believe that it resorts to gimmicks, like on the education front, and does not recognize the need in certain key areas. We know that you have been at NSF for 4 days. Know that as I go through this, these are not in any way meant to be prickly in terms of our relationship here.

First of all, I believe that research is short-funded. A 3 percent increase doesn't even meet locality pay standards. Three percent is simply not enough. We could go into that, but one of the areas that is of very keen interest to me, of course, is the field of nanotechnology. That, as we talked about you being the lead agency, the PCAST system, and all that goes on. When I talk about strategic research, again, I am not talking industrial policy, the Euro model, et cetera. But that is what I meant, the best thinking, and then also out in the academic world and even the involvement of the private sector.

ENGAGE PUBLIC IN EMERGING RESEARCH FIELDS

This is not a question. It is a very strong recommendation to the people at NSF. There are those who are raising flashing yellow lights about nanotechnology. I agree with Senator Bond, which is before we get gripped into public controversy, that I would really encourage those working at the coordinating council level, engage

with the critics, and not in a dismissive way. I am not saying that you are in any way like that, Doctor, but unless we understand the validity of their concerns, meet them head on, we get into the genome controversies. We do not want to go there with nanotech. I see it as a cornucopia for our country.

I have lost my steel mills. Will one day we have nano mills making metals that are so strong and light for our automobiles, where we are building automobiles in our country, for whatever our military needs might be, for the trip that we will be taking into space? So let's deal with the critics head on.

MATH AND SCIENCE PARTNERSHIP

We could go over the research money, but also what I am very troubled about is in the area of education. This is where I believe that the administration is really shortchanging us, and also resulting in the gimmicks. I was deeply disturbed about the fact that the administration proposes that this initiative, the Math and Science Partnership initiative, be transferred to the Department of Education.

This was a \$200 million initiative on our part, and the current proposal was to have \$80 million in funds stay at NSF, but to go into research. I know you have been there for 4 days. What this committee would like to know is, and I do not know if you can answer it, but what was the thinking behind it? Was this a budget issue rather than an education issue, because it would be my intent for this year to keep this at NSF while we evaluate what the best way is to stimulate math and science. Do you have any comments on that?

Dr. BEMENT. Senator, I have looked into this matter and I have tried to understand the rationale, but in 4 days, I have not really fully comprehended all the nuances behind the argument. I think the rationale was to take a more integrated approach to have the school districts integrate the types of activities carried under the Math and Science Partnership, and integrate it with some of the block grant support they get from the Department of Education, and for the Department of Education to carry this out on a competitive basis. That is about as far as my understanding goes at the present time.

Senator MIKULSKI. Well, just know that I am very troubled by this, and the fact that the \$80 million they leave behind does not stay in education. It goes into research accounts. That is not to acknowledge the need for the research account. That is my whole point, that the \$80 million that stays behind ought to at least be used in education money, if it goes. I do not want it to go. No Child Left Behind is having a very troubled history now, as it is implemented.

SCIENCE, TECHNOLOGY, ENGINEERING, MATHEMATICS TALENT EXPANSION (TECH TALENT) PROGRAM

Let me go then to the issue of the undergraduate tech talent. This was a program created on a bipartisan basis with Senators Bond, Lieberman, Domenici, Dr. Frist, and myself. We understand that this program has been cut by \$10 million. What would be the consequences to undergraduates with that cut?

Dr. BEMENT. Senator, there were some painful cuts in several educational programs, but I have talked with presidents of degree-granting, Ph.D.-granting HBCU's. I have also had a long-time relationship with the Science and Engineering Alliance. And the understanding I have from them is that they want to build capacity and sustainability in their ability to not only build on the current Ph.D. programs and attract more students from undergraduate ranks into the graduate ranks, but also to expand the number of offerings they have at the Ph.D. level. To do that——

Senator MIKULSKI. So what does the money do? I mean understand our goal here.

Dr. BEMENT. Well, the answer to that is not necessarily in the Education and Human Resources account. It is in the Research and Related Activities account. The amount of funding that is now being provided to minority-serving institutions has been increasing, and it is quite substantial compared with the targeted programs.

Senator MIKULSKI. Well, remember, sir, I am talking about two separate programs. I am concerned that historically black colleges funding has been cut by almost 15 percent. So you can talk about building capacity and all that, if it is cut by 15 percent, regardless of what account it is in, it has been cut.

Then there is the Tech Talent program. As you know, we were trying to get our undergraduates involved in science and math before we even get to the graduate level. That has been cut. That was the Tech Talent. Let us fund it.

Dr. BEMENT. Okay.

Senator MIKULSKI. Let us support it. At NSF, it is referred to as STEP. It was funded at a very modest amount, \$15 million. It was cut to \$10 million. I wonder what are the consequences——

Dr. BEMENT. I understand.

WORKFORCE ISSUES

Senator MIKULSKI [continuing]. To students, and, of course, our long-term national goals. I will go back to the Reagan Commission on Competitiveness. Control your deficits, invest in research and technology, and build the smartest workforce that—like our army, the best army that the military has ever seen, we need to have the best workforce.

Dr. BEMENT. Yes.

Senator MIKULSKI. I do not think we have a workforce shortage. I think we have a skill shortage. If we can meet that——

Dr. BEMENT. Yes. I agree with that. It turns out that many of the jobs that are opening up in the manufacturing sector cannot be filled because there are not the skills.

Senator MIKULSKI. What type of jobs are they, sir?

Dr. BEMENT. Many of these would be operating jobs; with some involving more sophisticated manufacturing equipment, information technology, the ability to make measurements, and quality engineering on the shop floor. These are the types of jobs that require technical training.

ROLE OF COMMUNITY COLLEGES

Senator MIKULSKI. That takes me to another issue, which is community colleges. What a great social invention.

Dr. BEMENT. Yes. We are in violent agreement on that. They are very essential. Very essential.

Senator MIKULSKI. How do you see community colleges fitting in this year's budget request, and in your world, what you would recommend? Dr. Washington, I know you are interested in this topic. For many people, it is the gateway. For some first-time people, some of our new legal immigrants, for people of modest means, or people who are just trying to get started part time, the community college is it. For the mid-career person, the community college, it is the gateway to being able to make it in our society. Where—

Dr. BEMENT. Senator, I know that the administration is very much interested in this issue and is developing a major effort in this area of workforce training, including the community colleges. NIST, for example, has a part to play through our Manufacturing Extension Partnership.

If I were to look into the National Science Foundation budget, I would find that there is probably not as much as we could do. It is something we have to pay attention to.

Senator MIKULSKI. Would you please, again, knowing that you have just been briefed, and we recognize the circumstances, would you please look at this whole focus on making use of not only our traditional academic centers, but of the unique institutions in our country. The community college is one. The historically black colleges are another as well as some of our women's colleges. Looking at them, they are also pools of talent. I hear back home, we have a nursing shortage. We have a lab technician shortage, a radiology technician shortage. I could elaborate, but a 2-year program at a community college could get you right into the marketplace in a very different way than retail sales—

Dr. BEMENT. Yes.

Senator MIKULSKI. I believe all work is honorable, but this could give you the opportunity to pursue a 4-year program later on.

Dr. BEMENT. I think a partial answer to that may come through our Workforce for the Twenty-First Century priority area, which is one of our major initiatives this year. There are two elements of that program that are intended to accomplish much of what you are talking about. One is to better integrate the pipeline so that we can extend the pipeline all the way from K to 12, all the way up through post-doctorate training.

Senator MIKULSKI. Well, I know the vote has started and there are many questions that we could ask. What I would like to know is, what are the consequences of some of these decisions, and then look at what we need to do. One is, of course, this whole transfer to the Department of Education, and \$80 million going into research rather than staying in education.

Second, what can we be doing to look out for our community colleges? This also presumes we are looking out for the land grant colleges, as well as the Ivy League-type schools that are so important.

Dr. Washington, do—

Dr. WASHINGTON. Well, I was just going to say—

Senator BOND. Dr. Washington wanted to add something.

Dr. WASHINGTON. Yes, sir.

Senator BOND. I just wanted to join in here—

Senator MIKULSKI. Good, please.

Senator BOND [continuing]. With Senator Mikulski. I believe, No. 1, you had some questions, Dr. Washington, about the transfer of math and science, and I could not agree more with Senator Mikulski. Also, the emphasis on community colleges. We happen to have an advanced technical center in my home that trains nurses, and they have a new photonics optics laser lab for training people. They do some wonderful things there.

We are going to have to go for a vote in a few minutes, but I wanted to have Dr. Washington have an opportunity to respond to several of these points. I think, Doctor, you had a number of things you might want to add.

Senator MIKULSKI. Good. That is exactly where I was headed. Yes, sir.

Dr. WASHINGTON. Okay. I know that you are very short on time. I will certainly bring your concerns to the full Board for us to take a look at some of the concerns that you have expressed, and especially those dealing with the community colleges. We understand already that we are not putting enough emphasis on the science and math in those schools, so that we will just sort of take a look at that and get back to you.

Senator BOND. Senator Mikulski, do you have—I am going to come back, and—

Senator MIKULSKI. No, Mr. Chairman. I think after the vote, I will try to come back, but I am not sure.

Senator BOND. All right. Well, do you have any other questions that you wish to ask?

INFRASTRUCTURE INVESTMENTS

Senator MIKULSKI. Right now, I have one more for Dr. Washington. This goes to the facilities and the whole size mid-size recommendations. Could you elaborate on why you made that recommendation, so we could grasp that?

Dr. WASHINGTON. Well, I think that we are seeing the investment in infrastructure, especially in terms of equipment, is going to be a more important part of NSF's future. In fact, we have already recommended that the investment be changed from essentially 22 percent up to a 27 percentage. We are also seeing—

Senator MIKULSKI. Why mid-size?

Dr. WASHINGTON. What?

Senator MIKULSKI. Why mid-size?

Dr. WASHINGTON. Well, we are seeing that in addition to the big things that we fund, the telescopes, and the airplanes, and so forth, that there is a great increase in interest by groups of scientists in the mid-range. In other words, things that may cost maybe a few million dollars, up to maybe \$20 million.

Senator MIKULSKI. What would be some examples of that, Dr. Washington?

Dr. WASHINGTON. I think we are seeing augmentation of capability on existing facilities. We are also seeing smaller groups doing, for example, field studies, doing experiments in—

Senator MIKULSKI. So are you talking about research, or are you talking about mid-sized projects and facilities?

Dr. WASHINGTON. Yes. I am talking about research instruments and facilities. In other words, these are things that are not extremely expensive, but they are beyond what you can do—

Senator MIKULSKI. Like Senator Bond talking about that advanced school in technology that is training nurses—

Dr. WASHINGTON. Yes.

Senator MIKULSKI [continuing]. Which would be a mid-size procurement, but for that school, was a pretty big buck investment, given its stresses, am I correct?

Dr. WASHINGTON. They are scraping to try to get the—

Senator MIKULSKI. Right, but in the scheme of things, that would be viewed as mid-size—

Dr. WASHINGTON. Yes.

Senator MIKULSKI [continuing]. But the consequences both to the school, its productivity, in terms of what it can do for students, and then nurses coming out with the latest training, that is the kind of thing you are talking about?

Dr. WASHINGTON. Yes. But it is actually a very broad spectrum, but I think—

Senator MIKULSKI. Oh. I got it.

Dr. WASHINGTON [continuing]. That is an example.

Senator MIKULSKI. I got it. Well, thank you.

CONSOLIDATION OF MATH AND SCIENCE PARTNERSHIP

Senator BOND. Dr. Washington, let me go back to the point that Senator Mikulski raised about the transfer of math and science. I understand the Board disagrees with that. Could you give us briefly the reasons they disagree?

Dr. WASHINGTON. Well, I think it is fundamentally a program that is a partnership between school districts and academic institutions. In that partnership, we feel, through a peer-review system, that we have built an excellent program. It has just gotten started, actually.

The Board did have a lengthy discussion of this and has issued a statement essentially saying that we think it is best if it remains in the National Science Foundation.

Senator BOND. I would wholeheartedly concur with that. I think there are many needs in education. I think it is going to be swallowed up, and it is going to disappear.

Well, with that, I will be back with a number of questions. I am delighted to see Dr. Clutter is here. We will have, as you might guess, some biotechnology questions when I come back.

The hearing will stand adjourned, I hope for no more than about 10 minutes. Thank you very much.

SOUND SCIENCE

Dr. Marburger, I recently saw a group of scientists accusing the administration of systematically distorting scientific facts to manipulate policy goals. I was very concerned to hear these accusations. I believe very strongly that science should be based on facts, not political or partisan, and given the serious nature of these accusations, I think it would be appropriate if you would respond to those, please.

Dr. MARBURGER. Thank you, Mr. Chairman. I am delighted to have an opportunity to address that issue. We did receive a letter statement signed by a number of prominent scientists that made a number of representations. I believe that the incidents that are listed in that document have alternative explanations, and they do not justify the sweeping conclusions of either the document that accompanied the statement, or the statement itself. I believe the document has methodological flaws that undermine its own conclusions, not least of which is the failure to reflect responses or explanations from responsible government officials.

From my personal experience and direct knowledge of the incidents in question, I can state unequivocally that this administration does not have a policy of distorting, manipulating, or managing scientific processes or technical information to suit its policies. President Bush believes that policies should be made with the best and most complete information possible, and he expects his appointees to conduct their business in a way that fulfills that expectation.

I would be glad to give more detail, which would be tedious to go into in this hearing, probably inappropriate, but I do appreciate the opportunity to get it on the record, and I would respond to questions regarding it.

Senator BOND. Dr. Marburger, I think we have more important things to do in this hearing, but I think given the serious nature of the charges, I appreciate your personal affirmation and strong statement. I think that is very important. But for the record, it would be helpful if you would present us with a copy of whatever response you have made to the charges so that they will be available in a public record.

Dr. MARBURGER. Thank you.
[The information follows:]

STATEMENT BY JOHN MARBURGER ON ALLEGATIONS CONTAINED IN A DOCUMENT
RELEASED BY THE UNION OF CONCERNED SCIENTISTS

"I do not agree in any way with the statement or supporting document that were released by the Union of Concerned Scientists. I believe the discussion of the allegations in the document is incomplete, and does not justify the sweeping conclusions of either the document or the accompanying statement. I also believe the document has methodological flaws that undermine its own conclusions, not the least of which is the failure to reflect responses or explanations from responsible government officials.

"President Bush believes policies should be formed with the best and most complete information possible and expects his appointees to conduct their business in a way that fulfills that belief. From my personal experience and direct knowledge, I can state unequivocally that this Administration applies the highest scientific standards in decision-making.

"I look forward to discussing the issues directly with the signatories to help bridge any misunderstandings and disagreements."

Senator BOND. I thank you very much for that.

Dr. MARBURGER. Thank you.

PLANT GENOME RESEARCH

Senator BOND. Now, I want to turn to, not surprisingly, biotechnology. Dr. Marburger, I was pleased to read in the January 2004, National Plant Genome Initiative Progress Report that the Federal Government is expanding its research with scientists in de-

veloping countries. As you know, I have been interested in expanding the plant biotechnology, especially in places in Africa. And I have met with scientific, agricultural, and human health officials from African countries, as well as Southeast Asian countries, who look forward to the opportunities that plant biotechnology will provide them.

We find that much of the opposition, and I believe it is unfounded, unscientific, and based on hysteria, comes in countries where they are well fed. Hungry countries in the world are looking for better technology to provide the food that they need, with less reliance on chemical pesticides. And I believe that the future is bright if we can continue to work with these countries.

Would you give me an overview of the government's work in developing countries and how you plan to deal with the public perception problems that have plagued other countries? I have denoted it as Euro-Sclerosis, and I would appreciate how you may be responding to that particular affliction.

Dr. MARBURGER. Thank you, Mr. Chairman. This is an area where I think the United States has considerable to offer other countries. It certainly comes up in ministerial meetings that I attend with other science ministers from other countries. Within the United States, my office coordinates a very large interagency process to make sure that the United States is effective in all of its interactions with other countries, as well as internally.

There was an interagency working group that was established in 1987, due in large part to the interest of this subcommittee. Since then, we have coordinated the plant genome activities of the National Science Foundation, the U.S. Department of Agriculture, the Department of Energy, and recently expanded to include USAID, which is important to the international component, and NASA. NIH is also an active member of this group, providing member agencies with insights gained through the human genome program, which was also an international program.

This group released its second 5-year plan in January of this year. We still are interested in obtaining additional sequences. It has been very successful, for example, with the rice genome, whose completion was celebrated more than a year ago. But other priorities related to the application of these, as to how do we use them, especially in these developing country situations, are now included in that plan, which I would be glad to make available as part of this record.

This working group that we sponsor just published their annual report in January of this year, this past month, and we will make that part of the record as well.

[CLERK'S NOTE.—The annual report has been retained in committee files.]

Senator BOND. Thank you. I might ask Dr. Clutter if she would come to join us at the table. I would like to ask her to share with us her thoughts and ideas on the National Science Foundation's efforts in expanding the plant genome program to developing countries.

Welcome, Dr. Clutter.

STATEMENT OF MARY E. CLUTTER

Dr. CLUTTER. Thank you very much, Senator Bond. It is always a pleasure to appear before this committee. I think that what I would like to bring up is just sort of a status report on where we are. Not just looking to 2005, but also to 2004. Dr. Marburger has told you about the interagency working group and their work, and it includes all the science agencies. So this year we were joined by NASA and USAID. So there is an opportunity there to put together a very powerful program that will be of benefit to the developing world.

But thinking about 2004, we decided that we would take some of the money in the plant genome program and make it available to scientists at universities in this country who are working with that program, to work with scientists in developing nations. And the goal there is to bring the power of genomics and Twenty-First Century Science to the developing world. We would like to work with scientists there on crops that grow locally, not to introduce some crops that they are not interested in, but to improve the nutritional quality, the resistance to drought, the resistance to disease, to bring those traits to the local crops. So that is starting in 2004.

In 2005, what we want to develop is a joint program, especially involving USAID, to cooperate with the developing world.

Senator BOND. I trust that the cooperation is not limited to universities, that it might include science centers.

Dr. CLUTTER. Absolutely.

DANFORTH PLANT SCIENCE CENTER

Senator BOND. I raise that, because I know that the Danforth Plant Science Center is sending 120 genetically modified casava plants, I believe, to Kenya—

Dr. CLUTTER. That is right.

Senator BOND [continuing]. And they are on the way now to be field tested in a controlled circumstance, and I believe they are looking at other countries which have sought assistance. If we can genetically engineer the indigenous plants so that they are resistant to viruses, other diseases, pests, and in some instances, perhaps more drought tolerant—

Dr. CLUTTER. Exactly.

Senator BOND [continuing]. We will have an opportunity to grow for the people in those countries the vegetables and the other nutrition that they want. So I think that is very important, and I look forward to following that. Do you have any further thoughts on the—

Dr. CLUTTER. I would just like to say that part of what we are doing in 2004 is to support some of the efforts of the Danforth Center. I think they are receiving some supplemental funds to carry out that program with cassava.

Senator BOND. Thank you. That is your judgment, and I am delighted to hear about it. Any other comments on plant biotechnology, genomics?

MANAGEMENT OF LARGE FACILITIES

Well, thank you again for your attention to it.

I want to talk about large research facility management, and I would like to invite Dr. Boesz, NSF's Inspector General, to join us at the table.

Dr. Boesz, your office has identified problems with NSF's large research facility management and other management issues. Could you give us an update on how NSF has responded to the problems, and in your opinion, has NSF made adequate progress in addressing the problems?

STATEMENT OF CHRISTINE C. BOESZ

Dr. BOESZ. Good morning, Senator.

Senator BOND. Good morning.

Dr. BOESZ. It is good to see you again. I will be happy to give you an update. First, with respect to the management of large facilities, and the construction and operation of them. NSF has made some progress. Last June, they were able to bring on board a qualified individual to serve as the deputy in this position, to give some oversight and guidance to the general process. However, the progress has been, in my opinion, and the opinion of my staff, somewhat slow. We are still waiting to get the various modules that flesh out this general guidance that has been developed, and we have received two of these modules in draft, but there are at least maybe about a dozen total that need to be done.

Now, the importance of this is that this is the how-to manual, so that people in the field as well as people within the Foundation will know exactly what to do. So while there has been some progress, there is still a lot of work that remains to be done.

Senator BOND. Are the guidelines or criteria outlined by the NSF and are those good criteria?

Dr. BOESZ. For setting the priorities?

Senator BOND. Yes.

PREPARED STATEMENT

Dr. BOESZ. We actually have—are only beginning to look at that with respect to the Board. We had focused more on the management, cost accounting—

Senator BOND. I see.

Dr. BOESZ [continuing]. Life-cycle costs. I might add that we are waiting, also, from NSF to look at how they are going to track life-cycle costs for both construction and operation. That is a big piece that needs to be done. I think that is important information for the Board in order to help them set their priorities.

[The statement follows:]

PREPARED STATEMENT OF CHRISTINE C. BOESZ

Chairman Bond, Senator Mikulski, and distinguished members of the subcommittee, I am Dr. Christine Boesz, Inspector General at the National Science Foundation (NSF). I appreciate the opportunity to present to you information as you consider NSF's fiscal year 2005 budget request. NSF's work over the past 54 years has had an extraordinary impact on scientific and engineering knowledge, laying the groundwork for technological advances that have shaped our society and fostered the progress needed to secure the Nation's future. Throughout, NSF has maintained

a high level of innovation and dedication to American leadership in the discovery and development of new technologies across the frontiers of science and engineering.

Over the past few decades, however, the nature of the scientific enterprise has changed. Consequently, NSF is faced with new challenges to maintaining its leadership position. My office has and will continue to work closely with NSF management to identify and address issues that are important to the success of the National Science Board and NSF. Last year, I testified before this subcommittee on the most significant issues that pose the greatest challenges for NSF management. This year, you have asked me to provide an update, from my perspective as Inspector General, on the progress being made at NSF to address three of these challenges.

MANAGEMENT OF LARGE INFRASTRUCTURE PROJECTS

Throughout my tenure as Inspector General of NSF, we have considered management of large facility and infrastructure projects to be one of NSF's top management challenges.¹ As you know, NSF has been increasing its investment in large infrastructure projects such as accelerators, telescopes, research vessels and aircraft, supercomputers, digital libraries, and earthquake simulators. Many of these projects are large in scale, require complex instrumentation, and involve partnerships with other Federal agencies, international science organizations, and foreign governments. Some, such as the new South Pole Station, present additional challenges because they are located in harsh and remote environments.

As I testified last year,² the management of these awards is inherently different from the bulk of awards that NSF makes. While oversight of the construction and management of these large facility projects and programs must always be sensitive to the scientific endeavor, it also requires a different management approach. It requires disciplined project management including close attention to meeting deadlines and budget, and working hand-in-hand with scientists, engineers, project managers, and financial analysts. Although NSF does not directly operate or manage these facilities, it is NSF that is ultimately responsible and accountable for their success. Consequently, it is vital that NSF, through disciplined project management, exercise proper stewardship over the public funds invested in these large projects.

In fiscal years 2001 and 2002, my office issued two audit reports on large facilities with findings and recommendations aimed at improving NSF's management of these projects.³ Primarily, our recommendations were aimed at (1) increasing NSF's level of oversight of these projects with particular attention on updating and developing policies and procedures to assist NSF managers in project administration, and (2) ensuring that accurate and complete information on the total costs of major research equipment and facilities is available to decision makers, including the National Science Board, which is responsible for not only approving the funding for these large projects, but also setting the relative priorities for their funding. NSF responded that it would combine its efforts to respond to the recommendations made in these separate audit reports.

During the past year, NSF has made gradual progress towards completing the corrective action plans and has taken steps to address approximately half of the report recommendations. In June 2003, NSF took an important step when it hired a new Deputy Director for Large Facility Projects, and in July the agency issued a "Facilities Management and Oversight Guide".⁴ NSF has also begun to offer Project

¹Memorandum from Christine C. Boesz, Inspector General, National Science Foundation, to Warren Washington, Chairman, National Science Board, and Rita R. Colwell, Director, National Science Foundation (Oct. 17, 2003) [hereinafter 2003 Management Challenges]; Memorandum from Christine C. Boesz, Inspector General, National Science Foundation, to Warren Washington, Chairman, National Science Board, and Rita R. Colwell, Director, National Science Foundation (Dec. 23, 2002) [hereinafter 2002 Management Challenges]; Memorandum from Christine C. Boesz, Inspector General, National Science Foundation, to Eamon M. Kelly, Chairman, National Science Board, and Rita R. Colwell, Director, National Science Foundation (Jan. 30, 2002) [hereinafter 2001 Management Challenges]; Letter from Christine C. Boesz, Inspector General, National Science Foundation, to Senator Fred Thompson, Chairman, Senate Committee on Governmental Affairs (Nov. 30, 2000) [hereinafter 2000 Management Challenges].

²Statement of Dr. Christine Boesz, Inspector General, National Science Foundation, before the U.S. Senate, Committee on Appropriations, Subcommittee on VA, HUD, and Independent Agencies (Apr. 3, 2003).

³Office of Inspector General, National Science Foundation, Audit of the Financial Management of the Gemini Project, Report No. 01-2001 (Dec. 15, 2000); Office of Inspector General, National Science Foundation, Audit of Funding for Major Research Equipment and Facilities, Report No. 02-2007 (May 1, 2002).

⁴National Science Foundation, Facilities Management and Oversight Guide (July 2003) <<http://www.nsf.gov/pubs/ods/getpub.cfm?nsf03049>>.

Management Certificate Programs through the NSF Academy to help program officers improve their skills in managing large facility projects.

However, key recommendations from both of these reports on developing new project and financial management policies and procedures remain unresolved by NSF management. Although NSF has issued a “Facilities Management and Oversight Guide”, this Guide does not provide the detail necessary to provide practical guidance to staff that perform the day-to-day work, nor does it address the problem of recording and tracking the full cost of large facility projects. A systematic process for reporting and tracking both the operational milestones and the associated financial transactions that occur during a project’s lifecycle, particularly those pertaining to changes in scope, is still needed. Finally, staff involved with large facility projects need to be trained on the revised policies and procedures that affect funding, accounting, and monitoring. NSF plans to address these outstanding audit recommendations by providing several additional modules to its “Facilities Management and Oversight Guide” that will address various topics such as risk management and financial accounting. My office was recently provided with drafts of two of these modules and is currently reviewing them to provide feedback to the Deputy Director for Large Facility Projects.

While I am pleased to see that NSF is continuing to make progress toward addressing this important management challenge, I remain concerned with the level of attention afforded this issue by senior NSF management. The responsibility for continuing to make progress in this area has fallen to the Deputy Director for Large Facility Projects who may not have been afforded the necessary resources to complete the detailed modules to the “Facilities Management and Oversight Guide” in a timely manner. Currently, the Deputy needs additional staff to assist with completing these numerous and detailed modules. Also, a system to identify and account for life-cycle costs is needed to support management, as well as the prioritization of projects.

AWARD ADMINISTRATION

In addition to its management of some of its very large awards, another ongoing management challenge at NSF involves general administration of all of its research and education grants and cooperative agreements.⁵ While NSF has a proven system for administering its peer review and award disbursement responsibilities, it still lacks a comprehensive, risk-based program for monitoring its grants and cooperative agreements once the money has been awarded. As a result, there is little assurance that NSF award funds are accurately protected from fraud, waste, abuse, and mismanagement. Recent audits conducted by my office of high-risk awardees, such as foreign organizations and recipients of Urban Systemic Initiative (USI) awards, confirm that in the absence of an effective post-award monitoring program, problems with certain types of grants tend to recur.

In a given year, NSF spends roughly 90 percent of its appropriated funds on awards for research and education activities. In fiscal year 2003, NSF reviewed 40,075 proposals—an increase of 14 percent over fiscal year 2002—in order to fund 10,844 awards.⁶ Given the amount of work required to process an award, NSF is challenged to monitor its \$18.7 billion award portfolio (including all active multi-year awards) for both scientific and educational accomplishment and financial compliance. During the past 3 years, weaknesses in NSF’s internal controls over the financial, administrative, and compliance aspects of post-award management were cited as a reportable condition in the audits of NSF’s financial statements.⁷ What this means is that the bulk of staff effort is placed on moving funds out the door with little attention paid to how those funds are used.

NSF has recognized the need to create a risk-based award-monitoring program and has begun to address this issue. The agency has developed a “Risk Assessment and Award Monitoring Guide” that includes post-award monitoring policies and procedures, a systematic risk assessment process for classifying high-risk grantees, and various grantee analysis techniques. During the past year, NSF has made some progress towards fully addressing this management challenge and responding to audit recommendations. For instance, NSF issued the “Award Monitoring and Busi-

⁵ 2003 Management Challenges; 2002 Management Challenges; 2001 Management Challenges; 2000 Management Challenges, *supra* note 1.

⁶ National Science Foundation, Fiscal Year 2003 Performance and Accountability Report (Nov. 2003) <http://www.nsf.gov/pubs/2004/nsf0410/new_pdf/nsf0410final.pdf>.

⁷ Auditor’s Report, Fiscal Year 2003 National Science Foundation Financial Statement Audit (Nov. 17, 2003); Auditor’s Report, Fiscal Year 2002 National Science Foundation Financial Statement Audit (Jan. 29, 2003); Auditor’s Report, Fiscal Year 2001 National Science Foundation Financial Statement Audit (Jan. 18, 2002).

ness Assistance Program Guide”, developed an annual grantee-monitoring plan, conducted 32 site visits on selected grantees, and provided grant-monitoring training for its reviewers.

While these efforts represent good first steps toward an effective award-monitoring program, weaknesses still exist and there are inconsistencies with its implementation. For example, the criteria developed for identifying high-risk grantees is not comprehensive and does not include all potential risk characteristics such as a history of poor programmatic or financial performance. Further, the program does not address medium and low-risk awards, for which NSF could implement a lesser degree of oversight at a minimal cost. Finally, the site visits that are being conducted do not necessarily follow consistent policies and protocols, are not adequately documented, and may not be followed-up on by NSF staff to ensure that corrective actions are taken in response to site visit recommendations.

STRATEGIC MANAGEMENT OF HUMAN CAPITAL

While the previous two management challenges are of an urgent nature, they may be symptomatic of a larger more pressing need for improved strategic management of NSF’s human capital. In order to fully address its award management challenges, NSF will need to devote more resources and attention to making business and process improvements, while at the same time, planning for its current and future workforce needs. Although advances in technology have enhanced the workforce’s productivity, NSF’s rapidly increasing workload has forced the agency to become increasingly dependent on temporary staff and contractors to handle the additional work. NSF’s efforts in the past to justify an increase in staff have been impeded by the lack of a comprehensive workforce plan that identifies workforce gaps and outlines specific actions for addressing them. Without such a plan, NSF cannot determine whether it has the appropriate number of people and competencies to accomplish its strategic goals.

NSF has recognized the seriousness of this challenge and has now identified investment in human capital and business processes, along with technologies and tools, as objectives underlying its new Organizational Excellence strategic goal.⁸ NSF also contracted in fiscal year 2002 for a comprehensive, \$14.8 million, 3- to 4-year business analysis, which includes a component that includes a Human Capital Workforce Plan (HCMP). Preliminary assessments provided by the contractor confirm that NSF’s current workforce planning activities have been limited and identify that specific opportunities for NSF exist in this area.

Currently, the HCMP is a preliminary effort to develop a process for identifying and managing human capital needs and contains few specific recommendations that will have a near-term impact. In addition, the HCMP provides little in the way of milestones and accountability for the accomplishment of these early steps. According to that project schedule, it will be more than a year before the HCMP will identify the specific gaps that NSF needs for justifying budget requests for additional staff resources. I believe NSF faces an urgency with its workforce issues. If not adequately addressed, these issues will undermine NSF’s efforts to confront its other pressing management challenges and to achieve its strategic goal of Organizational Excellence.

Chairman Bond, this concludes my written statement. I would be happy to answer any additional questions you or other members of the subcommittee may have, or to elaborate on any of the issues that I have addressed today.

Senator BOND. Dr. Bement, obviously, with 4 days of experience, you were talking about responding. I will gather this is one of the areas you are going to be looking at. Would you care to respond any further on that?

Dr. BEMENT. Well, you asked me previously what my agenda would be, and when you see my agenda, this will be high on the list.

Senator BOND. Thank you.

Dr. BEMENT. I have read the NRC report. I find that many of the high-level recommendations are sensible, and things that we have not really waited on to begin implementing. Mark Coles, who is the Deputy Director for Large Facilities, is already hard at work at

⁸National Science Foundation, Strategic Plan Fiscal Year 2003–Fiscal Year 2008 (Sept. 30, 2003) <http://www.nsf.gov/od/gpra/Strategic_Plan/FY2003-2008.pdf>.

that, but we are still developing our full response. And I intend to work with the National Science Board in responding to the NRC, and also to the Committee on how we are going to go forward with the recommendations.

NANOSCALE SCIENCE AND ENGINEERING

Senator BOND. Thank you, sir. Thank you, Dr. Boesz. We talked about nanotechnology. As Senator Mikulski and I both noted, we think that nanotechnology is extremely important, and NSF has the unique role of being the lead agency in the initiative, with a funding request of \$305 million. There is a lot of excitement about it because of the potential of far-reaching benefits, but there is a growing public concern about this technology that has to be addressed. I would like to ask what are your plans for the funds, and how are you addressing educating the public about nanotechnology. Maybe I will start first with Dr. Marburger, because he has been on this case for a while.

Dr. MARBURGER. Thank you, Mr. Chairman. In fact, the strong intention of the National Nanotechnology Initiative is to focus appropriately on social, environmental, and health impacts of nanotechnology. There was a workshop last winter, I believe it was in December, that focused on this issue and had many papers by people who had studied the issues. And I came away looking at the results of that workshop with the impression that this issue is being taken very seriously by the program.

Appropriate levels of investments are being made to understand the social impacts of nanotechnology. But more importantly, I believe foundations for good framework for appropriate regulation and response to the potential hazards of nano materials exists and can be tuned up and modified to accommodate the needs of this emerging, exciting new technology.

So I believe we are in a position to address in an appropriate way, with appropriate level of resources. I am very pleased at the visibility that social and environmental impacts have within the NSF's leadership of the program.

Senator BOND. Dr. Bement, I would like you to comment on that, and then—

Dr. BEMENT. Yes.

Senator BOND. Obviously, you have to have the good science first, and how do you go about addressing the public concerns? That is what we would like to know, how do you intend to—

Dr. BEMENT. Well, first of all, we are addressing this problem head on, as you recommended and as Senator Mikulski advocated, and we are taking it very seriously. We want to be ahead of the issue.

We have a significant fraction of our investment in Nanoscale Science and Engineering, which is focused on societal and educational implications of nanotechnology. About \$25 million of our budget is focused in that area. But I think also in the new focused initiative of Human and Social Dynamics and how society copes with change, there are opportunities there also to try and understand what the social implications are. So we are going to give this very serious attention.

Senator BOND. How do you intend to publicize your findings? How do you intend to reach the public with this good information?

Dr. BEMENT. Well, I do not want to go into all the mechanics, but—

Senator BOND. I just want the big picture. There are a lot of people who can do mechanics, and I do not do those well.

Dr. BEMENT. Clearly, one way we communicate with the community at large is through our website. But we have many ways of doing op-ed pieces and communicating our science results, by putting it in context with the general public. We will use all those means.

Senator BOND. Has anybody ever invited you to be on TV talk shows?

Dr. BEMENT. Periodically, yes.

Senator BOND. Dr. Marburger?

Dr. MARBURGER. I would like to say a word about that. The fact that funds have been allocated and appropriated for the specific purpose of addressing this issue in a scholarly way really mobilizes the intellectual community in this country and kind of puts this issue out into the marketplace in a way that is guaranteed to generate interest and attention.

I believe that engaging the science community and the intellectual community of the United States in a constructive way through programs, through the National Nanotechnology Initiative, and particularly through the National Science Foundation, will raise the visibility, not only of the issues, but of how we can go about addressing them and solving them. I think the investment in funded programs through the National Science Foundation particularly will help—will automatically generate a great deal of public interest.

Senator BOND. I think you are going to have to be proactive on it. You have science education centers and partnerships, which I think, obviously, are going to have to be used. And you are going to have to look for opportunities to take on controversy. Controversy is not bad. That is how we focus. Take it on, get involved in the discussions. And if you do not get involved in the controversy, you are not going to get your point across, and controversy probably gives you an opportunity to get more coverage than you would. If it was plain vanilla and all good and low carbs, you would not have any action with it.

Dr. Marburger, I am going to ask you a question, an OSTP question not related to the NSF. The Veterans Administration has expressed concerns about receiving a fair reimbursement from NIH for conducting NIH-sponsored research. We are concerned about this on this committee, because under current practice, research facility costs are paid out of VA's medical care account instead of receiving indirect cost reimbursement for NIH. We asked OSTP to review the issue, and I wondered if you could give us a status report on that review.

Dr. MARBURGER. Yes, sir. We have reviewed the issue. I am just looking for my notes on that. I believe there is a reference to it in my written testimony. In my written testimony and even in my oral testimony, I did mention that the VA will soon begin to use

increased funding from private companies for the indirect administration costs of conducting research in VA facilities.

So once we started thinking about how to deal with the specific relationship between the National Institutes of Health and the Veterans Administration, we decided that we needed to look government-wide to understand the various relationships that exist between Federal intramural scientists and extramural funding programs. There is a generic issue here that affects more than the program in which you expressed interest.

We have an arrangement with an FFRDC, Federally Financed Research and Development Corporation, to conduct studies for us. We commissioned the IDA Science and Technology Policy Institute to assist us in this effort. And they provided us with a preliminary analysis which I would be happy to provide to you, focusing on whether extramural funding agencies, including NIH, support Federal scientists in an appropriate way. There are lots of variations from agency to agency, and we are currently looking at details of how indirect costs are handled, how salaries are covered, and so forth.

[The information follows:]

Intra-Government Policies for S&T Funding

Briefing

for

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Intra-Government S&T Funding Policies 

Objective:

Define Federal policies and practices that limit or govern the financial relationship between

- intramural investigators
- and
- Federal extramural funding agencies

Intra-Government S&T Funding Policies 

Key Questions:

1. *Do these 6 Federal agencies – directly or indirectly – permit scientists from other Federal agencies to compete for extramural research support?*
 - *“Directly” means as employees of a Federal agency*
 - *“Indirectly” means as employees of a non-Federal organization, such as adjunct faculty at a university or as Co-Principal Investigators*
2. *Do these 6 Federal agencies permit their own intramural scientists to apply for extramural research support from other Federal agencies?*
 - *Are intramural scientists allowed to apply for extramural research funds at their own agency?*

Approach:

- o Compile a list of top 6 Federal research agencies
- o Conduct web-based review of agency research funding policies and practices
- o Refine search strategy
- o Conduct interviews with key informants
- o Summarize observations by agency and across agencies
- o Invite review of draft materials by key agency staff

Six key Federal research agencies:

- *Department of Health and Human Services (NIH)*
- *Department of Defense (DoD)*
- *National Aeronautics and Space Administration (NASA)*
- *Department of Energy (DoE)*
- *National Science Foundation (NSF)*
- *US Department of Agriculture (USDA)*

Some funding concepts:

F&A costs (Facilities and

Administrative): reimbursement for expenses already incurred, such as services of accounting staff and research administrators, utilities for research space, communications infrastructure, etc.

CRADA (Cooperative Research and Development Agreement): a mechanism to promote joint public/ private research and development; established by the Federal Technology Transfer Act of 1986.

MOA/MOU (Memorandum of Agreement/Understanding): formal interagency or similar agreement that specifies the parameters of funding and level of effort during jointly sponsored research.

ITF (Interagency Transfer of Funds): mechanism of support apart from contracts, grants or other instruments; typically does not restrict the types of costs that may be charged.

General Observations:

- ✓ Agencies *vary* with respect to the permeability of intramural-extramural research funding boundaries
- ✓ Agencies are more likely *to restrict* to whom they give extramural support *than place restrictions* on their intramural scientists
- ✓ Where boundaries are open, *few Federal intramural scientists* seem to take advantage of extramural research funding opportunities
 - ✓ *Most likely owing to disincentives inherent in extramural funding practices*



**General Format
for the Agency-by-Agency Review that Follows**

- Authority for extramural research policy
- Authority for intramural practices
- Extramural research opportunities and policies: general findings
- Agency guidelines for their own intramural scientists: general findings



National Institutes of Health

- **Extramural Authority:** *Public Health Service Act (1912)*
- **Intramural Practices:** *Office of the Director, NIH*
- **Over \$23 billion annually, about 10% intramural**
- **Extramural research opportunities:**
 - Federal institutions are eligible to apply for NIH grants
 - F&A costs will not be provided to Federal institutions
 - PHS segments granted support under exceptional circumstances only
 - Restricts salary payments
 - E.g. may pay difference between VA PT salary and VANPC FT commitment
- **Intramural guidelines for staff:**
 - Permits acceptance of extramural research grants on a case by case basis
 - E.g. DOD funds for breast cancer research
 - Acceptance of outside awards must be approved by Deputy Ethics Counselor
 - NIH staff may not apply for NIH extramural support

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Department of Defense: Research

- **Extramural Authority:** *Primarily 10 U.S.C. 2358*
- **Intramural Practices:** *Director, DDR&E*
- **Over \$3 billion annually, basic and applied**
 - Not including ATD or other RDTE programs
 - NRL is about 13% of in-house basic and applied research
 - *And 17% of non-DOD R&D funding to DOD laboratories*
- **Extramural research opportunities:**
 - Will fund inter-agency applications
 - Typically sent by interagency transfer to other federal agency
 - Allows proposed types of costs to extent reasonable
- **Intramural guidelines for staff:**
 - Permits acceptance of extramural research support
 - No formal guidance
 - Proposed costs may include salary and overhead
 - DOD intramural staff may apply for DOD extramural research support

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National Aeronautics and Space Administration

- **Extramural Authority:** *National Aeronautics and Space Act of 1958*
- **Intramural Practices:** *Office of the Director, NASA*
- **Over \$1.8 billion annually for science, mostly extramural**
- **Extramural research opportunities in science:**
 - Will fund inter-agency applications
 - Any non-NASA US Federal Executive agency or FFRDC sponsored by a Federal agency
 - If a PI proposes to team with/use a US government facility (including NASA Centers/JPL), NASA will execute an inter- or intra-agency transfer of funds to cover applicable government costs
- **Intramural guidelines for staff:**
 - Permits acceptance of extramural research grants
 - NASA employees are permitted to apply for NASA extramural research funds
 - NASA employees are expected to use cost accounting standards authorized by their Centers
 - No salary or overhead support

Intra-Government S&T Funding Policies



Department of Energy: Office of Science

- **Extramural Authority:** *Atomic Energy Act of 1942*
- **Intramural Practices:** *Office of the Director*
- **About \$3.2 billion annually, about 50% “extramural”**
 - About \$710 million for university-based research (FY2001)
 - About \$790 million for DOE National Laboratories (GOCO's) (FY2001)
- **“Extramural” research opportunities:**
 - Federal agencies are not eligible to submit applications in response to solicitations
 - Federal agencies may submit grant unsolicited proposals
- **Intramural guidelines for staff:**
 - *Not applicable*
 - GOCO's

Intra-Government S&T Funding Policies



Department of Energy: Fossil Energy

- **Extramural Authority:** *Energy Policy and Conservation Act of 1975*
- **Intramural Practices:** *Office of the Director*
- **About \$600 million annually**
- **Extramural research opportunities:**
 - Will fund applications from other agencies
 - DOE will fund other agency work through interagency agreements
 - “...the proposed effort must not place them in direct competition with the private sector.”
- **Intramural guidelines for staff:**
 - Permits acceptance of extramural research awards
 - E.g., Clean Water in-house research at NETL is funded in part by EPA Region III
 - Encourages use of CRADA's

Intra-Government S&T Funding Policies



Department of Energy: Energy Efficiency and Renewable Energy

- **Extramural Authority:** *Pertinent energy conservation legislation*
- **Intramural Practices:** *Office of the Director*
- **About \$800 million annually (undergoing “extreme makeover”)**
- **Extramural research opportunities:**
 - Will not fund applications from most Federal agencies
 - Will fund applications from DOE National Laboratories
- **Intramural guidelines for staff:**
 - Seems to encourage CRADA's

Intra-Government S&T Funding Policies



Department of Energy: Nuclear Energy, Science and Technology

- **Extramural Authority:** *National energy policy*
- **Intramural Practices:** *Office of the Director*
- **About \$127 million annually**
- **Extramural research opportunities:**
 - Will not fund applications from most Federal agencies
 - Will fund applications from DOE National Laboratories
- **Intramural guidelines for staff:**
 - May compete for such funds as Nuclear Energy Research Initiative



National Science Foundation

- **Extramural Authority:** *National Science Foundation Act of 1950*
- **Intramural Practices:** *not applicable*
- **Over \$4 billion annually**
- **Extramural research opportunities:**
 - Does not normally fund applications from other federal scientists
 - Will fund federal scientists having joint appointments with a university on a competitive basis
 - Will fund "unusual circumstances"
 - MOU: DoD in materials science and workforce production
 - MOU: NIH in biotechnology
 - MOU: DoE for high-end computing
 - MOU: Dept. of Commerce on Global Climate Change issues
- **Intramural guidelines for staff:**
 - *Not applicable*



US Department of Agriculture

- **Extramural Authority:** *Hatch Act of 1887; ARS Act of 1946*
- **Intramural Practices:** *Agricultural Research Service (ARS)*
- **Over \$2 billion annually**
 - About \$1.3 billion for ARS and \$1.1 billion for CSREES which includes \$166 million for the National Research Initiative (NRI)
- **Extramural research opportunities:**
 - Will fund inter-agency applications
 - Federal agencies are eligible, esp. for larger grant programs
 - USDA ARS scientists can compete for CSREES funding
 - Legislative cap on indirect cost recovery (major disincentive)
- **Intramural guidelines for staff:**
 - Permits acceptance of extramural research grants
 - Although salary may not be fully recovered
 - ARS intramural scientists may apply for CSREES research funding

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Agency	Supports research by scientists from other federal agencies		Allows their intramural scientists to apply for support	
	Directly	Indirectly	From other agencies	From their own agency
NIH ¹	■	■	■	■
DOD ²	■	■	■	■
NASA ³	■	■	■	■
DOE: Science ⁴	■	■	□	□
DOE: Fossil Energy ⁵	■	■	■	■
DOE: Renewable Energy ⁶	■	■	■	■
DOE: Nuclear Energy ⁷	■	■	□	□
NSF ⁸	■	■	■	■
USDA ⁹	■	■	■	■

KEY

- Yes
- No
- With restrictions
- National laboratories (GOGO's)
- Not applicable

Intra-Government S&T Funding Policies



¹ NIH: NIH Grants Policy Statement, Part II: http://grants2.nih.gov/grants/policy/nhgsa_2003/NIHGPS_PartII.htm
 Conversations with NIH/OD staff: N. Ruiz-Bravo; C. Alderson; M. Gottesman, J. Schwartz; A. Dempsey and input from P. Chen.
² DoD: Conversations with R. Foster and M. Herbst.
³ NASA: NASA Guidebook for Proposers <http://www.hq.nasa.gov/office/properment/nra/guidebook/proposer2003.doc>
 NASA Science Policy: http://media3.sps.nasa.gov/sps/duz/cdn7/nsmst_id-N_PD_1980_0001A_8page_nsmstmain
 Conversations with M. Montrose and J. David Bohlin.
⁴ DOE Office of Science: DOE Office of Science Grant Application Guide <http://www.sc.doe.gov/grants/Agg.html>
⁵ DOE Office of Fossil Energy: "Doing Business" <http://www.fe.doe.gov/business/>
⁶ Office of Renewable Energy: http://www.doe.gov/energy/ren/renmt_007BT_CODE=ENERGYEFFICIENCY
⁷ DOE Office of Nuclear Energy: <http://neri.ne.doe.gov>
⁸ NSF Grant Proposal Guide: <http://www.nsf.gov/pubs/2004/nsf04211.htm>
 and conversations with N. Pitts, D. Brzokovic
⁹ USDA: CSREES General terms and conditions: <http://www.reseas.gov/craam/06q/termsa.doc>
 Conversation with C. Heffernan.

Intra-Government S&T Funding Policies 

Lingering Issues:

- DoD appears to have multiple models for funding research by other federal agencies – do cost principles vary as well?
- Are there restrictions in NASA extramural research support for other Federal scientists?
- Why do some DoE extramural program prohibit applications from some Federal agencies and not others?
- Are USDA intramural scientists (ARS) able to separate themselves meaningful from USDA work when they conduct research funded by other Federal agencies?

Intra-Government S&T Funding Policies 

Some thoughts on refining the analysis:

- Examine role of funding mechanisms in intra-government S&T funding
- Analyze actual patterns of intra- and inter-agency research funding
 - Changes over time
- Expand analysis to include next tier of Federal research agencies

Dr. MARBURGER. Our hope is that this analysis will be completed soon and that we will be able to approach this specific situation regarding NIH and VA in a context of an overall solution for all the

agencies. This question stimulated a very important analysis that I think will help us to address these issues across government.

Senator BOND. I appreciate that. I have looked at the comments in your written statement about funding from private companies and would appreciate it if your office could get back to us on the NIH funding, which I think definitely is a concern for us.

Dr. MARBURGER. Will do.

HOMESTAKE MINE

Senator BOND. I have a number of other questions for the record, but one thing that had been brought up earlier is the proposal for the NSF to invest in the transformation of Homestake Mine, in Lead, South Dakota, into a neutrino lab. I understand that there are already a number of world-class labs and that NSF is currently spending some \$300 million on Ice Cube, a neutrino lab currently under construction, appropriately at the South Pole.

I would ask Dr. Marburger, I do not know if Dr. Bement had an opportunity to look at it, but either Dr. Marburger or Dr. Washington to comment on the Homestake proposal.

Dr. MARBURGER. My comment on this is going to be really to praise the National Science Foundation for taking steps to look carefully into the technical considerations associated with this site.

We agree that the area of science involved is an important one, that the United States has shown leadership in this area in the past, that there are other major investments by other countries, particularly Japan, in this field of science, and that we hope that the United States continuing participation in this important field can be taken into context of international cooperation.

That said, we believe that the course of the NSF management in this area is an appropriate one. We are aware that some actions have been taken in the recent past regarding the Homestake Mine, and we are watching that situation carefully. But we believe it is up to NSF to decide, using the best science available to it.

Senator BOND. Dr. Bement, have you had an opportunity to look into this question?

Dr. BEMENT. I have, but I do not have a complete answer for you. I do know, however, that there have been several proposals, Homestake being one of them. Many of these, well, all these proposals have been unsolicited, but they have not been fully evaluated by the science community. And there are science communities other than the neutrino—those interested in neutrino detection that are interested in a deep underground research facility.

To go to your one question, "Why a facility like Homestake, compared with other neutrino facilities around the world?" The one capability that is needed is to have enough overburden, or to be deep enough, if you will, or to have enough mass above you that it will screen out cosmic rays so that it will enhance the opportunity to measure neutrinos. Each of the sites that have been proposed has different advantages and disadvantages, and those are going to be reviewed by the science community to develop their requirements for the facility.

Senator BOND. Dr. Washington.

Dr. WASHINGTON. Well, it has not been brought to the Board yet, and we are expecting that the Foundation will carry on its analysis

of the various options, and then present them to the Board. It has not been brought to the Board yet.

Senator BOND. I very much appreciate that. We will look forward to receiving the information when you have developed it. That will be very important for us.

ADDITIONAL COMMITTEE QUESTIONS

I have, as I said, a number of other questions that I will submit for the record. We have already discussed some. We welcome you, Dr. Bement.

Dr. BEMENT. Thank you very much.

Senator BOND. There is nothing like jump-starting your service on the NSF.

Dr. BEMENT. Well, it focuses the mind.

Senator BOND. Senator Mikulski and I have some very strong views, and we are united in those views. I think you may have gathered that. Dr. Marburger, I always appreciate it. Dr. Washington.

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

QUESTIONS SUBMITTED TO THE OFFICE OF SCIENCE AND TECHNOLOGY POLICY

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

Question. Due to the perceived subjectivity of NSF's priority-setting process for large research facilities, there has been an increased effort by various scientific interest groups to lobby the Congress on their specific project. In response to this concern, we asked the National Academy of Sciences to develop criteria to rank and prioritize large research facilities and they have responded.

Do you support the Academy study?

Answer. Yes. The National Academies study on the criteria used to rank and prioritize large research facilities is well conceived and, when fully implemented, will bring a high level of transparency and integrity to the process.

Question. When will you be able to provide the Committee with a prioritization of all the current, and proposed, activities in the MREFC account fiscal year 2005?

Answer. It is unlikely that a new prioritization of the Major Research Equipment and Facilities Construction (MREFC) account proposals based upon the National Academies study could be completed in time to affect the fiscal year 2005 appropriations process. The National Academies report requires several elements to be in place that will take some time to complete. In particular, the report stresses that as its basis for its annual budget request, the National Science Foundation (NSF), with approval from the National Science Board, should use a facilities roadmap. The development of a roadmap for NSF facilities represents a significant undertaking that should not be rushed to completion for the purposes of a single budget year's request. The development of a credible scientific facilities roadmap will require broad input from the scientific community to serve as its intellectual basis.

Question. How long will it take NSF and the National Science Board to implement the recommendations?

Answer. The NSF has begun, in earnest, to look at the recommendations of the NAS and has begun to understand how this will impact its process, and there is much work to do. For example, the NSB will need to undertake the development of a facilities roadmap which is a significant undertaking. It is certainly possible that the new process will impact the fiscal year 2006 budget formulation process.

Question. In the budget request for this year, there is a proposal to move Math and Science Partnerships to the Department of Education, and to take the current program obligations and move them into the research account. Can you please explain the rationale behind moving the program away from NSF as well as the transfer of the program into the integrative activities portion of the research account?

Answer. The consolidation of the Math and Science Partnerships (MSP) program at the Department of Education is motivated by a desire to focus the program on integrating research-proven practices into classroom settings. The consolidated program will concentrate attention and resources in a single program for maximum

benefit. The increase in the Department of Education's MSP program is a key component of the President's Jobs for the 21st Century Initiative. President Bush is committed to helping better prepare high school students to enter higher education or the workforce. This initiative is especially important at a time when 80 percent of the fastest-growing jobs in the United States require higher education and many require math and science skills. Moving the management of the ongoing awards to the NSF Director's office is intended to maximize the coordination of NSF-funded MSP awards across NSF and with the consolidated program at Education. The Department of Education and the National Science Foundation will work together to focus ongoing NSF efforts in directions that will benefit the program's shift in emphasis.

Question. As I mentioned in my statement, the program for Informal Science Education is nationally recognized, and exposes millions of children and adults to science and science education. This is an excellent tool for NSF to use to encourage science literacy within the country, and can inspire kids to pursue science in education and as careers. With this in mind, why is Informal Science Education receiving a decrease of 25 percent from the \$62.5 million that we provided in fiscal year 2004?

Answer. The funding for Informal Science Education (ISE) activities at NSF is at the same level as the fiscal year 2004 request. At a time of increasing budgetary pressures, difficult decisions and priorities must be set. It is important to note, however, that outreach and educational activities that occur outside of the classroom are not restricted to the ISE program. All of the major center activities funded by NSF have as part of their responsibilities, outreach activities and onsite educational efforts to explain the science to the public. The impact of informal educational activities is not completely captured by looking only at those supported under the ISE budget line, and NSF continues to emphasize the value of having the research community itself directly engaged in informal science educational activities.

Question. An ongoing concern of Congress is the need for making sure that we have enough college students with majors in science, engineering, and technology fields. Congress has consistently shown support for this program, despite the annual cutting of the budget for this program by the administration. Why is NSF, once again, cutting Tech Talent by \$10 million, a 66 percent decrease?

What are your views of NSF, the National Science Board, and OSTP, on the benefits of the Tech Talent program? Do you believe, as Congress does, that there is a strong need for this program?

Answer. The administration strongly supports expanded opportunities to obtain technical training and education. In fact, the President's fiscal year 2005 budget request proposes several new programs and expands others to better prepare workers for jobs in the new millennium, by strengthening secondary education and job training. The President's budget calls for increased access to post-secondary education and job training through community-based job training grants (\$250 million) and enhanced Pell Grants (\$33 million) for certain low-income students. In addition, the President's plan calls for increases in high school reading (\$100 million), math (\$120 million), and advanced placement (\$28 million) programs. The budget request supports the establishment of an adjunct teacher corps (\$40 million) to help get individuals with more subject-matter knowledge into the classroom, and an expansion (\$12 million) of the State Scholars program to get more students taking stronger courses of study.

The Science, Technology, Engineering and Mathematics Talent Expansion Program—STEP—was initiated in fiscal year 2002 to support initial planning and pilot efforts at colleges and universities to increase the number of U.S. citizens and permanent residents pursuing and receiving associate's or bachelor's degrees in established or emerging science, technology, engineering and mathematics fields. In fiscal year 2003 the requested funding level for the STEP program was \$2 million, growing to a request of \$7 million in fiscal year 2004 and a request of \$15 million in fiscal year 2005. Although this pattern of support has been augmented by Congress in the appropriation process, the funding pattern reflected in the requests demonstrates steady growth and commitment to an important program at NSF.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

Question. In your testimony, you indicate that the administration is maintaining funding for the multi-agency climate change science program at approximately \$2 billion for fiscal year 2005, much of which falls within the jurisdiction of the VA-HUD Subcommittee. You also state in your testimony that the new U.S. Climate Change Science Program Strategic Plan "received high marks after a 6-month re-

view” by a committee convened by the National Academy of Sciences’ National Research Council (NRC). However, because the new 10-year science plan is quite broad and ambitious, the NRC also urged the administration to increase funding commensurate with the expansion of the program’s stated research goals. Does the administration now plan to ask for an increase in funding for this expanded research agenda that will match the ambitious nature of the recently released strategic plan?

Answer. The NRC also advised that, given the current budget outlook, prioritization would be essential for meeting the goals of the strategic plan. The President’s budget takes steps to identify priorities and reallocate funding accordingly. New resources are proposed to advance understanding of aerosols, better quantify carbon sources and sinks, and improve the technology and infrastructure used to observe and model climate variations.

Question. If you are not going to receive the increased funding needed to provide sufficient resources for the new climate change science plan, how will you move forward to achieve the stated goals of this expanded program for climate change science research?

Answer. Congress itself plays the primary role in appropriating Federal funding for climate change science, and the administration will continue to work closely with Congress to ensure that funding for this research is sustained and managed in alignment with the priorities set forth in the strategic plan.

The strategic plan outlines scientific goals, objectives, and questions, and provides guidance on near-term priorities. The Climate Change Science Program conducts an annual review of the ongoing projects and must decide which ones to expand and which ones to reduce in scope with the intent to initiate new endeavors. Climate change science is very dynamic with information continually leading to new ideas and to new endeavors. Much new information is obtained from process studies, such as the North American Carbon Program, and from demonstration of a new measurement concept, such as the Orbiting Carbon Observatory, both of which have limited durations. At the conclusion of a process study or demonstration project, funds become available for new endeavors. In addition, climate science is an international enterprise, as outlined in a separate chapter in the strategic plan, and has been for half a century. The United States partners with others in climate change science to leverage its investments to achieve synergism. For example, the 40-country inter-governmental Group on Earth Observations, which was established at the Earth Observation Summit in Washington in July 2003, is developing an implementation plan for a comprehensive, coordinated, and sustained global Earth observation system, in which a climate observing system is a major component.

Question. Further, given the fact that this initiative falls under several agencies, who specifically will be tasked to make the necessary decisions and set priorities?

Answer. The Climate Change Science Program is provided direction by a group of senior-level career officials representing all 13 agencies and departments involved in the program. The Office of Science and Technology Policy, Office of Management and Budget, Council on Environmental Quality, and National Economic Council provide oversight of the Climate Change Science Program. The Climate Change Science Program works by consensus and reports its decisions to the Interagency Working Group on Climate Change Science and Technology on a regular basis, usually at 2-month intervals. When the Climate Change Science Program directors are unable to make a decision, guidance is requested from the Interagency Working Group, which is composed of Under or Deputy Secretaries and senior Executive Office of the President (EOP) officials. The Interagency Working Group reports to the cabinet-level Committee on Climate Change Science and Technology Integration, whose Chair and Co-Chair rotate annually between the Secretary of Energy and the Secretary of Commerce.

Question. Last week an influential and renowned group of scientists, including 20 Nobel laureates, issued a statement raising serious concerns about the Bush Administration’s distortion and sabotage of science. Many of these individuals have served with distinction in former Republican and Democratic administrations.

Solid science is a critical underpinning of constructive policy making. Policy-makers rely upon credible, peer reviewed, objective scientific analysis and advice in the pursuit of good decision making in such fields as food safety, health care, biomedical research, the environment, and national security. These scientists have asserted that the Bush Administration is advocating policies that are not scientifically sound, misrepresenting scientific knowledge, censoring and suppressing information, and misleading the public to pursue its ideological agenda.

Your agencies are seen as leading voices within the Federal Government with regard to the application of good science, and, therefore, it is incumbent upon you to ensure that scientific integrity is maintained. I am concerned that there is now a

contemptible lack of oversight and that the public's trust in the Federal Government's scientific credibility and integrity will be undermined in the long term.

What steps will you take to ensure that science and the pursuit of scientific reviews in the service of policymaking does not become overly politicized?

Answer. President Bush believes policies should be made with the best and most complete information possible, and expects his administration to conduct its business with integrity and in a way that fulfills that belief. I can attest from my personal experience and direct knowledge that this administration is implementing the President's policy of strongly supporting science and applying the highest scientific standards in decision-making.

Question. Are you prepared to make any specific recommendations to restore scientific integrity to policymaking?

Answer. The administration's strong commitment to science is evidenced by impressive increases devoted to Federal research and development (R&D) budgets. With the President's fiscal year 2005 budget request, total R&D investment during this administration's first term will have increased 44 percent, to a record \$132 billion in fiscal year 2005, as compared to \$91 billion in fiscal year 2001. President Bush's fiscal year 2005 budget request commits 13.5 percent of total discretionary outlays to R&D—the highest level in 37 years.

In addition to enabling a strong foundation of scientific research through unprecedented Federal funding, this administration also believes in tapping the best scientific minds—both inside and outside the government—for policy input and advice. My office establishes interagency working groups under the aegis of the National Science and Technology Council for this purpose. In addition, this administration has sought independent advice, most often through the National Academies, on many issues. Recent National Academies reviews of air pollution policy, fuel economy standards, the use of human tests for pesticide toxicity, and planned or ongoing reviews on dioxin and perchlorate in the environment are examples. The administration's climate change program is based on a National Academies report that was requested by the administration in the spring of 2001, and the National Academies continues to review our programs and strategic research planning in this field. The frequency of such referrals, and the high degree to which their advice has been incorporated into the policies of this administration, is consistent with a desire to strengthen technical input into decision-making.

Question. According to news reports, the Bush Administration is said to “stack” panels with members whose scientific viewpoints agree only with the administration's positions. Even basic science classes teach the importance of a broad range of sampling when trying to find scientific truths. How can the public have any confidence that scientific positions taken by this administration have any basis in fact?

Answer. Suggestions of a political litmus test for membership on technical advisory panels are contradicted by numerous cases of Democrats appointed to panels at all levels, including Presidentially appointed panels such as the President's Information Technology Advisory Council, the National Science Board, and the nominating panel for the President's Committee on the National Medal of Science. And, in fact, I am a lifelong Democrat.

Every individual who serves on one of these advisory committees undergoes extensive review, background checks, and is recognized by peers for their contributions and expertise. Panels are viewed from a broad perspective to ensure diversity; this may include gender, ethnicity, professional affiliations, geographical location, and perspectives.

Question. Will you press for changes to ensure that a range of scientific views are included on these panels?

Answer. I have discussed the issue of advisory committees with the Federal agencies mentioned in the Union of Concerned Scientists (UCS) document and am satisfied with the processes agencies have in place to manage this important function. I can say that many of the cited instances in the UCS document involved panel members whose terms had expired and some were serving as much as 5 years past their termination dates. Some changes were associated with new issue areas for the panels or with an overall goal of achieving scientific diversity on the panels. Other candidates may have been rejected for any number of reasons—this is ordinary for any administration.

My office is involved in recommending candidates for the President's Council of Advisors on Science and Technology, the President's Information Technology Advisory Committee, and the nominating panel for the President's Committee on the National Medal of Science. I have intimate knowledge of the selection process for these committees. This process results in the selection of qualified individuals who represent a wide range of expertise and experience—the right balance to yield quality advice for the President on critical S&T issues.

QUESTIONS SUBMITTED TO THE NATIONAL SCIENCE FOUNDATION

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

NATIONAL ACADEMY OF SCIENCES REPORT ON NSF PRIORITY SETTING FOR MAJOR RESEARCH FACILITIES

Question. Due to the perceived subjectivity of NSF's priority-setting process for large research facilities, there has been an increased effort by various scientific interest groups to lobby the Congress on their specific project. In response to this concern, we asked the National Academy of Sciences to develop criteria to rank and prioritize large research facilities and they have responded.

Do you support the Academy study?

Answer. Yes. The report recommends that NSF provide greater transparency and formality to its process of selecting large facility projects for funding, followed by construction with effective oversight. The recommendations present significant opportunities for NSF to enhance its capabilities, to articulate its selection of large projects to others in government and to the research community, and to provide effective management and oversight of these projects during their construction and operations phases.

Question. When will you be able to provide the committee with a prioritization of all the current, and proposed, activities in the MREFC account fiscal year 2005?

Answer. The fiscal year 2005 budget contains a prioritization for the three new MREFC projects that are proposed. They are, in order of priority, the National Ecological Observatory Network, the Scientific Ocean Drilling Vessel, and Rare Symmetry Violating Processes. These projects have been extensively peer reviewed prior to selection, and then were subjected to further consideration and ranking by the NSF's MREFC Panel, followed by further consideration and approval by the NSB, followed by submission to OMB.

Question. How long will it take NSF and the National Science Board to implement the recommendations?

Answer. The overall recommendations are in the process of being implemented. The details of how these recommendations will be incorporated into NSF policies will require further time and are the subject of ongoing discussions between NSF and the NSB. This was on the agenda at the March NSB meeting and will continue at the May and August meetings with a goal of completion in early fall.

MINORITY-SERVING INSTITUTIONS

Question. Last year, this subcommittee emphasized the need for NSF to pay more attention to funding at Minority-Serving Institutions. We even required NSF to identify an individual in senior-level management to assist Minority-Serving Institutions in interacting with NSF. However, I notice in this year's budget request NSF is cutting funding to the Historically Black Colleges and Universities by nearly 20 percent.

Why is NSF not paying attention to what is clearly a priority of Congress?

Answer. NSF efforts in supporting science, technology, engineering, and mathematics (STEM) research and education capacity at Historically Black Colleges and Universities (HBCUs), and other Minority-Serving Institutions (MSIs), are not limited to EHR programs alone. There are numerous efforts across the agency promoting the advancement of women and racial/ethnic minority students to increase their participation in the STEM enterprise. Agency investments in MSIs in both research and education have increased from \$97 million in fiscal year 1998 to \$148 million in fiscal year 2003.

NSF is focusing its efforts on assisting (MSIs) by working to improve diversity efforts and initiatives throughout the Foundation's scientific and educational programs. In fiscal year 2005, NSF research directorates will continue with significant investments in the Science and Technology Centers (STCs) where MSIs participate as collaborating partners. Centers bring people, ideas, and tools together on scales that are large enough to have a significant impact on important science and engineering challenges. This approach reflects NSF's efforts to strengthen partnerships and collaborations between NSF research centers, HBCUs and other MSIs.

Question. Can you provide us with details concerning the senior-level position for assisting minorities called for in the conference report?

Answer. NSF has filled the position. Dr. Thomas Windham took office on February 15, 2004, as Senior Advisor for Science and Engineering Workforce. Dr. Windham will serve as NSF's principal liaison to Minority-Serving Institutions.

INFORMATION TECHNOLOGY RESEARCH

Question. Information Technology Research has been a priority for several years at NSF, yet it is not this year. We have provided significant resources in the past to ITR, but NSF has chosen to redistribute \$40 million in funds from ITR to other computing research areas.

Does this funding change signal that there is no longer support for ITR?

Answer. Information Technology research continues to be a high priority at NSF. As a “formal” priority area, Information Technology Research (ITR) has transformed the investments NSF makes in IT, revealing new IT research and education challenges and opportunities. It has also encouraged the national science and engineering community to conduct research that crosses traditional boundaries between disciplines, universities and other sectors, thereby advancing IT research and applications. The agency’s changes in ITR are not a sign of retreat, but a plan to use this knowledge and emerging IT opportunities to boldly address new challenges.

To understand this next step for ITR, it helps to look back at the context in which ITR was begun, to consider how the ITR priority area fostered positive changes at NSF and in the university community, and how we intend to capitalize on those changes and new research and education opportunities.

The most visible support for creating the ITR program came from the President’s Information Technology Advisory Committee (PITAC). Their 1999 report “Information Technology Research: Investing in Our Future” anticipated that information technology would be “one of the key factors driving progress in the 21st century—it will transform the way we live, learn, work, and play.” The committee went on to find that “Federal support for research in information technology is seriously inadequate. The report recommended that research funding be increased by an additional \$1.370 billion per year by fiscal year 2004 with particular research emphasis on software and scalable information infrastructure”.

The PITAC report recommended some specific strategies for best use of additional research funds including designating the NSF as lead agency for the Federal effort, diversifying the modes of research support to include projects of broader scope and longer duration, supporting research teams, and funding collaborations focused on application areas that drive fundamental IT research.

NSF had also been focusing on the provision of more diverse modes of funding support and promoting interdisciplinary research, so these recommendations were used to shape a “formal” ITR priority area as well as to influence planning for NSF’s other priority areas. With generous funding of \$90.0 million for research and education and \$26.0 million for a new terascale computing system in fiscal year 2000, NSF launched the ITR priority area. Funding has grown to approximately \$313 million for research in fiscal year 2004.

NSF is poised now to institutionalize the advances made in response to the PITAC recommendations, particularly the capability developed for multi-disciplinary research that addresses applications and the new ability of the research community to work as collaborative teams.

The Computer and Information Science and Engineering (CISE) directorate has received about two-thirds of the research funds of ITR. Driven both by changes in the computer and information science and engineering disciplines as well as by the impact of the ITR priority area investments, CISE has reorganized to take advantage of both. CISE will incorporate ITR funds closely into its new divisions; the divisions will operate with clusters of programs that are positioned to operate much as ITR has operated—and will be fully capable of managing interdisciplinary projects, able to support multi-investigator teams as well as individual investigator awards, and able to work effectively with other disciplines. The core programs are being transformed by ITR as much as ITR is becoming part of the new core of CISE.

For the science and engineering disciplines outside of CISE, ITR has led investigators to a much greater appreciation for the increase of data due to new instruments and sensors, the demands to store and analyze these data and the need for research to create new methods and capabilities for their research. ITR has supported many interdisciplinary projects that address the research problems ensuing from these trends.

Through all of these efforts, ITR has been a successful force for change. The changes in how we fund IT research are not any diminution of effort, but are the next step in an evolution that responds to a changing environment, changing capabilities, new opportunities, and evolving national priorities.

MATH AND SCIENCE PARTNERSHIP

Question. In the budget request for this year, there is a proposal to move the Math and Science Partnership to the Department of Education, and to take the current program obligations and move them into the research account.

Can you please explain the rationale behind moving the program away from NSF as well as the transfer of the program into the Integrative Activities portion of the research account?

Answer. The consolidation of the Math and Science Partnership (MSP) reflects the administration's desire to focus the program on integrating research-proven practices into classroom settings. In addition, it will allow the program to concentrate attention and resources in a single program for maximum impact.

The President's Budget requests \$269 million at the Department of Education for the MSP program in 2005, a \$120 million increase over the Department's 2004 level. This additional funding will support competitive grants targeted at improving math skills of disadvantaged high school students.

This increase in the Department of Education's MSP program is a key component of the President's Jobs for the 21st Century initiative. President Bush is committed to helping better prepare high school students to enter higher education or the workforce. This initiative is especially important at a time when 80 percent of the fastest-growing jobs in the United States require higher education and many require math and science skills.

The fiscal year 2005 budget would begin the process of phasing out the NSF program, while continuing support for out-year commitments for awards made in the first and second grants competitions, data collection, and program evaluation. NSF has requested \$80 million in fiscal year 2005 to honor outyear-funding commitments for past awards. Moving the management of the ongoing awards to the NSF Director's office is intended to maximize the coordination of NSF-funded MSP awards across NSF.

INFORMAL SCIENCE EDUCATION

Question. As I mentioned in my statement, the program for Informal Science Education is nationally recognized, and exposes millions of children and adults to science and science education. This is an excellent tool for NSF to use to encourage science literacy within the country, and can inspire kids to pursue science in education and as careers.

With this in mind, why is Informal Science Education receiving a decrease of 25 percent from the \$62.5 million that we provided in fiscal year 2004?

Answer. Through its Informal Science Education (ISE) program, NSF has served the Nation by providing increased opportunities for public understanding of science, technology, engineering, and mathematics (STEM). The proposed reduction in ISE funding reflects priority setting in a tight budget environment. Notwithstanding, NSF is committed to promoting informal science education not only through the ISE program, but also through outreach emphases in programs throughout the agency.

SCIENCE, TECHNOLOGY, ENGINEERING, MATHEMATICS TALENT EXPANSION (TECH TALENT) PROGRAM

Question. An ongoing concern of Congress is the need for making sure that we have enough college students with majors in science, engineering, and technology fields. Congress has consistently shown support for this program, despite the annual cutting of the budget for this program by the administration.

Why is NSF, once again, cutting Tech Talent by \$10 million, a 66 percent decrease?

Answer. The funding requested for the Tech Talent program was \$2 million in fiscal year 2003 and \$7 million in fiscal year 2004. In fiscal year 2005 NSF is requesting \$15 million. Within this funding level, the Tech Talent program will improve the ability of academic institutions to increase the number of college students who major in science, engineering, and technology fields.

Question. What are the views of NSF, the National Science Board, and OSTP, on the benefits of the Tech Talent program? Do you believe, as Congress does, that there is a strong need for this program?

Answer. Proposal pressure to the Tech Talent program continues to be overwhelming and serves as an indicator of the popularity of this program. Although all proposals are expected to focus on efforts to increase the number of STEM majors, the range of activities seen in the proposals is extremely broad. For example, institutions are proposing to focus on the recruitment and retention of students from populations underrepresented in STEM fields; to increase exposure of students to

academic or industrial research experiences starting during the students' first year of college; to make more effective linkages between community college courses and those at the 4-year institutions to which community college students transfer; to create bridge programs for at risk students between high school and college or between 2-year and 4-year institutions; to strengthen mentoring and tutoring between faculty and students and between students; to redesign courses that have proved to be major barriers to student success in STEM fields; and others. The NSF and the National Science Board have long advocated all of these efforts. The proposed reduction in budget for the Tech Talent program is a result of priority setting in a tight budget environment. Nevertheless, Tech Talent is an excellent program to help ensure the Nation has enough college students with majors in science, engineering, and technology fields.

EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH (EPSCoR)

Question. One program that is very important to a number of Senators, particularly from less populous States, is the EPSCoR program, which provides a mechanism for those States to develop strategies to become more competitive at the National Science Foundation.

Can you please explain why NSF chose to cut funding for EPSCoR by more than 10 percent from the \$95 million provided in fiscal year 2004?

Answer. The funding requested for the EPSCoR program was \$75 million in both fiscal year 2003 and fiscal year 2004. In fiscal year 2005 the requested level increased to \$84 million. This funding level will allow the program to meet its current obligations. In addition, this level of funding will allow continuation of EPSCoR's successful outreach program to acquaint EPSCoR researchers with NSF programs and policies. This amount is supplemented by approximately \$30 million in co-funding from the Research and Related Activities account, a mechanism to leverage other NSF programs to EPSCoR States that has accounted for over 1,100 awards to EPSCoR States totaling \$392 million for the 5-year period ending in fiscal year 2003.

Question. What system does NSF have in place to track the progress of these smaller States in becoming more competitive for NSF grants? Are there any States that could soon graduate from the program?

Answer. NSF's databases permit tracking of the numbers of proposals submitted, awards made, and funds obligated. The EPSCoR Office uses these data to track the progress of individual States and their competitiveness for NSF research awards. In addition, these systems help EPSCoR staff in their review of progress reports and results from site visits. NSF EPSCoR also uses these data in establishing eligibility for its programs and posts them on the EPSCoR website. Currently, eligibility for EPSCoR's Research Infrastructure Improvement (RII) program, as established in Public Law 107-368, is met when a State's institutions receive less than 0.70 percent of NSF research funding averaged over the 3 most recent fiscal years.

NSF has named Dr. Sherry O. Farwell to head the Foundation's Experimental Program to Stimulate Competitive Research. He will serve in a consulting capacity immediately and assume the position full-time at NSF headquarters in July. One of his first tasks will be to look at the EPSCoR program and how well it is meeting the original goals set forth over two decades ago. Among the issues he will be considering is that of eligibility and the impact that the growth in the number of eligible States has had on the program.

INTERGOVERNMENTAL PERSONNEL ACT

Question. NSF's budget again requests for 170 employees through the Intergovernmental Personnel Act (IPA). These people come from other agencies to work at NSF for up to 4 years, but typically 18 to 24 months and then return to the private sector for employment.

Can you please explain the significance of having almost 10 percent of the NSF workforce as temporary staff, and how this affects the continuity of operations at NSF?

Answer. NSF aims to employ a mixture of permanent staff, IPAs, and visiting scientists, engineers, and educators throughout the agency. NSF's permanent staff provides the stable base of knowledge and expertise needed to operate efficient and productive programs within the Federal structure. Rotators represent nearly 10 percent of NSF's total staffing, and they help provide a continuous inflow of up-to-date information and fresh, invigorating viewpoints on needs and opportunities across all of research and education. NSF will continue to foster close ties to the research and education community through the use of rotators from academic and other non-

governmental institutions who work at NSF for 1–2 years on average and then return to their institutions.

Question. Is NSF in need of more regular FTEs, beyond the 25 additional asked for in fiscal year 2005, or is there a benefit that can only be achieved through IPAs?

Answer. The Fiscal Year 2005 Request seeks funding for an additional 25 new permanent employees to address mounting pressures, and the IPA staffing level remains equal to the fiscal year 2004 Current Plan Level of 170 FTE. We anticipate that the agency will seek further staffing increases in the future to address the past 20 years of static employment levels as well as future workload pressures. Additionally, it is our plan to maintain the required level of rotators needed to bring state-of-the-art knowledge to the agency.

These issues are addressed in the forthcoming report from the National Academy of Public Administration, which committee staff has received in draft form. NSF expects that this report will provide an invaluable framework for future discussions of these issues, particularly since NAPA has recognized both the importance of rotators to NSF's mission and also the need for NSF to continue to balance the number of rotators and permanent employees based on the agency's past experience and the specific requirements of individual positions.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH (EPSCOR)

Question. For fiscal year 2004, Congress appropriated \$95 million for the NSF EPSCoR program. Another \$30 million is expected from co-funding by the research directorates. How are you allocating these funds among the various EPSCoR activities?

Answer. EPSCoR expects to allocate the fiscal year 2004 \$95 million appropriation at approximately the following levels: \$57 million for Research Infrastructure Improvement awards (fulfilling commitments on current awards and initiating four new awards), \$33 million for co-funding, \$200,000 for outreach activities, and \$4.8 million for NSF Small Business Innovation Research (SBIR) and other activities. EPSCoR works closely with directorate representatives in determining annual co-funding priorities. For instance, first-time awardees typically have priority over investigators who have had previous NSF funding. As another example, potential awards from the NSF Faculty Early Career Development Program (CAREER) have high priority across NSF because of strong potential to influence the integration of research and education on EPSCoR campuses.

EPSCOR RESEARCH INFRASTRUCTURE INITIATIVE

Question. Idaho is applying for a new Research Infrastructure Initiative (RII) award this year. Under normal circumstances, the solicitation would be available by now. I understand that more than 15 States including Idaho are waiting for the solicitation. Please provide your schedule for issuing the solicitation as expeditiously as possible.

Answer. The solicitation was issued on March 17, 2004.

QUESTION SUBMITTED BY SENATOR TED STEVENS

BARROW ARCTIC GLOBAL CLIMATE CHANGE RESEARCH FACILITY

Question. In fiscal year 2004, \$5.4 million was appropriated to the National Science Foundation to be used for the Barrow Arctic Global Climate Change Research Facility, along with additional funding from NOAA. This facility will help NSF and the research community better accomplish their mission, but to date, the NSF money has not been made available.

Please explain how and when these funds will be made available to the project.

Answer. The plan for SEARCH infrastructure needs, including Barrow research support is as follows:

Background

Senate Report 108–143, accompanying S. 1584, the Senate VA/HUD Appropriations for fiscal year 2004, contained the following provision:

“The Committee fully supports the Foundation's fiscal year 2004 priority for Arctic research under its Study of Environmental Arctic Change [SEARCH] program. Accordingly, the Committee has provided \$5,800,000 within NSF's Office of Polar

Programs to support SEARCH infrastructure needs, including research support for the Barrow Arctic Research facility.”

Plan for SEARCH Infrastructure Needs Including Barrow Research Support

The general framework for these investments was set forth in the 2002 report to the Senate entitled, “The Feasibility of a Barrow Arctic Research Center.”

Barrow Arctic Science Consortium (BASC) Information Technology

NSF is funding a significant improvement to the Barrow IT infrastructure to support science conducted in the Barrow area. BASC established an IT capability last year, and this year NSF will continue to support its development, operation and maintenance. Specifically, wireless LAN capability will be added with a 10-mile radius to support connectivity to tundra, sea-ice and ocean science field teams. (Cost estimate for fiscal year 2004: \$500,000)

North Slope Coastal Current Radar System

NSF and the Department of the Interior’s Minerals Management Service are considering joint funding for the acquisition and deployment of coastal radar systems along the North Slope, most likely located in or close to Barrow. The initial investment could be a high frequency radar for surface current mapping. This technology is well advanced and would provide surface current maps of high reliability. In addition, plans will be developed for the deployment of microwave radars for mapping of surface ice fields. Such radars have been employed along the northern coast of Hokkaido (Sea of Okhotsk) for many years; their use in Alaska will be discussed at a multi-agency meeting in Anchorage, Alaska, on March 31 and April 1, 2004. (Cost estimate for fiscal year 2004: \$600,000)

Study of the Northern Alaska Coastal System (SNACS): An Arctic System Science and SEARCH Program

A program announcement is currently active with a mid-April deadline. This solicitation seeks proposals focused on the Arctic coastal zone of Alaska (see below for details) addressing one or more aspects of two coupled themes:

- How vulnerable are the natural, human, and living systems of the coastal zone to current and future environmental changes in the Arctic?
- How do biogeochemical and biogeophysical feedbacks in the coastal zone amplify or dampen change locally and at the pan-arctic and global levels?

Up to \$8.0 million is expected to be used to support the competition and \$2.0 million is set aside from the fiscal year 2004 SEARCH infrastructure funding to support needs identified in the proposals; half of the infrastructure funds will likely be used to address Barrow infrastructure needs. These may include new laboratory, instrumentation and connectivity capabilities. Funding recommendations based on external merit review are expected to be made by July 2004.

Toolik Field Station Winter Facilities Upgrade

The broad nature of SEARCH requires a variety of infrastructure throughout the Arctic including a network of stations that can support scientific campaigns and long-term observation. One site identified in the Search implementation plan (http://psc.apl.washington.edu/search/Library/ImplementOctober_R1.pdf) is Barrow, but Toolik also is noted as it provides the necessary infrastructure for terrestrial research and affords access to three major physiographic provinces including the Brooks Range, the Arctic Foothills, and the Arctic Coastal Plain. The station also serves as a base camp for researchers working along the ecological transect from tundra to taiga to boreal forest along the Dalton Highway, from Prudhoe Bay to Fairbanks, Alaska. The Institute of Arctic Biology at the University of Alaska, Fairbanks has developed a sound long-range development plan for Toolik Field Station that has guided development of the North Slope research facility over the last 4 years. The next significant increment is to build a winter support building that would significantly improve the capability to support year-round science and winter campaigns. (Cost estimate for fiscal year 2004: \$1.0 million)

North Pole Environmental Observatory (NPEO)

The NPEO is in its fifth year of operation, supported mostly by the Arctic System Sciences program and has submitted a proposal for another 5 years of operation. As was originally planned, the observatory has become a base for multiple projects in the Arctic Ocean, many of which are supporting the SEARCH goals. Part of the SEARCH infrastructure funds will be used to help continue the observations. (Cost estimate for fiscal year 2004: \$700,000)

Russian Meteorology Stations

For scientists to meet the SEARCH goals they will require the ability to make measurements and observations throughout the Arctic, including areas of the vast coastal and continental shelf system of Arctic Russia. NSF has been working with the Russian Federal Service for Hydrometeorology and Environment Monitoring and a Russian non-profit organization, Polar Foundation, to facilitate the reestablishment and improvement of manned and unmanned meteorological observatories in the high Russian Arctic. These measurements will be critical to improved modeling and understanding of the changing Arctic environment at the broadest scales. (Cost estimate for fiscal year 2004: \$600,000)

Summit, Greenland Observatory

Last year NSF funded a proposal to make a basic set of environmental observations at the Summit, Greenland research facility. The site is in a unique position to make direct observations of the free-troposphere in a SEARCH observing network. Although this project requires that the facility operate on a year-round basis, the current power and fuel systems are not ideal for this use; SEARCH infrastructure funds will be used to improve the environmental systems related to power generation. (Cost estimate: \$400,000)

National Oceanographic and Atmospheric Administration (NOAA) Collaboration

NOAA received \$8.5 million in its fiscal year 2004 appropriation for construction funds for "Barrow Arctic Research Center." NSF has responded to NOAA's call for agency input on research needs in the Barrow area and will continue to work collaboratively with NOAA on this issue.

 QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

SOUND SCIENCE

Question. Last week an influential and renowned group of scientists, including twenty Nobel laureates, issued a statement raising serious concerns about the Bush Administration's distortion and sabotage of science. Many of these individuals have served with distinction in former Republican and Democratic Administrations.

Solid science is a critical underpinning of constructive policy making. Policymakers rely upon credible, peer reviewed, objective scientific analysis and advice in the pursuit of good decision-making in such fields as food safety, health care, biomedical research, the environment, and national security. These scientists have asserted that the Bush Administration is advocating policies that are not scientifically sound, misrepresenting scientific knowledge, censoring and suppressing information, and misleading the public to pursue its ideological agenda.

Your agencies are seen as leading voices within the Federal Government with regard to the application of good science, and, therefore, it is incumbent upon you to ensure that scientific integrity is maintained. I am concerned that there is now a contemptible lack of oversight and that the public's trust in the Federal Government's scientific credibility and integrity will be undermined in the long-term.

What steps will you take to ensure that science and the pursuit of scientific reviews in the service of policymaking does not become overly politicized?

Answer. NSF leads Federal agencies in funding research and education activities based upon merit review. In fiscal year 2003 for example, NSF made roughly 11,000 new awards from more than 40,000 competitive proposals submitted, and over 96 percent of these awards were selected through NSF's competitive merit review process. All proposals for research and education projects are evaluated using two criteria: the intellectual merit of the proposed activity and its broader impacts, such as impacts on teaching, training and learning. Reviewers also consider how well the proposed activity fosters the integration of research and education and broadens opportunities to include a diversity of participants, particularly from underrepresented groups. The merit review system is at the very heart of NSF's selection of the projects through which its mission is achieved.

Question. Are you prepared to make any specific recommendations to restore scientific integrity to policymaking?

Answer. This administration is committed to working with the science and higher education communities to increase understanding on issues of mutual concern, but the sweeping accusations of the UCS statement go far beyond reasonable interpretations of the issues it raises and only provides partial or distorted accounts of events. The President believes policies should be formed with the best and most complete information possible and expects his appointees to conduct their business with in-

tegrity and in a way that fulfills that belief. This administration has strongly incorporated science in its policy-making processes, and encourages the highest standards be applied through independent review bodies such as the National Academy of Sciences. A recent example is the National Academy of Science (NAS) report on the Climate Change Science Program (CCSP) Strategic Plan, just released, that found:

“In fact, the approaches taken by the CCSP to receive and respond to comments from a large and broad group of scientists and stakeholders, including a two-stage independent review of the plan, set a high standard for government research programs.”

Question. According to news reports, the Bush Administration is said to “stack” panels with members whose scientific viewpoints agree only with the administration’s positions. Even basic science classes teach the importance of a broad range of sampling when trying to find scientific truths. How can the public have any confidence that scientific positions taken by this administration have any basis in fact?

Answer. Many of these instances raised involved panel members whose terms had expired; some even were serving as much as 5 years past their termination dates. Some involved a new direction in focus for that particular slot with the overall goal of achieving scientific diversity on the panels. Other candidates may have been rejected for any number of reasons—this is ordinary for any administration. This process results in the selection of qualified individuals who represent a wide range of expertise and experience—the right balance to yield quality advice for the President on critical S&T issues.

Question. Will you press for changes to ensure that a range of scientific views are included on these panels?

Answer. In accordance with the Federal Advisory Committee Act and its associated regulations (CFR Parts 101–6 and 102–3), all external advisory committees established by NSF, including review panels, Committees of Visitors, and advisory committees, seek a balanced membership in terms of the points of view represented. This requirement receives special mention in each committee’s annual report, since the reporting template includes the question, “How does the committee balance its membership?”

Beyond these formal requirements, NSF has a longstanding tradition of seeking a range of views and perspectives from the external community to inform its decision-making processes. With hundreds of proposal competitions, meetings with experts, formal workshops, and reports from commissions throughout the year, NSF is constantly listening, analyzing and responding to thoughts from the research and education community.

QUESTION SUBMITTED BY SENATOR TIM JOHNSON

EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH (EPSCoR)

Question. Dr. Sherry Farwell from South Dakota was announced last week as the new EPSCoR Office Director. We in South Dakota are very pleased that Dr. Farwell is taking on this assignment, as EPSCoR is very important to our State. One matter of particular interest to us is how EPSCoR can be utilized as a conduit to ensure that more of the researchers and leaders from smaller States are included on national panels and committees.

What mechanisms or approaches might be used to implement broader representation of EPSCoR States throughout the NSF?

Answer. NSF and the EPSCoR Office in particular have focused significant efforts in broadening the participation of institutions and individuals from EPSCoR States in NSF’s activities. EPSCoR works with the NSF directorates in nominating individuals from EPSCoR States to serve on NSF advisory committees, Committees of Visitors, etc. EPSCoR also makes recommendations of EPSCoR investigators to serve as reviewers and panelists for NSF grant competitions.

NSF and the EPSCoR Office have used a number of other approaches to stimulate increased participation of EPSCoR institutions and individuals in NSF programs. For instance, NSF’s Office of Legislative and Public Affairs coordinated “NSF Days” conferences in three EPSCoR States in fiscal year 2003. The purpose of these workshops is to highlight NSF programs, familiarize university officials and investigators with successful proposal writing techniques and provide the opportunity for one-on-one discussions between NSF Program Officers and interested individuals from EPSCoR institutions.

In addition, the NSF Small Business Innovation Research (SBIR) office frequently hosts annual meetings in EPSCoR States, providing a venue for increased visibility of NSF and other agency funding for small businesses in EPSCoR States. NSF also conducts Regional Grants Conferences in EPSCoR States. These conferences draw several hundred participants from various regions of the country for 2 days of in-depth discussions of all aspects of NSF programs, funding, merit-review processes and grant administration. EPSCoR will continue to seek opportunities for involving greater numbers of individuals and institutions from EPSCoR States in NSF's programs and activities.

QUESTIONS SUBMITTED TO THE NATIONAL SCIENCE BOARD

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

Question. Due to the perceived subjectivity of NSF's priority-setting process for large research facilities, there has been an increased effort by various scientific interest groups to lobby the Congress on their specific project. In response to this concern, we asked the National Academy of Sciences to develop criteria to rank and prioritize large research facilities and they have responded.

Do you support the Academy study?

Answer. This year the Board will expand its ongoing examination of its role and responsibilities regarding the NSF's Major Research Equipment and Facilities Construction (MREFC) program. The National Academies report of their study examining how NSF sets priorities among multiple competing proposals for construction and operation of large-scale research facility projects to support a diverse array of disciplines has, in general, been very well received by the Board. In particular, we support the concept and value for developing a roadmap and making the MREFC priority setting process clear or transparent. While a roadmap would be very useful to assist in strategic planning and prioritization, it must be carefully structured to allow the flexibility required of an agency such as NSF that serves many disparate disciplines whose needs and opportunities change with new discoveries.

Recommendations from this study are being considered with due diligence by the Board as we develop and implement options for meeting our enhanced responsibilities, as directed by the NSF Act of 2002. We will factor the recommendations of the National Academies report on the MREFC program into our examination, and develop a process for implementing appropriate modifications to the Board's involvement with the MREFC program. The Board is in the initial phase of reviewing and addressing the National Academies recommendation, and will provide our comment directly to Congress after we have given it careful consideration.

Question. When will you be able to provide the Committee with a prioritization of all the current, and proposed, activities in the MREFC account for fiscal year 2005?

Answer. The Board approved the fiscal year 2005 submission to OMB at its August meeting. The highest priority is assigned to ongoing projects (ALMA, EarthScope, and IceCube). Recommended new starts are in the following priority order: National Ecological Observatory Network (NEON), Scientific Ocean Drilling Vessel, and Rare Symmetry Violating Processes (RSVP).

Question. How long will it take NSF and the National Science Board to implement the recommendations?

Answer. The Board is currently working with our staff and NSF senior management to develop a draft document containing an overview of the fundamental issues surrounding the process of setting priorities for MREFC projects. NSF senior management is also providing the Board with a summary of the process and activities that NSF feels already address the NRC recommendations, to varying degrees. The eventual report that the Board will approve and send to Congress will focus on making the priority setting process clear or transparent to the communities that need to know about it, making the process more effective, and clearly elucidating the role of the Board in reviewing, prioritizing and approving facilities that address the highest priority research challenges and/or provide a great opportunity to move the frontier of research forward. Such a Board report to the Congress will likely take some months to complete. In the interim, however, we expect to be able to meet routinely with appropriate Members of the Congress and their Staff to provide updates on our progress.

SUBCOMMITTEE RECESS

Senator BOND. There will be no further business to come before the subcommittee today. The hearing is recessed.

[Whereupon, at 11:56 a.m., Thursday, February 26, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

THURSDAY, MARCH 11, 2004

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

The subcommittee met at 10:05 a.m., in room SD-106, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Shelby, Stevens, and Mikulski.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

STATEMENT OF SEAN O'KEEFE, ADMINISTRATOR

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning.

This hearing of the Senate VA, HUD, and Independent Agencies Subcommittee will come to order.

Today we welcome NASA Administrator, Sean O'Keefe who is with us today to testify on the President's fiscal year 2005 budget for the National Aeronautics and Space Administration.

Mr. Administrator, it has been quite a roller coaster ride since you joined NASA in December of 2001. We have gone from the tragedy of losing the Columbia, to the uncertainty and perseverance in its aftermath, to the renewed purpose instilled by the Columbia Accident Investigation Board (CAIB) report, and finally the excitement of a Presidential vision for the future that includes returning to the Moon and looking towards sending humans to Mars.

This is an ambitious plan which could generate similar and even greater excitement to that which we are seeing with the current rovers, Spirit and Opportunity, that are working on Mars today.

At the beginning of the year, it looked like NASA was on its way to a budget that would be relatively unchanged. That all changed on January 14 with the announcement by the President about a new vision for NASA which has since translated into a budget request for fiscal year 2005 of over \$16 billion, an increase of nearly \$900 million from fiscal year 2004. Unfortunately, this impressive increase raises more questions at this time in my mind than excitement.

The Senate fiscal year 2005 Budget Resolution is being debated on the floor as we speak, and the budget numbers contemplated by the President's budget request and in the Senate Budget Resolution currently will mean unacceptable shortfalls for a number of key VA/HUD programs, including VA Medical Care and Section 8 Housing Assistance, as well as the EPA Clean Water State Revolving Fund.

These shortfalls have to be addressed before we provide increases to new programs in other accounts. NASA better hope we get a good 302(b) allocation, above the funding included in the Budget Request. Now, I don't mean to do this to pick on NASA, this is the same message that you will be hearing as I welcome each of the agencies coming before us that administer VA/HUD programs.

The funding for NASA's new Moon/Mars vision is troubling for a number of reasons. As a practical matter, the NASA budget for the fiscal year 2005 through the fiscal year 2009 time period for the Moon/Mars vision is \$12.6 billion, of which only \$1 billion is in new funds and \$11.6 billion is from other NASA activities. Fortunately, many of these activities, such as the Space Launch Initiative, appear to be appropriate sacrifices for the Moon/Mars vision.

However, as part of this redirection of funds, other programs and facilities projects are being deferred, the Hubble telescope is to be retired, and aeronautics spending will remain relatively flat over the next 5 years.

I am sure my colleague from Maryland will have a few things to say about Hubble, but I know that world class science is being done, and can be done, for years to come with this famous telescope, and we should be sure that we are not giving up on it too soon.

I also have joined my colleague in asking for a comprehensive review of the proposed Hubble decision before the implementation of a final decision is made. In the case of aeronautics, we made it clear in the fiscal year 2004 NASA appropriation that we in Congress expected a greater investment by NASA.

It is not an earmark, it is a Congressional investment and Congressional priority. Instead, the fiscal year 2005 budget request proposes \$919 million for aeronautics, a reduction of 11 percent from fiscal year 2004. This is a big problem. Europe has declared that they are going to dominate the commercial market in the next decade, yet this technology driven manufacturing industry gets little support from the one agency that can help keep America competitive in this industry.

Given the problems that we are having in the Nation, I don't think this is the time to be cutting back on that investment. It has been those who contended that the Moon/Mars vision is affordable, and at the outset, that could be the case. Yet I am concerned that this new vision will become the next space station, consuming resources as costs begin to rise.

Let me assure you that I have had a little experience dealing with NASA and these costs will go up, and they will go up. Some components of this vision are already in place. Some of the plans for future research on Mars is already underway and can easily be incorporated into the vision, yet the plans for the human vehicle

and heavy lift capabilities that will be needed are just now being placed on the drawing board.

Please forgive me if I question if now is the time to begin the full implementation, or if it would be more prudent to wait a year and let NASA decide what is needed to accomplish the goals set out by the President.

I know the Aldridge Commission was created to provide recommendations for the implementation of the Moon/Mars mission and that these recommendations are due in early June. This will be needed and valuable information, but it will, at best, scratch the surface of what we need to know and only begin to outline some of the challenges we face.

I am especially troubled by the proposed phase-out of the Shuttle and the reduced attention to role of the International Space Station in NASA's mission. We have already spent some \$33.5 billion on the ISS, and the redirection of space policy calls into question the value of this investment since the role for the ISS will be severely reduced under the new vision.

In addition, the shuttle is targeted to be decommissioned by 2010, and the next U.S. manned space vehicle, the Crew Exploration Vehicle, is not scheduled for flight until 2014. You will have to go a long way to convince me that a 4-year gap in U.S. manned space flight is sound policy. More importantly, I am convinced that this time schedule is too optimistic, in which case the gap could grow significantly. This raises serious questions as to cost, shuttle recertification, and related shuttle safety issues, as well as obligations to our international partners.

Let me turn now to our international partners. I am gratified that our partners in the international community have responded to the needs of the International Space Station since the Columbia tragedy. The international cooperation has been, and can continue to be, crucial to the success of the endeavors of the space station.

Under the President's vision, we will be completely dependent on other vehicles, most likely Russian, for our human transport to space for at least 4 years starting in 2010. There is a hope that the cooperation we have enjoyed with our partners will continue as we prepare to negotiate the future plans for the space station.

Count me as a skeptic. If we do not maintain a good relationship with our partners to the International Space Station, how can we expect the international community to join in future activities like the proposed missions to the Moon and Mars?

Again, this raises serious questions as to how our obligations to our international partners have changed, how the costs will be borne and what it means for the use and maintenance of the International Space Station. What are they getting for what we're asking from them?

In addition, if the shuttle cannot be certified for a return to flight until next year, what steps has NASA taken to ensure that the Soyuz meets the minimum safety requirements that are now expected for manned space flight since we are trusting our astronauts to these vehicles? Are we demanding the same safety standards that we would demand of the shuttle from the Soyuz? Has this been done? Has this been reviewed?

I understand that there is inherent risk in all of the activities that NASA undertakes, and with that risk comes the possibility for failure or reward. Part of the difficulty involved is in choosing what should be done with limited resources. The problem is that the future budgets for this vision have many points where, if something does not work right, then there will be significant costs to keep us on the path that is being proposed.

There are those who suggest that the private sector may step forward. Well, frankly, the experience of the private sector in trying to work with space has not been good. There have been problems. There have been failures. And I don't see an overwhelming cry in the commercial sector for people to step up and be able to participate in these adventures when past ones have turned out rather sour.

Now, Mr. Administrator, since you took the helm of NASA, I have been impressed consistently with your efforts and commitment to making NASA a better agency. And any concern or criticism I have with regard to the NASA budget is intended as no reflection on the deep regard and the high confidence I have in your leadership. But what really bothers me is I am afraid you are being asked to do too much with too little, in not enough time. And then you have the bad luck of asking for more money for a new program in a time of severe budget constraints.

Nevertheless, we commend your strong leadership and I look forward to working with you in the months to come. NASA is one of the most publicly-recognized agencies within the government. Everyone knows of something that is going on at NASA, be it stunning pictures of the universe, or the surface of a neighboring planet. This high visibility can be powerful in inspiring the future scientists and engineers of this country. We need new engineers and scientists. We need more young people in the United States choosing math, science and engineering curriculums, and I applaud your efforts in keeping NASA exciting and in attracting the young people of this Nation to these careers.

I will have a number of questions on these issues and other concerns that I will either raise today or submit as questions for the record.

Now, it is my pleasure to turn to my colleague, and close working partner, the Senator from Maryland, Senator Mikulski.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Senator Bond, and good morning, Mr. O'Keefe.

The Committee welcomes you and I know we're going to have a very robust exchange today about a variety of issues.

I so admire NASA because NASA is about discovery, exploration, science and technology. These are fundamental to who we are as a Nation. We are a nation of explorers and discoverers. Human space flight, scientific exploration has been the foundation of our space program for generations.

My goal as the ranking member of this subcommittee is to maintain a balanced space program. That means striking a balance between safe and reliable space transportation, space science and human exploration. I want to congratulate NASA on some of its

most recent successes. Certainly, we're all so pleased with the great job with the Mars rover and the great images we expect to see from your video.

NASA has been able to confirm that water did exist on Mars and we've seen unprecedented photographs of the Martian surface, inspiring the Nation and a new generation of kids in science. I understand the since January 2, there has been more than 8 billion hits on the NASA website on this topic.

And at the same time they have also had an enormous success once again with the Hubble telescope. Hubble is NASA's most successful program since Apollo, and in fact, many say that Hubble is the greatest scientific instrument since the Galileo telescope. Since 1993, Hubble has traveled over a billion miles, taken 330,000 photographs, 25,000 targets, and it accounted, I understand last year, for 40 percent of the NASA's discoveries.

Over there is a picture from Hubble. When you look at it, it looks like a lot of colored dots, but it is a picture of the universe 13,000,000,000 years ago. It is also a picture of the universe with 10,000,000 galaxies, that have been discovered through Hubble. This is a phenomenal achievement.

This extraordinary photograph was made possible thanks to the astronauts and to the space shuttle. We couldn't have Hubble without our astronauts and our space shuttle to make sure that it was launched, fitted with a contact lens, and service it on many occasions. Each time, though, Hubble has been serviced by the astronauts through the shuttle, it has increased Hubble's power by the factor of 10.

There is proposed a fourth and final servicing mission which would extend the life of Hubble. Remember Hubble is not a piece of techno-junk that's creaky, tattered and worn. What it does need though, is like a lot of motors, new batteries and new gyroscopes. And if we put on it the new technology that is waiting to be installed, it would once again improve the factor of Hubble by 10. So extending the life isn't putting Hubble on a respirator, it is giving us a wider view of the origins of the universe.

That's why when I received your call, Mr. Administrator, about the cancelling of the Hubble service mission, I was shocked and surprised. I know that you cited very clearly that you were concerned about the cost of Hubble servicing mission as well as possible danger to the astronauts.

I want you to know that I absolutely agree with you that astronaut safety has to be our highest priority. It has to be our highest priority whether we service the Hubble or whether we complete the space station. We owe it to our astronauts and I believe that's the history of this panel. But at the same time the recommendation to cancel Hubble I viewed as surgery, irrevocable surgery. And I asked you if we could get a second opinion citing that any prudent person when they're facing major surgery that is irrevocable would seek the same.

I want to thank you for your cooperation then to seek that opinion and that's why we turned then, at your request, to Admiral Gehman who chaired the Columbia Accident Investigation Board.

Mr. Chairman, we now have the Gehman letter, and I ask unanimous consent that the Gehman letter be included in the record.

Senator BOND. Without objection.

Senator MIKULSKI. We have the letter here.

Now, what Admiral Gehman says in the letter is no matter what, the use of the shuttle involves risk, whether we go to the station, whether we go to Hubble, whether we do both, that using the shuttle involves risk. He also says, that no matter what mission is undertaken by the astronauts on the shuttle there must be absolute compliance with the full implementation of the CAIB.

This is, I think, a major policy and funding decision that I believe we're ready to commit to today, no matter what we've got to do, to make sure that the CAIB recommendations are fully implemented and fully funded, and I'll be asking you questions along those lines.

At the same time, he then goes into commenting about Hubble. What Admiral Gehman says, is that complying with the CAIB return to flight, and I am quoting now, "NASA has been challenged when factoring in the International Space Station. The CAIB allowed more latitude in complying with their recommendations for non-space station missions.

He then goes on to say, that the Hubble servicing mission may be slightly, slightly more risky taking into account only the debris threat from the orbiter. He also called in his letter for additional study. What he says, then is fully implement, no matter what, the CAIB. Second, that risk is slightly more than other missions.

Then he goes on to say, I suggest only a deep and rich study of the entire gain-risk equation can answer the question of whether an extension of the life of the Hubble. He says the life of the wonderful Hubble telescope is worth the risk. So essentially the Gehman report says slightly more risk and it needs more study.

I really want to thank Admiral Gehman for what he's done both for the Columbia Accident Investigation Board, as well as for this. He is a man of great integrity.

Now, I wholeheartedly concur with the Gehman recommendations. And when he talks about the additional need for more study, I reached out to my colleague, Senator Bond, and am asking you today to cooperate with us for asking the National Academy of Sciences to study the Hubble servicing mission. And also, we will be asking for a study from the General Accounting Office to look at the cost of the servicing mission.

So we have got to be concerned about Hubble. We have got to be concerned about the astronauts, and we have to be concerned about the taxpayer, in order to make a prudent decision.

The National Academy of Sciences, the most prestigious organization of its kind in the world. Its expertise in science and engineering make it uniquely qualified to study risks, mitigation factors, and scientific benefit.

Let's make it clear I will stand up for the Hubble, but I will always place the priority of our astronauts first. At the same time, I want the best minds in science and engineering to tell us what are the risks. And at the same time, look at what it would cost to decommission the Hubble and not use the \$167 million worth of instruments.

GEHMAN LETTER

There are a lot of questions to be asked here, and I look forward to engaging in a conversation with you about this, about the NASA priorities as well as the future of our space program. As well as the use of the station, that has been raised by my colleague, as well as the future of the Hubble.

Thank you very much.
[The information follows:]

LETTER FROM HAROLD W. GEHMAN, JR.

MARCH 5, 2004.

The Honorable BARBARA A. MIKULSKI,
Suite 709, Hart Senate Office Bldg., Washington, DC, 20510.

DEAR SENATOR MIKULSKI: In his January 28th letter to you regarding the cancelled servicing mission to the Hubble telescope, NASA Administrator Sean O'Keefe indicated he had asked me to provide to you my views ". . . regarding safety and risk factors identified in the report of the Columbia Accident Investigation Board." from my perspective as Chairman of the Board. The purpose of this letter is to provide you my views on this matter.

I am pleased to undertake this task because it is fully consistent with the goals of the Columbia Accident Investigation Board (CAIB). At the very front of our report, in the "Board Statement", we expressed our belief that:

"The loss of COLUMBIA and her crew represents a turning point, calling for a renewed public policy debate and commitment regarding human space exploration. One of our goals has been to set forth the terms for this debate."

Whether to fly another mission to the Hubble is one of the public policy debates this Nation should have, thus I am pleased to add whatever clarity I can to the terms of the debate.

As you are aware, the CAIB no longer exists; therefore, these views are my own. They are, however, based on the extensive investigation into the Columbia accident. Members of the Board are aware of my efforts, and while the Board is split on the merits of flying this mission, the Board's characterization of the risks as noted in our report are fully agreed. This letter is based on our work and insights gained during the most of careful study of the manned space flight program ever conducted, as well as recent consultations with the Stafford-Covey Return to Flight Task Group and others.

How Risky Are Current Shuttle Flights?

The introduction to Chapter Nine, Implications for the Future of Human Space Flight, is an excellent place to start:

"In this report we have documented numerous indications that NASA's safety performance has been lacking. But even correcting all those shortcomings, it should be understood, will not eliminate risk. All flight entails some measure of risk, and this has been the case since before the days of the Wright Brothers. Furthermore, the risk is not distributed evenly over the course of the flight. It is greater by far at the beginning and end than during the middle.

"This concentration of risk at the endpoints of flight is particularly true for crew-carrying space missions. The Shuttle Program has now suffered two accidents, one just over a minute after takeoff and the other about 16 minutes before landing. The laws of physics make it extraordinarily difficult to reach Earth orbit and return safely. Using existing technology, orbital flight is accomplished only by harnessing a chemical reaction that converts vast amounts of stored energy into speed. There is great risk in placing human beings atop a machine that stores and then burns millions of pounds of dangerous propellants. Equally risky is having humans then ride the machine back to Earth while it dissipates the orbital speed by converting the energy into heat, much like a meteor entering the Earth's atmosphere. No alternative to this pathway to space are available or even on the horizon, so we must set our sights on managing this risky process using the most advanced and versatile techniques at our disposal.

"Because of the dangers of ascent and re-entry, because of the hostility of the space environment, and because we are still relative newcomers to this realm, operation of the Shuttle and indeed all human spaceflight must be viewed as a developmental undertaking. Throughout the COLUMBIA accident investigation, the Board

has commented on the widespread but erroneous perception of the Space Shuttle as somehow comparable to civil or military air transport. They are not comparable; the inherent risks of spaceflight are vastly higher, and our experience level with spaceflight is vastly lower. If Shuttle operations came to be viewed as routine, it was, at least in part, thanks to the skill and dedication of those involved in the program. They have made it look easy, though in fact it never was. The Board urges NASA leadership, the architects of the U.S. space policy, and the American people to adopt a realistic understanding of the risks and rewards of venturing into space.”

In other words, for now and for the foreseeable future, by far most of the risk in space flight is in the launch, ascent, entry and landing phases, with a small portion of the total risk associated with the actual on-orbit mission. One could say that, within reasonable bounds, whatever one does once on orbit; it doesn't change the total risk factor very much. The conclusion from this observation, therefore, is to launch the fewest possible number of Shuttle missions. Indeed, the bottom line of the “Future” part of our Report is to replace the Shuttle as soon as possible, and to keep this risk equation in mind when developing the replacement system.

It was one of the CAIB's goals to help national policy makers understand the risks of Shuttle flights by putting space flight as we presently conduct it into context. We as a Nation need to understand, as best we can, the amount of risk we accept while accomplishing our goals of space exploration. In Chapter Five, we quote the 1989 Office of Technology Assessment:

“Shuttle reliability is uncertain, but has been estimated to range between 97 and 99 percent. If the Shuttle reliability is 98 percent, there would be a 50–50 chance of losing an Orbiter with 34 flights . . . The probability of maintaining at least three Orbiters in the Shuttle fleet declines to less than 50 percent after flight 113.” (STS–107, the ill-fated Columbia flight, was the 113th Shuttle mission).

And we quote the 1990 Augustine Commission Report:

“And although it is a subject that meets with reluctance to open discussion, and has therefore too often been relegated to silence, the statistical evidence indicates that we are likely to lose another Space Shuttle in the next several years . . . probably before the planned Space Station is completely established on orbit.”

To put these very accurate predictions into today's context, we should use figures we know are accurate. We have flown 111 out of 113 Space Shuttle missions safely, for a 98.23 percent reliability rate. The chance that we will be able to fly 25 future missions using this reliability figure without a loss is 64 percent. The more missions we fly, the more that 64 percent number goes down. It is my opinion that implementing all the Return to Flight recommendations made by the CAIB raises the reliability number somewhat, although no one knows for sure what it is. A reliability number more like 99 percent seems reasonable to me, giving a 78 percent chance we will fly the 25 missions without loss. Once again, more missions cause that 78 percent number to go down. Flying one more mission, 26 in all, reduces the probability of series success by about 1 percentage point.

The bottom line: Shuttle flights are dangerous and we should fly the minimum number necessary. Almost all the risk is concentrated in the front and back of the mission, where one goes on orbit makes little difference.

What Can Be Done To Mitigate the Risk?

The recommendations contained in the Columbia Accident Investigation Report pertaining to return to flight are specifically designed to break the coupling or linkage between the propensity of the Shuttle external tank to shed ice and debris and the loss of crew and vehicle. To increase the chances of mission success and decrease the chances that future shedding events, which are inevitable in our view, will result in a catastrophic outcome, four measures are required. The Board feels all four are required; picking and choosing from among the four does not meet our intent.

First, measures must be taken to more fully understand why foam shedding in particular occurs and what steps must be taken to reduce it. This recommendation requires research and development activity as well as some sub-element re-design steps. NASA is well along in implementing this recommendation.

Second, measures must be taken to more fully understand the true strength of the parts of the Orbiter that are most likely to be damaged. The CAIB found, for example, no agreement, backed by test data, on the current strength of the Reinforced Carbon-Carbon wing leading edge components. This recommendation will allow NASA to understand the true nature of the risk to the Orbiter from debris shedding events.

Third, measures must be taken to image the Orbiter both during launch and on-orbit to characterize any hits and to essentially “re-certify” the Orbiter for entry. This recommendation includes much better launch complex camera systems, range imaging systems and an ability to thoroughly inspect the exterior TPS of the Orbiter in space prior to entry.

Fourth, measures must be taken to develop and deploy a capability to make emergency, on-orbit repairs to the TPS to any damage that is deemed threatening to successful entry. This step cannot be accomplished unless steps two and three above are done.

In the view of the Board, all four steps are required, and selecting from among them is not sufficient. While we studied and deliberated these Return to Flight recommendations, it became apparent to us that missions to the ISS had a significant advantage in implementing our recommendations over those that were not going to the ISS. Consequently we decided to differentiate RTF recommendations between missions to the ISS and non-ISS missions. Our report refers only to ISS missions or non-ISS missions. We did not specify what non-ISS missions might be flown (Columbia’s final mission was, of course, a non-ISS mission). In our view, missions to the ISS allowed a more complete and robust inspection and repair capability to be developed.

However, knowing that there are situations where docking to the ISS may not occur, we required that ultimately NASA must develop an autonomous on orbit inspection and repair capability. Very frankly, we called for a less technically challenging inspection and repair capability, by stating:

“For non-Station missions, develop a comprehensive autonomous (independent of Station) inspection and repair capability to cover the widest possible range of damage scenarios”.

In other words: “Do the best you can”. We knew we were essentially REDUCING the requirements. Reducing the rigor of our requirements INCREASES the risk. It cannot be seen any other way. If fully complying with the CAIB RTF technical requirements decreases the risk, complying with lesser requirements must increase the risk. The risk difference is probably not knowable in advance, and knowing the technical capabilities involved the risk difference is probably small, but it is not zero.

It is important to remember the CAIB is talking about risk to the Orbiter from debris shedding events. There are many other factors involved that influence the total risk equation, sometimes very significantly. One of the more significant factors is the heavy cargo loads that are frequently carried to the ISS at high inclinations, which creates risk factors of their own. We did not look at total mission risk and I am not prepared to analyze the total risk equation for all possible Shuttle missions. Further, the CAIB specifically used the generic term “non-ISS” missions to avoid any judgments regarding the relative value of one mission over another.

Bottom line: Complying fully with the CAIB’s RTF recommendations is less a challenge when factoring in the ISS. The CAIB allowed more latitude in complying with our recommendations for non-ISS missions, which may be slightly more risky, taking into account only the debris shedding threat to the Orbiter.

Senator, in Chapter Nine of our Report, titled: “Implications for the Future of Human Space Flight”, we made the declarative statement that: “It is the view of the Board that the present Shuttle is not inherently unsafe”. We were under no pressure to conclude either way on this issue. But I always like to point out that there are two negatives in that quote. We are not saying the Shuttle is “safe”, it certainly is not by any common understanding of the word “safe”. Nor are we saying it is unsafe and should be abandoned. Our study and report are designed to help NASA manage the substantial risks involved. I suggest only a deep and rich study of the entire gain/risk equation can answer the question of whether an extension of the life of the wonderful Hubble telescope is worth the risks involved, and that is beyond the scope of this letter. What I have attempted to do is offer a very frank review of the risks to all Shuttle operations, Hubble or non-Hubble, as we understand them.

I hope this letter is useful, and as always, I am prepared to answer any questions you or your committee may have.

Very respectfully,

HAROLD W. GEHMAN, JR.,
Admiral, USN (Ret.).

Senator BOND. Thank you, Senator Mikulski.

I appreciate your very thoughtful comments. I now turn to Senator Shelby, our colleague from Alabama.

Senator SHELBY. Mr. Chairman, first I would like to ask that my entire written statement be made part of the record.

Senator BOND. Without objection.

Senator SHELBY. And I will be brief.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Mr. Chairman, I want to associate myself with your remarks. I thought you, as chairman of the committee, laid out a lot of our concerns, as well as did the former chairman and now ranking Senator Mikulski. A lot of our concerns and a lot of our questions.

And I had the pleasure, yesterday, of meeting with Mr. O'Keefe. I, like you, hold him in high regard, but there are a lot of serious questions that we've got to probe here. We've got to figure out what we can do, and why we're abandoning—or should we abandon some things that are very important to the future. And I think that Senator Mikulski's idea about dealing with the National Academy of Sciences and getting their opinion on a lot of things is very sound.

Other than that, Mr. Chairman, I am awaiting the remarks of Mr. O'Keefe.

Thank you.

Senator BOND. Thank you very much, Senator Shelby.

Mr. Administrator, please go ahead.

STATEMENT OF ADMINISTRATOR SEAN O'KEEFE

Mr. O'KEEFE. Thank you, Mr. Chairman, members of the Committee. It is a pleasure to be here and I thank you very much for the opportunity to return to very familiar grounds, having served on the Appropriations Committee staff in a prior life. I am always delighted to be back before this forum. If you permit me, sir, I will submit for the record my prepared statement and be very brief in my summary of it.

Senator BOND. Without objection. We will be happy to have your comments.

Mr. O'KEEFE. Thank you, Mr. Chairman.

First and foremost, I think the debate that was launched as the consequence of the CAIB report to establish a national vision, to have a focus and a set of objectives that would be articulated for the Nation's space policy, is an element that certainly after the CAIB report, was engaged in vigorously in all the appropriate oversight committees of Congress, as well as in broader fora within the space community. Those calls for a vision were answered.

The President responded to that. On January 14, he established very firmly, through a long, extensive inter-agency process that involved many other agencies of the Federal Government in addition to NASA, a collaborative position, that he forwarded on that date, that very clearly articulated a new direction, a new focus, and a new strategy for our space exploration objectives.

It is a destiny as explorers as opposed to about a destination. There is a very clear statement that he made that establishes that explorations are our primary focus and objective as opposed to trying to set individual destinations milestones. So when those calls for a vision were made, it was received and that's precisely what he ultimately stated.

Interestingly, the National Academy of Sciences on a different matter entirely endorsed that particular approach in a study they just released here from the National Academy of Sciences and Engineering, through the National Research Council, where it very clearly articulates the proposal of a broader exploration and discovery agenda for the purpose of developing the technologies to achieve those tasks.

In that regard, we're gratified to see the National Academy of Sciences' view that helps us move in the direction of implementing the strategy, I think in very constructive ways. In addition to what we will see from the Aldridge Commission, that as you mentioned, Mr. Chairman, will be convening and devising implementation strategies as well.

Secondly, it is about the Earth. It is about the moon. It's about Mars. It's about beyond. It's one stepping stone at a time. A very specific strategy the President laid out that identifies the approaches on how we would achieve that by degrees and by increments, as opposed by destinations and by, you know, breakneck type of crash programs that have typified the approaches we have taken in the past. That's not what he articulated here.

Indeed, the Mars successes you've referred to in your statements, are one of first steps in that direction, an advanced guard, if you will, that establishes those precursor missions necessary to inform subsequent missions that would follow.

Thirdly, it is about, as he articulated, an impact to all of our lives here on Earth. For every dollar expended for NASA related activities, \$7 are spun-off into the economy in a variety of different ways of technology developments that would not have occurred were it not for those approaches. They affect a broad range of things beyond the aerospace and aeronautics community, also a range of medical advances that certainly have benefitted as a result of those activities.

To your point, I think raised by Senator Mikulski, people really care. Eight billion hits to the website in a span of no more than 2 months is a phenomenal testimony to the interest that folks have. It isn't just Mars. About 30 percent of those hits have been to the Mars-related kinds of websites. The other 70 percent is the range of all other activities that we're engaged in. By comparison, all of last year, the websites received hits of 2.8 billion, all of last year. So, this has been a factor of 3-plus over the levels we have already seen, just in the span of 60 days. There is no question that the interest level is high. People care about what we're engaged in, and are excited and inspired by the notion of it.

Finally, it is about, as has been traditionally a nature of the debate, not just about people, or human space flight, or about robotics, it is about both. It's a combination of both efforts. I think Senator Mikulski, you summarized that very well, in one of the stellar successes of how that capability between humans and robotic capabilities, as demonstrated by the Hubble Space Telescope, for example, over the years, some extraordinary achievements in that regard.

It's a precursor or effort, if you will, of establishing how that can be done and set the precedent in so many ways of what the strat-

egy that the President articulated. In this particular case, it would apply for each successive venture that we follow from here on.

Let me just summarize and conclude by asking that the video be keyed-up at this point that articulates what that direction is. It's a short discussion, but it moves through the very specific objectives and agenda of what is involved in this strategy, in words that the President articulated and established on the 14 of January.

If we could.

Mr. Chairman, as the President summarized, it is a journey, not a race and we have designed the budget in order to assure that it is that way. The approach that we have taken to this as illustrated by this one graph, is based on long term affordability, not a balloon payment. Something that progressively builds on successes before we move ahead to the next stage.

PREPARED STATEMENT

And again, I would ask your consent, sir, to insert for the record the National Academy of Sciences' study on these efforts and what these objectives should be, and we will certainly debate the question of how deliberately we are in the process of implementing it.

I thank you, sir.

Senator BOND. It will be accepted for the record, and I thank you very much.

[The statement follows:]

PREPARED STATEMENT OF ADMINISTRATOR SEAN O'KEEFE

Mr. Chairman and Members of the committee, thank you for this opportunity to appear today to discuss NASA's fiscal year 2005 budget request. On January 14th, the President visited NASA Headquarters and announced his Vision for U.S. Space Exploration. In his address, the President presented a vision that is bold and forward-thinking, yet practical and responsible—one that explores answers to long-standing questions of importance to science and society and develops revolutionary technologies and capabilities for the future, while maintaining conscientious stewardship of taxpayer dollars.

The vision forms the basis of the new U.S. space exploration policy, "A Renewed Spirit of Discovery," a copy of which is appended to this testimony as Enclosure 1. This policy is the product of months of extensive and careful deliberation. The importance of these deliberations increased with the findings of the Columbia Accident Investigation Board, which emphasized the importance of setting clear, long-term goals for the Nation's human space flight program. Inputs from Members of Congress informed the administration's deliberations. Many others contributed ideas for the future of the space program. These deliberations were also the basis for formulating the President's fiscal year 2005 budget request for NASA. A commission appointed by the President will advise NASA on specific issues for implementation of the policy's goals within 4 months.

Today, I will summarize the President's fiscal year 2005 budget request for NASA, discuss the goals set forth in the new U.S. space exploration policy, outline the major implementation elements and their associated budget details, explain the implications of this directive for NASA's organization, and describe what the Nation's future in exploration and discovery will look like in the coming years.

FISCAL YEAR 2005 BUDGET SUMMARY

The President's fiscal year 2005 budget request for NASA is \$16.244 billion, a 5.6 percent increase over fiscal year 2004, as reflected in Enclosure 2. The NASA budget request is designed with four key principles in mind:

Compelling.—The budget fully supports the Vision for U.S. Space Exploration, and provides for ongoing NASA mission priorities such as Aeronautics and Earth Science.

Affordable.—The budget is fiscally responsible and consistent with the administration's goal of cutting the Federal deficit in half within the next 5 years. NASA's

fiscal year 2005 budget will increase by \$1 billion over 5 years, when compared with the President's fiscal year 2004 plan; that is an increase of approximately 5 percent per year over each of the next 3 years and approximately 1 percent for each of the following 2 years.

Achievable.—The budget strategy supporting the vision for sustainable exploration will not require large balloon payments by future Congresses and administrations. Unlike previous major civil space initiatives, this approach is intentionally flexible, with investments in sustainable exploration approaches to maintain affordability. After fiscal year 2009, the budget projects that the exploration vision can be implemented within a NASA budget that keeps pace with inflation.

Focused.—The budget begins the alignment of NASA's program structure with the exploration vision. We now have the needed compass with which to evaluate our programs and make the required tough decisions.

VISION GOALS

The fundamental goal of this new policy is to advance U.S. scientific, security, and economic interests through a robust space exploration program. In support of this goal, NASA will:

- Implement a sustained and affordable human and robotic program to explore the Solar System and beyond;
- Extend human presence across the Solar System, starting with a human return to the Moon by the year 2020, in preparation for the human exploration of Mars and other destinations;
- Develop the innovative technologies, knowledge, and infrastructures both to explore and to support decisions about destinations for future human exploration; and
- Promote international and commercial participation in exploration to further U.S. scientific, security, and economic interests.

IMPLEMENTATION ELEMENTS AND BUDGET HIGHLIGHTS

To achieve these goals, NASA will plan and implement an integrated, long-term robotic and human exploration program, structured with measurable milestones and executed on the basis of available resources, accumulated experience, and technology readiness. The policy envisions the following major implementation elements:

Space Shuttle.—NASA will safely return the Space Shuttle to flight as soon as practical, based on the recommendations of the Columbia Accident Investigation Board. The budget includes \$4.3 billion for the Space Shuttle, a 9 percent increase above fiscal year 2004. Included in this total is an estimated \$238 million for Return to Flight (RTF) activities in fiscal year 2005. The RTF activities are under evaluation to confirm the estimated cost and associated out year phasing. The focus of the Space Shuttle will be finishing assembly of the International Space Station (ISS). With its job done, the Space Shuttle will be phased out when assembly of the ISS is complete, planned for the end of the decade. NASA will determine over the next year how best to address the issues associated with the safe retirement of the Space Shuttle fleet.

International Space Station.—NASA plans to complete assembly of the International Space Station by the end of the decade, including those U.S. components that will ensure our capability to conduct research in support of the new U.S. space exploration goals, as well as those elements planned and provided by foreign partners. The budget provides \$1.9 billion for ISS assembly and operations, a 24 percent increase above fiscal year 2004. This increase forward funds \$100 million in reserves to partially restore planned near-term reserve levels following the \$200 million congressional cut to Space Station in fiscal year 2004 and provides \$140 million in new funding for transportation services to the Space Station. We will separate, to the maximum extent practical, crew and cargo transportation for both ISS and exploration missions. NASA will acquire ISS crew transport as required and will acquire cargo transportation as soon as practical and affordable. NASA envisions that commercial and/or foreign capabilities will provide these services.

The administration is also prepared to address issues associated with obtaining foreign transportation services to the Space Station, including provisions of the Iran Nonproliferation Act, but, until the ISS Partnership adopts a specific implementation strategy, it is premature to identify specific issues.

U.S. research activities aboard the ISS will be focused to support the new exploration goals, with an emphasis on understanding how the space environment affects astronaut health and capabilities, and on developing appropriate countermeasures to mitigate health concerns. ISS will also be vital to developing and demonstrating improved life support systems and medical care. Consistent with this focus, the

budget provides \$343 million, a 61 percent increase above the fiscal year 2004 request, for bioastronautics research to understand and mitigate risks to humans on exploration missions. Over the next year, the Biological and Physical Research Enterprise will conduct a thorough review of all research activities to ensure that they are fully aligned with and supportive of the new exploration vision.

New Space Transportation Capabilities.—The budget provides \$428 million to begin a new Crew Exploration Vehicle, named Project Constellation, which will provide crew transport for exploration missions beyond low-Earth orbit. The current budget planning is based on formulation concept studies to be conducted in fiscal year 2004, preliminary design activities conducted in fiscal year 2005–2006, a System Design Review in fiscal year 2005, and a Preliminary Design Review in fiscal year 2006. NASA plans to develop Project Constellation in a step-by-step approach, with an initial uncrewed test flight as early as 2008, followed by tests of progressively more capable designs that provide an operational human-rated capability no later than 2014. Project Constellation may also provide transportation to the Space Station, but its design will be driven by exploration requirements.

NASA does not plan to pursue new Earth-to-orbit transportation capabilities, except where necessary to support unique exploration needs, such as those that could be met by a heavy lift vehicle. The budget discontinues the Space Launch Initiative, although knowledge gained on the Orbital Space Plane will be transferred to Project Constellation.

Lunar Exploration.—NASA will undertake lunar exploration and demonstration activities to enable the sustained human and robotic exploration of Mars and other destinations in the Solar System. Beginning no later than 2008, NASA plans to launch the first in a series of robotic missions to the Moon to prepare for and support human exploration activities. The budget provides \$70 million for these robotic lunar test beds, increasing to \$420 million by fiscal year 2009. The policy envisions the first human expedition to the lunar surface as early as 2015, but no later than 2020. These robotic and human missions will further science and demonstrate new approaches, technologies, and systems—including the use of space resources—to support sustained human exploration to Mars and other destinations.

Exploration of Mars.—The stunning images we have received since January 2004 from Mars, and the recent findings by the Opportunity Rover of evidence of water on the Meridiani Planum, lay the foundation of the Vision for U.S. Space Exploration. NASA will enhance the ongoing search for water and evidence of life on Mars by pursuing technologies in this decade to be incorporated into advanced science missions to Mars in the next decade. Also starting in the next decade, NASA will launch a dedicated series of robotic missions to Mars that will demonstrate greatly enhanced capabilities and enable the future human exploration of the Red Planet. The budget provides \$691 million for Mars Exploration, a 16 percent increase over fiscal year 2004, and will double Mars Exploration funding by fiscal year 2009. NASA will conduct human expeditions to Mars and other destinations beyond Earth orbit on the basis of available resources, accumulated experience, and technology readiness.

Other Solar System Exploration.—Over the next two decades, NASA will conduct an increasingly capable campaign of robotic exploration across the Solar System. The budget provides \$1.2 billion for Solar System Exploration missions to Jupiter's icy moons, to Saturn and its moon Titan, to asteroids and comets, and to other Solar System bodies. These missions will search for potentially habitable environments, evidence of life, and resources, and help us to understand the history of the Solar System.

Extrasolar Planets.—NASA will launch advanced space telescopes that will search for Earth-like planets and habitable environments around other stars. The budget includes \$1.1 billion for the Astronomical Search for Origins, a 19 percent increase over fiscal year 2004, to support the recently launched Spitzer Space Telescope, James Webb Space Telescope development, as well as several future observatories. This funding also supports investments to extend the lifetime of the Hubble Space Telescope to the maximum extent possible without a Shuttle servicing mission and to safely deorbit the observatory when its science operations cease.

Enabling Capabilities.—NASA will pursue a number of key capabilities to enable sustainable human and robotic exploration across the Solar System. Among the most important of these capabilities is advanced power and propulsion, and the budget provides \$438 million for Project Prometheus to develop these technologies for future robotic and human exploration missions. The budget also includes \$636 million in other Human and Robotic Technology funding to pursue sustainable approaches to Solar System exploration, such as reusable and modular systems, pre-positioned propellants, space resource utilization, automated systems and robotic networks, and in-space assembly. These technologies and techniques will be dem-

onstrated on the ground, in orbit, and on the Moon beginning in this decade and extending into the next to help inform future exploration decisions. The budget projects that funding for these Human and Robotic Technology investments will grow to \$1 billion by fiscal year 2009.

The budget also includes innovative opportunities for U.S. industry, academia, and members of the public to help meet the technical challenges inherent in the new space exploration vision. The budget includes \$20 million for the new Centennial Challenges program, which will establish competitions to stimulate innovation in space and aeronautical technologies that can advance the exploration vision and other NASA missions. The budget also provides \$10 million for NASA to purchase launch services for its payloads from emerging launch vehicle providers. And as previously mentioned, the budget includes \$140 million for Space Station transportation services.

Ongoing Priorities.—The budget supports the Vision for U.S. Space Exploration, while maintaining NASA commitments in other important roles and missions.

NASA continues its commitment to understanding our changing global climate. The budget makes NASA the largest contributor to the interagency Climate Change Science Program with \$100 million for the Climate Change Research Initiative. The budget includes \$560 million for Earth System Science research, a 7 percent increase above fiscal year 2004, to support research on data from 80 sensors on 18 satellites currently in operation. Work also continues on Earth observation missions in development or formulation, including \$141 million (a 36 percent increase from fiscal year 2004) for the National Polar Orbiting Environmental Satellite System Preparatory Project, and \$240 million (a 37 percent increase from fiscal year 2004) for missions in formulation, such as the Orbiting Carbon Observatory, Aquarius, and Hydros, as well as the Landsat Data Continuity Mission.

NASA maintains planned Aeronautics Technology investments to improve our Nation's air system. The budget includes: \$188 million, a 4 percent increase above fiscal year 2004, for technology to reduce aircraft accidents and improve the security of our Nation's aviation system against terrorist threats; \$72 million, an 11 percent increase above fiscal year 2004, for technology to reduce aircraft noise and improve the quality of life for residents living near airports; \$209 million for technology to reduce aircraft emissions and improve environmental quality; and \$154 million for technologies to increase air system capacity and reduce delays at the Nation's airports.

NASA will continue to make fundamental advances in our knowledge of the Sun and the Universe. The budget provides \$746 million for Sun-Earth Connection missions, including the Solar Dynamics Observatory and the Solar-Terrestrial Relations Observatory. The budget also provides \$378 million for Structure and Evolution of the Universe missions, including the Chandra X-ray Observatory and three major missions currently under development.

NASA maintains its role in science, engineering and math education. The budget includes \$10 million for the newly authorized Science and Technology Scholarship program, which will help attract the Nation's best college students to NASA science and engineering careers. The budget also provides \$14 million for the NASA Explorer Schools program, which seeks to attract students to mathematics and science during the critical middle school years. The Explorer Schools program is entering its third phase and will be selecting 50 new schools for a total of 150 participating schools.

NASA's education programs are, and will continue to be imbedded and directly linked to our vision for space exploration. Students now have unprecedented opportunities to engage in NASA flight programs, the observation of distant galaxies, and the robotic exploration of distant planets. Mission experiences link students and classrooms to NASA's diverse personnel, research facilities, telescopes, and planetary probes. Our successful efforts to "inspire the next generation of explorers" sustain a continuous pipeline of scientists, technologists, engineers, mathematicians, and teachers to carry forward our Nation's exploration goals.

Management of Human Capital, Facilities and Institution.—NASA has the distinction of being the only Federal agency to earn top grades for the Human Capital and Budget and Performance Integration initiatives under the President's Management Agenda. Congress recently passed the NASA Flexibility Act of 2004. NASA is grateful for the hard work of this committee in shaping this legislation to provide the necessary flexibilities to better manage the NASA workforce. These flexibilities will be critical to implementing the exploration vision. The budget includes \$25 million in fiscal year 2005 to begin to address critical workforce skill and aging issues. NASA ratings have also improved in the Competitive Sourcing and E-Government initiatives, resulting in more total improvements than in any other agency. Although we received a disclaimed opinion on our recent audit statement, we are de-

terminated to pursue the right path in Financial Management bringing on a new financial system that will standardize accounting across the Agency and provide the tools necessary for improved program management. NASA remains committed to management excellence and believes it is essential to implementing the new exploration vision.

The budget includes funding for critical institutional capabilities, including \$77 million for the NASA Engineering Safety Center and \$27 million for our software Independent Verification and Validation facility. The budget also provides \$307 million, a \$41 million increase versus fiscal year 2004, for facilities maintenance.

ORGANIZING FOR EXPLORATION

To successfully execute the exploration vision, NASA will re-focus its organization, create new offices, align ongoing programs, experiment with new ways of doing business, and tap the great innovative and creative talents of our Nation.

The President has issued an Executive Order establishing a commission of private and public sector experts to advise us on these issues. Pete Aldridge former Undersecretary of Defense and Secretary of the Air Force, is Chair of the Commission. The President has named eight other commissioners to join Mr. Aldridge. The commission will issue its report within 4 months of its first meeting, which was held on February 11, 2004.

Immediately following the President's speech, we established an Exploration Systems Enterprise, which will have the responsibility for developing the Crew Exploration Vehicle and other exploration systems and technologies. Retired U.S. Navy Rear Admiral Craig Steidle, former manager of the Defense Department's Joint Strike Fighter Program, is heading this new organization. Relevant programs of the Aerospace Technology, Space Science, and Space Flight enterprises are being transferred to the Exploration Systems Enterprise. The Aerospace Technology Enterprise has been renamed the Aeronautics Enterprise to reflect its new focus.

As human explorers prepare to join their robotic counterparts, coordination and integration among NASA's diverse efforts will increase. The Exploration Systems Enterprise will work closely with the Space Science Enterprise to use the Moon to demonstrate new approaches, technologies, and systems to support sustained human exploration. NASA's Space Science Enterprise will have the responsibility for implementing early robotic testbeds on the Moon and Mars, and will also demonstrate other key exploration technologies—such as advanced power and communications—in missions to Mars and Jupiter's moons. NASA's Space Science Enterprise will eventually integrate human capabilities into exploration planning for Mars and other destinations.

Many other elements of the NASA organization will be focused to support this new direction. NASA's Biological and Physical Research Enterprise will put much greater emphasis on bioastronautics research to enable the human exploration of other worlds. NASA's Office of the Space Architect will be responsible for integrating the exploration activities of NASA's different Enterprises and for maintaining exploration roadmaps and coordinating high-level requirements.

As we move outward into the Solar System, NASA will look for innovative ideas from the private sector and academia to support activities in Earth orbit and future exploration activities beyond. Many of the technical challenges that NASA will face in the coming years will require innovative solutions. In addition to tapping creative thinking within the NASA organization, we will leverage the ideas and expertise resident in the Nation's universities and industry.

In his speech, the President directed NASA to invite other nations to share in the challenges and opportunities of this new era of exploration and discovery, and he directed us to fulfill our standing international commitments on ISS. We are discussing the impact of our vision implementation plans on the ISS with our partners, and as I have already indicated, we will complete the assembly of the ISS. The President called our future course of exploration "a journey, not a race," and other nations have reacted positively to the Vision; several have already contacted us about joining in this journey. Building on NASA's long history and extensive and close ties with the space and research agencies of other nations, we will actively seek international partners in executing future exploration activities "that support U.S. goals" or "wherever appropriate".

NASA will also invigorate its workforce, focus its facilities, and revitalize its field centers. As exploration activities get underway, NASA anticipates planning, reviews, and changes to align and improve its infrastructure. In order to achieve the exploration vision, we will be making decisions on how to best implement new programs. While some of these necessary actions will be difficult, they are essential to achieving the goals of the overall effort before us. I urge you to consider the full

context of what we will be proposing rather than any isolated, specific action. Such a perspective will allow us to move forward in implementing the vision.

FISCAL YEAR 2003 ACCOMPLISHMENTS

Much of the NASA's future ability to achieve the new space exploration vision is predicated on NASA's many previous accomplishments. The most visible NASA successes over the past year are the Spirit and Opportunity rovers currently on Mars. Already, the landscapes imaged by these twin rovers and their initial science returns are hinting at fundamental advances in our understanding of early environmental conditions on Mars; last week's announcement regarding the discovery of evidence that there was once liquid water on Mars' surface is a dramatic example of such an advance.

However, Spirit and Opportunity are not the only recent NASA mission successes. NASA and its partners successfully launched seven new Space Science missions (including the two Mars rovers), three new Earth Science missions, one new NASA communications relay satellite, and completed two Space Station deployment missions. Operating missions have achieved a number of notable successes, including the Stardust mission's successful flight through the tail of Comet Wild-2, initial images from the recently launched Spitzer Space Telescope, a 10- to 100-fold improvement in Earth's gravity map from the GRACE satellite, the most accurate maps of Earth temperatures to date from the Aqua satellite, and new insights into space weather and solar activity from Sun-Earth Connection missions.

NASA exceeded or met 83 percent of its annual performance goals for fiscal year 2003. Among these accomplishments were demonstrations of new systems to improve air traffic control and to combat aircraft icing, improvements in battery, telescope sensor, and life support technologies; fundamental advances in understanding states of matter (from Space Station research); and the implementation of new remote sensing tools for tracking diseases and wild fires.

THE NATION'S FUTURE IN EXPLORATION AND DISCOVERY

As the President stated in his speech, we are embarking on a journey, not a race. We begin this journey of exploration and discovery knowing that many years of hard work and sustained effort will be required, yet we can look forward to achieving concrete results in the near term. The vision makes the needed decisions to secure long-term U.S. space leadership. It provides an exciting set of major milestones with human and robotic missions. It pursues compelling science and cutting-edge technologies. It invites new ideas and innovations for accomplishing these bold, new endeavors. And it will provide the opportunity for new generations of Americans to explore, innovate, discover, and enrich our Nation in ways unimaginable today. This challenging Vision provides unique opportunities for engaging students across the country, "as only NASA can," to enter careers in science, engineering, technology, and math.

I sincerely appreciate the forum that the subcommittee has provided today, and I look forward to responding to your questions.

ENCLOSURE 1

A RENEWED SPIRIT OF DISCOVERY

THE PRESIDENT'S VISION FOR U.S. SPACE EXPLORATION—PRESIDENT GEORGE W. BUSH,
JANUARY, 2004

Background

From the Apollo landings on the Moon, to robotic surveys of the Sun and the planets, to the compelling images captured by advanced space telescopes, U.S. achievements in space have revolutionized humanity's view of the universe and have inspired Americans and people around the world. These achievements also have led to the development of technologies that have widespread applications to address problems on Earth. As the world enters the second century of powered flight, it is time to articulate a new vision that will define and guide U.S. space exploration activities for the next several decades.

Today, humanity has the potential to seek answers to the most fundamental questions posed about the existence of life beyond Earth. Telescopes have found planets around other stars. Robotic probes have identified potential resources on the Moon, and evidence of water—a key ingredient for life—has been found on Mars and the moons of Jupiter.

Direct human experience in space has fundamentally altered our perspective of humanity and our place in the universe. Humans have the ability to respond to the unexpected developments inherent in space travel and possess unique skills that enhance discoveries. Just as Mercury, Gemini, and Apollo challenged a generation of Americans, a renewed U.S. space exploration program with a significant human component can inspire us—and our youth—to greater achievements on Earth and in space.

The loss of Space Shuttles *Challenger* and *Columbia* and their crews are a stark reminder of the inherent risks of space flight and the severity of the challenges posed by space exploration. In preparation for future human exploration, we must advance our ability to live and work safely in space and, at the same time, develop the technologies to extend humanity's reach to the Moon, Mars, and beyond. The new technologies required for further space exploration also will improve the Nation's other space activities and may provide applications that could be used to address problems on Earth.

Like the explorers of the past and the pioneers of flight in the last century, we cannot today identify all that we will gain from space exploration; we are confident, nonetheless, that the eventual return will be great. Like their efforts, the success of future U.S. space exploration will unfold over generations.

Goal and Objectives

The fundamental goal of this vision is to advance U.S. scientific, security, and economic interests through a robust space exploration program. In support of this goal, the United States will:

- Implement a sustained and affordable human and robotic program to explore the solar system and beyond;
- Extend human presence across the solar system, starting with a human return to the Moon by the year 2020, in preparation for human exploration of Mars and other destinations;
- Develop the innovative technologies, knowledge, and infrastructures both to explore and to support decisions about the destinations for human exploration; and
- Promote international and commercial participation in exploration to further U.S. scientific, security, and economic interests.

Bringing the Vision to Reality

The Administrator of the National Aeronautics and Space Administration will be responsible for the plans, programs, and activities required to implement this vision, in coordination with other agencies, as deemed appropriate. The Administrator will plan and implement an integrated, long-term robotic and human exploration program structured with measurable milestones and executed on the basis of available resources, accumulated experience, and technology readiness.

To implement this vision, the Administrator will conduct the following activities and take other actions as required:

Exploration Activities in Low Earth Orbit

Space Shuttle

- Return the Space Shuttle to flight as soon as practical, based on the recommendations of the Columbia Accident Investigation Board;
- Focus use of the Space Shuttle to complete assembly of the International Space Station; and
- Retire the Space Shuttle as soon as assembly of the International Space Station is completed, planned for the end of this decade;

International Space Station

- Complete assembly of the International Space Station, including the U.S. components that support U.S. space exploration goals and those provided by foreign partners, planned for the end of this decade;
- Focus U.S. research and use of the International Space Station on supporting space exploration goals, with emphasis on understanding how the space environment affects astronaut health and capabilities and developing countermeasures; and
- Conduct International Space Station activities in a manner consistent with U.S. obligations contained in the agreements between the United States and other partners in the International Space Station.

*Space Exploration Beyond Low Earth Orbit**The Moon*

- Undertake lunar exploration activities to enable sustained human and robotic exploration of Mars and more distant destinations in the solar system;
- Starting no later than 2008, initiate a series of robotic missions to the Moon to prepare for and support future human exploration activities;
- Conduct the first extended human expedition to the lunar surface as early as 2015, but no later than the year 2020; and
- Use lunar exploration activities to further science, and to develop and test new approaches, technologies, and systems, including use of lunar and other space resources, to support sustained human space exploration to Mars and other destinations.

Mars and Other Destinations

- Conduct robotic exploration of Mars to search for evidence of life, to understand the history of the solar system, and to prepare for future human exploration;
- Conduct robotic exploration across the solar system for scientific purposes and to support human exploration. In particular, explore Jupiter's moons, asteroids and other bodies to search for evidence of life, to understand the history of the solar system, and to search for resources;
- Conduct advanced telescope searches for Earth-like planets and habitable environments around other stars;
- Develop and demonstrate power generation, propulsion, life support, and other key capabilities required to support more distant, more capable, and/or longer duration human and robotic exploration of Mars and other destinations; and
- Conduct human expeditions to Mars after acquiring adequate knowledge about the planet using robotic missions and after successfully demonstrating sustained human exploration missions to the Moon.

Space Transportation Capabilities Supporting Exploration

- Develop a new crew exploration vehicle to provide crew transportation for missions beyond low Earth orbit;
 - Conduct the initial test flight before the end of this decade in order to provide an operational capability to support human exploration missions no later than 2014;
- Separate to the maximum practical extent crew from cargo transportation to the International Space Station and for launching exploration missions beyond low Earth orbit;
 - Acquire cargo transportation as soon as practical and affordable to support missions to and from the International Space Station; and
 - Acquire crew transportation to and from the International Space Station, as required, after the Space Shuttle is retired from service.

International and Commercial Participation

- Pursue opportunities for international participation to support U.S. space exploration goals; and
- Pursue commercial opportunities for providing transportation and other services supporting the International Space Station and exploration missions beyond low Earth orbit.

ENCLOSURE 2

**National Aeronautics and Space Administration
President's FY 2005 Budget Request**

(Budget authority, \$ in millions)		FULL COST						Chapter Number
By Appropriation Account		Est. Conf. Rept.	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009	
By Enterprise		FY 2004						
By Theme								
Exploration, Science & Aeronautics		7,830	7,760	7,869	8,320	8,900	9,091	ESA-SUM 1
Space Science		3,971	4,138	4,404	4,906	5,520	5,561	ESA 1
Solar System Exploration		1,316	1,187	1,202	1,300	1,392	1,438	ESA 2
Mars Exploration		595	691	724	944	1,188	1,268	ESA 3
Lunar Exploration			70	135	280	375	420	ESA 4
Astronomical Search for Origins		899	1,067	1,196	1,212	1,182	927	ESA 5
Structure & Evolution of the Universe		406	378	365	382	425	457	ESA 6
Sun-Earth Connections		755	746	781	788	958	1,051	ESA 7
Earth Science		1,613	1,485	1,390	1,368	1,343	1,474	ESA 8
Earth System Science		1,522	1,409	1,313	1,290	1,266	1,397	ESA 9
Earth Science Applications		91	77	77	77	77	77	ESA 10
Biological & Physical Research		985	1,049	950	938	941	944	ESA 11
Biological Sciences Research		368	492	499	496	500	502	ESA 12
Physical Sciences Research		357	300	220	210	210	210	ESA 13
Research Partnerships & Flight Support		260	257	232	232	231	232	ESA 14
Aeronautics*		1,034	919	957	938	926	942	ESA 15
Aeronautics Technology		1,034	919	957	938	926	942	ESA 16
Education Programs		226	169	169	171	170	170	ESA 17
Education Programs		226	169	169	171	170	170	ESA 18
Exploration Capabilities		7,621	8,456	9,104	9,465	9,070	8,911	EC-SUM 1
Exploration Systems*		1,646	1,782	2,579	2,941	2,809	3,313	EC 1
Human & Robotic Technology		679	1,094	1,318	1,317	1,386	1,450	EC 2
Transportation Systems		967	689	1,261	1,624	1,423	1,863	EC 3
Space Flight		5,875	6,674	6,525	6,524	6,261	5,598	EC 4
International Space Station		1,498	1,863	1,764	1,780	1,779	2,115	EC 5
Space Shuttle		3,945	4,319	4,326	4,314	4,027	3,030	EC 6
Space Flight Support		432	492	435	430	456	453	EC 7
Inspector General		27	28	29	30	31	32	IG 1
TOTAL		15,378	16,244	17,002	17,815	18,001	18,034	
Year to year increase			5.6%	4.7%	4.8%	1.0%	0.2%	

*In FY 2004 Aeronautics and Exploration Systems will become separate Enterprises

NOTE: May not add due to rounding

[CLERK'S NOTE.—The additional information referred to has been retained in Committee files.]

Senator BOND. We've been joined by the chairman of the full committee. Mr. Chairman, would you have any comments?

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. I welcome the Administrator, and I congratulate him on the success of his mission so far, and look forward to working with him in the years to come.

Mr. O'KEEFE. Thank you, sir.

Senator STEVENS. I think we ought to each put in a little reservation for some space on that trip in 2015.

Mr. O'KEEFE. Thank you, Mr. Chairman, it's a pleasure to see you.

Senator BOND. Mr. Chairman, I would be happy to defer to you. You can have my slot.

Senator STEVENS. Well they sent something up. I think it was 80 years of age, and I think I will put in for my reservation when I'm 90 years of age.

SHUTTLE RETIREMENT

Senator BOND. If you want to go, we will work it out.

Mr. Administrator, at this time, the shuttle is the only U.S. vehicle capable of taking astronauts to and from space. Under the new vision for NASA, the shuttle would be retired and the space station constructed and completed in 2010. That's optimistic.

A new Crew Exploration Vehicle (CEV) would be developed and fully operational for orbital missions by 2014. What will be the consequences of a 4-year and possibly longer hiatus, in U.S. flown human space flights. And how many staff will we lose and how will we restart the manned-space flight program after a 4-year hiatus?

Mr. O'KEEFE. That's a fair point and one that really devoted an awful lot of attention during this inter-agency process towards that kind of gap period. Because as you recall, in our efforts to develop the Orbital Space Plane (OSP), last year, of which the Crew Exploration Vehicle, Project Constellation, is a natural evolution and derivative of that. And builds on everything we did on the Orbital Space Plane program.

The earliest we could attain a full-up, human-rated system based on all the trade studies in the industry assessment, was by the 2010 time frame. So the approach that we've taken here with the Crew Exploration Vehicle and Project Constellation, as articulated in the Vision for Space Exploration, is to use the spiral development approach to demonstrate the capability as early as 2008, on the first spiral that needs to be done.

So you would build each of the respective components and parts and launch as necessary, and as ready, to demonstrate that capability. That will give us time to assess this question of what kind of a gap might actually exist. It could occur, if it were successful, that we could move this much earlier. The catch is we're not building this on a success-driven strategy that inserts schedule pressure in that process and makes it a demand, so that you can't retire before the time.

CREW TRANSFER REQUIREMENTS

Senator BOND. What are we going to have to pay Russia for taking U.S. astronauts to and from the ISS? And how is NASA going to pay for such services given the Iran Non-Proliferation Act prohibiting NASA from paying Russia for ISS related activities.

Mr. O'KEEFE. Well, sir—

Senator BOND. What are they getting for it?

Mr. O'KEEFE. Sir, so far it's part of their agreement and so we have paid not a dime more for their efforts in the last year to fully complement the crew transfer requirements to the International Space Station, to and from, given the grounding of the shuttle since February 1, 2003, in the wake of the Columbia tragedy.

They have fulfilled the commitment. That is due to expire in 2006. We're in the works of negotiating with them what additional

challenges, among all of us as partners, of what those additional costs will be in expanding the number of crew expedition missions. Because now, at this point, we can expand the crew size beyond three once we reach U.S. core complete configuration in a year, or so, after we return to flight.

From there, debating exactly what number of flights would be necessary from Soyuz vehicles, or after return to flight how many crew transfer requirements would be taken on the shuttle as part of our ongoing negotiations. So, in the course of that, I wouldn't want to predict right now what that may import. But so far it has cost nothing extra and nothing different. I associate myself entirely with your remarks, sir, that the partners have stepped up in this past year and demonstrated the real depth of this partnership by following through on their commitments and it hasn't taken any additional costs on the part of the United States in order to sustain the International Space Station capabilities thus far.

SOYUZ CAPABILITIES

Senator BOND. Would the Soyuz meet the test that the Gehman Committee applied to the shuttle?

Mr. O'KEEFE. Yes, sir.

Senator BOND. Has there been a similar examination of the safety of the Soyuz?

Mr. O'KEEFE. Yes, sir.

Senator BOND. To make sure that we're sending them up on a safe vehicle?

Mr. O'KEEFE. The approach that we have used now consistently, and have really intensified, certainly in this period, that is the only means of transfer to and from the station, and return capability in the event of an emergency is by Soyuz, is to commission at every single flight a joint Russian-U.S. team of folks that were used.

As a matter of fact, during the shuttle/Mir days, which was represented by Professor Amfimov, from the Russian Rosaviakosmos and Tom Stafford, an Apollo astronaut, with a team of folks who certify each and every flight as a prior flight readiness review effort, roughly a month before each of the expedition's crews depart.

They come up with a comprehensive assessment of the safety standards that comport with that. We have insisted and the Russians have been extremely cooperative on this, of understanding the same parameters of medical, as well as technology standards that we adhere to, and they have been extremely helpful in working through that. So we have adjusted crews, we have made changes, and we have done all kinds of things as a consequence of the Stafford-Amfimov certification that occurs each and every flight. They will be meeting again here in about 3 weeks' time in preparation of the Expedition 9 crew which is due to launch in the middle of April.

Senator BOND. Senator Mikulski.

HUBBLE SERVICING MISSION

Senator MIKULSKI. Thank you very much, Mr. Chairman.

And I know my colleagues are here and so I will get right to my Hubble questions.

Mr. O'Keefe, you have now received the Gehman letter containing his analysis of the Hubble servicing mission. Could you tell me your reaction to the Gehman letter, particularly the aspect where he recommends that we get additional advice. And our request to you that we go to the National Academy of Sciences for a more amplified analysis.

Mr. O'KEEFE. Thank you, Senator. Indeed, I associate myself entirely with your comments that Admiral Gehman issued a typical characteristically thoughtful commentary and review, and did in fact follow through on what I had suggested to you in our previous conversations, was for him to offer his unique view and perspective on this particular question. I think he offered that in addition to your comments, in a way, in which he said, by the changes in the non-station missions. We knew we're essentially reducing the requirements. Reducing the rigor of our requirements increases the risk and can't be seen any other way.

That's in large measure looking at the Return to Flight challenges that we have been examining to comply with every one of those recommendations. Again, I am delighted to hear that your view, and I believe that of Congress, has been to say, yes, we are embracing the actions of the Columbia Accident Investigation Board's recommendations. It is our intent to implement them for each and every flight to assure that we do this to mitigate the risk to as low as we possibly can.

Any further examination beyond that I think is welcomed. And to be sure, to the extent that on the Hubble servicing mission, and all of the alternatives that we have now, I think are excited by a Request for Information we issued in the early part of February, to ask what other approaches would we use to extend the battery life? What would we do to de-orbit in the early part of the next decade? What would we do to boost the capability, if need be?

All of those factors, if we could include that in the equation—to look at what is, I believe, the broader objectives of what we all agree to, which is to get the maximum service life out of Hubble that we can—would be an acceptable approach to it.

So asking the National Research Council through the National Academy of Sciences to examine that broader question of the range of alternatives and approaches that we use in order to maximize the service life of Hubble is something I have already engaged in discussions with Len Fisk, who runs the National Research Council, to determine their interest. They're very interested in pursuing that. As I understand you've done the same.

We would welcome any ideas in terms of the broader scope of it in order to extend beyond the service life that we had anticipated of 2005. We're already going to exceed that. Let's figure out how we can do even better than that, short of encountering the risks that would be involved in a servicing mission.

That ought to be included as well, and that's why the determination and judgment that I reached is that this is a higher risk. But if they look at the full plan and range of options, that's an approach that I think could be extremely beneficial for us all.

SERVICE MISSION RISK

Senator MIKULSKI. First of all, that's a very constructive response, and I am going to thank you.

Let's be sure that we understand the response. Number one, what Gehman recommended was a look at risk versus value. In other words, look at the value. Now what we asked for in the Mikulski-Bond, or Bond-Mikulski letter is for the National Academy of Sciences to look at the risk involved in a service mission, and what could make it as safe as possible, et cetera.

What we want is, No. 1, implement what Gehman said he wanted studied. What you're saying, in addition to what Gehman wanted studied, and what I want studied on should we have a servicing mission, you're also wanting the National Academy to look at what else would be needed to extend the life of the Hubble. Is that correct?

Mr. O'KEEFE. Absolutely, Senator. I think that—oh, I'm sorry, please go ahead.

Senator MIKULSKI. And then the third could be alternative methods for servicing. You know, there's a save the Hubble website. There's ideas coming in from all over the world. I am not asking the National Academy of Sciences to look at all of them. These ideas are what space scientists are all about, it is wild and creative. I wonder if you would also want them to look at alternative servicing methods, or—

Mr. O'KEEFE. Exactly. I think that's the approach. Let's go, and again, in the spirit of your comment, let's be sure that we're in full agreement on what the objectives would be here. The first one is, if we could fully agree that the objective is to comply with every recommendation of the CAIB for every shuttle flight, that's what NASA has embraced and that's what we intend to do.

Senator MIKULSKI. And we're on the same broadband on that.

Mr. O'KEEFE. Yes, and I am very grateful to you, Senator, because that's the part that really worries me most.

Senator MIKULSKI. So no matter what, because in the Gehman letter, he says this, the bottom line, says Admiral Gehman, shuttle risks are dangerous, and we should fly the minimum number necessary to complete mission. Almost all of the risk is concentrated in the front and the back of the mission. Where one goes into orbit makes little difference. That's one item.

But in his final paragraph, he says, I suggest only a deep and rich study of the entire gain-risk equation can answer the questions of whether an extension of the life of the wonderful Hubble telescope is worth the risk. That's what I would like the National Academy of Sciences to look at.

Your proposal, in addition to that, not in lieu of, would be to look also at should we not have a servicing mission, then how could we extend the life of the Hubble in its continued ability to discover while we're waiting. And I am now also wondering about your reaction to assessing alternative servicing methods as well.

Mr. O'KEEFE. No, as you suggested—

Senator MIKULSKI. Is that—

Mr. O'KEEFE. Yes, ma'am. As you suggested, the approach we used in our Request for Information because of this flood of interest

in various ways of looking at the challenge of moving the Hubble closer to the station, there are a number of different ideas that are potentially very interesting, and could be workable. And then there are others that are really kind of interesting.

As a consequence, the approach that we took to separate the wheat from the chaff, I think is really critical. The two things that I think would really guide this approach is first and foremost, and inviolate, proposition that we have to comply with every recommendation of the CAIB report.

So, independent of the return question, what I cannot abide the notion of, and what my judgment has been driven on, is the idea of commissioning a servicing mission that isn't in comport with every one of those requirements. That's the part that I want to be sure of that they're extremely focused on. Therefore, they'll have to delve into the full range of Return to Flight challenges, everything that we're doing in order to comply with every single recommendation. Because anything that says, it close but it's not close enough, is in my judgment not acceptable as a means to do this.

The second matter would be, I think that we're all in agreement on, what can we do to extend the service life. And the ways that we can do that, beyond servicing, is to draw battery power at a much different rate, which therefore changes the operational protocols of how we utilize Hubble.

FINAL SERVICING MISSION STUDY

Senator MIKULSKI. Mr. Administrator, the red light is blinking. We're going to wait for your opinions and also the Academy on this.

While I would suggest that our staffs meet and make sure that we're all clear in the direction we're going in. And I believe we are.

The last paragraph, though, to this which says, we request that you take no action to stop, suspend, or terminate any contracts or employment in connection with the final servicing mission until this study is completed.

Mr. O'KEEFE. Let me offer to you this proposition which is—I don't know what the answer to that one is. Having just received your letter this morning, I don't know what the result would be of each of those contracts.

It falls into at least three categories that I was able to eyeball quickly. First, is those efforts that have already been completed, and therefore would naturally wind down, whether we had pursued a servicing mission or not. Second, category would be the instruments and how those would be employed for other purposes as well. How we could use them in the future, and we're committed to doing that. The third, would be to focus on the range of other options to extend battery power, to change operational protocols. To do all of those things to get the maximum service life we can beyond fiscal year 2005, which was the design date for the Hubble to begin with. Those are the three things that I would look to, and if you would give me an opportunity to go examine these—

Senator MIKULSKI. Well, I think that is a fair request on your part.

First of all, I want to thank you for responding to my initial request for a second opinion, to our request for additional study from

the National Academy of Sciences, knowing that you just got our response, just as we just got the Gehman response.

And we look forward to making sure that we do not lose time, or talent with what we have by premature cancelling of anybody's job or anybody's contract.

Mr. O'KEEFE. I understand.

Senator BOND. Thank you very much.

Mr. O'KEEFE. If I could give one final comment or observation on this. Again, the judgment call that this turns on is whether or not we believe we can mitigate the risks and comport with all of the recommendations of the Board. And do it at a time that is timely enough in order to actually complete the servicing mission. And that's the part that's in doubt. Because once the batteries go, the Hubble survives for about 6 to 10 hours and then that's it. It goes cold.

So, as a consequence, putting all of our eggs in that one basket doesn't work. It is not something that I think is an acceptable risk. As a consequence looking at the full range of what we do to get the service life is what our commitment is, and that's what we've been pursuing. We would be delighted to get the Academy's view of what else they think we could be looking at in order to pursue that common objective in comport with the CAIB recommendations.

And it's got to be done expeditiously in order to get through this.

Senator BOND. Okay.

Mr. O'KEEFE. So, I am in agreement with you, and we will work through what the immediate challenges would be from the contractual standpoint in the immediate period—and that's something we'll get back to you very, very expeditiously in terms of what the combination will be.

You know that some of it is going to wind down, because the work is finished. Some of its going to be towards instruments that we could employ for other activities. And some of it may well be towards other alternatives we can look to extend the service life.

Senator BOND. Thank you.

Mr. O'KEEFE. All three of those would be acceptable with NASA.

Senator BOND. Thank you, Mr. Administrator.

Senator MIKULSKI. Thank you.

Senator BOND. Let me turn now to——

Mr. O'KEEFE. Thank you.

Senator MIKULSKI. I think our battery just ran out.

Mr. O'KEEFE. Thank you, Senator. I appreciate your willingness to do that.

Senator BOND. Senator Stevens.

NON-SPACE NEEDS OF THE PROGRAM

Senator STEVENS. Well, Administrator O'Keefe, you make us all proud of the job that you're doing with NASA and I want you to know that I personally have great confidence in what you're doing. I hope you don't misunderstand my question.

My question is, with this vision, and I appreciate that you brought the President's comments to us this morning. With this vision, what is going to happen with the other non-space needs of the programs that NASA is involved in during this period of growth?

Mr. O'KEEFE. Sir.

Senator STEVENS. Are we going to see a change in the other missions?

Mr. O'KEEFE. Well, if anything, one of the things that I have found absolutely amazing is the organizational response to this. This now forces us to integrate, to think about applications on a much broader basis than we ever did before.

One of the absolute indictments that the Columbia Accident Investigation Board offered, that others have offered, and lots of commentators and critics have suggested, is that the Agency has been stove-piped. It has been looking at different categories and never inter-relates activities.

So if anything, what we're seeing is a consequence of this. And we've been motivated to move in the direction of how do we apply all of those capabilities towards this central set of objectives and direction that the President has granted, and sent to us and said, that's what I expect you to do.

Therefore, applying all of those capabilities for earth sciences, aeronautics, biological and physical research, space flight and space science, in addition to the education and inspiration of the next generation of explorers, this is something that now I think is a much more integrated collaborative effort in that direction.

I don't see a big diminution. In those central mission objectives in what the Agency has been chartered to go do. There will be differences of view over whether or not we should do a little more or a little less in one area or another. That's something, I think, that's well within the range of manageable as a discussion.

But for the purposes of this objective it is a central focus. It's a much greater level of clarity than the Agency has had in decades. As a consequence, that's what I think the enthusiasm will be rallied around. There are modifications that can be made as we move along, because nothing is so intractable as to preclude any one of those options.

Senator STEVENS. Well, I would be precluded from discussing some of the missions, but are there classified missions of NASA going to be diminished because if the activities that you have described?

Mr. O'KEEFE. No, sir.

Senator STEVENS. Thank you.

Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Stevens.

Senator Shelby.

Senator SHELBY. Thank you, Mr. Chairman.

Mr. Administrator, during the months of the extensive and careful deliberations which led to the President's new space vision, would you tell us what input, if any, was sought from industry during this process. We've been told that there was none sought.

Mr. O'KEEFE. Well, the process that we employ, that the President sent us off on, is an inter-agency process. In other words, public servants engaged in the activity. What we were all charged to do, from the Defense Department, the State Department, the Commerce Department, the Office of Science and Technology Policy, and certainly NASA, and through the process that was put together of the National Security Council and the Domestic Policy Council, was to bring in all of those external views that were being

debated in these broader fora. Both within the oversight committees of Congress as well as the broader conferences and symposia that were conducted after the CAIB released its position.

So, therefore the industry views, positions and thoughts were brought into that equation in order to reach the range of options. And at one point, we looked at so many options, we could hardly keep tabs on them all, in terms of which approach we should take. The President's engagement on this point was to consistently solicit that broader range of views, and that's where we ended out, is in concert with all of those perspectives as well.

Senator SHELBY. We have to use foreign launch systems now. The budget it seems chooses to use them in the future, which is troubling to some of us.

Mr. O'KEEFE. I couldn't comment one way or the other, sir. I understand your point, but I am not—I don't think we have any greater or lesser international involvement or engagement in the activities that the President has directed us to proceed with than what we have been encountering now for several years. So I don't anticipate or see any intensification of that effort.

EXPLORATION SYSTEMS

Senator SHELBY. Could you briefly explain the process on going within code "T" to engage industry as you formulate requirements, definitions and program planning decisions in the new space exploration program. And particularly Project Constellation.

Mr. O'KEEFE. Yes, sir. No, thank you for the question. The approach that we were taking, and the organizational code that you've referred to is the Office of Exploration Systems.

Senator SHELBY. Okay.

Mr. O'KEEFE. It was announced the day after the President's speech. The objective was, and we had been working for the previous few months in pulling together all of the components of what we do around NASA, to look at large scale systems integration challenges. The engineering challenges of delivering on a set of programs that require lots of integration.

So again, in my response to Senator Stevens, this is one of the consequences, one of the amazing developments as the result of the President's charge, is to start looking at the full range of activities that we have in the Agency and applying them towards common solution.

So what the Office of Exploration Systems is now looking to under Project Constellation, under Project Prometheus, and a number of others, is to kind of pull together all of those efforts to integrate independently of the mission objectives so that we get a common solution.

We are out engaging the industry very actively, to look at a number of different approaches that would call for acquisition strategies like spiral development that I referred to earlier for the Crew Exploration Vehicle. As well as engagement with the broader industry community on Project Prometheus on how to generate power and propulsion, something we've never had in a spacecraft that now could be used as a means to inform those broader acquisition strategies.

So, we are out there soliciting in a much broader case, as is Craig Steidle, our new Associate Administrator for Exploration Systems, to include all of those industry interests that were basically pulled together as the result of the exceptional efforts during the Orbital Space Plane effort was engaged in last year.

CREW EXPLORATION VEHICLE

Senator BOND. Mr. Administrator, how much will the Crew Exploration Vehicle build on the work already done for the orbital space plane? And would you discuss the benefits?

In other words, I hope that you're not going to try and reinvent the wheel.

Mr. O'KEEFE. No, sir. No, I think that you're right on. In many ways, a lot of what we engaged in a year ago for the Orbital Space Plane, we would have to do now, had we not engaged in it over the previous year. Because it really defined some of the fundamental requirements of what is necessary for developing a capability using existing launch capacity for what would be beyond low-Earth orbit. Because, as you know, shuttle is restricted to low-Earth orbit by virtue of its characteristics.

Much of what we derived from that experience evolved over that time towards an adaptability towards capabilities that could go beyond low-Earth orbit. So much of what we did in the Orbital Space Plane, I would say, is at least two-thirds common with the kinds of challenges we would meet. Because much of what is challenging about these efforts is getting off this planet and going anywhere.

The thermal protection system requirements, all of those things, then become gradients of that as well as the capacity you want to bring with you for wherever it is you want to go, for whatever duration or length of time.

So, in many ways, a lot of these hard questions were very, very professionally run to ground during the course of that OSP effort a year ago. As a result, we're able to launch right from that to this next level. We have got a running start as a result of that engagement.

Senator SHELBY. I know that my time is almost up, but I want to ask one more question, if I could.

FUNDING REDUCTIONS IN PHYSICAL SCIENCE RESEARCH

Senator BOND. Without objection.

Senator SHELBY. Thank you.

Mr. Administrator, I am concerned as a lot of other people are about this significant reduction in funding for physical science research. This is a big departure.

Three distinguished professors in research science recently wrote to me to share the following sentiment regarding this dramatic cut to physical research.

And I just want to share with you excerpts.

While NASA has the mission of planetary exploration it also has the goal of improving life on Earth. Towards that goal it is the only American agency with the unique capability to conduct physical science research in the virtual absence of gravity, which we all know. Now, I'll skip on down a little bit.

As you're aware, NASA since you're the Administrator, is planning to further reduce all physical science research on the ISS and the shuttle, in particular research on material science. It is our understanding that the already reduced number of materials, science flight investigations from 24 to 12, will be further reduced to only a couple of principal investigators.

And then, I'm going to turn to crew health. This is another excerpt of the letter. Crew health is not just biological-astronautics. Both Challenger and Columbia crashed due to materials failure, not motion sickness, bone loss or radiation exposure. Improvements in materials have powered all industrial revolutions. A balanced research portfolio will be critical to success in NASA's exploration thrust.

I hope you will look at this letter. And we've talked about this already.

Mr. O'KEEFE. Yes, sir.

Senator SHELBY. Privately, but these are some of my concerns and I believe they are the concerns of a lot of people on the committee.

Mr. O'KEEFE. I would be delighted to take a look at it, Senator. And I thank you for raising the issues. It is about priorities. There is no question.

Senator SHELBY. Priorities.

Mr. O'KEEFE. They're very difficult to do, but in that respect, the President's clear direction to us is that we look at utilizing the capacity of the station and focus our research endeavor towards understanding expedition missions. That's largely life sciences, physiology.

Senator SHELBY. Sure.

Mr. O'KEEFE. But it also includes material sciences kinds of activities too, to sustain activities for long periods of time.

Senator SHELBY. We've got so much to learn there to benefit us.

Mr. O'KEEFE. Yes, sir. Without question.

Senator SHELBY. I know that Senator Mikulski and Senator Bond have been in the forefront of all of this. That we have benefitted so much from NASA back here as well as out in space.

Mr. O'KEEFE. Yes, sir.

Senator SHELBY. Mr. Chairman, I have a number of other questions that I want to submit for the record for the Administrator. And I appreciate your indulgence.

Senator BOND. Thank you very much, Senator Shelby.

We're going to have a number of questions for the record, otherwise we would be here all day.

Mr. O'KEEFE. Thank you, sir.

AERONAUTICS FUNDING

Senator BOND. Mr. Administrator, following on Senator Stevens' question, and sort of related to what Senator Shelby asked, what role do you see for NASA in the vitally important national industry in aeronautics? Did aeronautics take a hit in this budget? Is aeronautics going to become a poor stepchild?

Mr. O'KEEFE. Not at all, sir. No, I think that there are two major areas that we need to continue to concentrate on, and part of what I think you're seeing in the budget projections is the need for great-

er definition as we move along and work through each of these successes in terms of applications.

But the two areas that I think are most profound are, No. 1, there are a lot of capabilities that we have seen in the aeronautical system side that are so important for the purpose of continuing our activities on shuttle, and a number of other space science-related activities through the NASA Engineering and Safety Center (NESC), which has been set up as part of the aeronautics enterprise, part of that function, in order to pull together all of those capabilities.

This is one of the organizational legacies of the Columbia Accident Investigation Board report to pulling together those interdisciplinary skills necessary to look and inform the kinds of challenges we have on trend analysis and a number of those kinds of things that were called out in that report. So there is a very dominant role in those skill areas that will now have applications.

For example, it is not by accident, that now the Deputy Director of the Kennedy Space Center is a guy who came from an aeronautics background. So here he is looking at launch operations activities, and he has also got a tremendous amount of skill and background in aeronautics functions.

Second area is to look at those kinds of things that look at air space management and a range of aviation security and safety-related activities. That is a dominant focus and priority of what we have now concentrated on in the aeronautics area.

To your broader point, I think, in raising your opening statement, how we look at inter-relationships, for example, with the Defense Department, through hypersonics, and a number of other approaches of developing next generation kinds of propulsion power, and design requirements is what we intend to do very closely in comport with the Defense Department.

So all of those factors together, I think, are guiding us, adjustments that may need to be made will be informed by our successes in all three of those areas.

Senator BOND. I appreciate your answer. I have the feeling that it may be incidental for the benefit for aeronautics and I think we need to explore further whether there is going to be the kind of directed investigations that would be needed for us to maintain a healthy aeronautics industry, domestic and international civilian industry in the United States.

What upgrades to the shuttle should NASA continue to pursue? And what new launch vehicle or vehicles may need to be developed to carry cargo up? If we're going to have the International Space Station, they're going to need cargo.

And if we're going to go to the Moon and set up a launch facility, we've got to haul a lot of stuff. We're going to need some big trucks. What are your plans for those?

Senator MIKULSKI. Good point.

Mr. O'KEEFE. Well, the first part of your question, I think relates very clearly, Mr. Chairman, and I agree with, is what upgrades and capabilities or modifications to the shuttle do we need to continue with. The focus that we're now vectoring from, that was a Service Life Extension Program focus prior to last year, is now towards how do we maintain this capability, upgrade it and use it

with all the safety modifications necessary in order to mitigate risk through the end of this decade.

That's how long we intend to operate shuttle. We're going to continue on those upgrades, and we've got two out of the three orbiters that are in major modification right now. So during this period of time while the shuttle is grounded, while we're implementing all of these recommendations, we want to include those upgrades in order to improve this dramatically.

The second area is, I think, the requirements to Return to Flight—an immediate task right now. We're including those upgrades and, I think in your opening comments, you asked what are the costs and challenges of doing that. That's what is included in the Operating Plan that was just submitted to you, that can continue the activity, to incorporate those upgrades necessary.

CARGO CAPACITY REQUIREMENTS

The third dimension is, in the latter half of your question, focused on what kind of cargo capacity requirements we're looking to. Well, there are two basic areas that we're looking at there.

The first one is to develop and continue to build on the capabilities of our international partners, who have had the requirement to follow through for the International Space Station. It's a lot of lift, a lot of logistics requirements for the station, that will now be off of the space shuttle in the future, so that we can get the components up there and finish the construction of the station.

Second area would be to look at cargo lift capacities; frankly, some of them will be explored as a consequence of this earlier understanding we've reached and discussed on Hubble servicing, for example, robotically, autonomously, that could also inform that. So I think that may be an acceleration of what kind of launch requirements we would need to have, for what kind of lift requirements, in order to install what autonomously, robotically, over that span of time, that will give us a much deeper understanding of it.

So we will be building on existing capabilities and exploring other opportunities for lift capabilities for cargo in order to comply with the CAIB report to separate the crew from the cargo is our objective.

Senator BOND. Maybe I'm not quite clear, but all of these things that we're exploring are assuming, No. 1, either we have the shuttle, and if you're going to save money by not doing the shuttle recertification in 2010, I am gathering that there won't be a shuttle after 2010 to do the heavy lift. That leaves us dependent upon international partners or somebody else to do the heavy lift after 2010?

Mr. O'KEEFE. Oh, no, sir. Not at all.

That certainly is, there are competing options and alternatives there as well, within the United States, for our capability.

The capabilities we have for heavy lift vehicles are through the EELV with the Defense Department, the Atlas and Titan Programs that they maintain. Plus we are looking at how we might employ, for example, the shuttle shack—the solid rocket boosters, the external tanks, all of those things give us some lift capacity. We may need to reassemble, short of including the orbiter on that. There

are all kinds of capabilities we have and we have got to look to for launch capacity.

What is important about the way and the direction the President has given is that it lets us look at existing capabilities which are right now underutilized through the Defense Department.

So in working with them for launch services requirements, for the heavy lift, for expendable launch vehicle capability they have, plus what we are already using right now to lift shuttle are derivatives thereof, we have the kinds of existing capabilities that are right here in the United States, that certainly will have traction and capability in terms of whatever lift requirements we have for Project Constellation, as well as any cargo capacity that may be required in the future.

Senator BOND. I think that we will need to be hearing more specifics on which options you're pursuing.

Mr. O'KEEFE. Sure.

Senator BOND. Because I know there are a lot of possibilities out there.

Mr. O'KEEFE. Yes.

Senator BOND. But facing the end of the shuttle in 2010 we ought to be thinking now.

Mr. O'KEEFE. Absolutely.

Senator BOND. About how we're going to get all of this equipment up there.

Mr. O'KEEFE. Thank you very much, Mr. Chairman.

RETURN TO FLIGHT—CAIB RECOMMENDATIONS

Senator MIKULSKI. Thank you very much, Mr. Chairman.

Mr. Administrator, could you tell us, and I want to talk now about fully implementing the CAIB's recommendation on how to return to flight.

How much do you anticipate fully implementing the CAIB's recommendations. And what is your timetable on doing that? Do you hope to be able to do this all in one year?

Mr. O'KEEFE. Okay. Thank you, Senator. That's a very—it's an issue—

Senator MIKULSKI. Is it one orbiter a year? Or—

Mr. O'KEEFE. Yes, it is an issue that is consuming a lot of our focus and attention now, because again there is no day light on the commitment that we're going to implement those recommendations. Absolutely. There is not a day that goes by that I am not reminded of exactly what the consequences are of not doing that and why Columbia was lost.

Senator MIKULSKI. We all feel the same way.

Mr. O'KEEFE. So we're pursuing that. There are 29 recommendations, as you're aware, and 15 of which must be done before the Return to Flight.

We have a group we assembled last summer of roughly 25 or 30 experts in all kinds of disciplines and fields who are overseeing our activities in this. There is a regular update that we've been issuing since September, on a monthly basis, on every single step to comply with those 15 and that broader 29 recommendations overall.

That's publicly released. It's on the website, it's been released to all the committees of Congress, and we will continue to do that, not

only up to Return to Flight, but thereafter. We're going to continue this open effort all the way through.

RETURN TO FLIGHT COST

Senator MIKULSKI. Cost?

Mr. O'KEEFE. Sorry.

Senator MIKULSKI. Cost?

Mr. O'KEEFE. Cost right now in 2004 is established at \$265 million, of which that has become a real serious challenge for us to implement this year, in light of the Congress's direction to reduce the International Space Station by \$200 million. We've had to cover that reserve as a result, and we have to find \$265 million within funds available in order to pursue this, because no additional funds were appropriated this past year. So we're scrambling to do that, in the operating plan. You have that. It was submitted here, identifies the kinds of resources to do that. A year ago, in 2003, we absorbed about \$93 million in order to proceed with that.

Senator MIKULSKI. But Mr. Administrator—

Mr. O'KEEFE. I'm sorry.

Senator MIKULSKI. We're looking at how to be your partner to do this. So what do you need in fiscal year 2005 to do this?

Mr. O'KEEFE. Well—

Senator MIKULSKI. And what we also, in addition to that, have to look at reprogramming in fiscal year 2004 for you to stay the course in fiscal year 2004.

Mr. O'KEEFE. Yes, Senator.

Senator MIKULSKI. So you need more in fiscal year 2004 in some variation of coming up with a supplemental to implement this. This is the anchor from which all floats.

Mr. O'KEEFE. Okay.

Senator MIKULSKI. So that's one.

So what do we need to make sure? Do you have enough money in fiscal year 2004, or do we need to be ready to do something in partnership with you.

And No. 2, how much will you need for fiscal year 2005 to continue to make, to implement the \$15 million we need to Return to Flight, but then the other \$14 million—

Mr. O'KEEFE. Yes.

Senator MIKULSKI [continuing]. To make the \$15 million workable.

Mr. O'KEEFE. Absolutely.

Senator MIKULSKI. And sustainable.

Mr. O'KEEFE. Absolutely. Now, in fiscal year 2004, as I mentioned, \$265 million is how much we're absorbing now. Your assistance and support of that activity through our operating plan would be most appreciated now while we work through that.

In fiscal year 2005, the projections that we put in the budget involved here and covers about a \$374 million increase in the fiscal year 2005 request that will implement all of these recommendations and continue along in that direction. It covers the broader area, not just the 15 recommendations, it's all 29 recommendations.

For example, the costs to operate, run NASA Engineering and Safety Centers. It's part of the expense involved in this, and other organizational changes that we have advanced. So let me give you

a complete list for the record of all of the things that's included in that, that's part of—

Senator MIKULSKI. But, roughly, it's about \$375 million to \$400 million.

Mr. O'KEEFE. In 2004.

Senator MIKULSKI. And you know how these things tend to go up.

Mr. O'KEEFE. In fiscal year 2005, as an increase. Yes, ma'am.

Senator MIKULSKI. Yes.

And do you need additional funds in fiscal year 2004?

Mr. O'KEEFE. Two hundred sixty-five million dollars is the amount we've proposed to reallocate and shift, and that's the operating plan that you have before the committee for your consideration.

Senator MIKULSKI. I see.

And when do you anticipate those 15 recommendations for Return to Flight to be done? Do you anticipate that they will be done in calendar 2004, or will this take us also into calendar 2005?

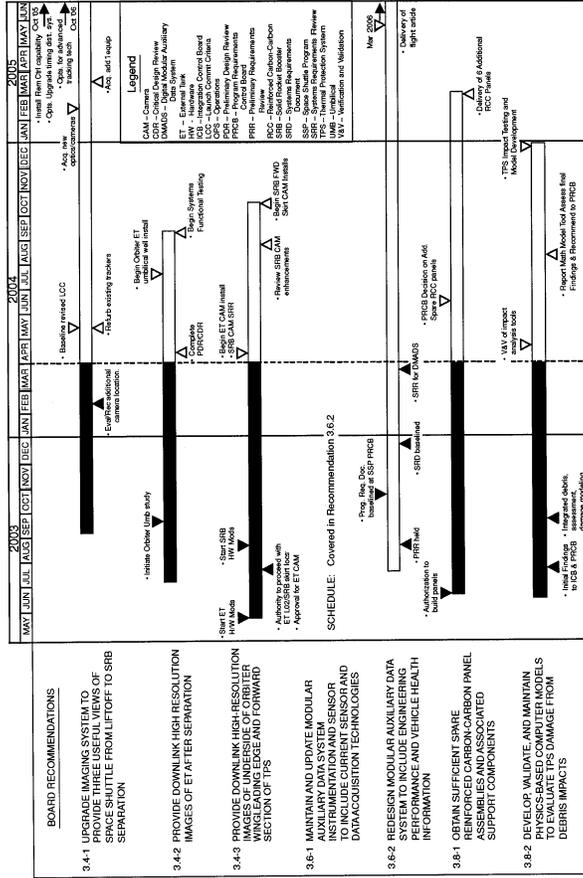
Mr. O'KEEFE. I anticipate, based on our current assessment of Return to Flight challenges that we should see implementation of all of those recommendations, 15, prior to Return to Flight, in this calendar year. That will be necessary in order to facilitate that prospect of any Return to Flight in the early part of next, if we're going to go the way—

Senator MIKULSKI. If you could furnish to the committee essentially a sequencing of the calendar if you will, so that we can get a sense of time frame.

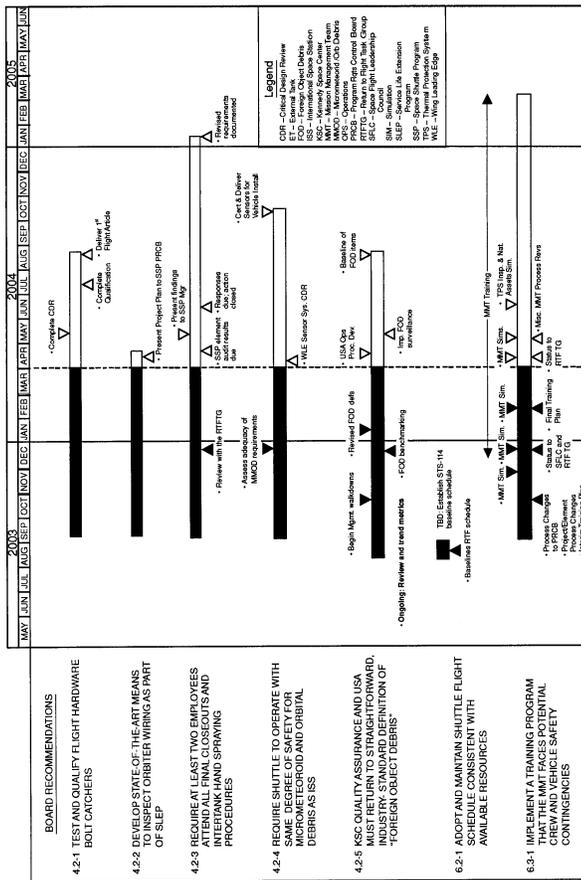
Mr. O'KEEFE. If I could, Senator, that's part of a last update that we last submitted. And we're going to update it again here in about 2 weeks' time. So we will positively provide that for you.

[The information follows:]

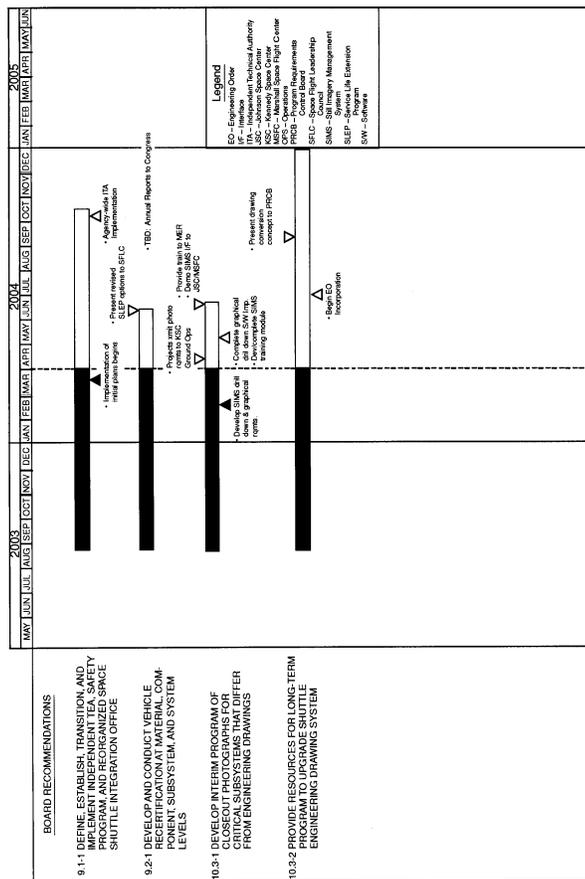
CAIB Recommendations Implementation Schedule



CAIB Recommendations Implementation Schedule



CAIB Recommendations Implementation Schedule



NEW TECHNOLOGIES

Senator MIKULSKI. Alright. That's terrific.

Now, this also goes to Senator Bond. One of the things that I think we both admire about NASA is not only the exploration of what's out there, but the invention of technology, the new ideas that then lead to new products, that also benefit the larger American community. We come up with new products, we're more competitive, we have jobs.

As you're looking at the development of a new vehicle, we'll call it the crew exploration, is that part of the intent to be looking at these whole new concepts like nanotechnology, et cetera?

And along the way, do you anticipate that this will accrue to our knowledge to, No. 1, aeronautics because we're competing with Airbus? No. 2, new kinds of materials, because won't they have to be lighter, more resilient, in order to be able to go out there?

Mr. O'KEEFE. Absolutely.

Senator MIKULSKI. Whenever we go?

Mr. O'KEEFE. Absolutely.

Senator MIKULSKI. And is this part of the thinking that along the way to getting to Mars, when we get there, that part of this will be the inventing of new technologies, new products, new materials?

Mr. O'KEEFE. Yes, ma'am. Absolutely.

Senator MIKULSKI. New ways of monitoring the health of the astronauts as they go?

Mr. O'KEEFE. Positively. That's precisely it. Again, so much of what drove the President to select this configuration for the vision statement, for the strategy, for the Presidential directive, for the first time ever it has got that level of detail to it, is an assumption of that technology development that's going to advance our capabilities to do this.

Absolutely that is the intent. That's how we're proceeding. Part of what the Aldridge Commission is going to be working with is the challenge of thinking about implementation strategies to achieve that precise outcome. So we're looking forward to their input as to how they're going to do that. And we're due to receive that by this summer.

Senator MIKULSKI. Well, Mr. Administrator, what I see is not competing visions. But competing demands for revenue.

I believe the vision is an exciting one, it is what has excited humankind every since Icarus tried to go, and why the Wright Brothers got off the ground a hundred years ago. And why we had our first launch to the Moon in 1968, et cetera.

So the vision is exciting. The idea of inventing new technologies and products which will benefit both our country and mankind is exciting.

And then, we have here the challenges of completing the work that we have, which is specific, immediate, and achievable. The International Space Station, the future of Hubble. So we see that what we have here is not a competing vision, but very serious stresses on the NASA program.

And, what concerns me with the President's recommendation and vision is that there is not enough money to do it. And what is being

proposed in the President's budget would enable us to stay the course, and work with you for a return to flight.

But I think this is going to have very serious challenges. And also, we're going to have to look at the consequences of deferring new space and earth science missions, freezing spending, eliminating research, these are pretty tough choices.

Mr. O'KEEFE. Oh, I agree, Senator.

It is and I think that two things apply here. The first one is that with this strategy, it is about priorities and which focus do we want to take to them. That is not to say that the research and activities that may not be of the highest priority to support this are irrelevant. But it, nonetheless, has to be focused towards these activities, lest it becomes maintenance of status quo.

Secondly, I would seek and I hope to convince you at some point, yes, this is affordable. Yes, what is in this resource base is what the President, the administration, believes is necessary to build on these technologies and do these things. Along the way, it's based on achievement of success and an adjustment thereafter, as opposed to some crash program that is designed towards some final solution at the end of the day.

So it is an approach I think that lays out very methodically that journey, not the race, that's necessary in order to achieve these. But at the same time, our abilities to achieve those outcomes along the way and see the results as we move along, to accomplish that.

In the process, I think it is revectoring some of those capabilities towards specific goals as opposed to for its own sake. What we're really trying to do here is put more focus to it.

SPACE SCIENCE DEVOTION

Senator MIKULSKI. Mr. Chairman, I have other questions that I will put into the record.

But I think we have covered a lot today. And I look forward to more conversations with you. And again, I want to thank you for the courtesies that you have extended to me, personally, and to all who were concerned about Hubble.

We can't do space science without our astronauts and we know that. So we're always on the side of the astronauts.

Thank you.

Mr. O'KEEFE. I appreciate that, Senator. If you would permit me to, Mr. Chairman, I have got a short paper, Senator Mikulski—we had talked about this too—that kind of outlines the rationale, as well as, the considerations that go into the servicing missions. I would like to insert that for the record, that does define them.

Senator BOND. Without objection. We welcome it.

[The information follows:]

CANCELLATION OF THE FIFTH (SM-4) HUBBLE SERVICING MISSION

EXECUTIVE SUMMARY

The Hubble Space Telescope (HST) was originally launched aboard the Space Shuttle in 1990, with an as designed mission lifetime of 15 years. Since then the telescope has been serviced or upgraded four times, each requiring a very complex, dedicated Space Shuttle mission and unique HST servicing support equipment. Even before its repair mission in 1993, the HST had generated significant scientific discoveries. The science return from HST has already vastly exceeded the original expectations.

NASA plans continued operation of the HST until it can no longer support scientific investigations anticipated to occur in the 2007–2008 time frame. The telescope's life may, in fact, be extended if NASA is successful in employing operational techniques to preserve battery and gyroscope functions. Meanwhile, NASA is aggressively investigating innovative ways to extend the science lifetime of the HST for as long as possible, including robotic servicing to provide extension of power storage. Current plans are to safely deorbit the HST by a robotic spacecraft by approximately 2013.

Although the HST deployment mission and four subsequent servicing missions were successfully conducted, the Columbia tragedy underscored the inherent risk in each and every Space Shuttle mission and reinforced the need for increased ability to deal with all potential contingencies, particularly catastrophic damage to the Orbiter's thermal protection system (TPS).

Without the benefit of docking at the ISS many new tools, processes, and techniques would be required for inspection and possible repair of the TPS. More significant would be the requirement to dedicate two Space Shuttles to the mission to ensure astronaut safety. In the event of a significant problem with no safe haven for the astronauts to wait as in ISS missions, a second Shuttle would have to be launched and employ untried and uncertified techniques to perform a rescue. Hence, a Shuttle based HST servicing mission presents known additional risks, and offers few options to respond to serious problems in orbit.

Recognizing the increased risks involved in all Shuttle flights following the tragic loss of the Columbia and crew NASA elected to reduce its planned Shuttle manifest to only missions to the International Space Station (ISS). The decision was also made, on the basis of risk, to not pursue a final servicing mission to the HST, but instead to investigate other options to extend the life of the Hubble.

COLUMBIA ACCIDENT INVESTIGATION BOARD FINDINGS AND IMPACT ON FUTURE MISSIONS

The Columbia Accident Investigation Board presented NASA with 29 recommendations, 15 of which were required to be completed before the Space Shuttle could return to flight. Highlights of these flight-critical recommendations included elimination of damaging insulation shedding from the external tank—the cause of the Columbia tragedy—ascend imaging, on-orbit inspection, and thermal protection system tile and Orbiter leading edge repair. NASA will satisfy all of these recommendations before it launches STS-114, the next Shuttle mission. The Board stressed that the Space Shuttle is still a developmental vehicle and that risk and risk mitigation must be treated accordingly. NASA's original vision was to fly the Shuttle to mid-decade or 2020 for a total of 75–80 more flights. NASA fully accepts the Board's recommendation and balancing mission criticality against possible loss of crew and vehicle, consciously decided to retire the Space Shuttle after the completion of the International Space Station (ISS), recognizing that the best risk mitigation strategy is to fly less.

In addition, NASA realizes that a "safe haven" in space capability is required. This "safe haven" capability goes beyond compliance with the Columbia Accident Investigation Board recommendations and is designed to increase crew safety during the remaining Space Shuttle missions. Should damage occur to the Shuttle thermal protection system that can not be repaired and that would preclude safe reentry, the crew will be able to shelter at the ISS until another vehicle can be readied for rescue. Agency policy will require each Space Shuttle mission to have backup rescue capability. "Safe haven" is the ultimate recognition that, while NASA will make the Space Shuttle as safe as possible, the Columbia tragedy has taught us that there are still significant risks inherent in Space Shuttle launch, orbit operation, and reentry.

UNIQUE REQUIREMENTS AND INCREASED RISK IN THE HUBBLE SERVICING MISSION

Whereas tools, techniques, and procedures would be similar on each ISS mission; e.g., inspection, thermal protection system repair, safe haven readiness, and rescue scenario, an HST servicing mission would have unique requirements, both on-orbit and in ground processing. Options for dealing with an on-orbit emergency are reduced and decisions for reacting to any emergency would have to be made quickly. These two considerations, and the attendant schedule pressure on the flight crews and support teams, add considerable additional risk.

Lack of Significant Safe Haven

The areas of additional risk relate to the ability to provide "safe haven" while inspection, repair and potential rescue are undertaken, and to the procedures for in-

spection and repair themselves. It has been projected that a typical Space Shuttle flight crew of seven astronauts could stay aboard the ISS for up to 90 days, if warranted, due to an emergency situation on the Space Shuttle. This safe haven capability allows the flight crew and ground teams to consider all options, determine the best course of action, take the time required to understand the cause of the failure and affect repairs, or send the appropriate rescue vehicle with the right equipment to bring the crew home. Clearly, rushing this process would introduce considerable new risk and in the worse case result in the loss of another vehicle.

In the case of a Hubble servicing mission, the amount of stay time on orbit is significantly shorter due the limited stores of cryogenic oxygen on the Orbiter. Therefore, other measures would be required. Specifically, a second Space Shuttle on an adjacent launch pad would have to be specially prepared, uniquely configured to launch expeditiously if required to perform a rescue mission. This scenario raises several concerns, addressed in the paragraphs below.

Unprecedented Double Workload for Ground Launch and Processing Teams

Two vehicles would be processed for essentially the same launch date. Any processing delays to one vehicle would require a delay in the second vehicle. The launch countdown for the second launch would begin before the actual launch of the first vehicle. This short time period for assessment is a serious concern—it would require a highly complex process to be carried out in parallel, and it would not permit thorough assessment by the launch team, the flight control team, and the flight crew.

No Changes to Cargo or Vehicle Feasible

Because of the very short timeframe between the launch of the first vehicle and the requirement for a rescue flight, no significant changes could reasonably be made to the second vehicle or the cargo. This means that it would not be feasible to change the cargo on the second Space Shuttle, to affect a repair to the first Shuttle, add additional rescue hardware, or make vehicle modifications to avoid whatever situation caused the need for a rescue attempt in the first place. Not having sufficient time to make the appropriate changes to the rescue vehicle or the cargo could add significant risk to the rescue flight crew, or to crew transfer. The whole process would be under acute schedule pressure and undoubtedly many safety and operations waivers would be required.

Rescue Mission

Space Shuttles routinely dock with the ISS; Soyuz evacuation procedures are well trained. These represent the normal operations mode today supported by extensive training, analysis and documentation. A rescue from the ISS, with multiple hatches, airlocks, and at least one other vehicle available (Soyuz), is much less complex and risky than that required by a stranded Space Shuttle being rescued by a second Space Shuttle.

In response to a question by the Columbia Accident Investigation Board, NASA analyzed a hypothetical rescue mission between two Space Shuttles and found that the effort would have required many unproven techniques, such as emergency free-space crew transfer in space suits while performing Space Shuttle to Space Shuttle station-keeping while traveling 17,500 mile per hour above the earth. These major safety risks are not incurred during rescue from the ISS.

Tile Survey (Expanded Inspection Requirements) and Thermal Protection System Repair

The current inspection method for acreage tile, gear door seals, and the elevon cove is to photograph these areas from the ISS during rendezvous. To support an HST servicing mission, NASA would have to develop a new method for inspecting these critical areas using an Orbiter boom. Unvalidated autonomous boom operations represent an unknown risk. NASA's current planned TPS repair method for an ISS-based repair uses the ISS robotic arm to stabilize an EVA crew person over the worksite. These assets are not available for an HST servicing mission, so NASA would have to develop a single-use alternate method for stabilizing the crewmember. This method would have to provide greater stability than the current ISS option under development to protect both the crewmember and the other TPS areas from additional damage. Such a concept represents a challenging undertaking, which could take months or years to develop in order to meet safety and mission assurance standards/requirements.

RETURN TO FLIGHT AND ISS U.S. CORE COMPLETE TIMELINE

In the process of addressing the Columbia Accident Investigation Board recommendations and implementing additional improvements to achieve the safest

flight possible, NASA has uncovered a number of problems that had previously gone undetected. The removal and replacement of unsafe hardware has deferred Space Shuttle launch milestones. NASA projects the first opportunity for a Space Shuttle launch to the ISS to be in March 2005. Eight flights are scheduled to meet our international commitments, the assembly of the U.S. core segments of the ISS. Given the ISS assembly schedule, the earliest NASA could launch a servicing mission to the HST, based on requirements for daylight launch to fully assess ascent conditions by imagery and thermal constraints when docked to ISS, would be Spring 2007.

Based on the evaluation of the engineering data on the HST, the lifetime of the Observatory on orbit is ultimately limited by battery life, which may extend in to the 2007–2008 timeframe. Scientific operations are limited by gyroscope lifetime that is more difficult to predict. If all of the NASA effort is concentrated on a Shuttle servicing mission, every step in the process must be successful with no allowance for schedule slips. Before launch all of the recommendations of the Columbia Accident Investigation Board must be met. The launch conditions must be perfect, and all tailored HST mission unique components must be in place with very tight schedule constraints. If any of the many elements do not develop as planned, the telescope may cease operations before a successful mission could be mounted.

HUBBLE SPACE TELESCOPE'S SCIENTIFIC LEGACY

Not since Galileo turned his telescope towards the heavens in 1610 has any event so changed our understanding of the universe as the deployment of the Hubble Space Telescope. From its orbit above Earth's atmosphere, the HST is free from the atmospheric turbulence that all ground-based telescopes must contend. Thus, HST has been able to return images of astounding clarity and sensitivity. HST imaging and spectroscopy have resulted in remarkable scientific achievement, including the determination of the changing rate of expansion of the universe and detailed studies of forming galaxies, black holes, galaxy hosts of gamma-ray bursts and quasars, active galactic nuclei, protostars, planetary atmospheres, and the interstellar and intergalactic medium. Scientific results have significantly surpassed original expectations. By 2005, the HST will have fulfilled every one of its scientific objectives and top-level technical requirements. Moreover, the Hubble will continue to collect observations for several more years. Even after the HST is no longer in service, the rich archive of HST data (already more than 100,000 observations of 20,000 unique targets) will continue to provide new discoveries for the years to come, with full support by NASA for both archive operations and research grants.

FUTURE PLANS FOR HUBBLE SPACE TELESCOPE AND ASTRONOMY

Astronomy is a critical part of the NASA's exploration initiative. NASA is aggressively investigating innovative ways to extend the science lifetime of the HST for as long as possible, including a possible robotic servicing option. We are receiving several responses to our recently released Request For Information (RFI) on HST End of Mission Alternatives soliciting concepts for robotically-provided battery power extension. Indeed, this option appears to have greater likelihood of success than the possibility of accomplishing all the recommendations of the Board in time for a successful Hubble servicing mission.

HST is not NASA's only portal to the stars. It is one of many telescopes used by astronomers to study the universe using various apertures and wavelength bands. Hubble, primarily used for observations of visible light, is one of the four orbital "Great Observatories" designed for use across the spectrum. The other three include the Compton Gamma-Ray Observatory (1991–2000), the Chandra X-Ray Observatory, and the infrared Spitzer Space Telescope. In the years since Hubble was launched with its 2.4-meter aperture, many new ground-based telescopes have been built with larger apertures that enable observations with increasingly higher angular resolution, though subject to the blurring effects of Earth's atmosphere.

The James Webb Space Telescope (JWST) program has been strengthened to assure a 2011 launch date. Once on orbit, this advanced technology infrared telescope will provide insight into the a region of the spectrum where we will be able, like never before, to view the formation of the earliest galaxies. The JWST will build on the successful science of the Hubble via the most advanced instrumentation and a larger 6.5 meter aperture.

The following table lists larger optical telescopes now or soon to be available along with Hubble and also several examples of large telescopes available or in development for observations at other wavelengths.

EXAMPLES OF LARGE TELESCOPE FACILITIES AVAILABLE OR IN DEVELOPMENT

Radio/MM	Infrared	Optical + IR (aperture, meters)	Ultraviolet	X-Ray	Gamma Ray
VLA	Spitzer	SALT (11.0)	HST	Chandra	GLAST
GBT	SOFIA	Keck I, II (10.0)	GALEX	XTE	SWIFT
ALMA	JWST	Hobby-Eberly (9.2)		XMM-Newton	
Arecibo	HST	LBT (8.4 x 2)		Astro-E2	
FCRAO		Subaru (8.3)		SWIFT	
VLBA		VLT (8.2 x 3)			
CSO		Gemini (N & S) (8.1)			
		HST (2.4)			

The HST program has provided a significant amount of funding support for U.S. astronomers; in fact, it is currently providing approximately 20 percent of all direct grant support. After HST observations have ceased, NASA plans to continue to support ongoing grants and to offer new grant support for HST archival research until a similar grant program is in place for the upcoming James Webb Space Telescope program. This will ensure stability to the research community and full use of the rich HST data archive throughout this period of transition.

CONCLUSION

The cancellation of HST-SM4 was a difficult decision. HST is producing world-class science. However, NASA cannot justify the additional risk that such a unique mission would entail, based on what must be done to assure greatest protection to the crew. It is increasingly apparent that our choice is to either fully comply with the Columbia Accident Investigation Board report or conduct the servicing mission, but not both. We must be responsible on all future flights and be fully compliant. NASA will continue to aggressively pursue options to extend the science lifetime of the Hubble by means other than Shuttle servicing. NASA will continue to be a major supporter of astronomy in the future as the Agency continues to explore the universe.

Mr. O'KEEFE. We appreciate it very much, Mr. Chairman. Thank you.

Thank you, Senator for your courtesies as well. I appreciate that.

SHUTTLE RETIREMENT

Senator BOND. Mr. Administrator, as my colleague from Maryland has indicated, we're not just going to keep the record open for further questions. This is just the beginning of a dialogue because these questions are very serious, they're very extended.

I want to step back. I am still concerned about the retirement issue. In the fall of 2002, NASA said that they were going to continue operating the shuttle until 2015 or perhaps 2020. Now, with the CAIB report, saying that the shuttle must be recertified by 2010. And the costs there, I see this as the deadline to retire the shuttle.

But I am concerned, given the reality that ambitious schedules are almost never met by NASA or any other entity on the cutting edge of technology and science.

Are we going to be tempted to force more missions in to get the space shuttle, to get the International Space Station fully established by 2010 as the President indicated? Are we going to be taking or running too many missions at a risk?

If the shuttle has to be flown past 2010, due to possible schedule slips, or the unavailability of either other international partner vehicles, or commercial vehicles, what would be the costs of recertifi-

cation of these shuttles? What are the fall back numbers and prospects?

Mr. O'KEEFE. Yes. I appreciate it, Mr. Chairman. The approach we've taken in this strategy, which is clearly enunciated in the President's directive, is to complete the International Space Station. Senator Mikulski, both you and the Chairman have enunciated it here. Our objective is to minimize the number of flights necessary to achieve that task. Because that's a driving philosophy that does that. You're right, Mr. Chairman. The approach we used a year and a half ago, of looking at service life extension, was to try and operate the shuttle for as long as we could sustain its service life. The Columbia accident changed all of that.

It opened everybody's eyes to what the risks are of doing this. It is not an operational vehicle. It's an experimental one. It will be experimental to its last flight and last landing when it's retired. That milestone, not date, that milestone will be the completion of the International Space Station. The President's directive is very clear on that. Our task is to try to achieve that by the end of this decade. Based on the flight manifest, if we're able to return to flight in a timely manner here, next year, we can achieve that without a break-neck schedule that would be required to do that.

What we're working with our international partners on right now is developing exactly what are the modules and components that we absolutely intend to deploy to get the full science yield and research capability out of the International Space Station for years to come. That's what is going to drive our considerations rather than the calendar.

Senator BOND. Well, will the Columbia Accident Investigation Board report based on 2010 as the time we needed the recertification, or was it based on a certain number of flights that the shuttle would take before it would need to be recertified?

Mr. O'KEEFE. Okay.

Senator BOND. I mean, you got two different numbers.

Mr. O'KEEFE. Right.

Senator BOND. We're going to retire it in 2010, but then we're not going to retire it until we complete the space station.

Mr. O'KEEFE. Right.

Senator BOND. What is the driving deadline—when the Columbia Accident Investigation Board said we had to recertify the shuttle?

Mr. O'KEEFE. Thank you, Mr. Chairman.

I am not aware of what drove the Columbia Accident Investigation Board to pick an arbitrary date. If anything, I found it kind of baffling.

Senator BOND. Maybe we should seek some clarification on that, because is time wearing it out? Is the number of flights wearing it out?

Mr. O'KEEFE. Oh, I would—

Senator BOND. Do we need to have more flights? I mean, there are some questions here that need to be addressed.

Mr. O'KEEFE. Sure. But the approach that we're using, rather than trying to delve into what may be in the psyche of 13 members and why they picked that date—

Senator BOND. No, not psyche. But what was that reason?

Mr. O'KEEFE. I understand.

Senator BOND. Foundation?

Mr. O'KEEFE. The approach we've taken to it is what big milestones have driven this, and that's the completion of the International Space Station. We believe we can do that by the end of this decade.

I will know a better answer to that once we have convened with our international partners to look at what that final configuration looks like. That then tells me how many flights you actually have to conduct. Based on the preliminaries here, we're not talking about a number that is going to surprise anybody. We're looking at something in the range of, certainly 20 to 30 flights is the maximum number that could be obtained in that time. That outer edge is really larger than what we might have anticipated. So, we'll know the answer to that one a lot better once we get the final configuration in place. And that's what the President's directive is to do.

The certification question is something that we're going to have to enjoin at some point to figure out whether or not that butts up against the milestone objective of completion of the station.

ALDRIDGE COMMISSION

Senator BOND. We've talked about the Aldridge Commission. If it turns out that the Aldridge Commission has recommendations that contradict what NASA is asking for in fiscal year 2005, are you going to come back to us, or are you doing some back channeling? Are they going to be on target with your recommendations? Or what happens if we get a surprise?

Mr. O'KEEFE. I don't anticipate a surprise. In every discussion that I've heard that the Commission has engaged in, their terms of reference, if you will, the charter that the President gave them, is to go out and look at implementation strategies. One of the earliest understandings that I have had with all of the commission members is that the way this particular strategy has been developed, it gives us ample opportunities to make adjustments based on successes as we move along, rather than some finite set of goals that must be achieved by date certain. So I don't see a lot of daylight in terms of what approach they will take.

What I do see from them is a lot of creative ideas about how we should go about implementing this, as it pertains to commercial and industry involvement, what degree of international participation and how we should do it, acquisition strategies on the spiral development that I talked about a little bit.

There is a whole range of things that they've put in their "to do" list, if you will, that I think is going to help inform us how to implement this properly, efficiently, and at affordable costs. So I don't see a lot there. And we're spending a lot of time engaging with them on their findings thus far.

VISION FOR SPACE EXPLORATION

Senator BOND. Okay, let me ask one last question that concerns all of us. I think we have touched on it a number of ways. Both Project Prometheus and implementing that new NASA vision, are going to consume lots of funds in the next 5 to 10 years. Prometheus itself could cost \$3 billion over 5 years.

And the vision is obviously redirecting a whole slew of funds with large known program costs, and other costs uncertain. How is NASA going to fund the many opportunities that present themselves in the future that fall outside the vision. They've already been raised.

Senator Shelby mentioned material science. Senator Mikulski and I are very concerned about that. We're also concerned about Hubble. Is NASA going to be unable to continue commitments to current activities to meet these goals?

We're going to have some real squeezing out on some things that we think have been very vital scientific breakthroughs by these two major projects. What's your thought on those?

Mr. O'KEEFE. Thank you, Mr. Chairman. My thinking is that the President's direction and vision that he has articulated is completely in line with the directions we're moving, in terms of what our mission requirements are for the agency. If anything, it clarifies. It defines what it is we should be doing with much greater precision.

So it is not here are all of our mission objectives and here is another thing glued on top of it. It is very much in concert with the direction we're going, and lends greater precision to what that result should be. In many ways his direction answers some of the broader questions. Part of what we're intent on doing is integrating those capabilities. To assure that it is not what is inside and what is outside the vision objectives. It is what is within our mission to go carry out this strategy. And how do we employ that best.

So along the way, to the extent that there are adjustments required in order to better fulfill that objective, or to meet other mission requirements of the agency, we intend to do that full range approach of an integrated direction of where we're headed.

I don't see things falling outside of it. There are priorities. There are going to be differences on that. On the sciences, for example, no question understanding the expeditionary nature of long term space flight, power generation requirements and so forth, are the kinds of things that we must do if we're going to obtain this broader strategy objective. But that's fully in concert with what the mission of this Agency should be, and that's greater clarity than we've had in at least a couple of decades.

Senator BOND. Well, Mr. Administrator, thank you very much for your time and for your exposition of the vision and how you're going to meet it.

I will have quite a few questions for the record about the cost of the Moon/Mars vision, the international partners, and a number of other things.

And as I said, there are quite a few things on which we're going to need to follow up with you, and continue to work with you as we try to figure out how we can get the job done with what. Frankly, it looks like inadequate resources from here. I am hoping we can find the resources to carry out all of these wonderful things.

But looking at the budget and what we're seeing, as available for this committee, I am very much concerned.

Senator Mikulski, any closing thoughts?

Senator MIKULSKI. I know that we're going to be having an on-going conversation. I'll just put out some flashing lights. No. 1, in

terms of the replacement for the shuttle, it has been, and I caution you that it's been the history of NASA to over promise both in terms of what it can deliver, when it can deliver, and when it could deliver it.

We watched the development of the shuttle. Again, it was going to be the answer to everything, and it's been a remarkable vehicle. But at the same time, it was over promised, over budget, et cetera. Just know that's what we worry about.

Mr. O'KEEFE. I do, too, Senator.

Senator MIKULSKI. The second thing that I think that applies to this is that impact on personnel and morale.

Senator Bond and I are very concerned about the fact where are the scientists and engineers coming from, and how to get young people excited in this. But if they devote their whole life preparing for research in a particular area, then all of a sudden things start to be cancelled because of budget or shifting priorities, that is going to have an impact.

But we know that NASA faces aging technologies and an aging workforce. And we're interested in where are you going to get what you need when you need it, but we're concerned that shifting sands could have a negative impact on morale.

These are things for additional conversations, but I think that we've covered the core issues today.

ADDITIONAL COMMITTEE QUESTIONS

Mr. O'KEEFE. If I could very quickly, Senator.

I want to thank you and the committee and the Senate for enacting the Workforce Flexibility Act just here a month ago for NASA. That's a big advance. S. 610 is going to help us to achieve and conquer the kinds of challenges that you've talked about. That's a very, very significant move forward and we appreciate the support of that.

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

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

IMPLICATIONS FOR TERMINATING THE SHUTTLE PROGRAM IN 2010

Question. At this time, the shuttle is the only U.S. vehicle capable of taking astronauts to and from space. Under the new vision for NASA, the shuttle would be retired when space station construction is completed in 2010. A new Crew Exploration Vehicle would be developed and fully operational for Earth orbital missions by 2014.

What would be the consequences of a 4-year, and possibly longer, hiatus in U.S.-flown human spaceflights?

Answer. NASA expects to utilize the ISS through at least 2016. Following retirement of the Shuttle upon completion of ISS assembly, NASA envisions using a combination of vehicles from Russia, the European Space Agency, Japan, and potential commercial initiatives to deliver crew and cargo to the ISS. Currently, NASA anticipates that using these vehicles instead of the Shuttle will limit cargo return and may restrict the size of certain logistical re-supply elements. The ISS operators and users are currently evaluating each of these limitations in order to ensure ISS productivity is maintained during this U.S. transition period in space transportation. The retirement of the Shuttle fleet would allow the Shuttle's resources to be redirected to support other human spaceflight and exploration activities necessary to achieve the goals of the Vision for Space Exploration.

Question. How much would Russia charge for taking U.S. astronauts to and from ISS, and how would NASA pay for such services given that the Iran Nonproliferation Act prohibits NASA from paying Russia for ISS-related activities?

Answer. We have not discussed this issue with Russia. We are aware of the provisions of the Iran Nonproliferation Act, and the administration will work with Congress to resolve issues related to ISS support, as necessary.

Question. Would China be considered as an alternative now that it can launch people into space?

Answer. The new Vision for Space Exploration directs NASA to consider foreign and commercial options for servicing the ISS. No options have been selected or ruled out for either crew transfer or cargo at this time.

Question. What upgrades to the shuttle should NASA continue to pursue? What new launch vehicle, or vehicles, may need to be developed?

Answer. NASA will continue to pursue Space Shuttle upgrades to systems mitigate risks and assure safe flight as we complete assembly of the International Space Station. The Space Shuttle Service Life Extension Program (SLEP) is the current vehicle for determining these upgrades, and its focus will transition to safety and reliability initiatives. The SLEP team is currently working to review and prioritize upgrades in light of the Vision for Space Exploration. NASA will look to the Office of Exploration Systems to determine new launch vehicles requirements to support the Vision for Space Exploration.

WORKFORCE INVOLVED WITH HUMAN SPACE FLIGHT

Question. What will happen to this skilled workforce as the shuttle program ends?

Answer. NASA's contractors have the requirement to hire appropriately skilled personnel or train them to meet all the conditions of the contracts. They have been hiring or training to meet and maintain our skill level requirements, and this trend is anticipated to continue. As the Space Shuttle program nears retirement, we fully anticipate that aerospace technician employment opportunities will continue after completion of ISS assembly, with NASA, driven in part by the Vision for Space Exploration and the continuing need to support the International Space Station.

Question. How can we guarantee that as workers begin to leave an ending program for other activities that the final flights will have the same amount of associated risk?

Answer. NASA understands the challenges of maintaining an enthusiastic workforce as the Space Shuttle program phases down. We are beginning to develop a plan to ensure that the skills required to maintain a safe and reliable fleet are in place until the last Space Shuttle flight has completed its mission.

Question. How will NASA retain the skills necessary for human space flight while the country's space program is taking a flight hiatus for at least 4 years?

Answer. The retirement of the Space Shuttle is not the end of the space program but rather the beginning of an opportunity to transition a highly skilled workforce into programs requiring their skills and challenging their creativity. We believe, at the appropriate time, these workers who have Shuttle experience will be able to continue work with NASA on new programs requiring their unique skills.

FUNDING OF ISS RESUPPLY MISSIONS

Question. What is the status of discussions with the other International Space Station partners regarding how to fund Russian production of a sufficient number of Progress cargo spacecraft to keep the space station operating while the shuttle fleet is grounded?

Answer. To date, FKA has continued to fully support ISS operations based on additional Russian government funding. On November 13, 2003, Russian Prime Minister Kasyanov authorized a 1.5 billion ruble (approximately \$50 million) budget supplement for FKA to meet ISS operational needs. In the context of the overall Russian Federal Space Budget for 2003, this supplemental was a 19 percent increase in spending authority. The 2004 Russian Federal Space Budget included a 20 percent increase (over the supplemented 2003 figure) to the ISS budget line.

Question. Will the other partners be able to provide the needed funding, or do you expect that you will need to ask for a waiver from or amendment to the Iran Nonproliferation Act so that NASA can provide some of that funding?

Answer. We are discussing all aspects of the future configuration and support of the ISS with the partners at this time. No decisions have been reached.

TIMELINE FOR ENHANCE USE LEASE

Question. In 2003, we provided NASA with the ability to enter into EULs. The EUL authority was an issue that NASA had wanted for all of the centers but was

limited to two centers in order to see how NASA would utilize this authority. I am interested in the progress of the selection process, and how this new authority has been utilized.

Can you please give me an update on the status of this program, and any insight as to the infrastructure needs at NASA centers that have become known because of the selection process?

Answer. Public Law 108-7, the fiscal year 2003 Omnibus Appropriations Bill, authorized NASA to conduct a demonstration program for Enhanced Use Leasing (EUL). Congress limited the demonstration program to two (2) NASA Centers. NASA conducted a formal process to select the 2 demonstration sites. All NASA Centers were requested to submit detailed proposals to include a description of the purpose and marketing potential of the property(ies), a description of the lease(s) including the proposed term(s), and a description of the value to Center. The selection criteria were also sent to all NASA Centers, and included overall benefit to Center, overall value of the business plan to NASA, opportunity for success, including the readiness of the EUL projects, and marketability of the property(ies).

Six NASA Centers submitted proposals. All six proposals exhibited significant merit and benefit to NASA. The proposals were evaluated and ranked by a panel consisting of NASA Headquarters planning and real estate specialists and a real estate specialist from the General Services Administration. The rankings were reviewed and approved by the NASA Headquarters Institutional Committee and Executive Council. Through this process, the Kennedy Space Center (KSC) and the Ames Research Center (ARC) were selected as the EUL demonstration sites in July 2003.

In the period since the selection of the two demonstration sites, NASA Headquarters has worked closely with KSC and ARC to develop EULs. This is a new initiative for NASA, and we have proceeded cautiously and meticulously.

As of April 2004, ARC has executed 17 small EUL agreements for an approximate total of \$300,000 anticipated annual revenue, which includes monthly rent and common service charges for support services provided by the Center. These leases are short-term (1-5 years). They include a lease of the existing NASA fuel storage and distribution system, a lease of building space for research and development of commercially viable fuel cells, leases of historic buildings for education and research, and leases of office and laboratory space for nanotechnology research. KSC has developed an out lease of Center land for use by a telephone service provider (Verizon) to place a trailer and a cell tower to enhance Verizon cellular telephone service across the Center. This KSC lease has been approved but has not yet been signed.

A summary of planned activities for ARC and KSC follows:

ARC's NASA Research Park (NRP) is envisioned to be a privately-funded initiative to develop available under-utilized land at ARC into an active research park with tenants performing space- and aeronautics-related study and research. ARC completed a Final Programmatic Environmental Impact Statement and Record of Decision in November 2002 including the NASA Research Park. This was finalized before EUL was authorized for NASA. The NRP will be executed through an EUL land-use agreement. Several leases have been approved and entered into for tenants in the first phase of the NRP. These leases are for existing facilities that the tenants will use in their own research and development activities. ARC also has a wide variety of future proposals under consideration for implementation in fiscal year 2004, including:

- lease of an existing historic building with Clark University;
- leases of existing under-utilized office and laboratory space for the Nanostellar Corporation, and the Northern California Nanotechnology Initiative; and,
- potential long-term lease of land and existing buildings for a Training and Conference Center; Requests for Qualifications for prospective lessors was released in April 2004; response are due in May 2004.

KSC is working on the development of the International Space Research Park (ISRP). The ISRP will be developed by the Florida Space Authority (FSA) through an EUL agreement and Space Act agreement. The ISRP will develop approximately 400 acres of under-utilized land on KSC. The term of the EUL agreement is envisioned to be 50 years, with a 25-year option. The early stages of this effort have been focused on developing appropriate language for the operation of the EUL and assuring NASA receives proper fair-market consideration. KSC has also prepared a Draft Environmental Impact Statement (EIS), a key and necessary element for establishing the research park. The Draft KSC EIS was released for public review and comment through March 2004. NASA anticipates release of the Final EIS and Record of Decision later this spring. The EUL agreement is anticipated to be executed by December 2004.

KSC also anticipates a wide variety of future proposals, as existing leases for land at KSC expire and are converted into EUL agreements. These include: leases to

news and wire services for areas used to report on launches; and, leases of Center land for use by a telephone and communication service providers.

WEBB TELESCOPE

Question. The follow on to the Hubble Telescope is the James Webb Space Telescope. While this telescope it is not a true replacement of Hubble, it will continue the mission of looking back in time to some of the early events in the creation of the universe. This is the number one priority in this decade for the astronomy and astrophysics community.

What, if any problems are being encountered with the James Webb Space Telescope project that could affect its proposed launch date or achieving its scientific goals?

Answer. Currently, JWST is in the preliminary design phase (Formulation) and it faces no significant technical or budgetary problems. Progress toward an August 2011 launch is on-track and proceeding according to plan. The program has passed independent reviews of its conceptual design, its top-level requirements and most of its lower-level requirements. While JWST is a technically challenging endeavor, there have been no compromises in its baselined scientific performance or launch date.

ALDRIDGE COMMISSION

Question. As I mentioned in my statement, the President created the Commission on Implementation of United States Space Exploration Policy, or Aldridge Commission, to provide recommendations to the President on implementation. This commission will provide these recommendations in June of this year, yet NASA appears to be already making their plans ahead of the recommendations.

Once the recommendations are made, how will NASA address the recommendations if they contradict what NASA is asking for in fiscal year 2005?

Answer. NASA submitted its fiscal year 2005 Budget request earlier this year and took into account the President's vision in order to begin implementation as quickly as possible. There is sufficient flexibility in our planning to accommodate the advice of the Aldridge Commission, which we recently received.

Question. To what extent has there been communication between the Commission and NASA about what recommendations can be expected?

Answer. The Commission worked independently. NASA provided administrative support and responded to the Commission's requests for information and briefings. Some commissioners conducted fact-finding visits to NASA centers. The Commission did not provide recommendations to NASA: their recommendations were transmitted to the President as part of their report on June 16, 2004.

HUBBLE TELESCOPE

Question. A short time after the announcement of the President's exploration vision, NASA indicated that it would be canceling any further shuttle missions to Hubble. NASA has cited safety concerns as the primary reason for having an early end to the life of a truly amazing instrument.

In making the decision to cancel the SM4 servicing mission, did NASA perform a risk analysis in which the risks were quantified and evaluated rigorously? What tools were used to assess the risk involved, what were the results, and what alternatives were discussed? Aside from the plans for deorbiting Hubble, what are the plans for the fiscal year 2004 funding that would have been used for the SM4 servicing mission?

Answer. The decision to cancel the Hubble SM4 servicing mission was made after evaluating the requirements that came from safety recommendations of the Columbia Accident Investigation Board (CAIB) report. NASA rigorously examined the on orbit inspection techniques and repair methods that are required to ensure adequate mission safety. NASA determined that safe inspection techniques and repair methods could be developed for use on the Shuttle while docked at the International Space Station (ISS) because of the safe haven capabilities of the ISS and because the Space Station Remote Manipulator System (SSRMS) would be available to assist with inspection and repairs.

For the scenario of the Shuttle in a non-Station orbit (like the HST servicing mission), NASA determined that it would have to develop unique, single use technologies and tools in order to be able to accomplish the needed inspection techniques and repair methods. It is unlikely the new technology needed to service Hubble would be ready before critical Hubble systems fail (Gyroscopes will probably fail by late 2006; the battery is expected to fall below needed capacity in about 2008).

NASA would also have to dedicate two Shuttles for a servicing mission to comply with safety recommendations of the CAIB for a non-Station mission. NASA would need a second Shuttle positioned for launch, which would require an unprecedented double workload for ground crews. The rescue, if required, would involve a Shuttle-to-Shuttle crew transfer with unproven techniques. All this would have to be done under extreme schedule pressure, because Shuttle life support, food and water are limited. On a non-Station autonomous mission, the crew would only have 2 to 4 weeks before the rescue Shuttle would have to arrive.

NASA issued a formal "Request for Information" (RFI) on February 20, 2004, to solicit from industry academia or anyone who may have useful information bearing on how to extend the useful scientific lifetime of the Hubble. NASA received 26 responses, which are being evaluated at this time. A plan will be developed when a decision is made as to the approach the Agency will take to prolong the life of Hubble.

NASA has also formally requested a study by the National Academy of Sciences to ensure we have fully considered all reasonable alternatives to finding the best way to extend the lifetime of the Hubble Space Telescope.

SHUTTLE RETIREMENT AT 2010

Question. In the fall of 2002, NASA announced plans to continue operating the space shuttle until 2015, and perhaps to 2020 or beyond. Now the plan is to retire the shuttle fleet by 2010. A key component to making the President's vision affordable in the long term is the avoidance of a recertification of the fleet in 2010, which is called for in the CAIB report.

If the shuttle must be flown past 2010, due to possible schedule slips beyond those that have already happened this year, what would be the cost of recertification?

Answer. NASA is currently reassessing the ISS assembly sequence to ensure that the Shuttle can be safely retired following assembly of the International Space Station, planned for the end of the decade. To prepare for the contingency that the Shuttle may need to operate beyond 2010, NASA is assessing the need to recertify Space Shuttle systems, subsystems, or components consistent with the Vision for Space Exploration and in line with the recommendations of the Columbia Accident Investigation Board. The technical work required to determine when and if recertification would be needed will continue into this summer. Once the technical definition of the recertification tasks is completed, cost estimates will be developed on the items we need to recertify and made available for discussion.

Question. If the Moon/Mars goal is not adopted, or delayed significantly, what will the future be for the shuttle?

Answer. NASA has adopted the goal and objectives established in the Vision for Space Exploration, and is transforming itself to meet those objectives, and the Agency has revised its program accordingly. Consistent with the Vision for Space Exploration, NASA intends to phase out Shuttle operations following the completion of the International Space Station, planned for the end of the decade.

BIG PROJECTS CROWDING OUT OTHER RESEARCH

Question. Both Project Prometheus and implementing the new NASA vision are going to consume a large amount of funds in the next 5 to 10 years. By some estimates, Project Prometheus could cost \$3 billion over 5 years, and the vision is causing a large redirection of funds for years to come.

With large known program costs, and other costs currently uncertain, how is NASA going to fund the many opportunities that may present themselves in the future that fall outside the vision?

Answer. NASA will continue to invest in priorities such as Aeronautics and Earth Science that may contribute to, but are not completely focused on, the vision for exploration. There are always many more opportunities than funding available, and NASA will continue to assess potential investments against priorities in the exploration vision and other important areas of our vision and mission. There is a natural turnover in projects as they are completed, and NASA will also continue to assess priorities for how to make new investments that will best achieve our vision and mission.

Question. Is NASA going to be unable to continue the commitment to current activities in order to meet the new goals?

Answer. No. NASA will continue to invest in current activities, including priorities in Aeronautics and Earth Science. We will achieve the goals of the exploration vision with increased funding at the Agency level (\$1 billion over 5 years above what was planned in the fiscal year 2004 budget request), as well as through a realignment of many ongoing activities that do not support the vision.

FAILED FINANCIAL STATEMENT

Question. NASA has finally achieved an integrated financial management system, yet NASA did not receive a clean audit on its financial statement. Instead, the auditors deemed the books have a reportable condition when faced with being handed records from two different financial systems for last year.

What is the status of addressing this situation and when will we be able to see progress towards correcting it?

Answer. For fiscal year 2004, NASA is operating an Agency-wide, single integrated core financial management system. However, throughout most of fiscal year 2003, NASA was implementing, in 4 separate phases, the new system that replaced 10 disparate accounting systems in operation at our Centers for the past two decades. This conversion effort created some complex accounting issues for fiscal year 2003, which significantly impacted the timeliness and quality of the information required in preparing NASA's interim and year-end financial statements.

NASA had anticipated that fiscal year 2003, being a conversion year to this new Agency-wide accounting system, was going to be an especially challenging time for its external financial reporting activities. Eight of 10 Centers went through this conversion process during the fiscal year 2003 and, accordingly, required NASA to use "blended" data from each Center's legacy accounting system and the new core financial system to ultimately prepare our consolidated fiscal year 2003 financial statements.

NASA expects improvements this fiscal year. There are no more NASA Center legacy systems in operation, and all financial data will be emanating from the one single Agency-wide core financial system. That said, there are numerous challenges ahead both in addressing the issues raised in the fiscal year 2003 audit as well as improving the IFM system based on GAO and internal working group recommendations.

EDUCATION PROGRAMS

Question. It is my understanding that the NASA website has had nearly 8 million hits since the landing of Spirit. Ed Weiler stated yesterday that 20 percent of those hits are coming from children and young adults in the K-12 range.

What is being done to make sure K-12, and even college age students, take this interest and keep the excitement going to become the next engineers and scientists that NASA and the country will continue to have a demand for in the future?

*Answer. Background.—*NASA is confronted with the convergence of three trends that put future U.S. advancements in science, aeronautics, and space technology at risk: (1) reduction in the number of science and engineering graduates; (2) increased competition from the private sector and academia for technical expertise; and, (3) retirement of approximately 25 percent of the current science and engineering workforce within 5 years.

—NASA is implementing a 5-year Corporate Recruitment Initiative, a collaborative effort among the offices of Education, Equal Opportunity Programs, and Human Resources, to focus on the recruitment of, and outreach to, young people from diverse backgrounds who are skilled in high-demand competencies required by NASA, including those necessary for implementation of the long-term Vision for Space Exploration.

—All Education Enterprise initiatives and programs are consistent with NASA's Agency-wide approach to human capital management, and are instrumental in attracting and maintaining a workforce representative of the Nation's diversity to enhance NASA's current and future competencies.

—NASA's commitment to workforce development and future human capital needs is demonstrated by four Pathfinder initiatives:

*Educator Astronaut Program.—*Provides opportunities for outstanding teachers to become permanent members of the Astronaut Corps. Using the educational expertise of Educator Astronauts and innovative technology of our Edspace website, Earth Crew members from K-12 will be inspired to greater Science, Technology, Education, and Mathematics (STEM) achievement and will be encouraged to pursue STEM careers. An intended outcome of this program is raising the esteem of teachers in the eyes of the public. (Fiscal year 2005 budget request: \$2.1 million)

*NASA Explorer School (NES) Program.—*Establishes a 3-year partnership between NASA and school teams serving grades 4-9, consisting of teachers and education administrators from diverse communities across the country. Focusing on underserved populations, NES engages educators, students, and families in sustained involvement with NASA's research, discoveries, and missions to

promote science, mathematics, and technology learning and career explorations. (Fiscal year 2005 budget request: \$13.7 million)

NASA Explorer Institutes Program.—Broadens NASA’s reach to students, their families, and the general public for STEM learning outside of formal classroom environments through media, exhibits, and community-based programming. Provides instructional materials and resources for use by the informal education community (including science centers, museums, planetariums, libraries, parks, aquaria, nature centers, botanical gardens, and community-based organizations) and professional development opportunities for informal education professionals. (Fiscal year 2005 budget request: \$2.1 million)

Science and Technology Scholarship Program.—Provides college tuition to highly qualified students who, in return, will commit to work at NASA. Established by the NASA Flexibility Act of 2004 (Public Law 108–201). (Fiscal year 2005 budget request: \$9.5 million)

—While the Pathfinder Initiatives are directly related to workforce recruitment and the new Vision for Space Exploration, all Education programs support the strategic objectives of increasing the number of students pursuing science, technology, engineering, and mathematics (STEM) disciplines.

BUDGET (FISCAL YEAR 2004–2009)

[In millions of dollars]

Budget Authority	Fiscal Year 2004 ¹	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
Education Programs	230.4	168.5	169.4	170.6	169.6	170.3
Education	138.6	77.7	77.9	78.8	78.3	78.4
Base Program	77.7	77.7	77.9	78.8	78.3	78.4
Congressionally Directed	60.9	.....	.....	.....	.....	.....
Minority University	91.8	90.8	91.5	91.8	91.3	91.9
Base Program	90.8	90.8	91.5	91.8	91.3	91.9
Congressionally Directed	1.0	.....	.....	.....	.....	.....

¹ Represents budget as presented in NASA’s Initial Fiscal Year 2004 Operating Plan.

Additional Background.—Pathfinder Initiatives highlights for fiscal year 2005 budget:

—*Educator Astronaut Program.*—Earth Crew allows the development of ongoing relationships between NASA and adult-led groups of students (educator/class, parent/family, etc.) for the purpose of exposing students to unique NASA content, careers related to NASA, and the people and mission of NASA. As of March 25, 2004, the total Earth Crew Membership was 92,487. Membership will likely continue to increase, especially after the formal announcement of the newly selected 2004 Educator Astronauts, scheduled for May 6, 2004.

—*NASA Explorer School Program.*—School needs that will be addressed by this program include communication, professional development, partnerships, web-based education resources, and curriculum integration tools. Fifty 2004 NASA Explorer Schools were selected recently. In fiscal year 2005, an additional 50 schools will be added, bringing the total number of partner schools to 150.

—*NASA Explorer Institutes Program.*—Focus group conferences will be held to identify the needs of the informal education community. Plans for a national program of Explorer Institutes for all ten-field Centers will be completed, with 4 institutes being operational in fiscal year 2005.

—*Science and Technology Scholarship Program.*—The first cohort of undergraduate students, jointly selected by Agency personnel and university faculty, and chosen for service in NASA, will be selected.

COST OF THE MOON/MARS VISION

Question. According to your documents, current budget projections assume it would cost \$64 billion to return humans to the Moon by 2020, not including the cost of robotic missions. The \$64 billion consists of \$24 billion to build and operate the Crew Exploration Vehicle from fiscal year 2004–2020, plus \$40 billion for fiscal year 2011–2020 to build and operate the lunar lander. This is a significant investment and only captures the lunar portion of the vision. There is also the build up of additional missions to Mars.

My question is, how much is the current estimate for implementing all aspects of the Moon/Mars vision in fiscal year 2005, and from 2005 through 2020?

Answer. The President's fiscal year 2005 budget request includes funding for all aspects of the vision during this time period, including exploration of the Moon, Mars, outer moons and beyond including the search for extrasolar planets that might harbor life. NASA is still developing architectures for human and robotic exploration of the Moon and Mars. Estimates that were used in the budget represent a bounding estimate based on experience and actual costs from relevant elements of the Apollo program. The estimates do not reflect architecture studies, design analysis, new technologies, and innovative approaches yet to be undertaken. They also do not reflect that the exploration vision, unlike Apollo, views the lunar landing not as an end in itself, but as one step in a sustained human and robotic program to explore the solar system and beyond. The lunar exploration will reduce the risks and prepare for Mars exploration, and many of capabilities developed for lunar exploration may be used for Mars exploration as well.

Question. To what extent can robotic spacecraft accomplish these exploration goals instead of humans, at less cost and risk to human life?

Answer. NASA has undertaken a recent analysis of the benefits and cost associated with human space flight, and this response reflects some of the findings of that analysis. Neither robotics nor humans alone could accomplish these exploration goals. Robots cannot discover—they are simply a smart set of sensors and effectors that act as surrogates for and inform human presence elsewhere. Humans cannot explore alone either—the space environment does not allow humans to operate without robotic support—this is often true today on Earth as well. In practice, humans and robots act symbiotically to complete tasks.

Human presence for in situ exploration is both high value and high cost. Humans missions will occur after extensive characterization of the environment and areas of high interest are identified with the assistance of robots. Human presence will lead to huge increases in the speed and quality of the measurements taken, and creates unparalleled ability to observe and make discoveries through the unique capabilities of the human brain. The result is dramatic increases in the pace of discovery and reliability of scientific returns. This comparative advantage was aptly demonstrated by Apollo where human presence quickened the pace of discovery by producing a large quantity of high quality material for analysis that led to dramatic discoveries about the Moon.

Finally, as the President stated on January 14, "human beings are heading into the cosmos." One of the four primary objectives of the new space exploration vision is "to extend human presence across the solar system." This endeavor, intended to improve our lives and lift our national spirit, cannot be accomplished using only robots.

INTERNATIONAL PARTNERS IN THE MOON/MARS VISION

Question. In the President's policy directive, it states that NASA will "pursue opportunities for international participation to support U.S. space exploration goals." We currently have an international partnership with the space station, and our own participation is taking a dramatic change, even before the construction is even completed.

Will other countries be willing to participate if the United States does not live up to its obligations to the space station program, and if the United States insists on directing how the Moon/Mars program is to be conducted?

Answer. The President directed NASA to fulfill our commitments to our partners on the ISS, and we plan to do so. Initial interest by other countries in the vision has been positive, and we expect there will be many opportunities for international cooperation over the course of implementation.

SPACE STATION CREW/CARGO

Question. In your proposed budget, there is \$140 million proposed for space station crew and cargo services. This funding will be for launch, delivery, and return services for cargo, and the purchase of human-rated launch and return capabilities.

Why is this money needed at this time, when the anticipated need for such services will not be until 2010? Is this an indication that this will be a recurring cost for the next 5 years?

Answer. NASA will retire the Space Shuttle after completing assembly of the International Space Station, planned for the end of this decade. Even prior to retiring the Shuttle, there is a need for additional cargo capability in order to achieve fuller utilization of the Space Station for conducting research. Offloading some ISS cargo transfer tasks onto commercial services may be key to completing the ISS by the end of the decade, an important step in enabling the New Vision for Exploration. Hence, funding to begin to acquire cargo and crew services is requested in

fiscal year 2005. NASA is beginning to discuss options for meeting cargo/crew delivery and return requirements in both the near term and post-Shuttle. As early as fiscal year 2006, NASA anticipates a need to augment Shuttle and partner-provided services to improve utilization by purchasing cargo/crew services commercially using a full and open competitive acquisition process. Currently, no commercial capability exists that could meet the requirements but there appears to be commercial interest. NASA has no plans to fund the development of this capability and plans to acquire services. However, technology risk reduction demonstrations are under consideration to reduce the risk of development for any potential service provider. The phased funding plan for ISS Cargo/Crew Services is shown in the following table.

Fiscal Year 2005 Request	Fiscal Year 2005	Fiscal Year 2006	Fiscal Year 2007	Fiscal Year 2008	Fiscal Year 2009
ISS Cargo/Crew Services	\$140,000,000	\$160,000,000	\$160,000,000	\$160,000,000	\$500,000,000

Question. Whom do you expect to provide these services? As you well know, it is currently against the law for us to provide funding to the Russians for vehicles that are doing this type of work for us now.

Answer. NASA is refining projected requirements for ISS cargo and crew delivery and return consistent with the Vision for Space Exploration and existing law and policy. NASA is developing an integrated ISS strategy that considers the full range of domestic and international partner transportation options. These options include: U.S. commercial capability; ISS International Partner assets, such as the European Automated Transfer Vehicle, Japanese Transfer Vehicle, and the Russian Progress and Soyuz spacecraft; and, Transition to capability presently under definition from the NASA Constellation Program, when available, after the retirement of the Space Shuttle in 2010.

NASA recognizes there are unique challenges associated with each of these space access options and is committed to assuring safe, reliable and affordable access and operation to the International Space Station.

ARBITRARY DATE OF 2010 FOR SHUTTLE RETIREMENT

Question. During the hearing, it was contended that the 2010 recertification date mentioned in the CAIB report might have been an arbitrary date picked by the CAIB.

If NASA is going to comply with the CAIB report 100 percent, as has been stated numerous times before this subcommittee, how can a specific date within the report for recertification be determined to be arbitrary?

Answer. The Space Shuttle Orbiters were designed with an operational life of 100 flights. Given that no Orbiter in the current fleet has been flown more than 30 missions, the Shuttle is potentially capable of flying until 2020 or beyond. Mid-life certification was projected for approximately 2010. This target date became the logical point for completing recertification. Since the Space Shuttle fleet will now retire after completion of assembly of the International Space Station (ISS), currently planned for the end of the decade, NASA is appropriately readdressing recertification norms.

The CAIB report was written when the Space Shuttle was expected to play a major role in ISS logistics, science and crew exchange following full assembly. Given that the Vision for Space Exploration calls for an end to the Space Shuttle program at the completion of ISS assembly, planned for the end of this decade, the purpose and need for recertification is less clear. The Shuttle Service Life Extension Program (SLEP) has been tasked to address this CAIB report recommendation, and reviews are currently in progress.

Question. What documentation can you provide that indicates that such a date was, in fact, arbitrarily made?

Answer. Given that the 2010 date for recertification reflects the projected mid-life certification date, the Orbiters' design certification documentation support the CAIB's decision. However, since the subsequent Vision for Space Exploration calls for the Space Shuttle to retire in this timeframe, recertification must be reevaluated.

HEAVY LIFT CAPABILITY BEYOND SHUTTLE

Question. Assuming that the shuttle is retired in 2010, there will be no heavy lift capability available for NASA. The military has chosen to end Titan program with the final launch in early 2005, leaving virtually no options for the necessary cargo transport services that will be needed for the Moon/Mars vision.

What is NASA doing to ensure that reliable heavy lift capability is available to NASA once the shuttle is retired?

Answer. Consistent with the Vision for Space Exploration, NASA seeks to safely return the Space Shuttle to flight, currently planned for March 2005. Over the remainder of the decade, the Space Shuttle will be used to complete assembly of the International Space Station (ISS). NASA utilizes a mixed fleet launch strategy that takes advantage of both domestic and International Partner launch capabilities across a full spectrum of performance ranges.

NASA is developing a Shuttle retirement strategy that will assure space access for required U.S. support to the ISS and future Space Exploration requirements. Ongoing NASA assessments consider use of both domestic Evolved Expendable Launch Vehicle (EELV) capability to meet higher performance requirements as well as International Partner launch capability. The first EELV launch of the Boeing Delta IV-Heavy vehicle configuration, with a similar performance capability as the Space Shuttle and soon-to-retire Titan IV ELV, is planned for this summer.

In parallel with the architecture planning and requirements definition for space exploration, NASA has initiated a number of studies to evaluate future heavy lift demand and potential domestic capabilities beyond that of current systems, which could meet yet-to-be defined requirements. As the architecture planning, requirements definition, and study results mature, NASA will continue to evaluate and plan for all its launch requirements, including heavy lift, in coordination with the Department of Defense to assess requirements in this class from a National perspective.

Question. Will NASA need to develop a new heavy lift capability that is not yet a part of the Moon/Mars plan, and at what cost?

Answer. As stated above, NASA has initiated a number of studies to evaluate future heavy lift demand and potential domestic capabilities beyond that of current systems, which could meet yet-to-be defined requirements. As the architecture planning, requirements definition, and study results mature, NASA will continue to evaluate and plan for all its launch requirements, including heavy lift.

RUSSIAN SOYUZ SAFETY

Question. NASA recently announced a further slip of the shuttle's return to flight until March or April of 2005. NASA should be commended in taking its time to ensure that all the necessary CAIB recommendations are implemented properly. However, in the meantime, we are relying on Soyuz to deliver and return crews to and from the ISS. This begs the question of whether the Soyuz meet the same expectations of safety that we now expect of our own vehicles after the tragic loss of Columbia.

Can you explain what steps NASA has taken to ensure that the Soyuz vehicles meet the basic safety requirements that are embodied in the CAIB recommendations?

Answer. NASA has significant interaction with the Russian Federal Space Agency (FKA) and the vehicle manufacturer (RSC-Energia) regarding safety of the Soyuz vehicles. On the basis of this interaction and the historical record of Soyuz and Soyuz-derived vehicle performance, NASA is confident that the Soyuz is among the safest spacecraft ever flown.

The continued use of the expendable Soyuz spacecraft does not present a "new" certification requirement. Each vehicle is operated within the design, certification and experience of our Russian partners. Under the provisions of the Memorandum of Understanding between NASA and Rosaviakosmos (now the Russian FKA) concerning cooperation on the International Space Station (Article 10.2), FKA is responsible for meeting or exceeding the overall Space Station safety and mission assurance requirements and plans established by NASA and the Partnership. ("In support of NASA's overall responsibilities to assure safety and mission assurance, FKA will be responsible for certifying that the Russian Segment and the FKA-provided elements, including cargo, are safe and ready for operation using jointly agreed documentation and processes.") The Soyuz has been certified under these conditions. Under the provisions of the MOU, NASA is not responsible for certifying Russian vehicles for flight and FKA is not responsible for certifying NASA vehicles for flight.

In addition, each Soyuz mission undergoes a number of joint Russian and U.S. expert reviews. Prior to each mission, the U.S.-Russian Stafford-Anfimov Joint Commission conducts an in-depth joint assessment of the operational readiness of the mission. The resulting report is one of the inputs to the detailed NASA technical reviews that culminate in a Flight Readiness Review for each mission.

The certification under the MOU, our technical and safety history with Soyuz vehicles, and current processes for joint Station operations combine to ensure the safety of future use of Soyuz.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

EXPERIMENTAL PROGRAM TO STIMULATE COMPETITIVE RESEARCH (EPSCoR)

Question. The NASA Experimental Program to Stimulate Competitive Research (EPSCoR) program was authorized in 1993 to help develop academic research in space science, aerospace technology and aerospace-related research in 19 States and Puerto Rico that have historically been less successful in obtaining NASA research funding. NASA EPSCoR has been extremely successful in my State of Montana. Montana and the other EPSCoR States are currently in the fourth year of 5-year research grants from NASA. Since fiscal year 1999, some \$10 million has been available for this program annually. However, the fiscal year 2005 budget request is \$4.6 million. Without additional funding, Montana will not be able to complete its 5-year research program. Can you help us find the funding for EPSCoR, which has been so helpful to Montana?

Answer. Awards under the current NASA EPSCoR program were granted in 2001 for a 3-year period with an option for a 2-year extension based on a competitive review of progress made. Review of those continuation requests will be conducted later this year. The most competitive programs that demonstrate successful progress will be granted continuation awards in accordance with the available budget.

Question. Since fiscal year 1999, Congress had funded the NASA EPSCoR program at \$10 million annually but each year the budget request seems to revert to \$4.6 million. This is an on-going, authorized program with important results in the participating States. Why do we see this constant push back?

Answer. NASA has requested funding for the program in the President's budget request every fiscal year since the NASA EPSCoR legislation was authorized and considers the program a vital part of the Agency's education portfolio. The NASA budget request for EPSCoR is at a level that reflects the importance of the EPSCoR program balanced against other program priorities.

NASA is committed to the EPSCoR program. The program is a strong component of the Office of Education workforce development and research capacity building strategy. The NASA EPSCoR Program provides seed funding that enables eligible States to develop an academic research enterprise directed toward long-term, self-sustaining, nationally competitive capabilities in space and Earth science and applications, aeronautical research and technology, and space research and technology programs. This capability contributes not only to the State's economic viability but to the Nation as a whole.

PRIVATE CORPORATIONS

Question. As I mentioned previously, it is critical for NASA to attract private sector dollars to the space field. I know that private corporations working in conjunction with the Inland Northwest Space Alliance in Missoula, Montana, have made a huge financial investment in expandable space structures, a technology that NASA did some work on under the auspices of the Transhab project. What is NASA doing to leverage these corporations funding of this new technology and to encourage other entrepreneurs to make similar investments?

Answer. Two fundamental goals of the Vision for Space Exploration are to: develop the innovative technologies, knowledge, and infrastructures both to explore and to support decisions about the destinations for human exploration; and promote international and commercial participation in exploration to further U.S. scientific, security, and economic interests.

To achieve these goals, NASA is undertaking two new approaches to systems and technology development: Broad Agency Announcements (BAAs), and a competitive prize program called Centennial Challenges. In addition, NASA's existing Innovative Technology Transfer Partnerships and Enterprise Engine programs will work to build relationships with private industry and NASA will ensure that open, competitive processes are used throughout our Human and Robotic Technology (HRT) development programs.

To solicit private sector inputs on how to best frame future systems development and procurement decisions, NASA's Office of Exploration Systems is employing Broad Agency Announcements (BAAs). BAAs have been previously used by the Department of Defense to obtain a wide range of company, government lab, and university views on what systems, technologies, and expertise are needed to achieve a

particular operational capability. This will be the first time that NASA has employed BAAs, and it should allow companies, both large and small, the opportunity to put forth innovative ideas that could have a profound impact on how NASA and the Nation implement future exploration activities, such as Project Constellation (the Crew Exploration Vehicle).

To ensure that NASA reaches the broadest segment of innovators possible, NASA's Office of Exploration Systems has also started a new program of prize competitions called Centennial Challenges. Instead of soliciting proposals for a grant or contract award, NASA will set a challenge, the prize amount to be awarded for achieving that challenge, and a set of rules by which teams will compete for that prize. By specifying technical goals but not pre-selecting the best way to achieve them, NASA intends to stimulate innovation in ways that standard Federal procurements cannot. Centennial Challenge winners will be judged and earn awards based on actual achievements, not proposals. Using this approach, NASA's research will be enriched by new innovators that do not normally work on NASA issues. Through Centennial Challenges, NASA intends to reach new innovators and find novel or low-cost solutions to NASA engineering problems that would not be developed otherwise.

NASA's Office of Exploration Systems has inherited NASA's ongoing Innovative Technology Transfer Partnerships (ITTP) program. In recent years, the focus of the ITTP programs has been rebalanced to include both "spin-off" (transferring NASA-developed technologies to the private sector) as well as "spin-in" (leveraging private sector technologies for NASA missions). Through ITTP, NASA also plans to undertake novel new joint research and development projects with the private sector.

In addition to the programs within the Office of Exploration Systems, the Office of Biological and Physical Research Space Product Development division (SPD) manages the Research Partnership Center (RPC) program. This program brings industry, academia and government together to create new technology having application to both NASA and the private sector. In this way the RPCs are creating benefits to the public through their research directed toward NASA's needs. These centers are engaged in a wide range of areas of applied research, including advanced materials, agribusiness, biotechnology, communications, imaging, medical informatics, telemedicine, spacecraft technology and space resource utilization.

Finally, NASA's Office of Exploration Systems will be making significant investments in new technologies to support the development of future exploration systems through the Human and Robotic Technology (HRT) Program. The Office of Exploration Systems is committed to ensuring that HRT programs use open and competitive processes for selecting and awarding grants and contracts. This will help ensure a level playing field between private sector and public sector R&D organizations seeking HRT awards.

INTERNATIONAL SPACE STATION

Question. After the International Space Station is "phased out" in 2016, what do you plan to do with the facility? Could the private sector potentially have a role in managing the Station?

Answer. In the broad context of the Vision for Space Exploration, the ISS will be utilized through at least 2016. It will serve as a significant test bed for the research and technical development needed to fulfill the objectives of the Vision. It is premature to comment on any determination regarding what will happen to the ISS beyond 2016. While there are no specific plans for private management of the Station, such a proposal would have to be thoroughly evaluated at the appropriate time in the future. Future management of the ISS will need to be fully coordinated with our International Partners in accordance with our ISS agreements.

There is a plan for the safe and orderly de-orbit of the Station when it has reached the end of its service life.

CREW EXPLORATION VEHICLE (CEV)

Question. Currently, the only avenue for the private sector to purchase a crewed spaceflight opportunity is aboard the Russian Soyuz. Is NASA anticipating the development of a version of its Crew Exploration Vehicle that could some day carry non-NASA personnel?

Answer. The CEV is expected to be dedicated to executing the new Vision for Space Exploration. It is doubtful that NASA would itself develop a version of the CEV to carry paying customers, since entering the commercial market is not an appropriate role for government. However, NASA will consider following the model from its aeronautical history, whereby the technologies developed for the CEV could

be made available to commercial interests that could then develop a vehicle to meet market driven requirements.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

SPACE NUCLEAR

Question. I am excited that the space nuclear mission for the production of the “RTG”—the plutonium generators that power many space probes—has now been successfully transferred to Idaho—and production of these nuclear generators is now taking place at Argonne West.

I think this work is a success. I understand that the Department of Energy and NASA are both happy with this work in Idaho. I hope to build on this mission.

I notice that the budget request includes \$438 million for Project Prometheus and for furthering NASA’s efforts in advanced nuclear propulsion systems—to move beyond the RTG to actual nuclear fission reactors in space.

With your Navy background, you know that the Naval Nuclear Propulsion program safely travels throughout the oceans and all around the globe—powered by nuclear reactors. This program provides a good analogy for the potential of nuclear in space—the ability to travel great distances and a long time between re-fueling. In fact, Navy reactor cores now last the “life of the ship”.

One of the reasons this is possible is because Naval Reactors has a large operation in Idaho—located on the Idaho National Engineering and Environmental Laboratory. Every element of Navy fuel, discharged from its ships, is sent to Idaho for destructive examination and testing. The Navy has developed all its fuel, based on testing done in Idaho’s Advanced Test Reactor.

DOE seeks to establish a nuclear energy center of excellence for civilian nuclear power in Idaho. I think NASA’s space nuclear efforts and those of the Navy fit well into this center.

Given the importance of advanced nuclear propulsion to achieving the new vision for U.S. space exploration laid out by the President, could I have your commitment to come to Idaho—to see the capabilities of the Idaho lab and to see the Naval Reactors work there?

Answer. NASA has been in touch with your staff regarding this matter.

ADVANCED MICROELECTRONICS

Question. In fiscal year 2004, Congress provided \$1 million of additional funding for advanced work in radiation hardened, ultra low power micro-electronics work associated with a research center in Post Falls, Idaho. This additional funding was intended as an increase to some ongoing work that NASA Goddard was doing in Idaho—not as a substitute for that work—which had already been competitively awarded. In other words, these items were not meant to cancel each other out. I understand that NASA is still engaged of a review of Congressional earmarks and will finish that review by the end of the month.

Could you please look into the status of release of this funding, and have your staff report back to my office?

Answer. NASA has been in touch with your staff regarding this matter.

QUESTION SUBMITTED BY SENATOR HARRY REID

JOINT DARK ENERGY MISSION (JDEM)

Question. I was recently pleased to learn that NASA and the Department of Energy are collaborating on the Joint Dark Energy Mission (JDEM) in an attempt to answer the most fundamental science questions of the day—of what is the universe made and why is the universe expanding at an ever increasing rate. Unfortunately, although the Department of Energy requested around \$7.6 million in its budget request for JDEM, it appears that NASA failed to meet its commitment to this program and did not include funding in its fiscal year 2005 budget submittal. What does this lack of resources mean for the program and for the collaboration that NASA entered into with DOE? There is wide agreement within the scientific community that this program is critical and in need of immediate funding to ensure that it remains robust and productive—could you please explain why NASA chose not to include JDEM in its budget request? Please keep the committee abreast of the Department’s actions and intentions regarding JDEM.

Answer. NASA has not abandoned its desire to participate in the NASA-DOE mission called JDEM. NASA and DOE have agreed on an outline of the joint mission.

The principle investigator-led science investigation will be competitively selected jointly by NASA and DOE. The science investigation and mission operations will be jointly funded. NASA will take responsibility for the project, prime contractor, launch, general observer program, and data archive.

DOE is funding research that is applicable to JDEM. NASA is funding mission concept studies by potential proposers (\$500K/yr in fiscal year 2004 and fiscal year 2005). NASA Centers are spending advanced project funds on studies as well (\$800K to \$1M in fiscal year 2004). NASA is evaluating five mission concepts (from Lawrence Berkeley Laboratory; JPL; GSFC; Arizona State University; and Conceptual Analytics, LLC) looking at a variety of architectures, instruments, and technologies.

NASA finds the JDEM mission scientifically compelling; however, as an agency, we must always prioritize among competing research programs. Whenever possible, we enlist the aid of our advisory committees and the guidance of the National Research Council (as outlined the most recent Decadal Survey). This approach ensures that the opinions of the scientific community remain important considerations in NASA decisions.

While it is true that NASA will not begin full JDEM development this year, important precursor activities are being undertaken to ensure that we will be prepared to begin, should the decision be made to proceed with JDEM.

SUBCOMMITTEE RECESS

Senator BOND. Thank you very much, Mr. Administrator.

Mr. O'KEEFE. Thank you, sir.

Senator BOND. The meeting is recessed.

[Whereupon at 11:42 a.m., Thursday, March 11, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

THURSDAY, MARCH 25, 2004

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

The subcommittee met at 10 a.m., in room SD-628, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Craig, Domenici, Mikulski, and Leahy.

ENVIRONMENTAL PROTECTION AGENCY

STATEMENT OF MICHAEL O. LEAVITT, ADMINISTRATOR

ACCOMPANIED BY:

STEPHEN L. JOHNSON, ACTING DEPUTY ADMINISTRATOR
BENJAMIN H. GRUMBLES, ACTING ASSISTANT ADMINISTRATOR,
OFFICE OF WATER
PAUL GILMAN, ASSISTANT ADMINISTRATOR, OFFICE OF RE-
SEARCH AND DEVELOPMENT
MARIANNE L. HORINKO, ASSISTANT ADMINISTRATOR, OFFICE OF
SOLID WASTE AND EMERGENCY RESPONSE
PHYLLIS HARRIS, ACTING ASSISTANT ADMINISTRATOR, OFFICE
OF ENFORCEMENT AND COMPLIANCE ASSURANCE
MICHAEL W.S. RYAN, DEPUTY CHIEF FINANCIAL OFFICER
MARYANN B. FROEHLICH, ASSOCIATE CHIEF FINANCIAL OFFICER
DAVID A. BLOOM, DIRECTOR, OFFICE OF BUDGET
ANNA WOLGAST, PRINCIPAL DEPUTY GENERAL COUNSEL
NIKKI L. TINSLEY, INSPECTOR GENERAL
JUDITH AYRES, ASSISTANT ADMINISTRATOR, OFFICE OF INTER-
NATIONAL ACTIVITIES
JEFFERY R. HOLMSTEAD, ASSISTANT ADMINISTRATOR, OFFICE OF
AIR AND RADIATION
SUSAN B. HAZEN, PRINCIPAL DEPUTY ASSISTANT ADMINIS-
TRATOR, OFFICE OF PREVENTION, PESTICIDES AND TOXIC SUB-
STANCES
KIM T. NELSON, ASSISTANT ADMINISTRATOR, OFFICE OF ENVI-
RONMENTAL INFORMATION
DAVID O'CONNOR, ACTING ASSISTANT ADMINISTRATOR, OFFICE
OF ADMINISTRATION AND RESOURCES MANAGEMENT
DONA DELEON, ACTING ASSOCIATE ADMINISTRATOR, OFFICE OF
CONGRESSIONAL AND INTERGOVERNMENTAL RELATIONS

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The subcommittee will come to order. My apologies. Due to the elevator service around here, we are running a little bit late.

Senator Mikulski has another hearing, which she has to attend briefly, but I am going to get started, because it looks like we have a number of members here. This morning, the VA-HUD Independent Agency Subcommittee will conduct its hearing on the fiscal year 2005 budget request for the Environmental Protection Agency.

It is a pleasure to welcome Governor Michael Leavitt, Administrator of the EPA to this subcommittee to testify on the President's Budget request for fiscal year 2005.

Governor Leavitt, since this is your first appearance and only your fourth month on the job, I look forward to hearing your initial impressions of the Agency and its mission.

We thank you very much for being here today, and assure you that the EPA is one of the most important and difficult missions of all the Federal agencies. The jurisdiction ranges from clean up of Superfund and Brownfield sites to funding clean water and drinking water infrastructure programs, as well as the very important enforcement of environmental laws.

A presidential directive issued in December 2003 continues to identify the EPA as the lead agency in protecting our Nation's water infrastructure from terrorist attacks. I think the EPA has provided strong leadership thus far within the Federal Government regarding critical homeland security issues. There is much more to be done, and we will have some ideas that will be considered for legislation in that area.

Not to put a damper on this morning's proceedings, but before I delve into the budget request for EPA for the coming year, I should notify you and everybody else that we are operating in a very tight budget year. This subcommittee, in particular, faces a very steep challenge, with substantial funding shortfalls for a number of key programs within our jurisdiction, including VA Medical Care, Section 8 Housing Assistance, and EPA Clean Water State Revolving Fund.

Before we get this bill off the floor, we are going to have to address all of those, and that means, given the tight budget we have, that other things are going to be very difficult to fund.

The administration has asked for an almost \$900 million increase for the NASA budget in fiscal year 2005 in order to implement a very ambitious and costly redirection of resources for future manned missions to the moon and Mars.

It is obvious that we are going to have to make some tough decisions, and we look forward to working with you, as members of this committee, and for your findings going forward.

The administration requested \$7.76 billion total budget authority for the coming year. This is a \$606 million decrease from the fiscal year 2004 enacted level.

As with other funding shortfalls in the jurisdiction of this subcommittee, the 7 percent reduction in EPA funding concerns me greatly, particularly in places where OMB took the money out.

In particular, in both my role as the chairman of the VA-HUD Appropriations Subcommittee and as a member of the Committee on Environment and Public Works, I have made investments in our Nation's water infrastructure a priority. I can assure you that my colleague, Senator Mikulski, feels the same way. Unfortunately, OMB, once again, didn't get the message. They have proposed reducing the Clean Water State Revolving Fund from \$1.35 billion in 2004, to \$850 million in 2005, a reduction of nearly \$500 million below the fiscal 2004 enacted level. That just isn't going to work. I am pleased that OMB has at least maintained a level request of \$850 million for the Drinking Water SRF in 2005.

Eight hundred fifty million dollars for the Clean Water SRF is simply not enough. I cite the EPA's own document, Clean Water and Drinking Water Infrastructure Gap Analysis published in 2002, indicating a substantial gap in funding will develop even if the Nation's current clean water/drinking water systems maintain current spending levels.

The Gap Analysis estimates that the United States will need to spend \$450 billion—billion dollars in capital needs for clean water and drinking water in the next 20 years. I think we need to find additional resources and perhaps new approaches to address these important needs. Nevertheless, at a minimum, we need to maintain funding for both of these revolving funds, at least at the current year's level.

I am also interested in the most prominent air quality issue in the last few months, which has been what to do about emissions from coal-fired electric power plants.

The administration has proposed changes to New Source Review, and has asked Congress to modify the Clean Air Act requirements for power plants by passing Clear Skies or multipollutant legislation. Further, EPA proposed a rule permanently to cap and reduce mercury emissions from power plants. I congratulate the administration on submitting both legislation and regulations which seek to maintain the economic viability of U.S. energy producers, while meeting the air quality standards of the Clean Air Act; nevertheless, this will remain an area of great concern and controversy where, despite continued improvements to the quality of our Nation's air, as of December 2002, some 107 areas, with a combined population of almost 100 million people, were classified as non-attainment areas for one or more of the national ambient air quality standards.

I look forward to your leadership in this area. We are obviously going to have to develop new technologies to deal with this problem, because we cannot afford misguided Federal policy forcing coal out of our electric generating capacity, using instead natural gas, because natural gas is a vital component. The excessive demand imposed on our natural gas supplies by providing new electric generating only from natural gas has resulted in a significant problem.

This high price and limited supply of natural gas is outsourcing natural gas industry jobs from the United States. Make no mistake about it, we are driving jobs out of the United States, because natural gas is in such short supply. Industries are moving overseas and taking their jobs with them because other countries do not ar-

tificially inflate the demand for natural gas and constrict the supply.

We are hearing about a number of new possible means of developing clean burning coal. I have been presented information on electrocatalytic oxidation technology, which has the potential for reducing all these pollutants at less cost and less environmental damage than the current scrubbers, but make no mistake about it, we have 250 years supply of coal. We've got to learn how best to do it.

EPA also faces significant challenges in cleaning up the 1,240 Superfund sites on the National Priorities List (NPL), and the 65 sites proposed to make the NPL.

The administration is requesting \$1.381 billion for the Superfund program in fiscal year 2005, which is \$124 million above the fiscal year 2004 level. The bulk of the \$124 million increase will be used for additional construction starts. There is no question, the Superfund program could use increased funding of clean-up sites currently on the NPL, and those waiting to make the list.

Last year, I pointed out that only 16 percent of the funds in the Superfund program go to cleaning up sites. And I have asked in the last year's Senate report that the EPA find out how we could put more money into cleaning up. I know there has to be money for enforcement, and that provides money for the cleanup, but I look forward to working with you to find out how we can make sure that these dollars we appropriate for Superfund are actually cleaning up the Superfund sites. Failure to do so is causing significant problems in the Superfund program.

I hope EPA will make every effort to allocate the resources within the Superfund program with a goal of both diminishing immediate health risks to the communities surrounding these hazardous sites, and completing construction as swiftly as possible.

I note that an internal review of the Superfund program is taking place currently at the EPA to determine whether resources are being used efficiently. I look forward to being briefed on the results of this review. Governor, I look forward to working with you on ways to make this program more efficient.

I plan to introduce an Environmental Enforcement and Security Act of 2004 within the next several days. The legislation is intended to address concerns raised by a recent EPA Inspector General report, internal EPA reviews, and numerous press reports that EPA is straining to meet its environmental enforcement duties and its new post-9/11 Homeland Security responsibilities.

I think that the EPA's efforts should be funded from the robust Homeland Security budget, because it doesn't look like we're going to have the resources we need with our budget allocation to get the job done solely in this Committee.

The bill would authorize additional funds to add 50 new criminal enforcement agents and 80 new Homeland Security special agents. It would authorize EPA to fund \$100 million in grants for physical security measures to protect our Nation's water systems. Again, I think much more will need to be done but I am concerned that we first need a comprehensive assessment of our water infrastructure security needs, and then a comprehensive plan that will ensure the necessary funds will be used effectively and efficiently.

Finally, I want to turn to a critical issue, to jobs, very briefly. Last year we had an issue, with proposed California air regulations to require catalytic converters on all small engines. This would have raised significant safety concerns, because the Fire Marshal's Fire Chiefs, even in California, said that a 1,100 degree catalytic converter on a leaf blower, chain saw, or lawn mower causes significant fire danger.

We added an amendment that would say to EPA: Before you approve California's rule, you must take into consideration the safety concerns. But beyond that, and just as important, we believe that the EPA could achieve the goals sought by the California Air Regulation Board, and do it on a nationwide basis by proposing an effective, workable rule for all small engines.

Were the California Air Resources Board regulation to go into effect nationwide, it would outsource 22,000 jobs that would be moved to China the next day as the small engine manufacturers had to build new plants, and they would build them in China, not in the United States. We don't need another governmental forced outsourcing of jobs.

So, Governor, I ask that the EPA pay special attention to this, make sure we clean up the air, but don't drive jobs out of the country as we do it.

With that, I normally would turn to my Ranking Member, and I would ask our distinguished Senator from Vermont if he would be kind enough to allow me to allow Senator Craig to go forward. He has another commitment. If he is brief, can you—

Senator LEAHY. First, I would be happy to say that Senator Craig was here earlier than I was. I would be happy to do that, but I do have a statement afterward.

Senator BOND. We are looking forward to your statement. We don't want you to be rushed.

Senator LEAHY. The Governor is looking forward to my statement.

Senator BOND. Let me turn to Senator Craig.

STATEMENT OF SENATOR LARRY CRAIG

Senator CRAIG. Mr. Chairman, thank you very much. Governor, Administrator Leavitt, welcome before the committee. First of all, again, let me publicly thank you for taking this position. It is a very difficult one to have in any administration because of the level of expectation of the American people as it relates to our environment, and the reality of implementing those expectations. I think our chairman has just spoken to some of that.

I handed him, while he was talking about gas costs and clean air, and driving this country to use gas generation, and then not allowing us to produce that gas, especially out in your part of the country, and in my part of the country, the Industrial Energy Consumers of America Report came out a couple of days ago.

In the last 46 months, compared with the prior 46 months, because we are not producing gas, we are denying offshore development, onshore development all in the name of the environment, while demanding gas be used all in the name of the environment. This is an interesting statistic.

The 46-month natural gas crisis has cost U.S. consumers \$130 billion. How in the world can we get an economy going, and everybody wants that to happen, when we are sucking it dry of the resources necessary because we are demanding more for gas?

And that breaks down, it is interesting, to industrial consumers \$66 billion more, residential consumers \$39 billion more, and commercial consumers \$25 billion more.

In your State of Utah and my State of Idaho, that means that the average farmer's cost of production, as an input cost, will go up 30 percent this year. His fertilizer has gone up 100 percent. Production of food will drop in our country as a result of that.

And guess where those farmers will come? Here, to their Nation's capital, to get help. I talked with a banker in Idaho yesterday with substantial farm loans, he has called all of his branch banks and said: You will need to anticipate increasing your lines of credit to your agricultural producers by at least 25 to 30 percent this year just to offset the cost of energy.

Shame on us, the Congress of the United States, for standing in the way of production in this country in many instances fallaciously in the name of the environment.

Have you got a job to do? Oh, yes, you have, but so do we, and we haven't done it.

Am I passionate about this? Yeah, when it runs people out of business, when we are using gas for electrical generation, and it ought to be used for heat, one of the most inefficient ways to use gas, but the Clean Air Act drove everybody there, and then we shut down production. Dumb us. But that is the reality of where we are.

I don't know that I could get anymore passionate about it, and if you want to hear more, I'll be happy to deliver. Point made.

Beyond that, a couple of other issues you'll face, Governor, as you work. They are not just Western issues, but in many instances, they are unique to the geology of the West.

It's a little thing called arsenic in drinking water, and drinking water standards. Now, I know that these new standards you've inherited, but in your State of Utah, and in my State of Idaho, where the geology oftentimes finds itself ingrained in decaying granitics and granitic structures, arsenic levels are oftentimes extremely high.

A little community of Castleford, Idaho, just across the border from Utah, is going to see its compliance costs go up three times its entire city budget just to comply, and it can't, and it won't, unless we help them. And right now with the budget the chairman has talked about, we can't help them. It just so happens the people in Castleford have one of the longest lifespans of any city in our State. Many live there into their 90's, but they've been drinking high arsenic levels all of their lives because it is natural in the water of that community.

But we got awfully smart here in the emotional politics of the word "arsenic," instead of the reality of the science, and now the science is coming in, and I would suggest that the science does not support the standards. But touch it politically, how dare us? Watch the yelling on the floor of the United States Senate, and the headlines if you dare touch that, Mr. Administrator.

That is the reality we face, and that is true in Idaho, Utah, across the United States. We have asked these communities to do something they cannot do. And the question is do they need to do it?

We have not even stopped to ask that, we've just made that political assumption, and not a scientific assumption.

Lastly, the Chairman talked about Superfund. We've got a big Superfund site in north Idaho. We battled that issue for years. EPA has gone out there, and their people have taken residence hoping they could continue to live in that beautiful area where the Superfund site is until their kids graduate from college.

The only problem is some of them came with 4- and 5-year-olds, and so they want to stay for a long time. It is the most beautiful part of our State, and it is unique that it is a Superfund site, because of the heavy metals that are a product of the old mining era.

I believe they phoned the science, and as a result of that I got an appropriation with the help of this committee, we have the National Academy of Science out there now in an impartial way reviewing the science. Watch us. Watch the National Academy, Mr. Administrator. I think it might be a lesson learned as it relates to the application of Superfund.

Oh, yes, we have some problems, and, oh, yes, they ought to be cleaned up. But largely the work is done out there, and Mother Nature is now doing a better job in her recuperative powers than is the human; but yet \$400 million still wants to be spent by those who want to continue to work there until their kids are through college, \$400 million of moving earth around, and disturbing the environment beyond what man had already disturbed. It really is an issue that ought to be addressed.

The prior administrator, Ms. Todd Whitman, did the right thing, and did a unique thing, she developed with us a cooperative management relationship between EPA and the State of Idaho so that we think we can get greater efficiencies than if it is simply prolonged and prolonged by the Federal bureaucracy.

We hope we can accomplish that. We think we will, and will need your help. At the same time, goodness sakes, we need a lot of common sense applied to areas where it doesn't exist. That is why we've asked the National Academy to come in, and we asked EPA to stand down while we review their science to determine whether they are right, or whether they are wrong, or if it simply fits the agenda of somebody who would like to continue to live in that beautiful part of the country.

Thank you. Glad to see you. Lots of challenges, little resource to do it with. Good luck.

Senator BOND. Thank you very much, Senator Craig. I should have noted, when we were talking about natural gas, it is not only the cost of energy, but the first number in the three-number fertilizer, the end number, comes from natural gas we are seeing, we are seeing costs of fertilizer going up—I buy several hundred pounds, and it is a small amount I buy, I see the tremendous increase in the cost of fertilizer because of natural gas prices.

And natural gas-using consumers all across the Nation are being hit with huge natural gas bills for heating this year because of the natural gas constricted supply and increased demand.

But with that, now let me turn to our friend from Vermont. Senator.

STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman, and I have—Governor, I have been looking forward to this hearing. I am sure you have, too. Thank you for coming. You probably find that we are not all in total agreement on this committee. You understand the personal friendships of those of us who are here.

I do want to start off by thanking you for recognizing the importance of Lake Champlain by including it in EPA's budget proposal. Lake Champlain is the largest body of fresh water in this country outside of the Great Lakes. It is a beautiful spot. I invite you to come up and visit any time you'd like.

Cleaning it up has been one of my top priorities and one of Vermont's top priorities, Governor.

There are different political parties, but we stand shoulder to shoulder in our efforts to clean it up, and I think I could speak for him, too, and say thank you for including it in the budget.

I also applaud you for the tone you set assuming your duties at EPA. Tones are important anywhere. For us, the actual notes can sometimes be even more important than the music. We talked about the Clean Air Act. I was here when it was first put together, and it was a bipartisan effort.

You had Republicans like Senator Stafford of Vermont and other lead members of the Republican party, and of the Democratic Party working closely together on a series of compromises to pass the Bill. Today, I am concerned that the administration is trying to roll back the Clean Air Act, and to let large pollutants off the hook when it comes to toxic emissions like mercury.

My concerns, if these rollbacks succeed, are that we will undermine not only decades of work restoring Lake Champlain, but countless other rivers, lakes and streams all over the country. And there is, as you have seen in the press, heard on the news, there is a strong bipartisan and growing outcry about the administration's latest retreat from the Clean Air Act in your mercury proposal.

And these concerns are moving so swiftly, they may reach critical mass here on Capitol Hill. Let me give you this chart, and this is why the objections are so strong. You could see in the dark red, it shows mercury levels across the country.

Now, this is an EPA chart. The top level, of course, is Canada. Here in Vermont, Maine, New England, you can barely see us. You can't even see Vermont. We, in the Northeast, have been a dumping ground for coal-fired power plants in the Midwest. We have been that way for decades.

In drafting the Clean Air Act, the idea was to work out a series of grandfather clauses so that the Midwest power plants would have time to improve and cut down emissions. Well, now, we see what has happened.

We all believe in family values, I know you do, I do, but it's not a family value to tell a pregnant woman that the mercury level may be too high for the child she is bearing. And for those of us who have children and grandchildren of a young age, they're devel-

oping their neurological systems and the mercury level that may possibly be safe for you or for me is not for them. These are not family values.

And the EPA's new proposal to reduce mercury emissions from these plants was supposed to bring power plants into the 21st century, and clean up their emissions. It doesn't do that. It falls far short of what is possible and what is necessary. There has been a lot of public relations efforts to convince Americans that more mercury in their water, food and environment over a long period of time is the best we could do. That doesn't work.

All you have to do is pick up any newspaper in this country, any article, or turn on the TV, turn on the radio, and see the concerns about mercury.

What has come up is the fact that this administration's close collusion with polluting industries in devising its policy on mercury. This raises serious concerns. Most of these things happened before your tenure, but I'm raising this now. I'll be very blunt, I think the administration has a credibility problem on its approach to the Clean Air Act and to mercury pollution.

Look at the new warnings about mercury risk from tuna, increasing numbers of pregnant women with unsafe mercury levels, and newborns with high mercury levels. Now, this is bringing about a real strong public demand for action. Mercury is the last major toxin without a containment plan.

I remember back when we talked about removing lead from gasoline, we heard more dire predictions from energy companies, from everybody else involved. Well, we did it. It turns out it was one of the smartest environmental steps we've ever taken.

If we don't do something now to cut mercury emissions quickly, we will look back years from now and ask why we let polluters off the hook for so long.

I am very troubled by what has come forward now about the number of things in the mercury proposal that were written by industry, not by EPA. You've got an industry-ghostwritten, scientifically unjustifiable policy on mercury. Thank you, Mr. Chairman.

Senator BOND. Thank you very much, Senator Leahy. Now, Mr. Administrator, our policy is to accept your full written statement for the record, which we appreciate receiving, and we would ask you to highlight those points that you think are particularly appropriate. I commend you and your administration for taking the steps for the first time to do something about mercury, and I know you have many positive thoughts to share with us, and we would welcome your oral testimony. Thank you, sir.

STATEMENT OF MICHAEL O. LEAVITT

Administrator LEAVITT. Thank you, Mr. Chairman, and Members of the committee. We are delighted to be here today to present the President's fiscal year 2005 budget. I will be brief, because I am anxious to get to the discussion. I am interested in pursuing the discussion that the Senator from Vermont, Senator Leahy, raised with respect to mercury, and there is some interest and passion for me as well. I'm interested to share my thoughts with you, and hearing more of yours.

The President's given me a fairly direct responsibility. He told me to clean the air, purify the water, make certain that the land was better cared for, but he told me to do it in a way that would preserve the economic competitiveness of this country. I—

Senator BOND. I think there is an old joke about the alternative is to build a bridge to Hawaii, and that is an easier task.

Administrator LEAVITT. It is not without challenges, but I am also persuaded that it is achievable. I have been reviewing recently the material that will be used in the celebration of this agency's 34th anniversary. It was formed on Earth Day in 1970. Since that time, this country has seen substantial environmental progress and economic progress.

The pioneers of this environmental movement used a command and control strategy that may have been the only way at that point to move the country toward environmental progress. But today in my testimony, you'll hear a mantra that we are using at the Environmental Protection Agency: to find a better way.

We believe a better way is when we use technology to change the equation from what before was improbable to what now is possible. A better way is when we use market incentives to speed the acceptance of new and higher standards. We think a better way is when we use collaborative network building to solve problems, like some of those that you have spoken of today.

A better way is when we focus on results, and not just rewarding programs. Markets, technology, building collaborative networks, focusing on results, that is what you'll hear from me today. I will use illustrations, like the Interstate Air Quality Rule that has been mentioned already, a 70 percent reduction on NO_x and SO_x, and I'll talk about the Nation's first effort ever to regulate mercury from power plants, the largest source, and using a better way to do that.

PREPARED STATEMENT

Again, you'll find me today representing the Agency's objective to increase the velocity in environmental progress, but to do it in a way that will maintain our Nation's economic competitiveness, and I look forward to the discussion.

[The statement follows:]

PREPARED STATEMENT OF MICHAEL O. LEAVITT

Mr. Chairman and members of the committee, I am pleased to be here to discuss President Bush's fiscal year 2005 budget request for the Environmental Protection Agency. The President's fiscal year 2005 budget request of \$7.8 billion provides funding necessary for the Agency to carry out our mission—to protect human health and safeguard the natural environment—efficiently and effectively. Given the competing priorities for Federal funding this year, I am pleased by the President's commitment to human health and environmental protection.

I would like to begin, Mr. Chairman, by emphasizing that the President's budget request for EPA reflects the Agency's commitment to cleaning our air, cleansing our water, and protecting our land efficiently and effectively, while sustaining economic growth. The request promotes EPA's goals by facilitating collaboration, harnessing leading-edge technology, and creating market-based incentives for environmental protection.

This Agency remains committed to working with our geographic and regional partners and focusing on our core programs to protect human health and the environment. Of the \$7.8 billion budget, \$4.4 billion—the highest level in EPA history—is devoted to the Agency's core regulatory, research, and enforcement activities, and

State program grants. The President and I both believe that enhancing EPA's core programs is a vital part of effective environmental management and stewardship. Our budget request reflects that.

As EPA continues to carry out its mission, I look forward to building upon a strong base of environmental progress. This budget, Mr. Chairman, will enable us to carry out our principal objectives while allowing us to react and adapt to challenges as they arise.

CLEAN AIR AND GLOBAL CHANGE

The fiscal year 2005 President's Budget requests \$1.0 billion to fund our clean air and global change programs, thereby helping to ensure that air in every American community will be clean and safe to breathe. The budget includes a large increase for EPA's Clean School Bus USA grant program to \$65 million for projects that reduce diesel emissions from school buses through bus replacement or retrofitting. Clean School Bus USA helps ensure that school children have the cleanest transportation possible. This program is an additional tool for communities to develop localized solutions for environmental protection to meet new air quality standards for particulate matter.

This budget also supports the President's Clear Skies initiative, which draws on EPA's experience to modernize the Clean Air Act. Clear Skies legislation would slash emissions of three power plant pollutants—nitrogen oxide, sulfur dioxide, and mercury—by 70 percent. Such emissions cuts are an essential component of improving air quality and thus environmental and human health. The Clear Skies initiative would build upon the 1990 Clean Air Act's acid rain program by expanding this proven, innovative, market-based approach to clean air. The power plant reductions required under Clear Skies and our new diesel engine regulations will bring most of the country into attainment with the new ozone and PM air quality standards: by 2020, only 27 counties out of 263 will need to take further steps to be in attainment for ozone; only 18 counties out of 111 will need to take further steps to be in attainment for PM. Such a program, coupled with appropriate measures to address local concerns, would provide significant health benefits even as energy supplies are increased to meet growing demand and electricity rates remain stable. I look forward to working with you, your fellow members of Congress, and the President on this landmark legislation. Next month, I will formally designate counties that will be out of attainment with the new ozone standards; in December, I will formally designate counties that will be out of attainment for particulate matter. These designations start the clock ticking on the often controversial and resource-intensive State planning process. By 2007, States must have plans to get into attainment approved by EPA. So, the budget would also support the Interstate Air Quality Rule we proposed in December and intend to finalize this year. This rule is similar to Clear Skies in that it requires an approximate 70 percent reduction in sulfur dioxide and nitrogen oxide from the power sector. However, due to authority under the Clean Air Act, its reach is limited to States in the eastern half of the United States that contribute pollution to neighboring States. Although this rule would allow us to take an enormous step forward in providing cleaner air across much of the country, it would not do so as fast or as effectively as would Clear Skies.

EPA's request for clean air programs includes \$313 million for clean air grants to support our collaborative network of States and Tribes. These resources will assist States, Tribes, and local governments in devising additional stationary and mobile source strategies to reduce ozone, particulate matter, and other pollutants.

The clean air and global change request also includes \$130 million to meet our climate change objectives by working with business and other sectors to deliver multiple benefits while improving overall scientific understanding of climate change and its potential consequences. The core of EPA's climate change efforts are government/industry partnership programs designed to capitalize on the tremendous opportunities available to consumers, businesses, and organizations to make sound investments in efficient equipment and practices. These programs help remove barriers in the marketplace, resulting in faster deployment of technology into the residential, commercial, transportation, and industrial sectors of the economy.

CLEAN AND SAFE WATER

In fiscal year 2005, this budget requests over \$2.9 billion for its water programs. EPA's fiscal year 2005 budget focuses on four strategies toward achieving the Nation's clean and safe water goals. To better address the complexity of the remaining water quality challenges, EPA will promote local watershed approaches to execute the best and most cost effective solutions to local and regional water problems. To

protect and build on the gains of the past, EPA will focus on its core water programs. To maximize the impact of each dollar, EPA will continue to strengthen vital partnerships and collaborative networks with States, tribes and local governments, and others in working to achieve our shared goal of improving the Nation's waters. To leverage progress through innovation, EPA will promote water quality trading, water efficiency, and other market based approaches.

The budget makes a significant investment in a new water-quality monitoring initiative to solve water quality monitoring problems. Through this investment, EPA can make the most of scarce resources through information-based management, using tools such as prevention, source water protection, watershed trading, and permitting on a watershed basis. Monitoring is the foundation of information-based management and it is imperative that the data and information gaps be closed as quickly as possible. The budget provides a total of \$20 million to strengthen State and tribal water quality monitoring programs, improve data management systems and improve monitoring tools. Of that amount \$17 million in grants provides direct assistance to States and tribes. Three million dollars of this funding will provide technical assistance to help States and tribes develop statistically representative water quality monitoring programs, a tool that will eventually allow EPA to make a national determination of water quality and ensure resources target the highest priority problems.

States are struggling with implementation of the National Pollution Discharge Elimination System (NPDES) permitting programs, as demonstrated by withdrawal petitions and permit backlogs. Compounding the problem is that the regulated universe increased tenfold due to new requirements for concentrated animal feeding operations and storm water runoff. The Agency requests a \$5 million increase in Section 106 Grants to help States issue timely and effective NPDES permits. By providing additional resources in the form of State grants, EPA will help States and tribes meet obligations under the revised rule and help reduce pollutants and make necessary improvements in water quality.

EPA is also advancing water quality trading in voluntary partnerships on a watershed basis. It capitalizes on economies of scale and cost differences among sources. Trading allows one source to meet its regulatory obligations by using pollutant reductions gained by another source and provides incentives for voluntary reductions at a reduced cost to all. It provides an opportunity for innovative solutions to complex water quality problems. To encourage the implementation of water quality trading programs, the budget includes \$4 million in the Targeted Watersheds Grants program.

The President's Budget continues its commitment to help provide affordable financing for States' water infrastructure needs. The Budget provides \$850 million for the Clean Water State Revolving Fund, which will ultimately result in a \$3.4 billion long term revolving level, helping communities across the country clean up their wastewater. It also provides \$850 million for the Drinking Water State Revolving Fund, resulting in a long term revolving level of \$1.2 billion and protecting public health. However, growing populations are increasing demands on water resources, and addressing these demands, along with the Nation's multi-billion dollar water infrastructure gap, will require creative solutions at the local, State and Federal level. As part of a long-term strategy to develop sustainable infrastructure EPA will work in partnership with States, the utility industry and others to enhance operating efficiencies and mitigate infrastructure needs by encouraging efforts to reduce water demand and wastewater flows, potentially downsizing capital needs. High priority activities in support of this effort include a new water efficiency labeling program and a sustainable infrastructure initiative that will promote best practices such as full cost pricing.

LAND PRESERVATION AND RESTORATION

This budget continues EPA's commitment to clean up toxic waste sites with \$1.4 billion for Superfund. This reflects a \$124 million increase over the fiscal year 2004 appropriated level for Superfund's remedial program, which will allow for 8–12 additional construction starts in 2005 and a similar number of additional completions by 2006. As of January 2004, cleanup construction projects were underway or complete for over 93 percent of National Priority List (NPL) sites.

The President's Budget also includes an additional \$26 million to strengthen EPA's partnership with States to monitor underground storage tanks. Recognizing that States have primary responsibility for monitoring tanks, issuing permits, and enforcing regulations, the additional grant money will provide funds for States to inspect a larger universe of federally regulated underground storage tanks on a more frequent basis.

PROTECTING AMERICA'S COMMUNITIES AND ECOSYSTEMS

EPA is committed to building and enhancing effective partnerships that allow us to safeguard human populations and ecosystems across America. To help protect and restore land-based ecosystems, this budget provides \$210.7 million, over \$40 million more than the level provided in the fiscal year 2004 Consolidated Appropriations bill, for the Brownfields program, one of the administration's top environmental priorities. The Brownfields program will draw on these additional resources to provide grants to State and Tribal partners to fund cleanup of lightly contaminated sites. By protecting land and revitalizing contaminated sites throughout the United States, EPA continues to expand efforts to foster healthy and economically sustainable communities and attract new investments to rejuvenated areas.

EPA's budget requests resources to protect individual ecosystems across the country, including a total of \$30 million for the Chesapeake Bay. Ten million dollars of this total will be provided through the Targeted Watersheds Program for a pilot program to help municipalities reduce nutrient discharges to the Bay through collaboration with nonpoint sources. EPA's collaborative partnership in Chesapeake Bay protection, which serves as a model for similar endeavors, includes Maryland, Virginia, Pennsylvania, the District of Columbia, the Chesapeake Bay Commission, and participating citizen advisory groups.

The Great Lakes are the largest system of fresh surface water on Earth, containing roughly 18 percent of the world's supply. The Great Lakes basin also is home to more than one-tenth of the population of the United States, one-quarter of the population of Canada, and heavy concentrations of industry. Over the years, industrial development has contaminated sediments throughout large areas of the lakes with toxics such as polychlorinated biphenyls (PCB's) and heavy metals, putting large populations and the tremendous water resource at risk. EPA's Great Lakes Legacy program provides funding to remediate contaminated sediments, keeping them from entering the food chain where they may cause adverse effects to human health and the environment. In 2005, this administration will demonstrate its commitment to the health and well-being of the region and its citizens by proposing to fund the Great Lakes Legacy program at \$45 million, nearly five times greater than previous levels.

To ensure that the American public will continue to enjoy one of the safest and most affordable food supplies in the world, the President's budget continues to meet implementation challenges of the Food Quality Protection Act (FQPA). The Agency's implementation of FQPA focuses on science-driven policies for pesticides review, seeks to encourage the development of reduced risk pesticides to provide an alternative to the older versions on the market, and works to develop and deliver information on alternative pesticides/techniques and best pest control practices to pesticide users. The Agency is also working to help farmers' transition to safer substitutes and alternative farming practices while minimizing production disruptions. Reassessing existing tolerances ensures food safety, especially for infants and children, and ensures that all pesticides registered for use meet current health standards.

COMPLIANCE AND ENVIRONMENTAL STEWARDSHIP

This budget also requests \$751 million to promote and insure compliance with environmental laws, and to foster and support the development of pollution prevention strategies and innovative approaches to environmental protection. Since EPA's inception over 30 years ago, many environmental improvements in our country can be attributed to a strong set of environmental laws, and to our efforts to ensure enforcement of those laws. The Agency uses a "smart" enforcement approach, employing a mix of compliance assistance, incentives and monitoring strategies, supported by strong, effective civil and criminal enforcement and litigation teams. This "smart" approach maximizes the use of the Agency's resources and personnel, and allows us to quickly and effectively adapt both to emerging environmental threats and to changes in law and policy.

The President's fiscal year 2005 request also continues to support results-based, innovative, and multimedia approaches to pollution prevention and natural resource conservation by government, industry, and the public. Increasingly, Americans are recognizing the value of their own pollution prevention efforts, and the contributions made through sustainable business practices, to the preservation and restoration of community and national environmental resources. In addition, EPA will continue to support initiatives targeted toward improving compliance at public and private facilities, empowering State and Tribal environmental programs, encouraging corporate stewardship, and better informing the public.

STRONG SCIENCE

Sound science is a fundamental component of EPA's work. The Agency has long relied upon science and technology to help discern and evaluate potential threats to human health and the natural environment. Much of our decision-making, policy, and regulatory successes stem from reliance on quality scientific research aimed at achieving our environmental goals. In fiscal year 2005 EPA will strengthen the role of science in decision-making by using sound scientific information and analysis to help direct policy and establish priorities. This budget request includes \$572 million for the Office of Research and Development to develop and apply strong science to address both current and future environmental challenges. These resources support a balanced research and development program designed to address administration and Agency priorities, and meet the challenges of the Clean Air Act (CAA), the Safe Drinking Water Act (SDWA), the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA), the Food Quality Protection Act (FQPA), and other environmental statutes. The budget request includes important new or increased research efforts in the following areas: computational toxicology, data quality, and EPA's Integrated Risk Information System (IRIS)—an EPA database of Agency consensus human health information on environmental contaminants.

ACCELERATING ENVIRONMENTAL PERFORMANCE

To further promote environmental stewardship with localized solutions, the Agency requests \$1.25 billion, the highest level ever, for categorical grants to support core State and Tribal environmental programs. A new State and Tribal Performance Fund provides \$23 million in competitive grants to develop projects with tangible, performance-based environmental and public health outcomes that can be models for implementation across the Nation. The administration believes that the best way to ensure strong, effective programs is to promote accountability, competition, and performance, and these funds will allow States and tribes that can link their proposed activities to health and environmental outcomes to receive additional assistance. EPA will also continue its emphasis on working with Tribal governments to build the capacity of their environmental programs.

REWARDING RESULTS AND INCREASING PRODUCTIVITY

The President's proposed EPA budget for fiscal year 2005 fully supports the Agency's work. The request demonstrates EPA's commitment to our principal objectives—safeguarding and restoring America's air, water, and land resources—by facilitating collaboration, harnessing leading-edge technology, creating market-based incentives, and ultimately finding a better way for environmental protection. As we look to the future, I am confident that this funding will ensure the Agency's fulfillment of our responsibilities to the American public.

With that, Mr. Chairman and members of the committee, my prepared statement is concluded. I would be pleased to answer any questions you may have.

STATE REVOLVING LOAN FUNDS

Senator BOND. Thank you very much, Mr. Administrator, and let me begin with some questions. We have discussed water infrastructure funding. I think that funding our Nation's water infrastructure is one of the really pressing issues facing EPA. I have seen communities that don't have clean water. They aren't able to clean up their waste water, and I know what an impact that has on the health of their citizens, not just the environment.

I was very disappointed in the OMB recommendation on the EPW panel. I have heard people complain that this administration has cut the SRF's. I pointed out to them that OMB has done this traditionally.

We have people in OMB who apparently have never seen problems with waste water that is not cleaned up. I would be interested in any suggestions that the administration has on how States and localities can find resources to meet this country's water infrastructure needs. Are there other things that are in addition to SRF's?

How are these SRF's being used? How can we deal with the arsenic problem that Senator Craig has raised?

Administrator LEAVITT. Senator, I feel some confidence that your sensitivity on this matter most likely has its root when you were governor. It is certainly when I learned the value of the State Revolving Loan funds to small communities like those that have been mentioned already today.

In our States, most States, small communities, and even moderate to large size communities, have depended on State Revolving Funds. Now that I've become Administrator of the Environmental Protection Agency, and see the demand, particularly in some of our large cities for the retooling of their entire systems, the need has become quite evident to me.

It is also clear that there is a gap in our approach thus far as a Nation in dealing with this. I've had a chance to study the history of this problem going back to the passage of the major underpinning legislation when the country at the Federal level made huge investments, in the neighborhood of \$65, \$70 billion to create the systems, and they've had a good impact. But we're now at the point where just like our highways, many of them are beginning to need repair.

The question that is raised by this discussion, is what is the partnership? It will clearly be a partnership between the Federal Government, the State governments and local governments, and the rate payers and we are anxious to have that conversation. It will be a function of Federal funding. It will be a function of local funding and State funding, but there are other things we can do.

I think the point you make about using the funds differently, I am very anxious to have a conversation about using greater leverage in the funds that we've put forward.

How can we stretch the availability of Federal funds? How can we work with local water districts to employ rate systems that provide incentives for conservation?

Those are all part of this bigger conversation. We do think that it is an important area, and look forward to having a discussion with you and the committee.

MERCURY RULE

Senator BOND. Governor, I may have another several questions pertaining to SRF's that I'll ask on the second round, but I thought it is important to ask this question. I want to hear your responses, because I know this is going to be a controversial area.

This administration is the first administration to propose to control mercury from power plants; and that seems to be ignored by the critics, but there are lots of questions raised about the way that the regulation was adopted. I would welcome your comments on the Agency's commitment to reduce mercury exposure.

Administrator LEAVITT. Senator, I am anxious to reply, and am looking forward to the conversation further as we proceed. It is important to look at the history of this. The requirement for the Environmental Protection Agency to look at mercury came as a part of the Clean Air Amendments passed in the early 1990's. The Agency was to study mercury from power plants and decide whether it was a toxin that needed to be regulated in the early—in the mid-1990's,

I think 1994 was the deadline. The Agency did not meet that deadline. They were sued by an environmental organization.

A consent decree was entered into in I believe, in 1996 or 1997. That deadline was missed, and they extended it. The next deadline was missed, and they extended it, and then 10 days prior to the time this administration took office a declaration was made that mercury from power plants needed to be regulated. It was left to this administration, whoever it was that would be in my chair, to set the standard.

That standard was to be proposed on December 15, 2003. That is an obligation that I took very seriously. Among the first decisions that I made as Administrator was that we would meet that deadline, we would establish the standard. On December 15, we filed a proposed rule that would outline that standard. That was the beginning of a conversation.

We are in the midst now of a national comment period to hear from tens of thousands of people on their feelings regarding mercury.

I would point out that recently, the Agency did join with the Food and Drug Administration to highlight the relationship of mercury in fish. Basically, the message was fish is good, mercury is bad, and we've got to do all we can to reduce it.

The process we are in right now is to set that standard. We intend to set the standard as prescribed in the law, using the best available technology. We intend to do it in a way that is most efficient. We intend to do it to the furthest degree that we can. I feel some optimism that for the first time in this Nation's history, we will regulate mercury from power plants, and it will occur this year.

Senator BOND. Thank you very much, Governor. We have been joined by my Ranking Member, Senator Mikulski. Are you ready to offer us your comments and first round of questions?

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. And I apologize both to you and to Administrator Leavitt. I was testifying at a flood insurance hearing discussing the need to both reauthorize and reform it. My State suffered terrible damage during Hurricane Isabel. We were doubly hit, one by the hurricane, and again by some of the flawed practices of flood insurance.

PREPARED STATEMENT

Mr. Chairman, in the interest of time, I am going to ask for unanimous consent that my full statement go into the record.

Senator BOND. Without objection, we would love to hear it, but we will accept it for the record.

[The statement follows:]

PREPARED STATEMENT OF SENATOR BARBARA A. MIKULSKI

I would like to welcome Administrator Mike Leavitt to his first hearing before the subcommittee. The EPA serves the very important mission of protecting human health and the environment. So I am troubled that the 2005 budget request for the EPA is just \$7.76 billion—a \$610 million cut from the 2004 level. This is a cut of 7 percent.

A robust EPA budget is an opportunity to make America safer, stronger and smarter. It makes America safer by cleaning up our air, water and land. It makes us stronger by creating jobs and economic development. And it makes us smarter by helping to develop new environmental technologies.

A strong EPA budget gives us triple value for the taxpayer dollar. I'm concerned that this EPA budget doesn't get us there.

BROWNFIELDS

I'm pleased that Brownfields is one area in which the budget is strong. The budget request is \$210 million—a \$40 million increase over last year. Brownfields make our communities safer by cleaning up contaminated properties, stronger by creating jobs and economic development and smarter by using newer, better, and faster technologies for cleanup.

I am pleased that the budget makes a solid downpayment toward the fully authorized level of \$250 million for Brownfields. But I am also puzzled about many areas of this budget proposal.

WATER INFRASTRUCTURE

I know that EPA didn't get everything it wanted from OMB, but I really question some of the priorities. The most glaring example is water infrastructure. The budget request cuts over \$800 million in water and sewer project funding. The budget cuts \$500 million from the Clean Water State Revolving Loan Fund and \$327 million for targeted water projects.

The administration says it cut earmarks. But Congress funds these projects because the needs are so great. There is no national framework that even comes close to addressing the national needs.

Water and sewer funding makes our communities safer by cleaning up the environment, fixing sewer overflows and leaks, preventing pollution from getting into lakes, streams, rivers, and bays and by making sure our communities have safe drinking water by removing arsenic, lead and other contaminants. Water and sewer funding makes our communities stronger by creating jobs, businesses and economic development. And water and sewer funding makes America smarter by developing new technologies to clean our water.

NATIONAL NEEDS

The administration's cut to water and sewer funding is puzzling.

Our communities have enormous needs. Over the next 20 years, there will be a funding "gap" for our communities of \$540 billion. These needs have been studied and restudied.

In April 2000, the Water Infrastructure Network reported that our Nation's water and wastewater systems will face a funding gap of \$23 billion a year over the next 20 years. In November 2001, the General Accounting Office (GAO) reported that costs could range from \$300 billion to \$1 trillion over the next 20 years. In September 2002, the Environmental Protection Agency (EPA) reported that over the next 20 years, demands for improved sewer and drinking water systems will outstrip current levels by \$535 billion.

And in November 2002, the Congressional Budget Office (CBO) reported that water and sewer costs could average as much as \$40 billion each year. The results are conclusive and the need is real and valid.

MARYLAND'S NEEDS

Our Nation's Governors are struggling with tight budgets. In Maryland, we have \$4 billion in immediate needs, but this budget would cut Maryland's share by over \$10 million.

Governor Ehrlich is putting a "flush tax" on residents to try to make up the gap. So when the EPA doesn't help our communities the entire burden falls on local rate payers. But in many urban and rural low-income areas, rate increases are just not affordable.

JOBS

The budget cuts to water infrastructure are also puzzling because water and sewer funding creates jobs. For every \$1 billion we spend on water infrastructure up to 40,000 jobs are created.

I thank Administrator Leavitt for responding to my request for an updated, comprehensive jobs study and I look forward to working with him on it. But I am really puzzled why the budget skimps on this priority.

I know this was probably a funding decision by the OMB, but this cut really signals a failure in that we don't have a comprehensive national policy to address our communities' needs. We need new thinking on a new national policy to help communities pay for water and sewer.

Last year, the EPA convened a conference on how to "close the gap," including State and local officials, business and other experts to exchange ideas about how to meet water and sewer challenges. I would like to hear about how the EPA followed up and what the next steps will be. I want to know what the EPA is doing to develop new ideas to help communities meet these challenges. I am deeply concerned that this budget does not adequately address these challenges.

What is EPA, as an advocate for the environment, doing to make this a national priority and develop solutions to make America's communities safer, stronger and smarter?

CHESAPEAKE BAY

The Chesapeake Bay is a national treasure. Each year, the VA-HUD Subcommittee provides \$20 million for the EPA's Chesapeake Bay Program. The EPA is the lead among 23 Federal agencies working together with State and local governments to restore the Bay.

The subcommittee also provides funding for small watershed grants: \$2 million last year for grassroots projects to clean up the Bay. But the budget zeroes out these grants. The subcommittee also funds projects for nutrient removal from sewage treatment plants along the Bay. But the budget zeroes out funding for these projects. Instead, the EPA's budget includes \$10 million for a new "Targeted Watershed Initiative for the Chesapeake Bay."

BAY NEEDS

The Chesapeake Bay Commission, made up of representatives from Bay States, tells us that we will need \$18.7 billion by the year 2010 to clean up the Bay. So while we appreciate that this budget includes new funding, the Bay needs a more robust commitment.

I want to hear from Administrator Leavitt today on how the EPA plans to make highest and best use of funding for the Bay.

RESEARCH

Another area of the EPA's budget that makes America safer, stronger and smarter, is research and development. For example, the EPA's Science to Achieve Results (STAR) program develops partnerships between the EPA and scientists to come up with new ideas and technology to prevent pollution, protect public health, reduce environmental risks, and get new technologies to market.

Robust research funding makes our environment safer, helps fight threats against natural and man-made environmental disasters and it makes our communities stronger by developing new technologies for our communities to use. All of this makes us smarter in the way that we protect public health and the environment. But STAR research is cut by \$34 million in this budget.

Overall, the EPA science and technology budget is cut by \$93 million. Our country faces many environmental challenges and we need robust support for research to develop new technologies that will help our communities meet these challenges and protect public health. The budget also cuts \$8 million for building decontamination research.

The EPA has been a leader in building cleanup of anthrax and ricin—in our Senate buildings. The EPA's work is a model for private buildings. So I am troubled that this research is cut.

ENFORCEMENT OF ENVIRONMENTAL LAWS

I also want to follow up on the EPA's budget to enforce environmental laws. Over the past few years, the subcommittee has rejected the EPA's proposals to reduce Federal enforcement staff. The subcommittee had serious concerns that reductions in Federal enforcers would result in more polluters ignoring the law.

We need both a strong Federal and strong State enforcement to achieve compliance with our environmental laws. I would like to hear from Administrator Leavitt about how priorities are being set for enforcement.

The VA-HUD Subcommittee will continue to stand sentry against cuts to Federal enforcement.

COMMUNITY ENVIRONMENTAL STEWARDSHIP

I also am concerned about cuts in this budget to programs that don't cost much but that are very important to communities. For example, this budget cuts environmental justice and zeroes out environmental education. The subcommittee provided \$10 million last year for these programs. These are small investments that make a big difference, so I am puzzled why they are cut.

CONCLUSION

Finally, I hope that we can have a VA-HUD bill this year that is not a vehicle for environmental riders.

I thank Administrator Leavitt for his testimony today and I look forward to hearing from him about how the EPA's budget will make America safer, stronger and smarter.

CLEAN WATER STATE REVOLVING LOAN FUND—REDUCTION

Senator MIKULSKI. Because I know that we are under a tight time schedule.

Mr. Leavitt, I know that you've just answered the questions on mercury, which were of very keen interest to me, but I want to go to another topic—water quality. The fact is that communities are facing very serious challenges in water, sewer, and treatment plants.

Here is my question: I understand that the budget proposes to cut \$500 million from the Clean Water State Revolving Loan Fund. Could you tell me what would be the consequences of this cut, how many projects won't be funded, and how this will impact public health and the environment?

Administrator LEAVITT. Senator Mikulski, we at EPA have done a study to determine what the gap in water infrastructure is now, and what we are investing as a country. The Federal Government clearly has a role in this partnership. It is a Federal, State, and local role. It is a ratepayer role. It is one that we all have to deal with, and we are anxious to not just look at what our role should be as a Federal Government, we are also looking to be able to add additional benefit. For example, to help in promotion of being able to—

Senator MIKULSKI. What will be the consequences of the cut? How many projects won't be funded, and how it is going to impact the environment?

Administrator LEAVITT. Senator, I'll need to submit that information to the record. I don't know precisely how many won't be—

Senator MIKULSKI. Can you tell me, though, what you estimate are the consequences of the cut?

Administrator LEAVITT. Well, the consequences that we find ourselves as a country, with far greater demands, not just for Federal money, but for local money, for State money, our Revolving Loan Funds, are not going to be sufficient to meet that entire need.

Senator MIKULSKI. That is exactly right, what is the backlog of requests on the claim for a Clean Water State Revolving Loan Fund?

Administrator LEAVITT. I'll have to give you the specifics.
[The information follows:]

CLEAN WATER SRF: REDUCTION

EPA believes that few if any projects will be impacted in fiscal year 2005. Federal capitalization grants are a smaller percentage of available Clean Water State Re-

volving Fund (CWSRF) as more funds are being derived from loan repayments, interest earnings, and issuance of bonds. As of June 30, 2003, the States had about \$3.5 billion of CWSRF funds available that had not yet been committed to loans. In addition, annual inflows to the CWSRF from new loan repayments, bond proceeds, and interest earnings continue to increase.

In 1997, the Federal Government promised to help States establish a \$2 billion projected long-term target annual revolving level for funding new wastewater treatment plants and other infrastructure to keep our waters clean. With the funding appropriated by Congress to date, the \$2 billion goal has been reached and, in fact, exceeded. A total funding level of \$4.4 billion is achieved by an appropriation of \$850 million a year from fiscal year 2004 through fiscal year 2011. Administration analyses using historical information indicate that, by extending Federal capitalization of the CWSRF program through 2011 at \$850 million per year, the President's proposal will significantly increase the CWSRF program's ability to fund projects in both the near term and in the long-run.

Senator MIKULSKI. Mr. Leavitt, I welcome you to your first VA-HUD hearing, but this is a pretty big deal question. If you can't tell me you've cut a half a billion dollars from the State Revolving Loan Fund, and you can't tell me what the backlog is, so how can we estimate what it is going to take to do this?

Administrator LEAVITT. Senator, I'm going to introduce you to Mr.——

Senator MIKULSKI. Can you do that?

Administrator LEAVITT. I'll introduce you to "Mr. Water" at the EPA, Ben Grumbles.

STATE REVOLVING LOAN FUND—REDUCTION

Senator MIKULSKI. Let me tell you, while he is getting himself together, and we look for the answers, the subcommittee feels that this is one of the most important areas that we can pursue. No. 1 it improves the environment, and it improves public health.

No. 2 it also creates jobs, and it creates jobs in the United States of America. So if you are building a water system here, or you are taking pollutants out of sewerage that goes into the Chesapeake Bay, you are creating jobs, from the civil engineers who design it, to the heavy equipment. It is a win/win thing, and I just cannot, for the life of me, see why we would cut clean water funding. You want to tell us?

BACKLOG OF WASTEWATER PROJECTS

Mr. GRUMBLES. Senator, I am Ben Grumbles, I am the Acting Assistant Administrator for the Office of Water. The backlog is a question. What you have to do is look at the backlog in each of the States.

Senator MIKULSKI. What does it add up to?

Mr. GRUMBLES. Well, what it adds up to is, is that each State has an intended use plan, and I can't say what project each and every State has. What I can tell you is that given our proposed requests for the SRF, we know that the gap will continue. But we also know——

Senator MIKULSKI. Can you tell me what the backlog is in American dollars? I can tell you what the backlog is in Maryland. We have got a \$4 billion backlog. We are under a \$900 million consent decree in Baltimore City because our water system was built over a hundred years ago. Baltimore City doesn't have \$900 million, neither do the ratepayers.

Let's start there. So you have got a backlog of \$4 billion in one State and you've got 50 States. I am very frustrated by the inability to tell me what is the dollar backlog. Your predecessor could do that.

Mr. GRUMBLES. We could tell you from a national perspective.

Senator MIKULSKI. What is it?

Mr. GRUMBLES. There is a \$21 billion gap in the amount of funding that is needed over the next 20 years, and that States and localities, if they relied on their current revenue sources, will have. We factored into this debate the reality that the way to close that gap is to have a long-term funding plan. And the 850—

Senator MIKULSKI. What is it? You are starting with a \$500 million cut.

Mr. GRUMBLES. Right. The problem is the \$850 million a year from Federal funding through 2011 adds essentially \$4.4 billion in moneys at the Federal level. But the most important aspect is to focus not just on the supply side, but the demand side. So what we are doing is accelerating the whole emphasis on sustainable infrastructure through different mechanisms, pricing mechanisms, asset management.

There is also targeted funding, targeted watershed grants for the Chesapeake Bay for a new initiative to provide \$10 million to help advance innovative trading between water point source—

Senator MIKULSKI. That is a trading thing like a commodity. What we need in Maryland is actual dollars to do water and sewer, and waste water treatment programs.

We don't need cuts in these areas. And we could go over the estimates, you estimated \$21 billion gap, others have different estimates. Well, we know we have very serious shortfalls. So do you think that a \$500 million cut is a wise and prudent thing to be doing here?

Mr. GRUMBLES. I can respond that the \$850 million in funding, needs to be viewed in the context of, "What are the various programs under the Clean Water Act?" We are actually increasing the funding to the States, Maryland, and other States, for management of the Clean Water Act in general through the Section 106 program. We are also emphasizing additional funding through the Targeted Watershed Grants Program, and through a new \$23 million results-oriented performance grants program.

The point is, is that while we recognize there is a tremendous gap, that we can't just focus on one program, and one agency at the Federal level. We need to look at the other programs, the innovations, the grants to the State in exploring non-point source, as well as—

Senator MIKULSKI. Weren't they cut as well? Aren't they cut as well?

Mr. GRUMBLES. We are proud of the increases in funding for some of those programs, but there is—

Senator MIKULSKI. I think we've covered the ground, and I appreciate your comments.

But, Mr. Chairman, you and I have discussed this. I think this is an area of bipartisan agreement where we need more water and sewer dollars.

I can't see the clock. Is my time up?

Senator BOND. Well, Senator, you have had time as the ranking member, and we have a couple other members here, but if you want to follow up on that, I have no problem. I have made my views clear, and I spoke on this issue, and I thought I spoke for you, apparently I did, when I said that the cuts in the Clean Water SRF was not acceptable.

Senator MIKULSKI. Well, I'll yield my time to other members, and then I'll come for a second round.

Senator BOND. Thank you very much, Senator Mikulski. We have been joined by Senator Domenici. I'll give him an opportunity to make comments and questions for his time slot, and turn it back to Senator Leahy.

Senator DOMENICI. Are we—excuse me, Mr. Chairman. Are we at questions? Have they spoken already?

Senator BOND. Yes, we are well into it, so we'll give you 5 minutes for comments and questions.

Senator DOMENICI. I'm very sorry that I'm late.

Senator BOND. We all have too much to be doing.

Senator DOMENICI. To tell you the truth, I wasn't doing anything.

Senator LEAHY. You may not want that in the record.

Senator DOMENICI. It could be on the record. I'm trying to get my health back, so there is no rush. Got to take it easy, you know.

I thought I had some questions here, that were more specific, but I'm going to give this back to him and see if he can find them.

STATEMENT OF SENATOR PETE V. DOMENICI

I first want to congratulate you and hope you like your job—

Administrator LEAVITT. Yes, I do.

Senator DOMENICI. And compliment you on your science advisor, Dr. Paul Gilman. I hope he doesn't leave you, because he is a very good man. Lots of people want him.

ARSENIC STANDARDS

Senator DOMENICI. One of the things we have out in our part of the country, and it might flow over into some other parts that are not just in the West, is the issue of the arsenic standards.

Mr. Leavitt, I don't know if you remember when you were out in your State that a situation has arisen regarding arsenic. Do you remember?

Administrator LEAVITT. Very clearly, Senator.

Senator DOMENICI. Well, we are in a jam, because we got a standard for arsenic that is crazy, and you have to implement it, I guess, in due course. But somebody got themselves in a position where they couldn't get out of it with further administrative activity on the part of your department, and we're stuck with a standard that is going to cost an enormous amount of money to small communities, and they don't have it.

For some of us, for some of our communities, it is an enormous amount of money. The thing that is so peculiar is that in States like mine, we have lived with arsenic in the groundwater, and flowing in our dry rivers, which we call arroyos for a long, long time. We have traced back the history of the Spanish conquistadores who lived in this area, and the Indians who preceded them, and we

don't have any evidence at all that the arsenic that was there harmed them.

So I want to know if you are looking at some way to help us. There is a bill with many of us cosponsoring it, and we are going to pursue it, but it doesn't do any good unless we have you on our side.

I know you are stuck with a budget this year. That isn't going to last forever. We have to have a way to either defer this, or find you recommending that we have to take care of some communities that don't have sufficient money.

Now, there are some that have sufficient money, but it is just too much. Albuquerque has money. They could go out and do something. But it is in the few hundreds—hundreds of millions of dollars, which is just too much if it is not necessary.

Would you first address it?—and then I have another question.

TECHNOLOGIES TO REDUCE ARSENIC

Administrator LEAVITT. I will invite Paul Gilman to come to the table and tell you specifically about some of the things we're doing in the technology area. While he is coming, may I just address this whole area generally? You've raised it, others have as well.

We established a series of high standards in this country on water, and they are serving us in the context of clean air and water, and improving our public health. We do face at each end of the spectrum on our large systems and our small systems dramatic problems, systems that will require billions of dollars of improvement.

We, as a Nation, have not fully wrestled with how we are going to pay for those. The Federal Government's role is only one portion of it.

On the other end of the spectrum, we are dealing with small systems, like the ones that you've referred to, and that were referred to earlier. We are working to help communities not just finance those changes, but also to find technologies that can make it affordable, and I'd like to ask Paul Gilman to detail a couple of those.

Dr. GILMAN. Thank you, Senator. We have a demonstration program that we are actually implementing as we speak. In fact, one of the sites in New Mexico opened just a few weeks ago. That program is aimed at marrying up different technology companies who have technologies that they believe can be more cost-effectively implemented for small communities, with small communities who have arsenic issues with their water systems.

Our initial phase of that is to have 12 sites up and running. With the funding this committee has provided, we think we can provide an additional 18 to 22 sites that would be doing it in phase two. There we've identified 148 technology vendor proposals, and 32 different sites. Our effort is to try and go to all of the different types of geological media with the appropriate kinds of technology so we can in fact look to the range of issues that different States find, so there are several sites in your State, there are sites in Maryland, Vermont, and Idaho.

So we are trying to hit all the different geologic media, as well as the different community situations, and marry up technology to bring those costs down.

Senator DOMENICI. Thank you very much.

Administrator LEAVITT. Senator, I'll also mention the fact that the Agency is also phasing the arsenic rule over a longer period of time, encouraging the States to use the exemption authority that has been provided them by the Safe Drinking Water Act. The exemption authority will allow States sufficient time to allot portions of their drinking water revolving funds obviously, which we need to build larger, to handle problems like this.

Senator DOMENICI. Thank you very much. Thank you, Mr. Chairman.

Senator BOND. Thank you, Senator Domenici. I passed over Senator Leahy for the first round of questions. If you want, I will be happy to defer from my end the second round of questions to you after Senator Leahy. I want to give Senator Leahy time. He has been here for awhile. I apologize.

MERCURY RULE

Senator LEAHY. That is all right, Mr. Chairman. I appreciate that, and I don't have to leave. I know after some of the comments I made at the beginning, it is only fair that Governor Leavitt be given a chance to respond.

I would point out that I keep hearing the statement the Bush Administration was the first ever to propose a mercury regulation. First, they had to under a settlement agreement. They had to do it by December 15 of last year. To say you've done something you were required to do is commendable, but you were required to do it.

And of course the proposal is a 70 percent cut, not a 90 percent cut, as the previous administration was working toward.

This chart shows just a few examples of where you have language taken from industry memos. It is almost a case of you don't really need all the people to write things. Just take what you get from the industry, take the letterhead off, put yours on.

In some places it is verbatim. In some cases, it has a word or two changed. In fact, you go down through the EPA proposal language and I could find about 20 places where this occurs.

I know that Senator Jeffords called on you to seek an inspection by the Inspector General, and have her find out why it is that an independent agency like yours is having their regulatory work being done by the same people that are supposed to be regulated by it. I understand you have not made that request.

Doesn't this industry influence raise some questions about your agency's independence, if the same people you are regulating are writing your independent regulations? Is this the fox guarding the chicken house?

PROPOSED MERCURY RULE

Administrator LEAVITT. Senator, let me make clear that we brought that allegation to the attention of the Inspector General. I took the mercury MACT rule home over the Thanksgiving holiday and spent a good chunk of that weekend reading about 275 pages of a regulation.

Senator LEAHY. And you stayed awake?

Administrator LEAVITT. Well, I must say they are mind-numbing. But what I was evaluating was a series of ideas. The source of the language wasn't clear to me, and as a matter of course, I would say I would like to know where it came from, but this is a proposed rule. Ideas came from lots of different places.

As a matter of general course and practice, we need to know that, and I am not here to explain it. There is an explanation. That is not productive. The important thing for me is to make certain that—that I tell you directly that we intend to regulate mercury from power plants, and for the first time.

We intend to do it as aggressively as we can to optimize it, given the nature of the available technology. I spent a lot of time in the last 3 months learning the science of mercury and learning the technologies that are available. There is a new technology called activated carbon injection that we have lots of optimism for. The actual amount that we can reduce mercury revolves in large measure around when that technology can be deployable. We think it is deployable.

We think that in fact it is the way in which we'll get to a 70 percent reduction. I can find no evidence anywhere in the EPA where we have proposed a 90 percent reduction. I know that people have talked about it, but I can find no evidence where the EPA has ever proposed that formally until December the 15th, when we suggested that the proposed rule, that is now part of—

MERCURY REDUCTION—COAL-FIRED POWER PLANTS

Senator LEAHY. The technology says we could do 90 percent, doesn't it? I'm looking at a report from the "American Coal Council" magazine, where they talk about these things. Tests have shown you can go down 90 percent.

In the industry-wide application, these technologies within 5 years, couldn't we go 90 percent?

Administrator LEAVITT. It is our opinion that the ACI technology is not yet deployable to scale. Let me tell you a little bit of background that I have, what I learned. There are two ways to reduce mercury at coal-fired power plants. The first is by reducing NO_x and SO_x. That is what is known at that point as co-benefit, by reducing NO_x and SO_x, we get benefit of mercury being reduced as well.

The second means is by controls designed to include mercury. This includes an activated carbon injection system. This essentially is to put a large charcoal filter, if you will, at the top of a smoke stack. The carbon molecules catch the mercury as it goes, and they are able to be essentially harvested, and cleaned, and disposed of in a different way. It is a technology that has been used successfully. They are using it to reduce mercury emissions from municipal wastes, and achieves over 90 percent.

We have also begun to deploy on an experimental basis, on a limited number of power plants, the ACI technology, but it has never been put on a full scale power plant anywhere in the country, and run full-time for any considerable period of time. I have had a chance to speak with the owners of the power plants, and the engineers and the environmental specialists who are testing it.

They have tested it, and in certain conditions, but not in others. This is a big investment, and one that I believe will be made, and that it will ultimately result in a substantial reduction in mercury emissions from coal-fired power plants. The technology needs to be deployed. It needs to be deployed as soon as it is reasonably possible, and we'll do it aggressively, and that is what ultimately will be in the final rule.

Senator LEAHY. Governor, I hope so, because I don't know what you tell mothers, fathers, and grandparents. If you have young children, what do you do? I'm not sure what to tell my pregnant daughter on these things. I look at my grandchildren, and I worry about them.

I do commend you for speaking out and expressing concern when this came to light. But you can understand these kind of things taint just about any statement that comes out, because the people feel that the same polluting industries that are supposed to be regulated by this, are writing the regulations.

The EPA's credibility is gone. Ultimately, in many ways, your credibility is the most important thing you have here. People will cooperate and work with you to clean up these plants, if the credibility is there.

The credibility gets lost, even if you came out with a proposal that you and I would agree on. You are going to have a problem then getting everybody to get onto the bandwagon, spend the money necessary to do it, if the credibility is not there.

I will submit other questions for the record. Maybe you and I will have a chance to talk more about this.

MERCURY RULE

Administrator LEAVITT. Senator, I would be delighted to do that, as we do today on the public record. I want you to know, and other Members of this committee, that we intend to finalize the first ever rule regulating mercury from power plants this year, and we will do so in a way that will reduce to the maximum level possible under available technology. And that we'll be deploying technology in the future to reduce it.

We believe it can be reduced by 70 percent. We believe that there are alternative ways to do it. The final rule, which will be final this year, will be the best of the ideas that we can receive from literally tens of thousands of people in written comments from public hearings across the country, because we acknowledge and recognize that this is a toxin, that it puts pregnant women and fetuses potentially at risk.

We are anxious to cooperate with other governmental agencies, and have as recently as this week with the FDA to make clear to people what guidelines of their own behavior should be that would protect them. I look forward to more conversations on this matter.

Senator LEAHY. Well, as you know, that when your confirmation came up, there was some, some controversy, I voted to confirm you.

Administrator LEAVITT. Thank you.

Senator LEAHY. Many in my State were unhappy with that vote. I hope that you will do this the right way, and let us work together.

Mr. Chairman, thank you very much.

MERCURY—WESTERN COAL VS. EASTERN COAL

Senator BOND. Thank you very much, Senator Leahy. We appreciate it. There will be questions submitted for the record. Senator Domenici has questions, Senator Craig, and of course Senator Leahy's questions. I would just say that the coal that we burn in Missouri is Western coal, and there are real questions whether the ACI works on Western coal.

We understand it may be more effective on Eastern coal, but, as I said earlier, we have got to explore the technologies aggressively to get these pollutants out, because you know, we are trapped. If we can't get the technology that allows us to burn the source of fuel that is abundant, that is coal, we are going to impact families heavily. It's not family values when an elderly couple can't afford to pay their heating bill and buy the food they need, when a young couple can't keep the house warm enough for their children, and still get them the care they need. This directly impacts us in several ways, so this is all connected together.

Let me ask you a difficult question. On April 15, EPA will be designating additional areas as nonattainment for the ozone standard. How will the agency's designation protect public health, as well as ensuring and protecting a healthy economy?

INTERSTATE AIR QUALITY RULE

Administrator LEAVITT. Senator, the Agency does have an obligation to designate those areas in this country that are in attainment with our new 8-hour standard on ozone. We'll meet that requirement, and we'll do so in a way that will be both consistent and defensible, and in a way that will allow us to work then with communities over the course of the next several years to bring them into attainment.

The most important thing we are doing to bring them into attainment is the Interstate Air Quality Rule, which will bring nearly all of the roughly 500 counties that will not be in attainment into attainment. The Interstate Air Quality Rule itself will reduce NO_x and SO_x by 70 percent and will bring nearly—will bring all but 17 of those counties—17 to 20 of those counties into compliance.

So we are not only putting designations on the table, but we are also providing a means by which they will be able to reach attainment within a relatively short period.

OZONE NON-ATTAINMENT AREAS

Senator BOND. This might be a good opportunity to explain how you envision a partnership between the EPA and the States to assure compliance with the environmental laws.

Administrator LEAVITT. We are actually working in direct partnership with the States to determine the areas of attainment and nonattainment. The States made recommendations to the EPA on which areas they believed should be found in nonattainment. The EPA has been working to express our opinion, and to find ways in which to work with the States to reach agreement on which areas would be in nonattainment.

Once an area has been designated nonattainment, we will then work with them to develop a plan. They'll have a 3-year period to

develop a plan, and we will have 1 year in which to comment and accept it, and then we'll move forward to what would be new standards, cleaning up what is essentially smoot, or soot and smog, and has a substantial impact on the health of people in this country.

This is a good thing, and we can do it in a way that will keep us competitive as a nation.

EN LIBRA PRINCIPLES

Senator BOND. As governor of the State of Utah, you promoted the principles of en libra. What is it and does it apply to your work in EPA?

Administrator LEAVITT. En libra is a Latin word that means to move towards balance. Today we've dealt with a number of problems that have thorny edges. We are dealing with the need for cleaner power plants, and the need to keep us economically competitive, and en libra recognizes if we utilize markets, people will do things faster, and do more of it than if we simply use command and control.

It acknowledges that we need strong national standards, that there are neighborhood solutions that we can find to solve those problems. It acknowledges that collaboration is always a better way than polarizing and litigating.

It acknowledges that as we focus on results, we will have more success than if we simply focus on programs. It is finding the productive center. Today we talked about many problems where it can well be applied.

SUPERFUND—CLEANUPS

Senator BOND. Final question for this round. Superfund. I mentioned some of the concerns I have about Superfund, and the small amount going to actual clean-ups. You've asked for a \$124 million increase. Right now it is very difficult to find that. How are you going to allocate the resources within the program? How is your internal review coming on the allocation of resources within Superfund to assure the maximum utility for what we appropriate for Superfund.

Administrator LEAVITT. Your request has been taken seriously, Senator. I'm going to ask Marianne Horinko to come forward to comment. While she comes forward, I would say that we have made requests for additional Superfund dollars, and we are committed to see they are used effectively, and are making progress on many of the sites, and want to make more. Marianne.

Ms. HORINKO. Senator, thank you. I would like to thank the staff for support. As we are winding up the 120-day study, we feel it is incumbent upon us as we ask you for the kindness of more funding to make sure we have taken the existing funding you've given and maximize the dollars towards cleanup, so we are about near completing that funding.

As you can imagine, there aren't huge pockets of cash we discovered out there. But there are program efficiencies that we can undertake, and we will look forward to coming up with a review with your staff on some of those proposed measures to maximize dollars towards cleanup over the next several weeks.

Senator BOND. Thank you very much. Senator Mikulski.

WATER INFRASTRUCTURE—JOBS STUDY

Senator MIKULSKI. Thank you, Mr. Chairman. Let me go to one other question to follow up on the water issue.

I contacted you, Mr. Administrator, about the need to have an updated study about what is the job impact on water infrastructure, which you responded to, and I appreciate that. In a letter to me I think just a few days ago, you said that you've set aside the money. It is a more complicated project than just giving you a 60-day report. You were now going out to get the right people to give us that assessment.

I appreciate that this is complicated, but I think it would give us a good benchmark about where a public investment improves the environment, public health, and creates jobs, which I know would be hopefully a bipartisan agenda.

First of all, thank you for your response. When do you think we could get an estimate of that, as we work for, in your own words, that productive center?

Administrator LEAVITT. I'll give you a direct report.

Mr. GRUMBLES. Ben Grumbles again, Senator.

Senator MIKULSKI. Yes.

Mr. GRUMBLES. I wanted to tell you that we very much welcome this directive to do the study. We are in the process of making sure that we've got the right people to do it, to ensure the independence and integrity of it.

I am not sure if it is a matter of weeks or months, but we are working very much to try to get this put together and recognize the importance of the ability to update the number of jobs estimated that are created by investment in infrastructure.

Senator MIKULSKI. Do you have any idea if we'll have this before we conclude our appropriations process?

Mr. GRUMBLES. I'm not sure when the conclusion of the process is, but we could some time towards the end of this month, or I would say into the next month is when we could—

Senator MIKULSKI. When could you initiate the study? Could you then stay in touch with our staffs about when you think the study is done, I, of course want a quick case study, Mr. Administrator. I don't want to study it to death, but we do want exactly what you called for, accuracy and independence, so we want to press on, but also press for accuracy and independence. So could you let us know when you are going to get that?

Mr. GRUMBLES. Most certainly.

CHESAPEAKE BAY WATERSHED INITIATIVE

Senator MIKULSKI. While we're here, we talked about the watershed issue, the \$10 million in terms of the targeted watershed initiative for the Chesapeake Bay, again we appreciate it being targeted. The Executive Director of the Chesapeake Bay Commission raises some flashing yellow lights about the language.

She is concerned, as are the members of the Commission, that the current language proposed by the administration would tie non-point source programs to limiting the grantees to nutrient trading activities, yet still involving a huge and costly reduction in nutrients that must take place before any trades take place. So we

still have to spend these great buckets of bucks on the nutrient removal before we get to the trade.

We are concerned that this is a good intention that might not have the result. I would like to share with you Miss Swanson's recommendations, and to see if we could work with you so that we really do get the bang for the buck, and have not just limited it to trading activities. She has some constructive recommendations that we'd like to share with you, and see if again we can't then make maximum use of taxpayers' dollars, in terms of the protection of the Bay, which has been a longstanding bipartisan initiative supported by every President, and was initiated by Senator Mathias, my Republican predecessor. We want to stay in touch with you on that.

I'd like to go then to enforcement. We have been concerned on the committee for some time about vigorous enforcement—not concerned about the enforcement, but is it really happening?

Could you share with us where you are on the aspects of criminal enforcement? Do you have enough resources? What is the backlog that there might be now on criminal cases, and so on? Could you give us your views on that?

Administrator LEAVITT. Yes. Our Office of Enforcement is implementing currently recommendations of a management review that was issued in December of 2003. Key steps that were recommended included refocusing EPA's criminal investigations on environmental crimes, and in fact evaluating organizational structure, including field operations to ensure that optimal deployment of investigative resources were used.

And that we were securing a separate source of funding for the various aspects of that, that needed to be. Despite that, the fact that we have limited enforcement, we have been able to, I think, move forward. Clearly enforcement, criminal enforcement and civil enforcement are clearly a very important part of an environmental regulatory agency.

Our first obligation, our first desire, is to help people comply. But if people evade, or if they avoid, they'll feel the full weight of the Federal Government until they do.

CRIMINAL ENVIRONMENTAL ENFORCEMENT—BACKLOG

Senator MIKULSKI. Well, I appreciate you drawing the distinction. I want to draw the distinction between civil and criminal activity. Civil often is not clear for a variety of reasons that you've just hinted at. But criminal is. When I talk about criminal, I'm talking about premeditated, deliberate desire to usurp, evade the environmental laws.

Do you know what your backlog is on the prosecution of criminal cases?

Administrator LEAVITT. I'll ask the Office of Enforcement to give you those.

CRIMINAL ENFORCEMENT

Senator MIKULSKI. Because one is really, as you know from your own background, that is different than just not knowing the regs, or getting bad legal advice.

Administrator LEAVITT. Indeed I do.

Ms. HARRIS. Good morning. My name is Phyllis Harris, I'm the Acting Assistant Administrator for the Office of Enforcement and Compliance Assurance. I can assure you that we are taking very aggressive steps to deal with the entire case log of the criminal enforcement program, and indeed as Administrator Leavitt mentioned, we just undertook a study of the overall resource allocation of the program. Right now we are in the process of making adjustments to assure that we have adequate resources in terms of where the cases are.

As a natural progression, I would say in the criminal program, we have cases in various stages of investigations, and we believe we are aggressively pursuing those through the actual partnerships that we have with our State agencies, as well as the U.S. Attorney's Offices. And through that progression, we are making very good steps, ensuring that we are effectively prosecuting—

Senator MIKULSKI. Can you tell me what the backlogs are, though, and are there patterns within States or regions?

Ms. HARRIS. I can follow up with you specifically on the backlog as to whether or not there are patterns in regions and States.

Senator MIKULSKI. I would encourage you to look at—in other words, this also goes to the deployment of your resources. If some have a greater level of criminal activity, you'll of course want to deploy. I know I share this concern with some of my colleagues, who are also very keen on, very strong on enforcement of the environmental laws.

We really do want this information from you, and we would like to know how many cases EPA has decided not to pursue because of either funding shortfalls or staff shortages, because you just don't have the people to do the cases.

Ms. HARRIS. We'd be happy to provide that you to.
[The information follows:]

CRIMINAL ENFORCEMENT BACKLOG

This table shows that a total of 1,067 criminal enforcement cases remain "open" dating from fiscal year 1991 through April 26, 2004, most of which have been opened since fiscal year 2001. Eight hundred and ninety two of these cases are at the "pre-indictment stage" (i.e., they are still within EPA's investigative control). The remainder are either at the Department of Justice or the Federal Courts (i.e., at various stages of review, litigation or appeal). These cases represent only traditional environmental crime cases and do not include homeland security cases or the Administrator's Protection Service Detail cases.

EPA has maintained a relatively stable number of open, active cases as an ongoing workload. These are cases that are receiving active attention by criminal investigators and/or Department of Justice staff. Normally, if a case remains open, exhibiting little activity, it usually is because of continuing legal proceedings (i.e., plea bargaining, litigation, appeals, etc.).

Fiscal Year	Number of Open Cases	Number of Open Cases Pre-Indictment	Number of Cases on Appeal
1991	1	0	1
1992	4	0	2
1993	2	0	1
1994	3	0	1
1995	8	1	1
1996	9	0	5
1997	11	3	2
1998	23	9	3
1999	51	22	0

Fiscal Year	Number of Open Cases	Number of Open Cases Pre-Indictment	Number of Cases on Appeal
2000	83	50	4
2001	150	121	2
2002	221	223	1
2003	308	282	0
2004	193	181	0
Total Cases	1,067	892	23

Administrator LEAVITT. Senator, I can shed this much light. We opened 470 traditional environmental crime enforcement cases in fiscal year 2003. That will give you a sense of the proportion. The recent study by the Inspector General reported that the environmental crime investigations during the last 6 years have been relatively stable, and that as of September of 2003 they concluded that the Criminal Investigation Division was carrying out its mission to investigate environmental violations in the environmental statutes.

I don't think that is a prescription for perfection, but I do think it is a demonstration that we are carrying that part of our mission out. And additional information, we will supply to you.

[The information follows:]

CRIMINAL CASES NOT PURSUED

The Criminal Investigation Division (CID) opens criminal cases based on criteria in a 1994 policy memorandum on investigative discretion. The criteria are significant environmental harm and culpable conduct. Some of the CID Special Agents in Charge of the Area offices will not open a new case if they believe they do not have adequate resources to handle it. Instead, they will refer the original investigative leads to EPA's civil enforcement program or to State authorities. The disposition of leads in fiscal 2002 is summarized in the table below. (To reemphasize, this table refers to leads, not formally opened criminal enforcement cases; formally opened cases are almost always pursued.). CID does not have an automated tracking system for leads; these figures are compiled manually, and the fiscal year 2003 figures are have not yet been compiled.

DISPOSITION OF LEADS RECEIVED IN FISCAL 2002

	Leads	Percent
Under CID Review	270	14
Closed Prior to Referral	415	21
Referred to State/Local	702	35
Referred to EPA Civil Program	188	9
Referred to Other Federal	91	5
Opened as a Criminal Case	310	16

EPA'S ROLE IN HOMELAND SECURITY

Senator MIKULSKI. I'll go to one other criminal act, which is the ultimate, most despicable, and heinous, which is an act of terrorism. As the administrator of the EPA, could you share with us where you are in terms of your role in Homeland Security, and your role in making recommendations, and having adequate resources for the protection of America's infrastructure? Could you tell us what you are doing with the Department of Homeland Security, and what we need to do to help you carry out your responsibility in that? Because to me, that is the ultimate crime.

Administrator LEAVITT. Homeland Security is everyone's job. EPA does have some specific responsibilities particularly for—in the area of water. It has also been quite—you've seen us in a prominent role with respect to clean-ups, with respect to anthrax, also the World Trade Center, also regarding the Columbia Space Shuttle and others.

I'll ask Marianne Horinko to give you a direct report on many of the activities that we are undertaking on a going forward basis.

Ms. HORINKO. Senator, first of all, I'd like to thank you for your support to us over the years, and particularly in the anthrax and more recently the ricin. This is an unexpected role for all of us. We appreciate your support during these very challenging times. We also thank you for the resources you provided us in the past.

In my own program, we've hired additional on-scene coordinators, opened a new emergency response team in Las Vegas to complement our teams in Cincinnati and New Jersey, meaning increased capacity for West Coast responses.

We've worked closely with the Department of Homeland Security in the Biowatch Program to detect incidences of biological contamination, also working closely with them for developing protocols for responding to radiological responses, and have done a number of large-scale cross-agency exercises and training and deployments to test out how to respond to different types of attack.

As we move forward, we are looking at enhancing our ability to work with different parts of the infrastructure, such as the water safety issue in the chemical industry and others to ensure that we have appropriate threat protection that is a cooperative effort with Homeland Security relief. And we are also working on the issue of laboratory capacity nationwide, making sure we add laboratory capacity in the States and Federal installations, and private sector to respond to an incident of weapons of mass destruction on a large scale.

So as the Administrator indicated, it is an enormous job. Our job is a daunting task. We are working hard at it, and working collaboratively with the new department.

Senator MIKULSKI. Do you need more help?

Ms. HORINKO. We could always use more help. We would be happy to sit down with you and—

ANTHRAX IN THE SENATE

Senator MIKULSKI. Why don't we do that. Mr. Chairman, I know the clock is ticking. First of all, EPA did a really yeoman's job after we were hit by anthrax here, and also along with the post office at Brentwood, and some private sector facilities. Is your office in the Hart Building, Senator?

Senator BOND. No.

Senator MIKULSKI. I was one of the Daschle 13, meaning I was in the Daschle air vent system. We were out of our office for 6 months, but thanks to all of us working together, and I might say the leadership of Dr. Frist, we were able to keep the Senate going, but thanks to the Marine Corps Decon Unit from Indian Head, the very good work of your predecessor, and this incredible team that you've put together, we now not only could go back, but we could go back with confidence.

We have pregnant women who work here, people who served overseas, and in some ways have compromised immune systems, we have people who have asthma, we have a lot of issues of our own staff who work for us, so we want to thank you.

I am troubled, however, that there is a cut in building decontamination in the science and research account that I want to talk about, because I think you did a great job. I think you learned a lot, and I think this is another area to research. I am very concerned about laboratory capacity, the research buildings, because there might not be a big bomb, but it could be a bioattack within our building, it could be a dirty bomb, et cetera, for which we want you to have the right research.

Mr. Chairman, I'd also like to thank EPA for the way they responded to the very melancholy Columbia incident. It really was a multi-State, multi-agency effort, and EPA's role in this helped. The job that you all did helped weigh in the professionalism, helped give consolation to the families, but at the same time laid the groundwork so Admiral Gehman could do his work, and so we could come up with lessons learned that would never happen again.

So I would like to thank you, and all of the people who worked in very difficult circumstances.

Administrator LEAVITT. Senator, on behalf of the Agency, I accept your kindness. I also would reflect Marianne Horinko and her leadership, as she has demonstrated not just great leadership, but inspiring courage at some very difficult times.

Senator BOND. Thank you very much for your questions, Senator Mikulski. And I, too, share your great concern about Homeland Security. The Senator from Maryland and I serve on the Intel Committee, and we are most interested in dealing with many of these issues.

I think some of these discussions are probably better carried out not in the public eye, but do you have any ballpark figure of the needs you may have to do of the many tasks that you are assigned under Homeland Security? I have a feeling that we are looking at a tidal wave coming up of additional needs. Have you all done an assessment of those, of what you think the needs may be in the areas we've discussed?

Administrator LEAVITT. Senator, without giving you a specific number, may I reflect on my experience now as Administrator of the EPA and also in my previous responsibilities as governor.

Homeland Security is everyone's second job. It has to be inculcated into our fundamental missions. And we are approaching it in that way at the Environmental Protection Agency. We recognize there will be additional resources that will be necessary, and we will be forthcoming in providing you with the specifics in appropriate venues.

But I can also tell you that we view Homeland Security to be part of every office in this agency, and part of our mission is to contribute to the Homeland Security network of this country.

TOTAL MAXIMUM DAILY LOADS

Senator BOND. Thank you. Total maximum daily loads, that is the limited pollutants in waterways. If the State fails to meet the requirements, EPA has been charged with carrying out the respon-

sibility. Right now, despite some progress, some 39 percent of the river and stream miles assessed by the States and 45 percent of the lake acres, do not meet the water quality standards.

When you talk about TMDL, you strike fear in the hearts of agriculture, small communities. This is a huge issue, a huge concern. To what extent does non-point source pollution impact TMDL's? What steps are being taken by EPA with the States in things such as run-off from animal feeding operations, and are you looking at ways to keep the costs within reason?

Administrator LEAVITT. Again, Senator, something I have some direct personal experience with in my previous role.

The whole area of non-point source pollution is the next opportunity for substantial progress in this country, but it also is one that requires a new skill, with its collaboration on a watershed by watershed basis. There are numerous examples where local communities have come together to clean up their watersheds, and it begins to happen when the local government, the local water system, the local agriculture community work together to do it.

Our role at EPA is not just to create an atmosphere where that can happen well, but in many cases to provide best practices, to provide resources, provide a continued urgency for it to occur. We are providing all of those, but it falls back into the pattern I spoke of earlier, where we desire to have the improvement you spoke of, and to do it in a way that maintains our economic competitiveness as a Nation. We can have both. That is our objective, to clean up the streams and non-point sources. To do it in collaboration is the key.

BROWNFIELDS

Senator BOND. Speaking of collaboration, I would refer you to a bill I have been shopping around for a number of years, called The Fishable Waters Act, which involves collaboration on watershed bases, and brings together many of the cooperating parties. And I would tell you there is a great desire for cooperation, and I would say that EPA Region 7, working with the University of Missouri, and some work that we funded here, has, I think, has developed some very, very cost effective, desirable means of controlling non-point source pollution.

And I think that this could be both productive for the landowner in planting valuable crops and using those crops to curb TMDL's to bring down the total daily maximum load numbers.

Brownfields, we have a problem. One of the Cass/Bates Regional Planning Commission in West Central Missouri is really built around a very great fishable lake, great tourist site, but has some Brownfields in the seven-county region, and they haven't been successful in making it onto the EPA's scoring process.

I'm concerned that rural areas are disadvantaged, but is there anything that needs to be done? How can we deal with Brownfields if they happen not to be in a metropolitan area?

Administrator LEAVITT. I'm going to ask Marianne Horinko to give you comments on that point.

Ms. HORINKO. Senator, we share your concern. A number of other Senators and Representatives from primarily Midwestern and Western rural areas have expressed the same concern. About

54 percent of our grants from fiscal year 2003 have gone to sites in rural areas. More tend to be located in urban areas, as you can imagine, but we're still very concerned these communities have equal fair access to funding.

What I would suggest in your specific case is that we follow up with your staff, and have our Region 7 Brownfield specialists sit down and walk them through the process, and do some outreach and training so they can compete in the next round.

[The information follows:]

BROWNFIELDS GRANTS TO RURAL COMMUNITIES

The Agency did a review and determined that about half of last year's grants went to sites in small or rural areas. One hundred sixteen of the 214 grants (54 percent) announced for fiscal year 2003 went to non-urban areas with populations of 100,000 or less. The Agency is concerned that these communities have equal fair access to funding, so we made changes to the fiscal year 2004 application guidelines and are funding outreach forums for small rural communities, including workshops in Kansas City on April 30, Idaho on June 17, and Montana on July 14.

NEW SOURCE REVIEW

Senator BOND. We would appreciate that.

I hate to draw this to a close, we are having so much fun, but I am going to ask you one final question on New Source Review, something of course that is not very controversial. I know there are lawsuits. Because of all the changes, there is a lot of uncertainty over how EPA treats ongoing litigation, which was instituted prior to EPA's issuance of the final rule on August 27, 2003 regarding the routine maintenance.

How is EPA addressing this particular litigation issue, and the general issue?

Administrator LEAVITT. Senator, we are committed to making New Source Review work. We believe the rules that we have put forward will ultimately be put in place, despite the fact that there is a current stay. We are enforcing the law and moving forward with the cases that were filed prior. We're filing new cases. We are selecting new cases based on a myriad of different factors, among them being available resources and the desired environmental outcomes.

ADDITIONAL COMMITTEE QUESTIONS

Senator BOND. Well, thank you very much, Governor. We are delighted to have you before the committee. Obviously, we have lots of questions and follow-up. We will have additional questions for the record, and we appreciate you and your staff's prompt attention to them.

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

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

CLEAN AIR ISSUES

Question. The most prominent air quality issue of the last few months has been what to do about emissions from coal-fired electric power plants. I applaud the administration for attacking this issue head on by proposing regulations on New Source Review and Mercury emissions. President Bush has also asked Congress to pass "Clear Skies" or multi-pollutant legislation that would reduce power plant

emissions and encourage investment in new plants by providing certainty regarding future regulatory requirements.

Governor, would you please comment on the status of both the New Source Review and Mercury emissions proposals?

Answer. On October 27, 2003, EPA made final rule changes to the New Source Review (NSR) program. These changes focused on determining what activities at an industrial facility constitute Routine Maintenance, Repair and Replacement and are therefore exempt. The final rule is called the Equipment Replacement Provision. These amendments to the NSR rules would apply only prospectively.

Previously EPA completed final rule changes in December 2002 that removed NSR's barriers to environmentally beneficial projects, created incentives, such as Plantwide Applicability Limits (PALs), for additional beneficial projects, and streamlined the NSR rules.

Some State agencies and environmental groups have filed suit in the DC Circuit Court of Appeals, seeking to overturn the December 2002 and October 2003 rules. Other States and industry groups have intervened in this suit on EPA's behalf. These are complex cases and will likely not be resolved until 2005 or later.

In the meantime, in response to a motion by some State agencies and Environmental Groups, the DC Circuit Court of Appeals stayed the Equipment Replacement Provision on December 24, 2003. However, the DC Circuit denied the petitioners' renewed motion to stay the NSR rules that were promulgated on December 31, 2002, and so EPA continues to implement these rules.

EPA is disappointed in the ruling staying the Equipment Replacement Rule, but we believe that once the court has a chance to review the new rule on its merits, it will lift its stay and eventually uphold the rule.

We are committed to following the court's direction. We believe that both these rules will significantly improve the effectiveness of the NSR program, while preserving its environmental benefits.

In the next several months, EPA will be proposing additional changes to the NSR program. These include additional improvements to simplify the program for complex facilities and to create additional incentives for beneficial projects. (This upcoming package is referred to as the "Debottlenecking, Aggregation, and Allowables PAL package").

EPA is offering aggressive alternatives for controlling mercury from power plants by proposing new environmental regulations. This marks the first time in United States history that power plants would be required to reduce mercury pollution.

Controlling mercury from coal-fired power plants raises many difficult issues with respect to the availability of technology and the impact on our energy markets. We have tried to address those issues in our proposal. We extended the official comment period by 30 days, and the signed documents were available on our website within 48 hours of signature, December 15, 2003. We are now in the process of carefully considering all the comments, and abiding by our commitment in the settlement agreement with NRDC, we expect to issue a final rule by March 15, 2005.

Question. Further, how would the passage of "Clear Skies" or multi-pollutant legislation contribute to EPA's ability to reduce power plant emissions in the next 20 years?

Answer. Clear Skies would provide dramatic environmental benefits by reducing emissions from the power sector more than any legislation that any other administration has ever proposed. It does so while allowing the downward trend in energy prices to continue and while promoting energy independence.

One of the most important benefits of Clear Skies is that it would provide both regulatory and environmental certainty. Clear Skies builds on the successes of the Clean Air Act and would significantly improve air quality across the nation by requiring power plants to reduce their emissions of SO₂, NO_x and mercury by 70 percent. The mandatory emissions caps at the heart of Clear Skies are a sure thing and guarantee that reductions will be maintained over time. Because cap-and-trade programs include economic incentives for early action, Clear Skies would begin improving public health immediately.

Clear Skies also allows firms to make the reductions in the most cost-effective means possible. The statutory caps in Clear Skies would provide certainty of reductions that could not be delayed by litigation. Without Clear Skies, we also know that, under the current Act, EPA and States will need to develop and issue regulations to reduce power plant emissions, but the levels and timing of these regulations are unknown. Over the next 20 years, uncertainties regarding regulatory development, litigation, implementation time, etc. under the current Act compare unfavorably with the certainty provided by Clear Skies.

OZONE AIR QUALITY STANDARDS

Question. The EPA is required by the Clean Air Act (CAA) to set National Ambient Air Quality Standards (NAAQS) for wide-spread pollutants from numerous and diverse sources considered harmful to public health and the environment. The EPA has set NAAQS for six principal pollutants—ozone is one of these six pollutants.

On April 15th, EPA will designate areas that are in attainment and nonattainment of the 8-hour ozone air quality standard. There is a small rural county in Missouri, Sainte Genevieve, which is in danger of being included with St. Louis in a nonattainment area. This small rural county is not contributing to the region's nonattainment.

Governor, will you please walk us through the process of designating an area in nonattainment of the 8-hour ozone standard? In the case of counties like Sainte Genevieve, how and who is making the final decision on which communities are really contributing to a region's nonattainment status?

Answer. Area designations are required after promulgation of a new or revised NAAQS. The EPA works together with appropriate State and local authorities to establish designations. On July 18, 1997, we promulgated a revised ozone standard of 0.08 parts per million (ppm), measured over an 8-hour period, i.e., the 8-hour standard. In March 2000 and July 2000, we issued designation guidance on how to determine the boundaries for nonattainment areas. In that guidance, we rely on the CAA definition of nonattainment as an area that is violating an ambient standard or is contributing to a nearby area that is violating the standard. If an area meets the definition, EPA is obligated to designate the area as nonattainment. In making designations, we use the most recent 3 years of monitoring data. Once we determine a monitor is recording a violation, the next step is to determine if there are any nearby areas that are contributing to the violation and include them in the designated nonattainment area. In making this determination, we review all available technical data such as air quality, source locations and emissions, photochemical modeling, meteorology, terrain, population, commuting, and growth in the area.

On April 15, we finalized designations for all areas of the United States. Ozone air quality monitors in the St. Louis area are in violation of the ozone standard. The St. Louis nonattainment area consists of Franklin, Jefferson, St. Charles, St. Louis Counties and St. Louis City, Missouri, and Jersey, Madison, Monroe, and St. Clair Counties, Illinois.

An ozone monitor is located in Ste. Genevieve County. The design value for this monitor was calculated to be below the standard for the 2001–2003 ozone season. Our initial concern for this county was based on anticipated growth in nitrogen oxide emissions (a precursor of ground-level ozone) and that these emissions may be carried by the prevailing wind into the St. Louis area, contribute to the nonattainment problem, and make it difficult to attain the standard. The State of Missouri provided information to us on the amount of current emissions and the stringency of controls on newly permitted sources in the county. Based on this information, we concluded that the county is not a contributor to nonattainment in the St. Louis area and designated the county as attainment.

LEAD CONTAMINATION CRISIS

Question. I would be remiss if I did not ask you, Governor, to brief us this morning on the lead contamination crisis occurring in the District at this moment.

Sir, will you update the subcommittee on the agency's actions in the wake of discovering elevated levels of lead in the District of Columbia's drinking water?

Answer. EPA is very concerned about the current situation related to elevated levels of lead in drinking water in many homes served by the District of Columbia's water system. Exposure to elevated levels of lead can have serious health effects, particularly for children. Therefore, EPA places a high priority on reducing exposure to lead from all sources.

The Agency's main priority at this time is ensuring that all citizens in the District have access to safe drinking water and that citizens nationwide can be confident in the safety of their drinking water.

EPA's Regional office in Philadelphia, which has oversight responsibility for District drinking water, has a number of actions underway to see that the problem is corrected at the local level. The Region has worked with the City to ensure that all potentially affected residents with lead service lines receive filters and is also ensuring that additional monitoring is carried out, public outreach is improved, and replacement of lead service lines is accelerated. The Region has developed a website at www.epa.gov/dclead to keep the public informed of the activities that are being carried out.

Staff from EPA Regional, national and research offices are participating in a multi-agency technical expert working group to identify a technical solution to the problem. The national office has also facilitated an independent peer review of that group's efforts. Pursuant to the working group's recommendations, a partial system test to assess a new corrosion control treatment method will take place in June. Full implementation of revised corrosion control will take place later in the summer about July 15 if the partial test does not encounter problems.

While the Agency does not anticipate that there is a serious problem nationally, we are collecting data to better understand the occurrence of elevated levels of lead in drinking water. We are also committed to initiating a national review of implementation of, and compliance with, the Federal regulations for lead in drinking water during 2004.

Question. Further, how did dangerously high levels of lead in water being delivered to the District's residents remain overlooked for the past year and a half?

Answer. The sampling results that the District of Columbia Water and Sewer Authority (WASA) submitted to EPA for the 2000–2001 monitoring period indicated that neither the lead nor copper action level had been exceeded at the 90th percentile. The 90th percentile value reported for lead was 8 parts per billion (ppb).

The optimal corrosion control treatment implemented by the Washington Aqueduct appeared to be effective in minimizing lead levels until the sampling period between July 2001 and June 30, 2002. EPA received a final report from WASA on August 27, 2002 indicating that the 90th percentile value had increased to 75 ppb during that period. The high level required that WASA conduct more frequent monitoring and carry out public education. The lead action level was also exceeded for subsequent monitoring periods in 2003, with 90th percentile values at 40 ppb (January 1 to June 30, 2003) and 63 ppb (July 1 to December 31, 2003).

The action level exceedance for the period ending in June 2002 triggered provisions in the Lead and Copper Rule (LCR) that required WASA to complete the following actions:

- Resume full monitoring for lead and copper at the customers' taps by sampling a minimum of 100 customers taps during subsequent 6-month monitoring periods.
- Prepare and implement a public education program to advise consumers on how to protect themselves from exposure to lead in drinking water and inform them of steps that will be taken to reduce the lead level.
- Develop and undertake a lead service line replacement (LSLR) program. The LCR requires that a system replace 7 percent of the lead service lines which the system owns each year until all of the lines have been replaced, or until tap water monitoring indicates that its 90th percentile lead level is equal to or less than 15 ppb.

WASA began to carry out a public education program in October 2002. However, it is clear now that messages were not heard. Notifications to individual residents were often not timely and did not achieve the goal of getting information to those who needed to know. Mass media tools were not used as effectively as they could have been. There should have been more widespread and urgent communication of the problem District-wide.

In March 2003, WASA began an expanded sampling program to evaluate the lead concentrations leached into water from lead service lines, using a protocol that differed from that used for required tap monitoring. The Region did not receive the sampling results from the lead service line testing program until October 27, 2003. EPA's review of this information by technical staff was focused on determining whether WASA had replaced or tested the required number of lines under their Lead Service Line Replacement Plan, and on how to address the underlying cause of the corrosion problem. The results of this expanded sampling program indicated that the lead problem was more significant and widespread than had been previously understood. Although WASA provided letters with results and instructions to customers whose lines were tested, those communications were not promptly delivered nor were they effective in informing the public of the magnitude of the problem or in conveying the steps families and individuals should take to protect themselves.

EPA, WASA and the Washington Aqueduct continued their research plan to address the cause of the problem. However, WASA should have taken additional measures to ensure that customers were quickly informed, and that public education and outreach materials reflected an appropriate level of concern. Once it became evident that WASA's public education program failed to reach consumers in a way that ensured they would take action to reduce their risks, EPA began working with WASA to improve its communication to the public, and we took direct actions to supplement those efforts. Region III has since undertaken a more thorough review of

WASA's public education efforts to identify specific recommendations for improvement, and have modified their own compliance review procedures to assure that the utilities' public education materials convey both the appropriate sense of urgency and proper, timely information.

Question. What exactly is EPA's role in lead's public health crisis?

Answer. EPA's Regional office has primary enforcement authority for the District's drinking water. The Region ensures that the District of Columbia's water suppliers know and understand Federal regulations, provides advice and technical assistance on how to comply with the Federal regulations, requires monitoring of the water and treatment processes according to the Federal regulations, and ensures that required monitoring results are reported. The region can also take an appropriate administrative or judicial enforcement action, including issuing notices of violation or administrative orders and seeking administrative and/or civil penalties.

The Region therefore carries out the role that a State would otherwise carry out in implementing the Federal Lead and Copper Rule. The District's water utilities, the Water and Sewer Authority (WASA) and U.S. Army Corps of Engineer's Washington Aqueduct (Aqueduct) must report the results of monitoring and other activities carried out pursuant to the rule to the Regional office. The Regional office must likewise report certain information required under the rule to the national Safe Drinking Water Information System (SDWIS).

The Region is responsible for evaluating the compliance of WASA and the Aqueduct with the Federal regulation. The Region was responsible for evaluating the corrosion control study presented by the Aqueduct. The Region approved the final treatment selection, after requiring several additional studies, and also approved the required water quality parameters that must be monitored by the Aqueduct and WASA to ensure that corrosion control is effective.

The Region receives the results of required tap monitoring by WASA, determines if the utility is exceeding the action level, and instructs the utility as to the actions required to be carried out under the rule. The Region is currently conducting a thorough review of WASA's compliance with the public education, sampling and lead service line replacement requirements.

With the District government, EPA has directed WASA to provide filters to households with lead service lines, to further expand sampling to assess the extent of the problem of elevated lead levels, to accelerate the physical replacement of lead service lines, and to develop a plan to significantly enhance its public education and outreach activities.

Question. What was EPA's normal responsibility for water issues in the District?

Answer. Nationally, EPA's role is to establish health-based standards that are protective of public health, develop guidance to assist States and public water systems, and provide oversight of State drinking water programs that have primary enforcement responsibility for public water systems in their State. Federal regulations designate the Regional Administrator as the entity responsible for implementing the Public Water System Supervision Program when a State has not been granted primary enforcement authority, or primacy, by EPA. The District of Columbia does not have primacy; therefore, the Agency's Regional office in Philadelphia directly implements the drinking water program for the District.

EPA's role includes ensuring that the D.C. water suppliers (D.C. Water and Sewer Authority [WASA] and U.S. Army Corps of Engineer's Washington Aqueduct [Aqueduct]) know and understand Federal regulations; providing advice and technical assistance on how to comply with the Federal regulations; requiring monitoring of the water and treatment processes according to the Federal regulations; and taking appropriate enforcement actions if violations occur.

WASA and the Aqueduct are responsible for carrying out required monitoring of lead. WASA is responsible for overseeing the collection of monitoring samples from customer taps. The Aqueduct and WASA are required to conduct monitoring for water quality parameters at the water treatment plant and in the distribution system, respectively. Both WASA and the Washington Aqueduct are required to report monitoring data and information regarding compliance with maximum contaminant levels, public notification and required treatment techniques to EPA Region III.

CONFINED ANIMAL FEEDING OPERATIONS (CAFOS)

Question. What is the current policy of EPA as to discharge permitting for confined animal feeding operations? Are the permitting requirements different depending on the size of the operation?

Answer. The majority of animal feeding operations (AFOs) are not concentrated animal feeding operations (CAFOs) and are thus not required to obtain permits. Three categories of CAFOs are recognized in EPA's regulations: large, medium, and

small. Large CAFOs are AFOs that exceed certain production thresholds (e.g., 1,000 beef cattle, 700 mature dairy cows, 2,500 swine over 55 lbs, etc.). All large CAFOs are required to obtain permits except in rare cases where they can demonstrate “no potential to discharge.” In some cases, medium or small AFOs below the production thresholds for large CAFOs may be either defined or designated by the permitting authority as CAFOs and thus be required to obtain permits, but only if they discharge directly to surface waters and are significant contributors of pollutants (see CFR 122.23 for exact definitions of medium and small CAFOs).

EPA requires all operations that are defined or designated as Concentrated Animal Feeding Operations (CAFOs) to apply for NPDES permits. The NPDES permit requirements for all CAFOs include: implementation of a nutrient management plan; submission of annual reports to the permitting authority; maintaining current permits until the operation is completely closed and all manure is removed; and keeping records of nutrient management practices for at least 5 years.

The permit requirements may be different depending on the size of the operation. Large CAFOs are subject to both the effluent limitation guidelines found at 40 CFR 412 and the NPDES regulations found at 40 CFR 122. The medium and small CAFOs must meet the requirements of 40 CFR 122 and effluent limitations based on best professional judgment (BPJ).

COMBINED SEWER OVERFLOWS

Question. A number of communities have problems with combined sewer overflow where the capacity of the sewer collection and treatment system is exceeded due to high volumes of rainwater or snowmelt. How many urban areas have CSO problems and what is the extent of the problem? What is the Federal role versus the local or State role? What are the potential costs associated with addressing CSO problems?

Answer. As of October 2003, 32 States have communities with Combined Sewer Systems (CSS). The approximately 750 communities with CSSs are concentrated in the Northeast and Great Lakes regions. Within these communities there are approximately 9,500 Combined Sewer Overflow (CSO) discharge points that are regulated by 836 NPDES permits.

EPA's 2001 Report to Congress estimated that CSOs discharge approximately 1.2 trillion gallons per year. The report also estimates that CSO controls have resulted in an approximate 12 percent reduction in untreated CSO volume since 1994 (170 million gallons per year), and biochemical oxygen demand (BOD) loadings were reduced by 125 million pounds per year since 1994.

EPA and the States implement the CSO Control Policy through the National Pollutant Discharge Elimination System (NPDES) permits program. Forty-five States have been authorized to implement the NPDES program. In a limited number of States, EPA is the NPDES authority. When the State is the permitting authority, EPA provides appropriate oversight in accordance with NPDES program requirements. Through NPDES permits or other enforceable mechanisms issued by NPDES authorities, communities with CSOs are required to implement the nine minimum controls identified in the CSO policy and to develop and implement long-term CSO control plans (LTCPs) to meet Clean Water Act requirements and to achieve compliance with applicable State water quality standards.

Based on data from the 2000 Clean Watershed Needs Survey, the estimated total capital cost for CSO control is \$50.6 billion, an increase of \$1.0 billion from the estimated cost in the 1996 Clean Water Needs Survey. This estimate is based on the level of control presented under the “presumption approach” delineated in the 1994 CSO Control Policy (capture for treatment of 85 percent of wet weather flows entering the combined sewer system). Improved costs estimates will be available as more communities develop LTCPs.

MTBE

Question. MTBE and ethanol are used to meet Clean Air Act requirements that reformulated gas, sold in the Nation's worst ozone attainment areas, contain at least 2 percent oxygen to improve combustion. Recently, MTBE leaks have been implicated in many instances of ground water contamination. As a result, some 17 States have taken steps to ban or regulate its use and a number of bills have been introduced to address these concerns. What is EPA's current position on the phase-out of MTBE?

Answer. EPA supports the energy bill that is currently pending in Congress and which would call for a phase out of MTBE in gasoline. Because actions taken by individual States to control or ban the use of MTBE as a fuel additive are not uniform or coordinated, they can create concerns about fuel distribution. The provisions

in the energy bill, however, would help to address this situation in several ways. The bill would: (1) maintain the air quality benefits of the clean fuel programs, such as RFG; (2) remove the 2 percent oxygenate requirement under the RFG program; (3) phase out the future use of MTBE across the Nation while allowing sufficient lead time for refiners and MTBE producers to switch production to other gasoline blend stocks; and, (4) implement a Renewable Fuels Standard that encourages positive life cycle renewability through the use of domestically produced renewable fuels through a national credit averaging and trading program.

ENVIRONMENTAL ENFORCEMENT AND SECURITY ACT OF 2004

Question. I plan to introduce the Environmental Enforcement and Security Act of 2004. This legislation is intended to address concerns raised by a recent EPA IG report, internal EPA reviews and numerous press reports that the EPA is straining to meet its environmental enforcement duties and its new post-9/11 homeland security responsibilities. In particular, the bill will authorize additional funds to add 50 new criminal enforcement special agents and 80 new homeland security special agents. The EPA also would be authorized to fund \$100 million in grants for physical security measures to protect our Nation's water systems. Does EPA have other needs for legislative authority to help the agency meet its homeland security mission?

Answer. The Office of Enforcement and Compliance Assurance's (OECA's) criminal enforcement program continues to be a high priority for the Agency. The Agency recognizes the increased demands relating to Homeland Security, and has provided the program with an additional 30 FTE. The increased resources ensure that homeland security activities are not being conducted at the expense of traditional criminal enforcement. This commitment is carried forward into the Fiscal Year 2005 President's Budget request.

We believe we have the tools and resources needed to continue our important work in enforcing environmental laws. Further, the Agency is currently reviewing its responsibilities under HSPD-7 and HSPD-9, and investigating the need for additional legislative authority.

SUPERFUND

Question. What steps is EPA taking to ensure that more funds are going to clean-up as opposed to administrative functions?

Answer. This past November, the Acting Deputy Administrator commissioned a short-term internal study of the Superfund program to identify opportunities to more efficiently deploy Superfund resources within EPA. To that end, EPA is reviewing how Superfund resources are currently being used and what is being accomplished with those resources. An important goal is to identify how more Superfund resources can be dedicated to remedial action constructions by improving the efficiency of the program. The report on the study's findings was made available in late April.

In addition to this study, the EPA Office of the Inspector General (OIG) has initiated its evaluation of Superfund expenditures, as specified in the conference report which accompanies H.R. 2673 (Consolidated Appropriations Act of 2004). Per the conference report, the OIG plans to make recommendations for options to increase resources directed to extramural cleanup while minimizing Superfund administrative costs. The OIG expects to complete its evaluation and respond to the House and Senate Appropriations Committees in December 2004. The OIG's recommendations will be carefully considered and adopted as appropriate.

DRINKING WATER SRF AND CLEAN WATER SRF

Question. Provide a State-by-State assessment of the use of the Drinking Water and Clean Water SRFs. Are all the funds in use and are the funds targeted to areas with the greatest need? Are there ways to improve utilization of these programs?

Answer. The attached charts provide a state-by-state assessment of the use of the Drinking Water State Revolving Fund (DWSRF) and the Clean Water State Revolving Fund (CWSRF). Through June 2003, States have been awarded a total of \$5.5 billion in capitalization grants for the Drinking Water SRF. Twenty-four States are utilizing their Drinking Water SRF funds at or above the national average of 79 percent. As of June 30, 2003, 93 percent of all funds available in the CWSRF are being used to finance needed projects.

States must fund DWSRF projects in accordance with a ranking system that gives priority to projects needed for public health protection and compliance with the Safe Drinking Water Act (SDWA). Forty-two percent of the assistance provided has been specifically for projects to bring water systems into compliance with drinking water

standards. Many of the other DWSRF loans are to assure that systems currently operating in compliance can maintain their operations in compliance with health based standards. EPA, the States, and its partners provide technical and financial assistance to small systems where there is a great need for infrastructure funding. For additional information and specifics, refer to http://www.epa.gov/safewater/smallsys/pdfs/tfa_sdws.pdf.

Although the CWSRF places no statutory oversight requirement for allotment of funds within the States based on need, it requires that each State have a priority list that includes environmental and public health criteria. All publicly owned treatment works projects proposed for CWSRF financing must be on a State's priority list and Intended Use Plan, which are reviewed annually by our regional offices. EPA is committed to helping the States identify and fund their highest priority projects. In our oversight of the CWSRF program, EPA has had no indication that higher priority projects are being delayed in favor of lower priority projects. States do have the authority to fund projects anywhere on their priority lists and may bypass a project if it is not ready to proceed.

States are the primary managers of the SRF programs. EPA works directly with the State programs to continue making incremental improvements in the implementation of the Drinking Water SRF program. EPA conducts regular trainings and conferences on DWSRF program management and facilitates State-to-State idea exchange through participation in the States/EPA SRF workgroup. EPA conducts annual reviews of every State program including management and staff level discussions on best practices for DWSRF program implementation. EPA works with the State programs to address long-term financial performance planning and assists the States with continuing refinement of program management to yield the greatest output of program results.

To improve utilization of the CWSRF, EPA has encouraged States to voluntarily develop integrated planning and priority setting systems which are based on the States' water quality information. So far, 25 States have adopted integrated planning priority setting systems that include nonpoint source and estuary projects. This integrated planning helps to ensure that funding goes to each State's highest environmental projects.

ARSENIC

Question. What is the extent of the cost and need for communities to reinvest in their water infrastructure in order to comply with EPA's revised arsenic standards?

Answer. EPA estimates that of the 74,000 systems subject to the new arsenic maximum contaminant level, only 3,000 community water systems and 1,100 non-transient, non-community water systems will need to install treatment for compliance. The total national capital costs for treatment technology and infrastructure to meet the arsenic standard are estimated to be almost \$900 million. Small systems make up the majority of the systems affected by the rule, but the majority of the capital costs will be incurred by larger systems that serve more than 10,000 people.

While the compliance date for the revised rule is January 2006, States can give eligible small systems (those serving fewer than 3,300 people) up to the year 2015 (14 years after the rule was promulgated) to come into compliance. This authority will allow States sufficient time to allot portions of their Drinking Water Revolving Fund (DWSRF) over the next several years to systems adding arsenic removal treatment. A fact sheet on the EPA website describes how the DWSRF program can be used to fund capital projects needed to comply with the revised standard. The fact sheet can be found at website <http://www.epa.gov/safewater/dwsrf/fund-arsenic.pdf>.

In October 2001, EPA committed \$20 million to research more cost-effective solutions for removing arsenic from drinking water. One of the key components of this research program is demonstration testing that will be conducted at very small water systems. Under the first round of the demonstration testing, treatment technologies are being installed at 12 water systems throughout the country. For most of these sites, the selected technology was not available at the time the rule was promulgated, so these technologies may be more cost-effective than the technologies that were considered in the rule. The results of this research may reduce some of the infrastructure burden, especially for small systems.

CARRYOVER

Question. Please provide a list of all funds by program that EPA expects to carry over into fiscal year 2005.

Answer. The chart below estimates the fiscal year 2005 carryover levels for EPA. The estimates are based on the most recent history of funds carried forward by the Agency.

FISCAL YEAR 2005 CARRYOVER ESTIMATES

[In thousands of dollars]

Appropriation	Estimated Carry-over
Environmental Programs and Management	180,000
Science and Technology	250,000
Inspector General	14,000
Buildings and Facilities	6,000
Leaking Underground Storage Tanks	5,000
Superfund	50,000
Oil	4
Federal Insecticide, Fungicide and Rodenticide Act	500
State and Tribal Assistance Grants	1,400,000

TOTAL MAXIMUM DAILY LOAD (TMDL)

Question. What is the current status of the Total Maximum Daily Load requirements?

Answer. States and EPA are accelerating implementation of the regulations, promulgated in 1985, as amended in 1992. States and EPA have now approved or established more than 10,000 TMDLs, approximately 6,000 of them in the last 2 years in contrast to the less than 1,000 TMDLs established prior to 1999. EPA continues to meet consent decree deadlines established in court orders covering 22 States. States and EPA also continue to work to improve the scientific rigor of the list of waters needing TMDLs, the quality of TMDLs, and to ensure that TMDLs are used to achieve water quality goals by incorporating them in watershed planning processes.

To accomplish these goals EPA has issued guidance to improve the listing process. The guidance recommends that two separate statutory requirements (sections 303(d) and 305(b)) be addressed together to provide an integrated and comprehensive picture of the status of a State's water quality; the integrated report. The guidance also asks States to develop and make public their water quality assessment methodologies. The guidance clarifies that waters do not have to be listed as needing a TMDL if other programs designed to achieve water quality standards are in place and being implemented. EPA has also issued guidance for use of CWA Section 319 funding to ensure that funds are used to develop and implement watershed plans that incorporate completed TMDLs.

NONPOINT SOURCES OF POLLUTION

Question. What is the current status of plans to control nonpoint source pollution? At what point do we expect States to have plans in place? What are the anticipated costs to implement these plans? What are anticipated costs to the various industries, such as mining, farming, agriculture and forestry, to implement adequate plans?

Answer. Since 1990, all States have had approved nonpoint source management programs in place and have received annual appropriations of Section 319 funds to enable them to implement their programs. Of the \$238 million appropriated by Congress in fiscal year 2004, States are using \$100 million of these funds to develop and implement watershed-based plans to restore waters that have been impaired by nonpoint source pollution. EPA anticipates that each year States will develop several watershed-based plans. States will implement the plans by using Section 319 funds, USDA aid, other available Federal funds State funds, and other resources and authorities as needed to successfully address the water quality problems that exist in the watershed. It is anticipated that it will require a number of decades to develop and comprehensively implement plans for all watersheds.

Each plan will be uniquely tailored to the nonpoint source problems that exist in the watershed for which the plan is being developed and implemented. Each watershed is different, often vastly different, from one another, and thus the water quality problems, solutions, and the costs of implementing those solutions will vary widely. In the "Clean Watersheds Needs Survey 2000" published by EPA in August 2003, EPA used two different estimating techniques to estimate total nonpoint source needs. These two estimates provided cumulative national nonpoint source needs of \$13.8 billion and \$21.5 billion. For a variety of reasons explained in that report, both of these figures are regarded as under-estimates due to the unavailability of adequate data to estimate the costs of controlling certain nonpoint source pollution categories.

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

ANNISTON, ALABAMA: CLEAN UP

Question. Administrator Leavitt, on January 10, 2002 I sent a letter to your predecessor, Administrator Whitman expressing my concern about the PCB pollution in and around Anniston, Alabama and in April of 2002 the VA-HUD Subcommittee held a hearing to address the issues that the citizens of Anniston, Alabama were facing with respect to the continued pollution and clean-up efforts.

Since that time I have worked with the community, EPA and ATSDR to ensure that the residents of Anniston were cared for, that the clean-up of their community was a priority and that the Federal Government did not obviate big business from its obligations to the current citizens of Anniston and to the future generations who will want to call Anniston home.

Today, I am still concerned about the citizens of Anniston and the pollution that we continue to discover. Widespread PCB contamination remains a constant concern and since we began testing, we now understand that lead contamination is a significant problem in the greater Anniston area as well. It seems as if Anniston was a virtual dumping ground for all sorts of industrial pollution.

I believe that this situation is unacceptable and today my question is the same that it was in April of 2002 when I first asked it—what is the Federal Government doing to clean up this mess and who is being held accountable?

Answer. EPA continues to be actively involved in cleanup activities in Anniston for both polychlorinated biphenyl (PCB) and lead contamination.

In March of 2002, EPA filed a complaint against Solutia, Inc. and Pharmacia Corporation in Federal District Court and lodged a Consent Decree partially settling that complaint. The Consent Decree was entered as an Order of the Court on August 4, 2003. The Consent Decree requires the Potentially Responsible Parties (PRPs), under EPA oversight, to conduct cleanups of residential properties and perform a study to determine the full nature and extent of contamination and to evaluate remediation alternatives at the entire Anniston PCB Site.

Residential properties with greater than one part per million of PCBs are required to be cleaned up pursuant to the Consent Decree. To date, the PRPs, with EPA oversight, have cleaned up 27 properties in this condition. The work at 130 properties known to be in need of cleanup is progressing steadily. Additional properties will be identified as sampling progresses.

Although residential cleanups will address a major source of exposure to the citizens, more comprehensive studies of contamination in the Anniston area are needed. The study to determine the nature and extent of contamination and to evaluate alternatives for cleanup is the Remedial Investigation/Feasibility Study (RI/FS). This study is underway. In planning the study, EPA is seeking input from all Federal and State stakeholders, including environmental agencies, public health agencies, and natural resource trustees.

EPA has also discovered a significant number of residential properties contaminated with lead above acceptable levels for residential use. EPA has been cleaning up these properties on a time critical basis as they are identified through ongoing sampling and as resources and time permit. To date, EPA has cleaned up 86 residential properties contaminated with lead. An additional 206 properties contaminated with lead have already been identified and are awaiting cleanup. Enforcement efforts to identify PRPs for the lead contamination are underway. In the past, Anniston was a major center of operations for soil pipe foundries, as well as a number of other industries which may have contributed to widespread lead contamination in the area.

Question. Administrator Leavitt, I am most interested in the progress that has been made to mitigate the pollution to date?

Answer. To date, the Potentially Responsible Parties (PRPs), with EPA oversight, have cleaned up 27 properties contaminated with PCBs. The cleanup of 130 properties known to be in need of cleanup is progressing steadily. Additional properties will be identified as sampling progresses. In addition, a Remedial Investigation/Feasibility Study is underway to determine the full nature and extent of contamination and to develop cleanup alternatives for consideration. Experts at EPA are working with other Federal agencies (Department of Interior, ATSDR) and our counterparts in the State of Alabama (Alabama Department of Environmental Management, the Department of Conservation and Natural Resources, Geological Survey of Alabama), as well as interested member of the community, to ensure that the study satisfies the needs of all stakeholders.

In addition, EPA has cleaned up 86 residential properties contaminated with lead. An additional 206 properties contaminated with lead have already been identified

and are awaiting cleanup. Enforcement efforts to identify PRPs for the lead contamination are underway. In the past, Anniston was a major center of operations for soil pipe foundries, as well as a number of other industries which may have contributed to widespread lead contamination in the area.

Question. One of the concerns originally expressed by the citizens of Anniston was the involvement of Monsanto in the testing and clean-up efforts. If I recall correctly, EPA was to handle, or shall I say oversee, the testing being conducted. I am interested to know specifically what EPA's involvement has been to date, what the current cost estimate of clean-up is, and how long EPA anticipates the cleanup will take.

Answer. Under the Consent Decree, the Potentially Responsible Parties (PRPs) provide cleanup related documents, such as sampling plans, to EPA for review, comment, and approval. Additionally, EPA and/or its contractors accompany and oversee the PRPs during sampling and cleanup work.

To date, the PRPs, with EPA oversight, have cleaned up 27 residential properties contaminated with PCBs. The cleanup of an additional 130 residential properties known to be in need of cleanup is progressing steadily. Additional properties will be identified as sampling progresses. It is EPA's understanding that it costs approximately \$30,000 to clean up each contaminated residence. Until all residences needing cleanup are identified, total costs and time required to complete the cleanup cannot be accurately estimated.

To date, EPA has cleaned up 86 residential properties contaminated with lead. An additional 206 properties contaminated with lead have already been identified and are awaiting cleanup. Presently, it costs approximately \$30,000 to clean up each residence. This is similar to the PCB cleanups primarily because the cleanup consists of the same solution; removal of contaminated soil and replacement with clean fill. Until all residences needing cleanup are identified, total costs and time required to complete the cleanup cannot be accurately estimated.

EPA is still in the process of determining the extent of contamination and the time required to address the contamination. The study to determine the nature and extent of contamination is called a Remedial Investigation/Feasibility Study (RI/FS). Based upon the complexity and scope of the RI/FS which includes approximately 40 miles of creeks and waterways, the complete RI/FS may take 2 to 4 years to complete. It is presently envisioned that the RI/FS will be broken into sub-units called operable units. The RI/FS for some operable units will be completed within 2 years, while others will take longer to complete.

When the RI/FS for each operable unit is complete, a remedy will be proposed for public comment. EPA will compile and respond to all public comments. After consideration of public comments, EPA will finalize the remedy in a Record of Decision. It will then be necessary to negotiate a cleanup agreement with the PRPs. Once the cleanup agreement is approved in Federal District Court, the remedy can be implemented. The total time required to complete cleanup activities in Anniston will depend on the remedies selected.

ANNISTON, ALABAMA: PCB CONTAMINATION

Question. Following the acknowledgment that PCB contamination in Anniston, Alabama was a serious problem that must be addressed, Congress included funding for the Agency for Toxic Substances and Disease Registry (ATSDR) to conduct a study to determine the extent of the problem. Last year, ATSDR found that exposure to PCBs in Anniston posed a serious public health hazard. They recommended that sampling of properties for PCB contamination continue and that rapid clean-up efforts be continued.

Administrator Leavitt, has the EPA taken action on these recommendations? If so, what actions have been taken and what is EPA's anticipated timeline for further activity? If not, why not?

Answer. EPA is taking action on ATSDR's recommendations. Pursuant to the Consent Decree, the Potentially Responsible Parties (PRPs) are cleaning up properties known to be in need of cleanup on an expedited basis and are continuing to sample in an effort to identify additional properties for cleanup. EPA consults with ATSDR throughout the Remedial Investigation/Feasibility Study (RI/FS) process. EPA will provide ATSDR copies of all data collected in every media (air, soil, groundwater, sediment, surface water, and biota). EPA will work closely with ATSDR to get input on the most appropriate remedies to protect public health.

ANNISTON, ALABAMA: LEAD

Question. As I mentioned earlier, lead is another pollutant that has been discovered since testing began in Anniston and surrounding communities. What, if any-

thing, is EPA doing to address the lead problem in Anniston and how does it fit into the larger clean-up efforts currently underway?

Finally, I want to acknowledge that the ATSDR is in the process of conducting a multi-faceted health study spanning nearly 3 years. I hope that the EPA will work with ATSDR to ensure that conclusions and recommendations from this or any other studies are quickly and effectively put into action.

Answer. EPA has also discovered a significant number of residential properties contaminated with lead above acceptable levels for residential use. EPA has been cleaning these properties up on a time critical basis as they are identified through ongoing sampling and as resources and time permit. To date, EPA has cleaned up 86 residential properties contaminated with lead. An additional 206 properties contaminated with lead have already been identified and are awaiting cleanup. There has been some overlap between the Anniston PCB Site and the Anniston Lead Site. Presently, there are a significant number of properties which have both PCB and lead contamination.

Enforcement efforts to identify potentially responsible parties for the lead contamination are underway. In the past, Anniston was a major center of operations for soil pipe foundries, as well as a number of other industries which may have contributed to widespread lead contamination in the area.

As in the past, EPA will continue to work with ATSDR to ensure that required steps are implemented as quickly and effectively as possible. EPA is aware that ATSDR is working through Jacksonville State University (JSU) in Alabama to develop an area wide exposure registry. EPA is also sharing sampling data directly with the JSU.

QUESTIONS SUBMITTED BY SENATOR LARRY CRAIG

ARSENIC STANDARD

Question. Administrator Leavitt, given that compliance with the new arsenic drinking water standard will financially cripple many towns and small communities in the Intermountain West, what is EPA doing in the following three areas:

- Research into technologies to reduce the cost of compliance?
- Financial assistance to come into compliance? and
- Approval of requests to delay the date of compliance or provide other regulatory relief?

Answer. EPA has undertaken a number of activities to reduce the burden of the arsenic rule on small systems. EPA is helping States, Tribes, and systems prepare for implementation of the arsenic rule by providing training and technical assistance on State and Tribal requirements, treatment technologies, waste disposal, and EPA's small system compliance strategy.

The State can use authority provided by the Safe Drinking Water Act to phase in the arsenic rule over time. This authority will allow States sufficient time to allot portions of their Drinking Water Revolving Fund (DWSRF) over the next several years to systems adding arsenic removal treatment. States can give eligible small systems (those serving fewer than 3,300 people) up to the year 2015 to come into compliance (14 years after the rule was promulgated). States are currently working with EPA on addressing several arsenic compliance exemption requests. For example, Idaho's fiscal year 2004 Intended Use Plan for the DWSRF showed that the State has \$23 million available to provide in drinking water assistance and will receive an additional \$8.3 from the fiscal year 2004 allotment.

Pursuant to a Memorandum of Agreement signed in 2002, EPA is also working with the Rural Utilities Service (RUS) of the Department of Agriculture to target grants and loans for small communities for projects that address arsenic-related treatment upgrades. In fiscal year 2003, 759 water projects were funded by the RUS, which used \$769 million of the Water and Environment Program funds.

The Agency has made a significant investment in small system treatment technologies by allocating \$20 million to fund: (1) the development of small system treatment technologies, (2) small business grants for arsenic treatment research, and (3) the development of specific guidance to help systems choose, operate, and maintain appropriate technologies. Treatment Technology Demonstration projects are taking place in 8 States (Listed below). One project is in the state of Idaho. Additional demonstrations will be selected this year.

The Agency has established a comprehensive research effort to identify new low cost arsenic treatment technologies, document their cost when compared to more traditional technologies and test and document their effectiveness. This research program consists of five elements:

- Small Business Innovation Research (SBIR) and Science to Achieve Results (STAR).*—Through this effort, the Agency has supported small business development of innovative arsenic removal technologies that could significantly reduce costs for small communities and grants to academic and non-profit institutions to perform exploratory research on arsenic treatment technologies.
- Treatment Technology Demonstrations.*—The Agency has initiated the full-scale demonstration of commercially ready arsenic treatment technologies at selected small water systems across the Nation. Twelve sites were selected for round one of the demonstration program and 32 additional demonstration sites are currently being considered under round two of the program. The Agency has assured that the demonstration sites are distributed in areas facing high arsenic levels across the Nation including the Intermountain West.
- Environmental Technology Verification (ETV).*—Under the Agency’s Environmental Technology Verification Program, four commercially ready arsenic treatment technologies have been verified: (1) Hydranautics-Reverse Osmosis Membrane Element Module, (2) Kinetico, Inc.—Macrolite Coagulation and Filtration System, (3) Koch Membrane Systems—Reverse Osmosis Membrane Module, (4) Watermark Technologies, Coagulation and Filtration System. Two other adsorptive treatment technologies are currently being tested under this short-term testing program.
- Enhanced Internal Research.*—Through its in-house research program, the Agency is exploring new methods to identify and predict the occurrence of areas with high arsenic levels in ground water. Research studies are being conducted in Maine and Oklahoma. The goal of this research is to provide tools and information to assist communities in sighting new ground water sources in areas with low arsenic and to possibly re-engineer existing wells, thereby reducing compliance costs by avoiding the need for new add-on treatment.
- Training and Technical Assistance.*—As research program results are available, Agency scientists and engineers provide information to technical groups, water operators, water systems and others.

Detailed information on the research program is available at www.epa.gov/ORD/NRMRL/arsenic. In addition, as directed by the Congressional Appropriations Committee the Agency is completing a report on the status of the Arsenic research program. Also, under the Government Performance and Results Act, the Agency will be completing two key reports on cost and performance of full-scale arsenic treatment technology demonstrations this fiscal year.

DEMONSTRATION PROJECTS

Site	Technology To Be Demonstrated
Rimrock, AZ	AdEdge Iron Media
Valley Vista, AZ	Kinetico Activated Alumina
City of Fruitland, Fruitland, ID	Kinetico Ion Exchange
Queen Anne’s County, Stevensville, MD	Severn Trent Iron Media
Brown City, Brown City, MI	Severn Trent Iron Media
Town of Climax, Climax, MN	Kinetico Oxidation/Co-Precipitation/Filtration
City of Lidgerwood, Lidgerwood, ND	Kinetico Modified Treatment
Holiday Acres Water & Wastewater Service, Allenstown, NH	ADI Iron Adsorption/Regeneration
Rollinsford Water & Sewer District, Rollinsford, NH	AdEdge Iron Media
Desert Sands Mutual Domestic Water Consumers Association, Inc., Anthony, NM	Severn Trent Iron Media
Nambe Pueblo, NM	AdEdge Iron Media
South Truckee Meadows GID, Washoe County Water Resources, Reno, NV	US Filter Iron Media

OMBUDSMAN REVIEW OF BUNKER HILL

Question. Today, the EPA Ombudsman released its review of EPA’s activities at the Bunker Hill Site in Idaho.

Do you have a reaction to the Ombudsman’s findings and could you provide a schedule for providing your response to the recommendations, and when any corrective actions will be implemented?

Answer. EPA is in general agreement with the Ombudsman’s findings. The report contained recommendations for EPA regarding dissemination of information on the site, the Basin Commission, and the Lake Coeur d’Alene Management Plan. EPA has 90 days from the report date (March 24, 2004) to provide a written response to the report recommendations. We will provide a response to the specific rec-

ommendations before June 23, 2004. We have already started to implement the report recommendations and expect to act on all of the recommendations by June 2004.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

ARSENIC STANDARDS

Question. Mr. Leavitt, as you are aware, new EPA arsenic Federal drinking water regulations will take effect in 2006. The EPA estimates that roughly 97 percent of the systems expected to exceed the standard are small systems, those serving 10,000 people or less.

The new standard is estimated to cost small communities \$600 million annually and require \$5 billion in capital outlays. For some households, necessary infrastructure upgrades will raise water prices to over \$100 per month.

These small communities lack the economies of scale present in larger communities and are less able to spread out costs. Furthermore, small and rural communities have lower than median incomes. These two factors result in a greater per capita cost of compliance coupled with a decreased ability to pay for the improvements. Mr. Leavitt, implementing the impending EPA arsenic regulation will cause great financial hardship to our small and rural communities.

Mr. Leavitt, many citizens of my home State of New Mexico live in rural areas and have lower than average incomes. As such, the burden complying with these standards is great. Implementing the new standards will cost rural New Mexicans between \$370 and \$440 million in capital outlays plus \$18 million per year in operating costs.

What plans does the EPA have to help small and rural communities pay for the billion of dollars in upgrades necessary to comply with the arsenic standards?

Answer. EPA understands that many communities will face a challenge in carrying out the new arsenic standard. The Agency has a number of activities underway to provide financial, technical and compliance assistance and to identify new technologies that may serve to be more affordable for small systems.

EPA estimates that of the 74,000 systems subject to the new arsenic maximum contaminant level, only 3,000 community water systems and 1,100 non-transient, non-community water systems will need to install treatment for compliance. The total national capital costs for treatment technology and infrastructure to meet the arsenic standard are estimated to be almost \$900 million. Small systems make up the majority of the systems impacted by the rule, but the majority of the capital costs will be incurred by larger systems that serve more than 10,000 people.

EPA's Drinking Water State Revolving Fund (DWSRF) program will play an important role in helping many systems install treatment needed to protect the health of their customers. State DWSRF programs are currently providing more than \$1.2 billion per year using annual appropriations of \$850 million, bond proceeds, repayments and additional funds. More than 40 percent of the funding and 75 percent of the loan agreements are going to small systems that serve fewer than 10,000. The low-interest loans and disadvantaged assistance provided through the program will prove critical in helping States address needy communities. Some States, like Arizona, are already beginning to fund projects for arsenic. Close to one-half of the top 30 projects on the State's priority funding list for 2004 address arsenic treatment. Pursuant to a Memorandum of Agreement signed in 2002, EPA is also working with the Rural Utilities Service (RUS) of the Department of Agriculture to target grants and loans for small communities for projects that address arsenic-related treatment upgrades.

States can use authority provided by the Safe Drinking Water Act to phase in the arsenic rule over time. This authority will allow States sufficient time to provide DWSRF assistance over the next several years to systems adding arsenic removal treatment. States can give eligible small systems (those serving fewer than 3,300 people) up to the year 2015 (14 years after the rule was promulgated) to come into compliance.

The Agency has made a significant investment in small system treatment technologies by allocating \$20 million to fund: (1) the development of small system treatment technologies, (2) small business grants for arsenic treatment research, and (3) the development of specific guidance to help systems choose, operate, and maintain appropriate technologies. Treatment Technology demonstration projects are taking place in 9 States (listed below). Two sites in New Mexico were chosen: Desert Sands MDWCA in Anthony, New Mexico and the Tribal system at Pueblo of Nambe. Addi-

tional demonstrations will be selected this year. The table on the following page highlights some of the technologies being tested and their locations.

Finally, EPA Region 6 is working through the University of New Mexico Environmental Finance Center to conduct pilot studies for arsenic removal at three small tribal New Mexico water systems. The technologies being tested, adsorbent media operated without pH adjustment or regeneration, require minimal operator training.

ARSENIC TREATMENT TECHNOLOGY DEMONSTRATIONS

Site	Technology To Be Demonstrated
Rimrock, AZ	AdEdge Iron Media
Valley Vista, AZ	Kinetico Activated Alumina
City of Fruitland, Fruitland, ID	Kinetico Ion Exchange
Queen Anne's County, Stevensville, MD	Severn Trent Iron Media
Brown City, Brown City, MI	Severn Trent Iron Media
Town of Climax, Climax, MN	Kinetico Oxidation/Co-Precipitation/Filtration
City of Lidgerwood, Lidgerwood, ND	Kinetico Modified Treatment
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Rollinsford Water & Sewer District, Rollinsford, NH	AdEdge Iron Media
Desert Sands Mutual Domestic Water Consumers Association, Inc., Anthony, NM	Severn Trent Iron Media
Nambe Pueblo, NM	AdEdge Iron Media
South Truckee Meadows GID Washoe County Water Resources, Reno, NV	US Filter Iron Media

Question. Last year, the Federal Government appropriated over \$2.6 billion for water infrastructure funding. Do you believe that the Federal Government should also provide funding to States and municipalities so that they can comply with EPA mandated arsenic standards?

Answer. EPA has promoted use of the DWSRF program that, along with Federal funding, leverages much more investment to help States and communities comply with the arsenic standard and other recent rules. In fact, many States are beginning to fund arsenic-related projects in anticipation of the 2006 compliance deadline. The program has a fact sheet that highlights how it can be used to help systems comply with the revised standard (<http://www.epa.gov/safewater/dwsrf/fund-arsenic.pdf>).

The Agency has also made a significant investment in small system treatment technologies by allocating \$20 million to fund: (1) the development of small system treatment technologies, (2) small business grants for arsenic treatment research, and (3) the development of specific guidance to help systems choose, operate, and maintain appropriate technologies. Treatment Technology demonstration projects are taking place in 9 States (listed below). Two of the projects are in the State of New Mexico. Additional demonstrations will be selected this year.

DEMONSTRATION PROJECTS

Rimrock, AZ	AdEdge Iron Media
Valley Vista, AZ	Kinetico Activated Alumina
City of Fruitland, Fruitland, ID	Kinetico Ion Exchange
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SAFE DRINKING WATER ACT

Question. As with arsenic, small and rural communities will soon be required to meet Safe Drinking Water Act minimum standards for other contaminants. EPA promulgated minimum parts per billion (ppb) standards for other contaminants such

as uranium, perchlorate, radon, and MTBE which will also be very costly to small and rural communities are just down the pike.

The financial hardship borne by small communities in implementing the arsenic and other EPA standards will be significant. Operators of many rural water systems with whom I have spoken said they will not be able to afford these costly upgrades.

Do you anticipate having a widely accepted and scientifically sound review which will justify the expenditure of billions of dollars by small communities before promulgating new minimum standards?

Answer. EPA understands the challenges that small and rural communities face in implementing new drinking water regulations needed to protect public health. The 1996 Amendments to the Safe Drinking Water Act (SDWA) anticipated the challenge water systems would face to implement revised public health standards, and created a suite of tools, including the Drinking Water State Revolving Fund (DWSRF), to help systems successfully meet these challenges. Other available tools include varying compliance time frames through technical assistance, and funding through the Rural Utilities Service (RUS) of the U.S. Department of Agriculture. Together, the State DWSRF programs and RUS provide more than \$2 billion to public water systems for capital improvements and infrastructure needs. We will use these and other tools to help mitigate and minimize impacts that new standards may have on small communities.

With respect to the specific regulations referenced in your question, EPA promulgated National Primary Drinking Water Regulations for uranium in 2000, and arsenic in 2001. EPA has not promulgated final standards for radon, nor has the Agency made the determination that a regulation is appropriate for perchlorate or MTBE.

Before the Agency develops a standard to limit the amount of a substance in public drinking water systems, EPA is required by the SDWA to make specific determinations about the contaminant in drinking water. First, EPA must determine that it occurs at both a frequency and level which represents a public health concern, and second, that regulating the contaminant represents a "meaningful opportunity for health risk reduction" for persons served by public water systems. Once a determination is made to regulate a contaminant, EPA develops a regulation using the best available, peer reviewed science in accordance with sound and objective scientific practices. Both the scientific and economic analyses underlying the rule undergo a thorough review.

Stakeholder involvement and understanding is a key component of the regulatory development process. In addition to providing the opportunity for public comment in the Federal Register, the Agency holds stakeholder meetings to discuss EPA's plans and progress and makes draft documents available for comment. This includes obtaining stakeholder input on costs and benefits for any rule being developed. EPA often consults with the experts through formal and informal expert review processes and considers comments from these groups in the preparation of the final documents. In addition, major scientific work products supporting EPA's rules receive formal peer review to ensure that they are scientifically sound.

Question. Do you believe that the Federal Government should also provide funding to States and municipalities so that they can comply with any additional drinking water standards promulgated by the EPA?

Answer. Congress appropriated \$845 million (incorporates the Omnibus Appropriation's 0.59 percent rescission across all budget line items) for the DWSRF program in the fiscal year 2004 budget. The DWSRF is the primary vehicle by which EPA helps States address water system infrastructure upgrades that are needed to protect public health and ensure compliance with the Safe Drinking Water Act (SDWA). Through the auspices of the States, the program is focused on providing low-interest assistance and, where appropriate, additional subsidies to disadvantaged communities for high priority projects. Through fiscal year 2003, EPA has awarded over \$5.5 billion to States for needed drinking water system projects and, as previously mentioned, in fiscal year 2004, Congress appropriated \$845 million for the DWSRF. The administration recognizes the critical role that the DWSRF plays in water infrastructure investment and has committed to fund the program at a level of \$850 million annually through 2018. States are also coordinating funding with the Rural Utilities Service of the U.S. Department of Agriculture to address the special needs of smaller communities.

EPA has promoted use of the DWSRF program to address new and existing drinking water standards. The program's website includes fact sheets that explain how the DWSRF can be used to address projects needed to comply with recent rules including the Stage 1 Disinfectants and Disinfection Byproducts, Long Term 1 Enhanced Surface Water Treatment, Arsenic and Radionuclides Rules (see <http://www.epa.gov/safewater/dwsrf.html>).

WATER INFRASTRUCTURE NEEDS

Question. In many communities along the U.S.-Mexico border, the water infrastructure needs have reached critical levels. Rapid and dense population growth along the border without the installation of adequate water and sewage systems has resulted in contamination of drinking water and sewage spewing down city streets. The people populating these border communities are truly living in squalor.

In order to address the chronic environmental infrastructure deficit that exists along the border region, Congress established the Border Environment Infrastructure Fund. This fund ensures that border communities have access to a safe and reliable water supply and do not face the health dangers associated with human waste.

In recent years, funding for this program has decreased significantly. This has resulted in an inability of border communities to meet their water infrastructure needs.

Do you believe that the Federal Government should provide our border communities with funding for critical water infrastructure through the continued funding of the U.S.-Mexico Border Infrastructure Program?

Answer. The Agency's fiscal year 2005 budget request of \$50 million reflects our continued commitment to providing funding for critical water and wastewater infrastructure projects along the U.S.-Mexico Border. This request will allow continuation of EPA participation in border infrastructure funding through fiscal year 2005 at roughly the current pace. As of fiscal year 2004, Congress has appropriated over \$700 million to the U.S.-Mexico Border program. Projects that are currently under construction or are operational have a total value of over \$1.4 billion.

 QUESTIONS SUBMITTED BY SENATOR PATRICK J. LEAHY

MERCURY RULE REQUIREMENTS

Question. The administration has repeatedly asserted that the reason they have retreated from a more aggressive mercury regulation that is inline with the Clean Air Act MACT requirements is that the technology is not available to reduce mercury emissions further. This contradicts recent industry reports and statements where they say the opposite is true. Last year, the American Coal Council's magazine included an article talking about the effectiveness of existing technology in reducing mercury emissions. An industry representative testified before the House Energy and Commerce Committee last year that these technologies show "promising results." The fact is that tests already have shown we can reach a 90 percent reduction. We can also do it much more quickly than the administration's proposal requires. A recent report in the Washington Post quotes industry experts as saying that there could be industry-wide application of new technologies by 2009. Please explain why the administration chose a longer timeline.

Answer. The Clean Air Act requires emissions limitations based on the average achieved by the best performing 12 percent of existing sources. Further, the U.S. Environmental Protection Agency (EPA) does not believe that electric utility, coal, and pollution control industry statements contradict its view that advanced mercury control technologies are not yet ready for commercialization. The EPA agrees with industry that these new technologies show great promise, but are not, and will not be, available within a 3- to 4-year time-frame. Our belief is based on the following points:

- To date, there have been four full-scale field tests on activated carbon injection (ACI), the most promising mercury-specific control technology on the near-term horizon. These tests have been conducted on three bituminous-fired units and one subbituminous-fired unit. The longest period of continuous ACI operation was conducted for a 9-day period at one unit and for 4- to 5-day periods at the other three units. The short duration of continuous ACI operation at this limited number of units is insufficient to conclude that ACI technology can be used to comply with a national standard that requires continuous compliance for the remainder of the life of the unit.
- The initial four tests provided information that ACI could be effective on both Eastern bituminous coals and Western sub-bituminous coals for short periods of time, with removal ranging from 70 percent for Western coals to 90 percent for Eastern bituminous coals. To provide additional, longer-term information on ACI performance, the DOE has contracted with ALSTOM and ADA-ES (the ACI technology firm with the most current experience in the field) to conduct ACI tests on four additional coal-fired power plants over a 3-year period for longer duration tests. The testing will provide a better understanding of the

performance capabilities of power plants that could be impacted by the pending regulations by addressing questions remaining following the four initial tests, such as the effectiveness of the technology on other coal/boiler/activated powdered carbon combinations, the capture of activated carbon in small and moderate size electrostatic precipitators (ESP), integrated performance with flue gas desulfurization (FGD), mercury removal on sub-bituminous coals with dry scrubbers, process and equipment costs for various levels of mercury removal, plant impacts such as by-product contamination, and the relationship between chlorine content and mercury removal levels.

- One long-term ACI test was initiated in April 2003 on a bituminous-fired unit. This test was to evaluate the mercury removal efficiency of ACI over a period of several months to 1 year, further assess the impact of ACI on balance-of-plant operations (i.e., how will ACI impact maintenance frequency and costs, ash disposal and utilization, internal plant energy use, etc.), and provide additional information on design characteristics and costs of ACI technology for other installations. Because of problems encountered, this test has not been completed and thus the final results are not known. However, it is our understanding that this test has shown the ability of ACI, when used at a bituminous-fired unit, to average 86 percent mercury removal over an extended period of time but has highlighted design problems that must be corrected prior to full scale installation on other units.
- Additional ACI testing has been conducted on less than full-scale operations at a limited number of other sites. However, these tests were also of short duration and provide little additional information on how ACI will perform on a long-term continuous basis.
- To date, no ACI testing has been conducted on a coal-fired unit equipped with a wet FGD system for sulfur dioxide removal. Wet FGD systems are currently installed on approximately 13 percent of the coal-fired units in the United States; this percentage will increase as units are brought into compliance with the proposed Clean Air Interstate Rule (previously called the Interstate Air Quality Rule). As it is impractical to install ACI downstream of the wet FGD (because of the saturated flue gas stream), such installations would have to be installed upstream, where existing ESP units are now placed. It is not known what impact ACI will have on the operation of the wet FGD. (For example, no particulate control device is 100 percent efficient; therefore, it is likely that some activated carbon will enter the wet FGD system.) Tests are currently ongoing on ACI on a wet-FGD equipped unit firing medium-sulfur bituminous coal with another test planned for spring 2005 on a unit firing high-sulfur bituminous coal.
- On April 21, 2004, the U.S. Department of Energy (DOE) made a joint announcement with WE Energies about the initiation of a joint venture aimed at demonstrating technology that will achieve a 90 percent reduction in mercury emissions from coal-based power plants. This 5-year project will involve the design, installation, operation, and evaluation of an integrated system on one coal-fired power plant to control emissions of mercury, particulate matter, sulfur dioxide, and nitrogen oxides.
- The electric utility industry reportedly has had trouble obtaining solid, guaranteed quotes for ACI installation on coal-fired units. We have heard from a number of utility companies indicating that they have tried without success to get bids on, and guarantees for, ACI installations. To date, we are aware of only one permit, other than a federally co-funded program (on a unit to commence operation in 2007 and burn low-sulfur Western coal), that has been issued that included ACI technology (MidAmerican Energy Station permit issued by the Iowa Department of Natural Resources). The lack of additional examples is indicative of the lack of industry confidence in guaranteeing permit levels at this time.

Thus, we conclude that 90 percent emissions reduction is not yet achievable on a long-term basis for all coal types, and ACI is not ready for wide-spread commercial installation on coal-fired electric utility units in a shorter time-frame than the EPA has outlined in its proposed regulations. We anticipate that our regulations will serve as a driver to ensure that ACI (and/or other hybrid sorbent technologies) is developed in a more timely manner than would otherwise be the case.

Question. Also, please provide the EPA analysis that was conducted to determine reduction targets over the timeframe in the proposed rule and detail what additional analysis the Agency will do before finalizing the rule this year.

Answer. As part of the analysis for the proposed rule EPA carefully studied the availability of various mercury-control technologies and the timeframe for achieving reduction targets. This analysis is documented in the proposed rule and can also be

found at <http://www.epa.gov/air/mercuryrule/>. A detailed discussion of the Phase 1 and Phase 2 caps is given in proposed rule (See page 4698 and 4699 of Volume 69 of the Federal Register). The proposed rule reads:

“Our proposed 15 ton cap in 2018 is grounded largely in the modeling completed in support of the President’s Clear Skies initiative. This modeling suggests that, assuming technologies such as ACI become available; such a cap will create an incentive for certain plants to install these newer technologies. It also suggests that such market-based controls should not have any significant impact on power availability, reliability, or pricing. Nor should a 15-ton cap cause any significant shift in the fuels currently utilized by power plants or in the source of these fuels. Sensitivity analyses indicate that a more stringent cap could have potentially significant impacts on fuels and/or power availability, reliability, or pricing. Less stringent caps do not appear warranted based on our expectations about technology development and our modeling analysis of the potential impacts of the 15-ton cap.”

This is an ongoing process and we will use the most current information available when working to finalize the Clean Air Mercury Rule, including a careful study of the information that we receive during the comment period for the proposed rule. Since we are still in the comment period, it would be premature to speculate on how new information received will affect our analysis prior to finalizing the rule in March 2005.

Question. Recent reports from the Department of Energy estimate that the power industry proposes to build, and put into service by 2010, at least 94 new coal-fired power plants across the United States. These power plants will generate enough energy to power 62 million homes, and add an additional 120 million cubic feet of emission gases. Based on the geographic distribution of these plants, there about 28 plants situated in the midwest and northeast, the area from which most of Vermont’s mercury air pollution blows in from. What requirements these plants will have to control mercury under the Clean Air Act and if any of the latest technologies—like activated carbon injection—will be used to control mercury emissions from these plants?

Answer. In March 2005 EPA will issue a final regulation that will require reductions of mercury emissions from power plants either under Section 111 or Section 112 of the Clean Air Act. Depending on the part of the Clean Air Act chosen, the regulations will either take the form of a cap-and-trade program or a Maximum Achievable Control Technology (MACT) standard. EPA’s preferred alternative is a cap-and-trade program under Section 111.

One of the key advantages of a cap-and-trade program is that pollution is reduced even as the economy expands and new power plants are built. Traditional standards such as MACT standards require reductions in emissions at each power plant but not necessarily overall for a growing industry because the emissions from additional power plants exceed the reductions required at existing power plants. This is one reason why EPA prefers the cap-and-trade approach outlined in the proposed Clean Air Mercury Rule of 2004.

Under either the MACT or the cap-and-trade approach EPA will not mandate particular technologies. The choice of technologies is best left to the regulated industry, provided they lead to the ultimate emissions reductions required by EPA. There are a number of promising technologies, such as activated carbon injection (ACI), which are being developed and tested. Based on current information it is projected that ACI technology will be adequately demonstrated and widely deployable sometime after 2010 and that removal levels in the 70 percent to 90 percent range could be achievable. The regulated sector, not EPA, will make the final decision about what technologies are actually employed to achieve the emissions reductions that will be required.

Question. Is the Agency preparing any new guidance for States that would limit their ability to require or even consider that new coal-fired power plants use the best available control technology, including advanced systems like Integrated Gasification Combined Cycle and fluidized-bed combustion?

Answer. No, the Agency is not planning to prepare any additional guidance which would limit a State’s ability to require or consider new coal-fired power plants use of the best available control technology.

SUBCOMMITTEE RECESS

Senator BOND. We look forward to working with you on an ongoing basis, and we appreciate the cooperation that your staff has

shown us in the past, and look forward to continuing to work with you in the future. The hearing is recessed.

[Whereupon, at 11:44 a.m., Thursday, March 25, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

THURSDAY, APRIL 1, 2004

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

The subcommittee met at 10:05 a.m., in room SD-628, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

STATEMENT OF ALPHONSO JACKSON, SECRETARY

ACCOMPANIED BY:

ROY A. BERNARDI, ASSISTANT SECRETARY, COMMUNITY PLAN-
NING AND DEVELOPMENT

MICHAEL LIU, ASSISTANT SECRETARY, PUBLIC AND INDIAN HOUS-
ING

JOHN WEICHER, ASSISTANT SECRETARY FOR HOUSING—FEDERAL
HOUSING COMMISSIONER

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. Good morning. The Senate VA/HUD Appropriations Subcommittee hearing will come to order.

We are looking forward to welcoming the newly confirmed, some 12 hours old, Secretary of HUD to be joining us. I understand he's fallen victim to the traffic. However, looking at what OMB presented for HUD, I would be surprised if there wasn't some planning on his part to miss out on it. We welcome FHA Commissioner John Weicher, Assistant Secretary for Public and Indian Housing Michael Liu, and Roy Bernardi, Assistant Secretary for Community Planning and Development, who will be answering the subcommittee's questions.

Gentlemen, we have probably more problems with this budget than any budget we have been submitted. And in this subcommittee, we get lots of bad budgets. This one, I think, may take the cake. And I think that we're going to have a very difficult time working through it. I look forward, however, to working with Secretary Jackson and all of you as we try to sort this out.

We have a vote at 11:30, so we will have to submit questions for the record. I am very concerned about HUD's Office of Congressional Relations, which failed to meet its responsibilities for this hearing. We expect the Office to be better prepared in the future.

Also, Mr. Liu, I understand you requested, over the last several days, not to attend this hearing and, instead, send a subordinate. That is not acceptable, because this is an extremely important hearing. We not only need you to answer our questions, but I hope this will be an opportunity for you to understand issues that are important to us and our constituents.

The President's budget request for HUD for fiscal year 2005 proposes some \$35.7 billion, a technical increase of \$331.8 million over fiscal year funding level of \$35.4. Unfortunately, the 2005 funding level doesn't tell the true story about the administration's request, which is distorted because of how rescission funding and FHA receipts are treated for purposes of the 2005 budget. Instead, the HUD proposed budget, as we figure it, is actually some \$1.4 billion below the amounts we appropriated for HUD programs in 2004. That's a substantial reduction, which is even more troubling in light of other administration budget shortfalls within the jurisdiction of this subcommittee. We have been shorted about \$1.2 billion in VA medical care, and the Clean Water State Revolving Fund in EPA has been cut by \$500 million, which Office of Management and Budget should know by now that Congress is not going to accept.

I know HUD has an obligation to defend the budget and policy decision, no matter how troubling. I also understand the need for the administration to make difficult funding decisions to contain and reduce the Federal budget deficit. Nevertheless, this subcommittee is facing huge challenges in funding decisions for the entire VA/HUD bill in a very tight funding year, and HUD represents one of the largest challenges.

In addition, this budget includes several substantial policy changes that would dramatically alter the direction of both Section 8 housing assistance and the FHA's single family housing mortgage insurance program, two of HUD's most important issues. These are important policy proposals that cannot be taken lightly and should not be considered in an appropriations bill without comprehensive hearings and debate. We have some significant questions about all of them, and, unfortunately, it does not look like we're going to have the luxury of the time to consider fully these issues.

We'd like to welcome now, as I said, the 12-hour-ago-confirmed Secretary of Housing and Urban Development. I know, Mr. Secretary, that unless you stayed up all night preparing, you're not prepared for this hearing, but we do welcome you. We just said what a lousy hand you've been dealt, and we will ask your associates questions on it. But there will be a lively give and take. And whenever you would like to jump in, please feel free to do so. But we've got a lot of problems that we've got to deal with.

SECTION 8 REFORM

The administration is proposing to restructure Section 8 into a new block-grant program to be administered by a public housing agency. Two fatal flaws in that proposal; namely, a lack of funding

and elimination of the requirements that Section 8 tenant-based assistance be targeted to our most needy families. The Section 8 voucher program currently requires that three quarters of all new vouchers serve extremely low-income families at or below 30 percent of their median income. These are the families with the greatest housing needs, and PHA's would no longer have the necessary funds to provide vouchers to these families, leaving them to other unsustainable rent burdens or homelessness.

In particular, Section 8 assistance would be funded at \$18.466 billion in 2005, a decrease of \$791 million from the 2004 funding level of \$19.26 billion. That's not enough funding to meet the needs of Section 8 anticipated for 2005. CBO, in its most recent budget re-estimate, determined that Section 8 will require funding of some \$19.284 billion, which means that HUD has a funding shortfall of about \$2.2 billion for Section 8 renewals and tenant protection for 2005 just to sustain the program, not add incremental vouchers. It also doesn't address other important issues, such as proposed changes and shortfalls in the Section 8 administrative fees.

I understand the administration's frustration with the Section 8 tenant-based voucher program, with its annual rescissions and poor cost projections. I assure you, we share that frustration. But I think this proposal is a poor substitute for the flaws in the program. We spent years working with HUD in making reforms to the program. In the last 2 years, making specific reforms through changes to the Section 8 account. While we continue to have problems with excess Section 8 rescissions, the program has become more successful with higher utilization rates. Unfortunately, the HUD Section 8 proposal punishes the program for its success, with the result that less families will get vouchers, and, I fear, extremely low-income families, those with the greatest housing needs, will likely get almost no assistance at all. I agree the Section 8 program may cost too much. We should reduce the administrative burden, where appropriate. But I think we should use a scalpel, not a meat cleaver.

Even more troubling, based on answers my staff received on the underlying analysis supporting the proposal, it's clear that HUD has not even done its homework on the proposal's impact on the continuing availability to the families who currently have vouchers.

HOPE VI

I continue to be troubled by the Department's decision to eliminate all funding for the HOPE VI Program. This program was designed primarily by this subcommittee to tear down the most distressed and obsolete public housing, replacing it with new mixed-income and public housing developments that not only provide good housing, but help to anchor the economic and physical redevelopment of many distressed communities. It's worked well, deserves to be funded or replaced with a program that is better equipped to address the remaining stock of distressed housing.

I'm especially concerned over the loss of the program since HUD has identified some \$20 billion or more in deferred maintenance and capital needs. These needs will only grow as existing PHA inventory deteriorates. I would note that it is always troubling to me that OMB, each year, comes back and cuts out programs like

HOPE VI, rural housing, all of the other programs that Congress has added because of the need that we see. I don't know where the disconnect is. And if CBO wants to come in and testify and tell us why these programs are bad, I'd like hear them do it. But we've made the determination, and we are continually frustrated by the lack of communication when they want to cut out programs we've found to be very helpful.

ZERO DOWN PAYMENT INITIATIVE

I'm deeply troubled by the proposed zero down payment for the FHA Homeownership Program. It poses substantial risk to the single family mortgage insurance program, because without down payments, new homeowners have no stake in their homes, no cushion to pay for any big-ticket costs such as a failed furnace or a leaky roof.

From an historical perspective, FHA was almost bankrupt in the 1980's due to defaults from housing families with high loan-to-value ratios, which also helped to tip marginal neighborhoods where FHA foreclosures helped to drive down the value of other housing in the neighborhood. Sadly, some neighborhoods are still trying to recover from those foreclosures. On the human side, families who default on their FHA mortgages ruin their credit and likely will be unable to purchase housing when homeownership is more appropriate. This new policy recommendation seems to place homeownership above all other policy goals, including the financial soundness of FHA or the appropriateness of homeownership for a family.

I could go over the items in the IG audit of FHA financial statements. Let me just summarize them to say that FHA defaults have risen. There is the 2002 actuarial study that projected the economic value of the fund at the end of 2003 would be \$27.3 billion. But now the new estimate is it'll be \$22.7 billion. That's about a \$4.6 billion gap, which raises serious questions over the need for new economic models.

In addition, FHA's share of the home-purchase loan market fell by 16½ percent in 2003, after falling by slightly over 1 percent in 2002, and 1 percent in 2001. In contrast, overall purchase loan originations by loan number went up in each of these years. This suggests there's growing deterioration in the credit quality of the FHA book of business, and FHA is essentially pricing itself into underwriting the highest-risk mortgages.

RURAL HOUSING AND ECONOMIC DEVELOPMENT

I'll raise other questions in the question period, but I also have strong objections to the elimination of the Rural Housing and Economic Development Program and the lead-abatement grant program, which is something that Senator Mikulski and I have determined is a high priority. And I can assure you, in our communities, it is a high priority.

Secretary Jackson, I look forward to working with you on reforming HUD. It's a huge task. It's a difficult responsibility. I think you have the requisite skills and expertise. HUD serves an absolutely critical role with its responsibility for providing a safety net of affordable housing for low-income and providing needed funding

that's a cornerstone for community development efforts and for making the dream of homeownership a reality. I look forward to working with you to rebuild the public confidence in HUD, and ensure the HUD's housing community development programs are meeting the affordable housing and economic development needs of our communities and families. I should say, "Harsh letter to follow," but I think we probably understand ourselves.

I'll now turn it over to Senator Mikulski.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Good morning, Secretary Jackson, and congratulations on your confirmation. And, along with Senator Bond, I look forward to working with you.

I want to associate myself with the issues raised by the Chairman. They are identical to the issues that I share about the challenges that we see in this year's HUD budget request. I, too, want to reiterate many of my own particular concerns. We note that the budget request is \$31.3 billion. But overall HUD spending is cut by 3 percent since last year's levels. This could mean less affordable housing, more rundown public housing, more lead-paint-poisoned children, and more blight and deterioration in our communities.

HOPE VI

I'm disappointed that HUD has once again proposed to eliminate HOPE VI. I created HOPE VI, on a bipartisan basis 11 years ago, to address the crisis in public housing. Public housing was decrepit, it was distressed. Residents were living in zip codes of poverty, and public housing had become a way of life, not a way to a better life. We wanted to get the Federal Government out of the slum-landlord business and into the empowerment business. That was the purpose of HOPE VI. And we can go over many of the accomplishments of HOPE VI. We need to look at how we can sustain HOPE VI now and look ahead to what a new HOPE VI needs to be in the future. I believe HOPE VI does need to be refreshed and reformed, but certainly this year, we believe, to sustain it should be one of our principles in the HUD budget.

Last year, with the cooperation of the chairman, we asked the Urban Institute to give us the lessons learned from HOPE VI, what were the best practices, how we could replicate the successes, and also, what were the areas of reform that needed to be done. They have submitted a report, and we will be looking forward to discussions with not only how we can sustain the program this year and get best value for communities, as well as taxpayers, but also look ahead to the future.

AFFORDABLE HOUSING

The other area that puzzles me is the lack of resources for creating affordable housing. Senator Bond and I have long supported new production of affordable housing. Investments in housing is an investment in the American economy. When you build a house here, it's built here; it's not on a slow boat to China, a fast track to Mexico, a dial 1-800-somewhere; it is right here in the United States. We know working families are squeezed and stressed.

Housing in the Baltimore/Washington Corridor is so hot that an Anne Arundel County Police Department official had to move to Pennsylvania for what he thought was affordable housing. Well, this is unacceptable. We need to look at not only how are we helping the poor, but how are we helping the middle class—the firefighter, the police officer, the teacher, the call-center person that we want to keep here. We need to be able to do this and look at how we can increase production.

CAPITAL FUND/OPERATING FUND

We're very concerned, too, though, in terms of our poorer citizens, the cuts in the public housing operating and capital budget. We believe that this will not only continue to cause greater stresses on local governments' budgets, but on the poor themselves.

LEAD-BASED PAINT

In addition to this, I'm troubled by the elimination of the lead-paint elimination program. Cleaning up lead paint has triple value. First of all, it helps children. It makes them safer. It also helps them be smarter. The Johns Hopkins people who are leaders in this tell me that lead paint causes such severe neurological damage, learning disabilities, and lowered IQ's that the very presence of lead paint in a community guarantees that no one from that community will be able to move up and take advantage of an opportunity ladder in our country. We need to be able to do something about it.

PROPERTY FLIPPING

A success story that we've had in working with your predecessor, Secretary Martinez, was in dealing with flipping and predatory lending, and we want to thank HUD for all of its cooperation and its investment and expertise, technical assistance, and real reform. Flipping is now down 82 percent in the city of Baltimore, from the time when both the taxpayer and the poor were being gouged. Crooked investors were buying up FHA foreclosed property, making cosmetic repairs, working with scum appraisers and lenders. Well, thanks to working together, we've changed that. But right now what we're looking at is, what are some of the other issues that we can do? Even though flipping is down, predatory lending still lingers in the sub-prime market.

FHA DEFAULTS

And also what we're concerned about is additional issues with FHA. We're so alarmed that the defaults in FHA-insured properties have increased 31 percent. We need to know: why is this happening? Is it because of the economy? Is it because people are trapped in predatory loans? What's the real reason here?

SINGLE FAMILY PROPERTY DISPOSITION

HUD must also be in the neighborhood business. Homeownership is good, but it has to be sustainable. The worst thing that you can say in a neighborhood is, "Oh, my God, we've got a HUD house." A HUD house is where somebody has been foreclosed, it's now in

HUD hands, and it begins to deteriorate, and it creates this economic tipping that Senator Bond has talked about. So we have questions related to the single family disposition.

FHA MULTI-FAMILY DWELLINGS

Then there's another issue, of FHA apartment buildings. I am very concerned that in many of our communities, particularly close to the cities, like in my own hometown, the inner-beltway communities, that FHA apartment buildings have become public housing by proxy. They have landlords who take large amounts of Section 8 vouchers. The apartment building itself becomes all Section 8. They then skimp on repairs, they skimp on maintenance, but they sure don't skimp on taking the subsidy. We have terrible problems in many of our apartments here, and we've dealt with this with both Secretary Cuomo and Secretary Martinez. There was one in eastern Baltimore County that was not well maintained: rodent infestation, crime rampant, and rundown conditions. It was a blight on the community, and essentially we were subsidizing all the aspects of a slum landlord. These cannot be tolerated.

Now, we've worked on that together, and we want to thank HUD for their cooperation. But we have to make sure that whatever we're paying for, we're not subsidizing slums, and that we are in the empowerment business; we're in the opportunity business. And through what we do to help people help themselves, we're really also creating a stronger economy.

So we look forward to discussing these issues with you. And I now am happy to yield the floor.

Senator BOND. Thank you very much, Senator Mikulski.

I'd like to welcome Secretary Jackson and call on him for any brief comments he wants to make. I understand you have a prior commitment, and you have to leave at 11:00, and we understand that. We'll have plenty of work for you in the questions for the record, so while you leave, just know that we won't forget you.

Secretary JACKSON. Thank you.

Senator BOND. Again, welcome, Mr. Secretary.

STATEMENT OF ALPHONSO JACKSON

Secretary JACKSON. Mr. Chairman and the Ranking Member, let me apologize in advance for leaving. It will probably be about 10 minutes to 11:00, Mr. Chairman.

But let me say this, that last night I did find that I was confirmed by the Senate, and I would like to thank both of you all for the work that you all did to make the confirmation come to fruition.

And, as Secretary, I think that Chairman Bond has worked with me, and Senator Mikulski, we've had conversations over the last month, I am very sensitive to the issues that you have raised, and we look forward to work with you to try to resolve these issues.

I guess I come with somewhat of a different background, in the sense that I was fortunate to have ran three major housing authorities, so many of the issues that you have brought forth today are of very much concern of this Department. I don't ever say "my," because I think "my" is almost like "I." It becomes the "I" syndrome. I think that HUD, this committee, and the Senators can

work together to find valid solutions to try to resolve many of these problems.

Lastly, I would say this, that we have two assistant secretaries that will be addressing your issues today. Please feel free to call me. I am clearly, as the Secretary, at your disposal to come and discuss with you, and hopefully sit down and resolve many of the issues that we have today.

I do believe, especially with my encounter with Senator Bond and my short encounter with Senator Mikulski, that our philosophical viewpoints are the same, that clearly HUD's mission is to address the needs of low- and moderate-income persons, and to address those needs sufficient enough that they might have the same quality of life that most of the people in this room have.

Thank you.

Senator BOND. Thank you very much, Mr. Secretary.

And I would say only that I have had a great opportunity to work with the Secretary in his prior life, and my prior life, and I do know that he has a strong commitment. And I'm sure that all of the leaders of HUD do. We've got some real differences on how to get there.

I believe Mr. Bernardi is going to lead off. Is that correct?

Mr. BERNARDI. Yes, Senator.

Senator BOND. I thank you. If you would proceed, and introduce your colleagues, as needed.

STATEMENT OF ROY A. BERNARDI

Mr. BERNARDI. Thank you.

Chairman Bond and Ranking Member Mikulski, thank you for the invitation this morning to outline our fiscal year 2005 budget, a budget that's presented by President Bush and the Department of Housing and Urban Development. And I'm also pleased to be joined by my colleagues, to my left, Commissioner Weicher, and Assistant Secretary Liu, to my right.

To ensure there's appropriate time for questions from the Committee, I think I'll focus just on some of the statements of HUD's key priorities and some of the new initiatives that we're proposing. And I ask that I be allowed to submit my full statement for the record, sir.

Senator BOND. We'll be happy to accept all of your statements for the record, and we appreciate your summarizing from them.

Mr. BERNARDI. Thank you.

As you indicated, the programs funded with a \$31.3 billion budget will create new opportunities for those who seek affordable housing and the American dream of homeownership while generating stability and prosperity for our communities. The key priorities that address this are central to the President's plan to help make America a more secure, more prosperous, and more hopeful country. Housing, of course, is vital to our national prosperity, and remains the lynchpin of our economy. The housing market generated robust activity throughout the 2001 recession. And, today, housing continues to fuel the ongoing economic recovery.

Homeownership last year reached an all-time high of 68.6 percent, and fourth-quarter 2003 statistics reveal that, for the very first time, a majority of minority households owns a home of their

own. HUD's 2005 budget will empower our Department to build on these successes as we seek to increase homeownership, to promote decent and affordable housing free from discrimination, encourage the participation of faith-based and community organization in HUD's programs, and embrace the highest standards of ethics, management, and accountability.

Let me first discuss homeownership. In June of 2002, President Bush announced an aggressive plan to increase the number of minority homeowners by at least 5½ million by the end of the decade. More than 1½ million new minority homeowners have been created in the United States since the initiative was announced.

HUD is proposing several new or expanded initiatives to continue to increase overall homeownership, while targeting assistance to help more minority families experience the economic and social benefits of owning a home of their own.

AMERICAN DREAM DOWNPAYMENT

As a first step, HUD proposes to fund the American Dream Downpayment Initiative at \$200 million in the coming fiscal year. The Congress showed great leadership in enacting the President's American Dream proposal last year. By fully funding the 2005 initiative, we will help 40,000 families across the country have the opportunity to come over that biggest hurdle, and that's downpayment and closing costs, to own a home of their own.

ZERO DOWNPAYMENT INITIATIVE

The administration is proposing an exciting piece of legislation that would create a new mortgage product targeted to first-time home buyers and that's the Zero Downpayment Program. The Zero Downpayment Mortgage Program would allow consumers to qualify for FHA loans without having to come up with the upfront cash for downpayment and closing costs. And we estimate that that will help 150,000 families a year purchase a home.

Studies show that we can further boost homeownership by helping families learn about the loan products and services that are available to them, and how to avoid abusive lenders. So, therefore, our 2005 budget provides a record \$45 million to educate future homeowners.

To promote the production of affordable single family homes in areas where such housing is scarce, the administration is proposing a tax credit of up to 50 percent of the cost of construction for constructing a new home or rehabilitating an existing home.

SHOP

Our request of \$65 million for the Self-Help Homeownership Opportunity Program, our SHOP Program, was more than double the funding SHOP received in 2004, and that would help produce some 5,200 new homes for very low-income families. And Congress Builds America was participating last week here in Washington, and I had the opportunity to join with some Senators and Members of Congress, and to see firsthand how those dollars are used through sweat equity to give a low-income individual an opportunity to own his or her own home.

SECTION 8 REFORMS

While boosting homeownership, HUD's proposed budget also promotes the production and accessibility of affordable housing for families and individuals who rent. Three major rental assistance programs collectively help approximately 4½ million households nationwide. Our major program, as you indicated, is Section 8, which provides both tenant-based funding through the Housing Choice Voucher Program, in the Office of Public and Indian Housing, and project-based rental assistance through HUD's Office of Housing. The administration is proposing significant reform of the Housing Choice Voucher Program. We need to make it more effective, more efficient, and better able to meet the needs of the low-income families that depend on it.

Today, the Section 8 program lacks incentives for families to transition out of the program and to begin living independent lives. In addition, the program is unsustainable at current growth levels. Pre-voucher costs have increased at the alarming rate of 23 percent in just the last 2 years.

The administration's new Flexible Voucher Program will serve at least as many Americans as the 1.9 million families currently served through the Housing Choice Voucher Program. More importantly, our proposed reforms will help families move out of assisted housing and into self-sufficiency.

HOME

The HOME program is a very key initiative for addressing the shortage of affordable housing in America. In the 2005 budget, the proposed total is \$2.1 billion, which includes the \$200 million for the American Dream Downpayment Initiative that I mentioned earlier.

CDBG

HUD is committed to preserving America's cities as vibrant hubs of commerce, and making urban and rural communities better places to live, work, and raise a family. The 2005 budget provides States and localities with the tools they can use to improve economic health and to promote community development. Perhaps the greatest strength of these economic development tools, which includes the highly successful Community Development Block Grant Program, is the way that they encourage local decision-making to address developing priorities, having provided over \$104 billion over the last 30 years for the cities, counties, and States, and non-entitlement communities to do the things that are necessary for a better quality of life.

Through its budget, HUD will strengthen its efforts to promote the Nation's most vulnerable, those individuals and families who truly need government assistance. The budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending, families living in housing contaminated by lead-based paint hazards, and persons living with HIV/AIDS.

SAMARITAN INITIATIVE

The administration will continue to work to meet the challenges of homelessness that confront many American cities. The President has made an unprecedented administration wide commitment to eliminating chronic homelessness. This commitment is reflected in our budget request through proposals such as the Samaritan Initiative, which will provide additional housing options and services for homeless people, especially those that are chronically homeless.

Finally, Mr. Chairman, our budget creates new opportunities to improve HUD's performance in its critically needed housing and community development programs. We know that we have work to do there. As Secretary Jackson indicated, we look forward to working on doing that together with you. I know how important that is to this committee. We share your concerns. We continue to make progress, and this will remain a top priority.

PREPARED STATEMENT

I want to thank you both, and all the Members of the committee, for your efforts. We understand that you have many questions. Secretaries Liu and Weicher and myself will be happy to try to answer those. And we know that we'll have many more fruitful meetings in the future. And thank you for all that you do.

[The statement follows:]

PREPARED STATEMENT OF ROY A. BERNARDI

Chairman Bond, Ranking Member Mikulski, distinguished members of the committee, the programs funded within the \$31.3 billion HUD budget will create new opportunities for those who seek affordable housing and the American Dream of homeownership, while generating stability and prosperity for our communities. The key priorities it addresses are central to the President's plan to help make America a more secure, more prosperous, and more hopeful country.

Housing, of course, is central to our national prosperity and remains the lynchpin of our economy. The housing market generated robust activity throughout the 2001 recession, and today, housing continues to fuel the ongoing economic recovery. Bolstered by historically low interest rates, home sales and new housing construction have repeatedly outperformed expectations. Homeownership last year reached an all-time high of 68.3 percent, and fourth quarter 2003 statistics revealed that for the first time, a majority of minority households own a home of their own.

The administration's fiscal year 2005 budget request for HUD will empower the Department to build on these successes, as we seek to increase homeownership through the American Dream Downpayment Initiative and two new mortgage products, promote decent affordable housing through the newly proposed Flexible Voucher Program, end chronic homelessness, encourage the participation of faith-based and community organizations in HUD grant programs, and embrace the highest standards of ethics, management, and accountability.

INCREASING HOMEOWNERSHIP OPPORTUNITIES

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

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

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

Due in part to a robust housing economy and Bush Administration budget initiatives focused on promoting homeownership, the homeownership rate was higher in

2003 than at any time in this Nation's history and, as I said earlier, a majority of minority households are homeowners for the first time. That fact, however, masks a deep "homeownership gap" between non-Hispanic whites and minorities; while the homeownership rate for non-Hispanic whites is nearly 76 percent; it is slightly above 50 percent for African-Americans and Hispanics, and 55 percent for Native Americans.

The administration is focused on giving more Americans the opportunity to own their own homes, including minority families. In June 2002, President Bush announced an aggressive homeownership agenda to remove the barriers that block American families from achieving homeownership, in the hope of creating at least 5.5 million new minority homeowners by the end of this decade. The administration's homeownership agenda is dismantling the financial barriers to homeownership by providing down payment assistance, increasing the supply of affordable homes, increasing support for homeownership education programs, and simplifying the homebuying process. More than 1.53 million new minority homeowners have been created in the United States since the initiative was announced.

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

Additionally, we propose several new or expanded initiatives in fiscal year 2005 to continue the increase in overall homeownership, which will help improve minority homeownership rates.

As a first step, the administration proposes to fund the American Dream Downpayment Initiative at \$200 million in fiscal year 2005. President Bush signed the American Dream Downpayment Act into law on December 16, 2003, creating homeownership opportunities for thousands of Americans who had been unable to cross the most significant obstacle to homeownership: high downpayments and closing costs. The Initiative will help approximately 40,000 low-income families with the downpayment on their first home.

The administration is proposing a new mortgage insurance product to help first-time homebuyers purchase a home by allowing zero downpayment loans. Currently, the Federal Housing Administration (FHA) requires a minimum downpayment of 3 percent. To cover the higher risk involved, premiums will be increased in the short term for these borrowers. This program will be implemented at no cost to the government or the American taxpayer. This new Zero Downpayment program is expected to serve 150,000 families per year, generating about \$19 billion in endorsements.

The administration is also proposing a new sub-prime loan product called Payment Incentives to offer FHA insurance to families that, due to poor credit, would be served either by the private market at a higher cost or not at all. Borrowers would be offered FHA loan insurance under this new initiative that will allow them to maintain their home or to purchase a new home. The new Mutual Mortgage Insurance (MMI) mortgage loan program is expected to serve 60,000 families per year, and generate an additional \$7.9 billion in endorsements.

Helping families learn about the loan products and services available to them and how to identify and avoid predatory lending practices is critical to increasing homeownership. Counseling has proven to be an extremely important element in both the purchase of a home and in helping homeowners keep their homes in times of financial stress. The Fiscal Year 2005 Budget will provide a record \$45 million to support 550,000 families with home purchase and homeownership counseling and about 250,000 families with rental counseling. Counseling would be required for all families buying homes through the Zero Downpayment insurance program.

A new proposal for fiscal year 2005—the Flexible Voucher Program—will provide new flexibility to Public Housing Authorities (PHA's) by allowing them to offer downpayment assistance or monthly homeownership subsidies to families. In addition, through the Flexible Voucher Program, the Department will award performance-based bonuses to PHA's that participate in homeownership activities. The Flexible Voucher Program proposal calls for funding the Housing Choice program as a flexible voucher grant, giving a set sum of money to public housing authorities (PHA's), rather than promising to fund a certain number of units. Using a dollar-based approach rather than a unit-based approach, combined with performance measures, will give incentives to PHA's to streamline administrative costs and provide more housing opportunities for the money they receive. Additionally, incentives will be provided to PHA's to encourage work and to emphasize vouchers as a bridge to self-sufficiency, not an entitlement or an ongoing handout for housing needs.

The Self-Help Homeownership Opportunity Program (SHOP) provides grants to national and regional non-profit organizations to subsidize the costs of land acquisition and infrastructure improvements. Homebuyers must contribute significant amounts of sweat equity or volunteer labor to the construction or rehabilitation of the property. The fiscal year 2005 budget request of \$65 million more than doubles the funding received in 2004, reflecting President Bush's continuing commitment to self-help housing organizations such as Habitat for Humanity. These funds will help produce approximately 5,200 new homes nationwide for very low-income families.

To promote the production of affordable single-family homes in areas where such housing is scarce—and to help revitalize distressed communities—a tax credit of up to 50 percent of the cost of constructing a new home or rehabilitating an existing home would be provided. Eligibility for this new tax credit would be limited to homes that are affordable to lower-income households (purchasers whose incomes are below 80 percent of local median income).

The HOME Investment Partnerships program plays a key role in addressing the shortage of affordable housing in America. In fiscal year 2005, a total of \$2.1 billion—which includes \$200 million for the American Dream Downpayment Initiative—is being proposed for participating jurisdictions (States and local governments) to expand the Nation's supply of affordable housing. Participating jurisdictions have substantial local discretion to determine how to spend these funds. In addition to homeownership assistance, HOME funds can be used to help renters, new homebuyers, or existing homeowners through rehabilitation of substandard housing, acquisition of standard housing, new construction, or tenant-based rental assistance. To date, HOME grantees have committed funds to provide homebuyer assistance to more than 294,000 low-income households. Based on historical trends, 36 percent of HOME funds will be used for new construction, 47 percent for rehabilitation, 14 percent for acquisition, and 3 percent for rental assistance.

Through its mortgage-backed securities program, the Government National Mortgage Association—or Ginnie Mae—helps to ensure that mortgage funds are available for low- and moderate-income families served by FHA and other government programs such as those under the Department of Veterans Affairs and the Rural Housing Service of the Department of Agriculture. The fiscal year 2005 budget requests \$200 billion in new loan guarantee limitations.

During fiscal year 2003, Ginnie Mae marked its 35th anniversary and guaranteed a record \$215.8 billion in mortgage-backed securities. Since its inception in 1968, Ginnie Mae has guaranteed more than \$2 trillion in mortgage-backed securities and helped more than 27 million families gain access to affordable housing or lower mortgage costs. HUD's role in the secondary mortgage market provides an important public benefit to Americans seeking to fulfill their dream of homeownership.

The administration has proposed broad reform of the supervisory system for Government-sponsored enterprises (GSE's) in the housing market. As part of this reform, the administration has proposed that HUD have the ability to set an enforceable goal encouraging the purchase of first-time homebuyer mortgages. While part of their charter, the GSE's significantly lag the market for all first-time homebuyers regardless of race or ethnicity. This portion of the reform is designed to ensure that Fannie Mae and Freddie Mac lead, not lag behind, the market.

In addition, the Fiscal Year 2005 Budget would assess GSE's an additional \$6.25 million for the expected cost of the HUD Secretary's responsibilities under this Act and amendments as outlined in recent Administration proposals. These responsibilities include establishing and enforcing affordable housing goals for GSE's, ensuring GSE compliance with Fair Housing laws, and providing consultation to the safety and soundness regulator on the GSE's' new activities.

HUD has taken bold steps to comprehensively reform the homebuying process and make it far less complicated and less expensive for consumers. New disclosure requirements proposed by the administration under the Real Estate Settlement Procedures Act (RESPA) call for full, upfront disclosure and explanation of all fees that buyers pay at settlement, making it clear to the borrower what options are available for financing a home and what they might cost. They also facilitate industry packages with a guaranteed price. This will make it easier for consumers to shop for mortgages. By empowering the consumer, this competition is expected to reduce the average initial cost of buying a home by \$700.

HUD's new regulations would expand homeownership by making the homebuying process less complicated, the paperwork less demanding, and the mortgage process less expensive. The Department issued a proposed rule covering RESPA reform in fiscal year 2002 and anticipates a final rule in fiscal year 2004.

The Fiscal Year 2005 Budget supports five HUD programs that help to promote homeownership in Native American and Hawaiian communities.

Native American Housing Block Grants (NAHBG) provide \$647 million in funding to federally-recognized tribes and to tribally-designated housing entities for a wide variety of affordable housing activities. Grants are awarded on a formula basis that was established through negotiated rulemaking with the tribes. The NAHBG program allows funds to be used to develop new housing units to meet critical shortages in housing. Other uses include housing assistance to modernize and maintain existing units; housing services, including direct tenant rental subsidy; crime prevention; administration of the units; and certain model activities.

The Title VI Federal Guarantees for Tribal Housing program provides guaranteed loans to recipients of the Native American Housing Block Grant who need additional funds to engage in affordable housing activities. The Department's budget proposes to continue funding this program at last year's level, which will provide \$17.9 million in loan guarantee authority.

The Indian Housing Loan Guarantee (Section 184) program helps tribal members and their families to access private mortgage financing for the purchase, construction, or rehabilitation of single-family homes. The program guarantees payments to lenders in the event of default. In fiscal year 2005, \$1 million is requested in credit subsidy for 100 percent Federal guarantees of approximately \$29 million in private loans.

Under the Native Hawaiian Home Loan Guarantee Fund (Section 184A) program, loan guarantees will be used primarily to secure private financing to purchase, construct, or rehabilitate single-family homes on Hawaiian Home Lands. This makes possible the financing of construction loans and home mortgages by private financial institutions that would otherwise not be possible due to the unique status of Hawaiian Home Lands. The Fiscal Year 2005 Budget will provide \$1 million in credit subsidy to secure approximately \$37.4 million in private loans.

Modeled after the NAHBG, the Native Hawaiian Housing Block Grant program recognizes the documented housing needs of native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands. Native Hawaiians experience the worst housing conditions in the State and constitute nearly 30 percent of the homeless population. The Fiscal Year 2005 Budget will provide \$9.5 million. Grant funds will be awarded to the Department of Hawaiian Home Lands and may be used to support the acquisition, new construction, reconstruction, and rehabilitation of affordable housing. Activities include real property acquisition, demolition, financing, and development of utilities and utility services, as well as administration and planning, housing management services, crime prevention, and safety activities.

PROMOTE DECENT AFFORDABLE HOUSING

The Fiscal Year 2005 Budget promotes the production and accessibility of affordable housing for families and individuals who rent. This is achieved, in part, by providing States and localities new flexibility to respond to local needs.

HUD has three major rental assistance programs that collectively provide rental subsidies to approximately 4.5 million households nationwide. The major vehicle for providing rental subsidies is the Section 8 program, which is authorized in Section 8 of the U.S. Housing Act of 1937. Under this program, HUD provides subsidies to individuals (tenant-based) who seek rental housing from qualified and approved owners, and also provides subsidies directly to private property owners who set aside some or all of their units for low-income families (project-based). Currently, HUD subsidizes operation, maintenance, and capital improvement of 1.2 million public housing units. In total, these programs will provide approximately \$23.2 billion in new funds each year to support rental costs for low-income individuals and families; total rental assistance accounts for approximately 74 percent of the total budget for the Department in fiscal year 2005.

The Fiscal Year 2005 Budget continues to fund Section 8 tenant-based and project-based rental assistance through the Housing Certificate Fund. In addition, public housing is subsidized through the Public Housing Operating Fund and the Public Housing Capital Fund.

HUD also helps to provide affordable rental housing through the HOME program, the Native American Housing Block Grant, FHA mortgage insurance, and the Community Development Block Grant (CDBG) program. In addition, HUD meets the specialized housing needs of the elderly and individuals with disabilities through grants for the development and operation of supportive housing projects for these target populations.

The Budget includes a new Flexible Voucher Program (FVP) that would replace the Housing Choice Voucher Program and improve the delivery of rental and homeownership subsidies for low-income families. The current system fails to support families making the transition from public assistance to self-reliance and work, and

in doing so reduces the number of families that could be helped for a given amount of money. Under the reform, the Voucher program would be a means for families to transition to a better life, and more of them will be helped. The ease of administration for HUD and PHA's is the means to that policy end, and a bonus for doing the right thing for families.

Some of the key features of the new FVP include greater PHA discretion in meeting local housing needs and serving more families, steady and predictable funding levels, and rewards for PHA's that are good managers. HUD will also provide performance-based incentives to maximize the benefits of available funds and will hold PHA's accountable for poor performance. High-performing PHA's that meet national objectives, such as increasing the number of participants that use the voucher assistance on a transitional (not permanent) basis, increasing homeownership, and efficiently assisting families would be eligible for performance and incentive bonuses.

The FVP will simplify program requirements and avoid the "one size fits all" program design. The FVP provides local and State PHA's with greater administrative flexibility to meet the overall program objective of providing temporary and transitional housing assistance for low-income families. As is current practice, the FVP will be administered by PHA's. The FVP would include administrative costs as part of the total grant.

For fiscal year 2005, Project Based Rental Assistance will continue to provide funding for renewals of expiring project-based rental assistance contracts under Section 8, including amounts necessary to maintain performance-based contract administrators. In addition to new appropriations, funds existing in this account from prior-year balances and from recaptures will augment the amount available to meet amendment requirements for on-going contracts that have depleted their funding.

It is anticipated that approximately 896,000 project-based units under rental assistance will require renewal in fiscal year 2005, an increase of about 25,000 units from the current fiscal year. This continues the upward trend stemming from first-time expirations in addition to contracts already under the annual renewal cycle.

Public Housing is the other major form of assistance that HUD provides to the Nation's low-income population. In fiscal year 2005, HUD anticipates that there will be approximately 1.2 million public housing units occupied by tenants. These units are under the direct management of approximately 3,100 PHA's. Tenants pay 30 percent of their income for rent and utilities, and HUD subsidies cover much of the remaining cost.

HUD is committed to ensuring that the existing public housing stock is either maintained in good condition or is demolished. Maintenance is achieved through the subsidy to PHA's for both operating expenses and capital needs. Through its regulatory authority, HUD will ensure that housing that is no longer viable will be removed from the inventory. It will encourage voluntary removal of decaying units when it makes economic sense to do so. Many of these decisions will be made at the local level, and HUD will work with PHA's to allow greater local decision-making.

The formula distribution of Public Housing Operating Funds takes into account the size, location, age of public housing stock, occupancy, and other factors intended to reflect the costs of operating a well-managed public housing development. In fiscal year 2005, the Department's budget provides approximately \$3.6 billion in funding for the Public Housing Operating Fund.

This Public Housing Capital Fund program provides formula grants to PHA's for major repairs and modernization of units. The fiscal year 2005 budget will provide \$2.7 billion in this account. This amount is sufficient to meet new capital improvement needs in fiscal year 2005.

Of the funds made available, up to \$50 million may be maintained in the Capital Fund for natural disasters and emergencies. Up to \$30 million can be used for demolition grants—to accelerate the demolition of thousands of public housing units that have been approved for demolition but remain standing. Also in fiscal year 2005, up to \$55 million will be available for the Resident Opportunity and Self-Sufficiency (ROSS) program, which provides supportive services and assists residents in becoming economically self-sufficient.

HUD will introduce a demonstration program in 2005 designed to improve public housing. The Freedom to House Initiative will maximize the ability of local PHA's to make decisions affecting their tenants, while simultaneously serving essentially the same numbers of low-income families. It will grant to participating demonstration PHA's the ability to combine the use of capital and operating funds, to set locally determined rent structures, and to free themselves from many of the administratively burdensome requirements of Federal reporting. This demonstration will also allow HUD and PHA's to shift to an asset-based management practice.

HUD's Moving to Work Program has shown that residents and PHA's have benefited from increased local flexibility. These PHA's are convinced that their reforms have encouraged residents to seek work, work more hours, and pursue opportunities to increase their incomes. Freedom to House will continue this experiment in an environment that will allow for measurement and comparative evaluation.

Up to 50 PHA's will be identified to participate in the demonstration, while up to 50 others will serve as a control group following current public housing laws and regulations. Annual assessment of the PHA's will be based on parameters of financial health and physical safety and soundness. Performance assessment results and other pertinent data will be provided on an annual basis and will provide policymakers with the ability to review current practices against increased PHA flexibility in order to guide future policy decisions.

HUD will also continue to promote affordable rental housing through FHA's multifamily mortgage insurance programs. In fiscal year 2005, FHA will reduce the annual mortgage insurance premiums on its largest apartment new construction program, Section 221(d)(4), for the third year in a row—from 50 basis points in fiscal year 2004 to 45 basis points in fiscal year 2005. This is the lowest premium that FHA has ever charged for multifamily insurance, and we are able to do so because the program is being run on a financially sound and prudent basis. With this reduction, the Department estimates that it will insure \$3.1 billion in apartment development loans through this program in fiscal year 2005, producing more than 41,000 additional new rental units. Most of these units will be affordable to moderate-income families, and most of them will be located in underserved areas.

When combined with other multifamily mortgage programs, including those serving non-profit developers, health care facilities, and refinancing mortgagors, FHA anticipates providing support for over 250,000 new units.

In addition to the extensive use of HOME funds for homeownership, the HOME program has invested heavily in the creation of new affordable rental housing. Since its inception, the HOME program has supported the building, rehabilitation, and purchase of more than 334,000 rental units. Program funds have also provided direct rental assistance to more than 100,000 households.

Native American Housing Block Grants provide a flexible source of funding to federally recognized tribes or tribally-designated housing entities and is used for a wide variety of affordable housing activities. Authorized uses include both rental housing and homeownership. The block grant is funded at \$647 million in fiscal year 2005.

The Native Hawaiian Housing Block Grant is modeled on the NAHBG, and provides funding to the Department of Hawaiian Home Lands for a wide variety of eligible affordable housing activities, including the construction, rehabilitation, and acquisition of rental units for native Hawaiians who are eligible to reside on, or who already live on, Hawaiian Home Lands.

Several other HUD programs contribute to rental assistance, although not as a primary function. For example, the flexible Community Development Block Grant can be used to support rental-housing activities. The CDBG program is celebrating its 30th year in 2004, having provided over \$108 billion in much-needed resources to States, rural communities, inner cities, suburban communities, as well as counties to benefit low- and moderate-income persons.

The Department believes that regulatory barrier removal must be an essential component of any national housing strategy to address the needs of low- and moderate-income families. Therefore, HUD is committed to working with States and local communities to reduce regulatory barriers to the development of affordable housing.

In fiscal year 2003, the Department established "America's Affordable Communities Initiative: Bringing Homes Within Reach through Regulatory Reform." This major new initiative is a Department-wide effort charged not only with developing new approaches and incentives that can encourage efforts at the local level, but also reviewing and reforming HUD's own regulations that may be barriers to expanded housing affordability.

To support this effort, HUD will conduct research and dissemination efforts to learn more about the nature and extent of regulatory obstacles to affordable housing. Current research underway includes developing a methodology for "housing impact" analyses. This new tool will assist HUD and other Federal agencies, as well as State and local governments, to measure the impact of any proposed new regulation on housing affordability. Through such an expanded research and dissemination effort, HUD will develop the tools and approaches needed by State and local governments to address the many barriers that restrict the development of affordable housing.

STRENGTHENING COMMUNITIES

HUD is committed to preserving America's cities as vibrant hubs of commerce and making communities better places to live, work, and raise a family. The fiscal year 2005 budget provides States and localities with tools they can put to work improving economic health and promoting community development. Perhaps the greatest strength of HUD's economic development programs is the emphasis they place on helping communities address development priorities through local decision making.

The flagship of HUD's community and economic development programs is the Community Development Block Grant (CDBG) program. In fiscal year 2005, total funding for the CDBG account will be \$4.6 billion. CDBG funds go to 1,160 grantees in 944 cities, 165 counties, and 50 States, plus Puerto Rico.

CDBG's popularity is based on the fact that funds may be used for a broad range of housing revitalization and community and economic development activities, thereby increasing State and local capacity for economic revitalization, job creation and retention, neighborhood revitalization, public services, community development, renewal of distressed communities, and leveraging of non-Federal resources.

Of the \$4.6 billion in fiscal year 2005, \$4.3 billion will be distributed to entitlement communities, States, and insular areas, and \$71.6 million will be distributed by a competition to recognized tribes for the same uses. The remaining \$215 million is for specific purposes and programs at the local level and is distributed generally on a competitive grant basis. Principal among these initiatives in fiscal year 2005 are the Development Challenge Pilot Program, the National Community Development Initiative, the University Partnership Grant program, and Youthbuild.

The Fiscal Year 2005 Budget proposes an interagency effort to test ways to better coordinate, target, and leverage existing Federal community and economic development programs. Under the \$10 million Development Challenge Pilot Program, competitive grants will be awarded to a limited number of communities to develop and implement clear and measurable community development goals. The results of this initiative are intended to provide valuable information on how performance measurement can be made an integral part of CDBG and other community and economic development programs.

HUD participates in the privately organized and initiated NCDI. The Fiscal Year 2005 Budget will provide \$25 million for the NCDI, in which HUD has funded three phases of work since 1994. A fourth phase will emphasize the capacity building of community based development organizations, including community development corporations, in the economic arena and related community revitalization activities through the work of intermediaries, including the Local Initiatives Support Corporation and the Enterprise Foundation. In addition, the budget includes funding for capacity building activities for Habitat for Humanity (\$4.5 million) and Youthbuild USA (\$2 million).

The Fiscal Year 2005 Budget provides \$33.8 million through the University Partnership Grant program to assist colleges and universities, including minority institutions, to engage in a wide range of community development activities. Funds are also provided to support graduate programs that attract minority and economically disadvantaged students to participate in housing and community development fields of study.

The Fiscal Year 2005 Budget requests \$64.6 million for the Youthbuild program. Youthbuild is targeted to high school dropouts aged 16 to 24, and provides these disadvantaged young adults with education and employment skills through constructing and rehabilitating housing for low-income and homeless people. The program also provides opportunities for placement in apprenticeship programs or in jobs. The fiscal year 2005 request will serve more than 3,728 young adults.

The administration continues to work to meet the challenge of homelessness that confronts many American cities. The President has made an unprecedented, administration-wide commitment to eliminating chronic homelessness. The administration is also fundamentally changing the way the Nation manages the issue of homelessness by focusing more resources on providing permanent housing and supportive services for the homeless population, instead of simply providing more shelter beds.

HUD is an active member of the U.S. Interagency Council on Homelessness in its work to coordinate the efforts of 18 Federal agencies that address the needs of homeless persons. HUD and its partners are focused on improving the delivery of homeless services, which includes working to cut government red tape and simplifying the funding process.

The Fiscal Year 2005 Budget continues to address the housing needs of homeless individuals and families by funding targeted homeless programs at \$1.5 billion. Three initiatives are being proposed that will provide new direction and streamline

the delivery of funds to the local and non-profit organizations that serve the homeless population.

The Fiscal Year 2005 Budget includes the Samaritan Initiative to address the President's goal of ending chronic homelessness by 2012 and includes \$50 million for HUD and \$10 million for HHS and VA. Persons who experience chronic homelessness are a sub-population of approximately 150,000 who often have an addiction or suffer from a disabling physical or mental condition, and are homeless for extended periods of time or experience multiple episodes of homelessness. These individuals, for the most part, get help for a short time but soon fall back to the streets and shelters. Thus, they continually remain in the homeless system.

The Samaritan Initiative will fund promising local collaborative strategies to move chronically homeless individuals from the streets to safe permanent housing with supportive services. It will provide new housing options as well as aggressive outreach and services to homeless people living on the streets. HUD will continue other, current interagency efforts to end chronic homelessness including the joint initiative with the Department of Labor to link housing and employment services in local communities through One-Stop Career Centers.

HUD proposes to consolidate its three competitive homeless assistance programs into a single program. The consolidation will provide more consistent funding from year to year, expand eligible activities—including prevention—across programs, eliminate multiple match requirements, and simplify the competition and award process.

The administration again proposes legislation that would transfer the Emergency Food and Shelter Program (EFSP) from the Federal Emergency Management Agency to HUD. The transfer of this \$153 million program in its current form would allow for the consolidation of emergency shelter assistance—EFSP and the Emergency Shelter Grants program—under one agency. EFSP funds are distributed through a National Board (a public-private partnership) which in turn allocates funds to similar local Boards in eligible jurisdictions. Eligibility for funding is based on population, poverty, and unemployment data. The Board will be chaired by the Secretary of HUD and will include the nonprofit agencies that currently constitute the National Board.

In addition to funding homeless supportive services, the Fiscal Year 2005 Budget funds services benefiting adults and children from low-income families, the elderly, those with physical and mental disabilities, victims of predatory lending practices, and families living in housing contaminated by lead-based paint hazards.

The Fiscal Year 2005 Budget will provide \$773 million in funding for the Supportive Housing for the Elderly (Section 202) program. In the Section 202 program, funding for housing for the elderly is awarded competitively to non-profit organizations that construct new facilities. The facilities are also provided with rental assistance subsidies, enabling them to accept very low-income residents. Many residents live in the facilities for years; over time, these people often become frail and less able to live without some additional services. Therefore, the program is providing up to \$30 million of the grants to fund the conversion of all or part of existing properties to assisted-living facilities, enabling these elderly residents to remain in their units. In addition, up to \$53 million of the grant funds will be targeted to funding the service coordinators who help elderly residents obtain supportive services from the community.

The Fiscal Year 2005 Budget proposes to fund capital advances of \$249 million for Supportive Housing for Persons with Disabilities (Section 811). The Section 811 program will also continue to set aside funds to enable persons with disabilities to live in mainstream environments. Up to 25 percent of the grant funds can be used to provide Section 8-type vouchers that offer an alternative to congregate housing developments. In fiscal year 2005, up to \$50 million of the grant funds will be used to renew "mainstream" Section 8-type vouchers so that individuals can continue to use their vouchers to obtain rental-housing vouchers in the mainstream rental market.

In 2005, HUD will provide \$295 million in new grant funds for housing assistance and related supportive services for low-income persons with HIV/AIDS and their families through the Housing Opportunities for Persons with AIDS (HOPWA) program. Although most grants are allocated by formula, based on the number of cases and highest incidence of AIDS, a small portion is provided through competition for projects of national significance. The program will renew all existing grants in fiscal year 2005 and provide new formula grants for an expected two additional jurisdictions. Since 1999, the number of formula grantees has risen from 97 to an expected 119 in fiscal year 2005.

A compassionate Nation must ensure that those Americans served by HUD—many of whom are struggling families, or individuals facing a trying time in their

lives—live in a healthy and secure environment and have access to tools and opportunities that will help them move toward self-sufficiency. HUD's basic programs contribute to this goal by providing individuals and families with the housing and services that allow them to focus on recovery, job-related skill development, and obtaining work or increasing income.

The Voluntary Graduation Incentive Bonus recognizes PHA's that experience higher rates of families that transition out of the public housing program. This will be the first initiative in over 20 years to affirm that public housing's primary mission is to help low-income families gain access to housing for a temporary period while on the road toward economic freedom. Public housing should not be managed as a permanent housing solution for the poor. HUD will allocate \$15 million in operating fund monies to those PHA's that exceed a baseline transition rate.

In fiscal year 2005, the Department is introducing the concept of performance-based bonuses to PHA's in the Flexible Voucher Program. Potential performance standards would be successfully helping families, including elderly and disabled individuals, move toward independent living, economic self-sufficiency, and homeownership. PHA's that successfully achieve this goal will be awarded performance-based bonuses.

The Department's objectives emphasize the outcome of the self-sufficiency efforts and will measure the changes in the number of households no longer needing assistance, with an increase in the number of families involved in the Family Self-Sufficiency (FSS) program whose predominant source of income is work. PHA's will be rewarded for achieving these objectives through an incentive bonus. The bonus funding can be used by PHA's for a variety of activities, including payment of FSS staff salaries to ensure coordination with State agencies, faith-based organizations, and other non-profit providers of supportive services; job training, vocational, and educational activities; and counseling services.

The Department will provide \$55 million in funds to support the Resident Opportunity and Self-Sufficiency (ROSS) program for residents of Public and Indian Housing. The main purpose of the funds is to provide a link between residents and services that can help them achieve self-sufficiency.

HUD's Lead-Based Paint program is the central element of the President's effort to eradicate childhood lead-based paint poisoning. In fiscal year 2005, funding for the lead-based paint program will increase to \$139 million from the \$136 million requested by the President for fiscal year 2004. Grant funds are targeted to low-income, privately owned homes most likely to expose children to lead-based paint hazards.

The program conducts public education and compliance assistance to prevent childhood lead poisoning. New estimates from the Centers for Disease Control and Prevention (CDC) show that the program has helped to reduce the number of children at risk by 50 percent, but that nearly half a million children still have too much lead in their bodies.

Included in the request for this program is \$10 million for the Healthy Homes Initiative, which is targeted funding to prevent other housing-related childhood diseases and injuries such as asthma and carbon monoxide poisoning. The President's Taskforce Report notes that asthma alone costs the Nation over \$6 billion each year. Working with other agencies such as the CDC and the Environmental Protection Agency, HUD is bringing comprehensive expertise to the table in housing rehabilitation and construction, architecture, urban planning, public health, environmental science, and engineering to address a variety of childhood problems that are associated with housing.

ENSURING EQUAL OPPORTUNITY IN HOUSING

As the primary Federal agency responsible for the administration of fair housing laws, HUD is committed to protecting the housing rights of all Americans, regardless of race, color, national origin, religion, sex, age, familial status, or disability. This commitment is reflected in HUD's budget request for fiscal year 2005.

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

The Fiscal Year 2005 Budget will provide \$27 million through FHAP for State and local jurisdictions that administer laws substantially equivalent to the Federal Fair Housing Act. The Department supports FHAP agencies by providing funds for capacity building, complaint processing, administration, training, and the enhance-

ment of data and information systems. FHAP grants are awarded annually on a noncompetitive basis. Activities funded by this program play a pivotal role in increasing the overall national homeownership rate, which we believe will add 5.5 million new minority homeowners by the end of the decade.

Targeted Education and Enforcement Follow Up on Housing Discrimination Studies is one of the activities supported through FHAP. This education campaign combats discriminatory activities, including those against African-Americans, Hispanics, Asians, Pacific Islanders, American Indians, Alaskan Natives, native Hawaiians, and persons with disabilities.

FHAP also supports the Fair Housing Training Academy, which will serve all FHAP agencies and provide continuing professional fair housing training and certification for current and future FHAP staff. The curriculum will cover training needed to ensure quality and timely investigations of fair housing complaints and includes case processing, conciliation skills, compliance monitoring, and testing.

The Department expects increases in discrimination cases processed by State and local fair housing agencies as a result of increased education and outreach activities. The fiscal year 2005 FHAP budget request supports this increase.

The Fiscal Year 2005 Budget will provide \$20.7 million in grant funds for non-profit FHAP agencies nationwide to directly target discrimination through education, outreach, and enforcement. The FHAP program for fiscal year 2005 is structured to respond to the finding of the 3-year National Discrimination Study and related studies, which reflect the need to expand education and outreach efforts nationally as a result of continuing high levels of discrimination.

Promoting the fair housing rights of persons with disabilities is a Departmental priority and will remain an important initiative within FHAP. Fair Housing Act accessibility design and construction training and technical guidance are an integral part of the Fair Housing Accessibility First Project. Bringing about industry-wide acceptance of accessibility as the way to design housing will depend, to a significant degree, on easy access to consistently accurate and helpful information and guidance on compliance. An extension of the current program for at least an additional 1 to 3 years is necessary to achieve this goal.

This project provides training to architects, builders, and others on how to design and construct multifamily buildings in compliance with the accessibility requirements of the Fair Housing Act. Therefore, the Department is requesting \$1 million for the first year of a new 3-year contract to continue the Fair Housing Accessibility First education and outreach training. Fair Housing Accessibility First will maintain a hotline and a website to provide personal assistance to housing professionals on design and construction problems.

PROMOTING THE PARTICIPATION OF FAITH-BASED AND COMMUNITY ORGANIZATIONS

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

To help returning prisoners rebuild their lives, find work, and avoid crime, the fiscal year 2005 President's Budget proposes a 4-year, \$300 million Prisoner Re-Entry Initiative to be carried out through the collaborative efforts of HUD and the Departments of Labor and Justice. Harnessing the resources and experience of faith-based and community organizations, the Prisoner Re-Entry Initiative will help ex-offenders find and keep jobs, secure transitional housing, and receive mentoring. HUD's Fiscal Year 2005 Budget includes \$25 million for this initiative.

The 2005 Budget also requests \$5 million for a faith-based pilot for a multi-city program aimed at increasing the participation of faith-based and community-based organizations in the cities' community development strategies.

The Center will continue to play a key role in fiscal year 2005 in facilitating intra-departmental and interagency cooperation regarding the needs of faith-based and community organizations. It will focus on research; law and policy; development of an interagency resource center to service faith-based and community partners; and expanding outreach, training, and coalition building. Additionally, the Center will participate in the furtherance of HUD's overall strategic goals and objectives—particularly as they relate to partnerships with faith-based and community organizations.

On December 12, 2002, the President issued Executive Order 13279, "Equal Protection of the Laws for Faith-Based and Community Organizations." The intent of the Executive Order is to ensure that faith-based and community organizations are

not unjustly discriminated against by regulations and bureaucratic practices and policies.

In fiscal year 2005, in compliance with Executive Orders 13198 and 13279, the Center will focus its work on the following key responsibilities: ensuring that the new regulations on faith-based organizations are implemented and reflected in all HUD policies; outreach to faith-based and community groups through technical assistance, the Center's website, interagency summits, and other efforts; establishing innovative pilot and demonstration programs to increase the participation of faith-based and other community organizations in Departmental initiatives; and educating government personnel on the faith-based and community initiative.

Progress on these efforts will be tracked as part of the President's Management Agenda (PMA).

EMBRACING HIGH STANDARDS OF ETHICS, MANAGEMENT, AND ACCOUNTABILITY

HUD is committed to improving performance in its critically needed housing and community development programs, and producing these improvements in a manner that reflects the highest standards of ethics, management, and accountability.

The PMA is designed to improve the overall efficiency and effectiveness of the Federal Government and to address significant management deficiencies at individual agencies. HUD fully embraces this sound management agenda and is on-target with the necessary plans and actions to meet the challenging goals set by the President. To sustain the focus needed to achieve these goals, they have been engrained in HUD's strategic and annual performance and operating plans.

The PMA includes five government-wide and two HUD-specific initiatives that are tracked and scored in terms of both baseline goal accomplishment and the adequacy of plans and progress towards achieving established goals. At HUD, these initiatives are addressing longstanding management problems that will require action over a period of years in order to achieve the President's goals.

In addition, the Department expects to build upon its continuing efforts to improve field management and Headquarters support to the operation and management of HUD's extensive field structure. In particular, the Office of Field Policy and Management will continue to work toward the effective integration of HUD's programs at the community level.

Human Capital

After many years of downsizing, HUD faces a large number of potential retirements and the loss of experienced staff. HUD's staff, or "human capital," is its most important asset in the delivery and oversight of the Department's mission.

HUD has taken significant steps to enhance and better use its existing staff capacity, and to obtain, develop, and maintain the staff capacity necessary to adequately support HUD's future program delivery. During fiscal year 2003, HUD completed the Department's Five-Year Strategic Human Capital Plan with implementation plans, and in fiscal year 2005 will complete comprehensive workforce analyses and plans focusing on its core business functions. During fiscal year 2005, HUD will implement its comprehensive Departmental workforce plan to ensure its workforce is aligned efficiently, skill gaps are assessed and corrected, and HUD staff retiring over the next 5 years are succeeded by qualified staff to continue quality service and program delivery.

Competitive Sourcing

HUD is working to determine if competition of staff functions identified as commercial would result in better performance and value for the government. However, given HUD's significant downsizing and extensive outsourcing of administrative and program functions over the past decade, opportunities for further competitive sourcing are limited and need to be carefully considered in the context of program risk exposure. HUD's Competitive Sourcing Plan has initially focused on establishing an adequate capacity to support the competitive sourcing process, with identifications of some initial opportunities for consideration of possible outsourcing, or in sourcing competitions to realize the President's goals for cost efficiency savings and improved service delivery. HUD will continue to assess its activities for other areas where competitive sourcing studies might benefit the Department.

Improved Financial Performance

HUD has strived over the past 2 years to enhance and stabilize its existing financial management systems operating environment to better support the Department and produce auditable financial statements in a timely manner. HUD has received an unqualified audit opinion on its consolidated financial statements for the past 4 consecutive years, and has reduced the number of auditor-reported internal control

weakness issues. In fiscal year 2005, the Department will continue making progress to reduce the number of material weaknesses or reportable conditions in its financial systems.

Electronic Government / Information Technology

HUD is not only pursuing increased electronic commerce and actively participating in all categories of the President's "E-Government" initiatives, but is also focused on information technology management improvements and maximizing the use of Internet technologies to make HUD more efficient, effective, and responsive.

In fiscal year 2005, HUD will place increased emphasis on the Department's E-Government, Privacy Act, Section 508 Disabilities Act, and Paperwork Reduction Act Programs. HUD's fiscal year 2005 information technology portfolio will benefit from continuing efforts to improve the IT capital planning process, implement project management guidance, strengthen IT project management to achieve performance goals, complete major business segments of HUD's IT business architecture, and continue to improve systems security on all platforms and applications.

Budget and Performance Integration

HUD developed its portion of the Fiscal Year 2005 Budget with a focus on collecting and using quality performance information, utilizing full cost accounting principles, and emphasizing program evaluations and research to inform decision-makers and managers. Staffing and other resources are aligned with strategic goals, objectives, and accomplishments. The Department will continue to work hard to improve and measure program performance.

HUD Management and Performance

HUD is aggressively pursuing several major efforts to improve its management and performance by strengthening internal controls to eliminate material weaknesses and remove HUD programs from the General Accounting Office's (GAO) high-risk list.

HUD's considerable efforts to improve the physical conditions at HUD-supported public and assisted housing developments are meeting with success. HUD and its housing partners have already achieved the original housing quality improvement goals through fiscal year 2005 and are raising the bar with new goals.

HUD overpays hundreds of millions of dollars in low-income rent subsidies due to the incomplete reporting of tenant income and the improper calculation of tenant rent contributions. Under the PMA, HUD's goal is to reduce rental assistance program errors and resulting erroneous payments 50 percent by 2005. HUD established aggressive interim goals for a 15 percent reduction in 2003 and a 30 percent reduction in 2004. The latest study for fiscal year 2003 indicates that HUD exceeded its error reduction goal for that year with a 30 percent reduction—estimated to be approximately \$600 million in reduced subsidy errors. Updated error measurement studies will be performed on program activity in 2004 and 2005 to assess the effectiveness of efforts to reduce program and payment errors. The Department has a number of training and monitoring programs in place that should produce additional error reductions. In fiscal year 2005, HUD will work with its program intermediaries to fully implement new statutory authority that enables more effective upfront income verifications to eliminate over half of the estimated erroneous assistance payments.

FHA will continue to vigorously attack predatory lending practices that encourage families to buy homes they cannot afford and cause homeowners to lose their homes by refinancing into loans with high interest rates. Elderly and minority homeowners are particularly vulnerable to predatory lending practices, which include property "flipping" (schemes where unscrupulous lenders buy homes and quickly resell them at inflated prices to uninformed buyers), home improvement scams, unaffordable mortgage loans, repeated refinancings with no borrower benefit, and "packing" life insurance and other products into the loan amount.

Since 2001, FHA has mounted a vigorous assault on predatory lending. FHA developed 16 rules to address deceptive or fraudulent practices. This includes the new Appraiser Watch Initiative, improvements to the Credit Watch Initiative that will identify problem loans and lenders earlier on, new standards for home inspectors, a rule to prohibit property "flipping" in FHA programs, and rules to prevent future swindles like the Section 203(k) scam that threatened the availability of affordable housing in New York City. These reforms, and the greater transparency they ensure, will make it more difficult for unscrupulous lenders to abuse borrowers. The HUD budget ensures that consumer education and enhanced financial literacy remain potent weapons in combating predatory lending.

The PMA tasked HUD with streamlining the Consolidated Plan process to make it more useful to communities in assessing their own progress toward addressing

the problems of low-income areas. HUD works closely with State and local program stakeholders on this initiative. It is anticipated that statutory and/or regulatory proposals to meet the intent of the PMA will be announced shortly. Pilot testing of a variety of streamlining efforts will be completed during 2004, which may lead to additional proposals for change. As an outgrowth of the initiative, HUD issued a Notice entitled "Development of State and Local Performance Measurement Systems for CPD Formula Grant Programs," which provides guidance to communities on developing and implementing performance measurement systems.

HUD acquires over \$1 billion in contracted services and goods each year. As part of an overall strategy to improve HUD's acquisition management, actions are being taken to ensure that HUD's centralized contract management information system contains reliable data on the number of active contracts, the expected cost of the contracts, and the types of goods and services acquired, and that its financial management information systems provide complete and reliable obligation and expenditure information on HUD's contracting activities. Other aspects of HUD's acquisitions management improvement strategy are being addressed through the human capital management strategy, which incorporates actions to enhance HUD's procurement staff capacity and improve guidance and training for acquisition officials throughout HUD.

CONCLUSION

Our success will be judged by the lives and communities we have forever changed through our work: the young families who have taken out their first mortgage and become homeowners; the once-homeless men and women who now have a home; the faith-based and community organizations that are successfully using HUD grants to deliver social services; and the neighborhoods once facing a shortage of affordable housing that now have enough homes for all.

Empowered by the resources provided for and supported by the administration's proposed Budget for fiscal year 2005, new success stories will be written and our communities and the entire Nation will grow stronger. And more citizens will come to know the American Dream for themselves.

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

Thank you.

STATEMENT OF MICHAEL LIU

Mr. LIU. Thank you, Senator. I will summarize and try and move very quickly through my testimony—and Ranking Member.

In regards to the Section 8 Voucher Program, not wanting to replicate what my colleague has said on this subject, let me just note that many of the reforms contained in our proposal come from suggestions made by the public housing agencies themselves, as well as concepts already tested under the Moving to Work demonstration. It's also intended to deal with the growing complexity of the program.

Here we have in front of you, sir, our rules, regulations, various guidances that have grown around a very well-intentioned program, a program whose purpose we still support, but which we think needs to be rationalized and made more user-friendly.

Secondly, may I also mention that, in addition to making reforms to the program, the proposals, as a byproduct, add another tool to deal with some of the spiraling costs that we have all recognized are associated currently with the program.

Perhaps I could have some assistance here just to show—the first chart here indicates the size of the Section 8 tenant-based voucher program relative to HUD's budget, and that's that magenta-colored area there, over half—just a bit over half, based on the 2004 enacted budget, sir.

PUBLIC HOUSING CAPITAL FUND

Public housing, capital fund. The capital fund has remained stable since 2002, at approximately \$2.7 billion, which is our request for fiscal year 2005, as well. This steady level of financing—of funding allows PHA's to pursue debt financing to accelerate the modernization of public housing. Rehabilitation that would take 10 to 20 years, using annual appropriations, can now be dealt with in 5 years or less. So far, the Department has approved over \$1.4 billion in debt financing. There are over 40 deals in the pipeline now which might range anywhere from another billion to \$2 billion of private-sector dollars into the process of modernization and rehabilitation. These tools continue to enhance our ability to address more quickly the backlog in annual accrual needs of public housing.

HOPE VI

As to HOPE VI, the Department is not requesting any funding for the program for 2005, because we believe the program has achieved one of its primary goals of demolishing over 100,000 units of distressed public housing. However, the other primary goal of HOPE VI, revitalization of community, still awaits fruition. While this administration has made progress, with your assistance, in accelerating development schedules, still only 26 grants are completed out of close to 200, and approximately \$2½ billion remain unexpended. In addition, two more rounds of new grants will be awarded. And, with that, we will have the program in existence, with current funding, well into past 2010.

OPERATING FUND

Operating subsidy. The Department estimates that the request for \$3.6 billion for the Operating Fund in 2005 will fully fund PHA's according to the current formula. Currently, HUD is involved in a negotiated rule-making on this subject. We also have proposed a Freedom to House demonstration program, built on the Moving-to-Work Program in public housing, and we hope that we will get favorable consideration there.

We are also moving toward asset-based management, which was recommended by Harvard in a cost study which was requested by the Congress.

NATIVE PROGRAMS

Finally, our programs for Native Americans, Alaskan Natives, and Native Hawaiians are basically sustained in past-year levels, and we are very pleased with the success of the obligation and expenditure of amounts in those programs.

Thank you, sir.

Senator BOND. Thank you, Mr. Liu.

STATEMENT OF JOHN WEICHER

Dr. WEICHER. Thank you, Mr. Chairman. Good morning, Ranking Member Mikulski.

ZERO DOWN PAYMENT

I would like to focus on the Zero Down Payment Initiative that you referred to in your opening remarks. As you know, President Bush has placed major emphasis on promoting homeownership, particularly for minority households. This initiative has contributed to the record homeownership rate that Assistant Secretary Bernardi mentioned a moment ago. Housing continues to lead the way in our rebounding economy, and the President's housing initiatives will help more Americans, particularly minorities, achieve the dream of homeownership.

FHA has contributed to that record. Last year, we insured 1,365,000 new single family mortgages, the highest total ever. Eighty percent of our home-purchase borrowers are first-time homebuyers. Forty percent of our first-time homebuyers are minority households.

The fiscal year 2005 budget includes the Zero Down Payment Initiative as a major new proposal within our single family home mortgage program. First-time homebuyers will be allowed to finance 100 percent of the mortgage, as well as all closing costs. Potential homebuyers would not have to make FHA's normal minimum down payment or pay closing costs out of pocket. It's well known that the biggest hurdle to homeownership is having the cash for the downpayment and closing costs. Many families have a steady income and can afford the monthly mortgage payment, but don't have the up-front cash they need. We estimate that in the first year of the program, 150,000 families will be able to buy their own homes.

To compensate for the higher risk of default, the premiums will be higher than FHA's regular downpayment program. The up-front premium would be set at 2¼ percent, as compared to 1½ percent, and the annual premium would be 75 basis points, as compared to 50 basis points. After 5 years, the annual premium would be reduced to 50 basis points, the same as in our regular program.

I understand your concerns, Mr. Chairman, about the risk FHA would incur for this new program. At the higher premium, FHA will more than cover our expected claims. As the President's budget reports, we calculate that the additional \$19 billion in mortgage commitments will generate net revenue of about \$190 million in the first year.

I also want to note that the 2003 Actuarial Review of the MMI Fund calculates our net worth at \$22.7 billion, more than double the reserves required under the Cranston-Gonzalez National Affordable Housing Act.

It may be worth mentioning that I served at HUD when that Act was written, as Assistant Secretary for Policy Development and Research, and worked with Congress, worked with the authorizing committee, of which you were then a member, to develop the FHA reform legislation establishing the financial safety and soundness requirements, and reforming the 203(b) program.

I take seriously the need to operate FHA on a sound actuarial basis. There are several reasons why the new Zero Down Payment Program will increase our net worth. First, borrowers will be held to the same underwriting guidelines as those who apply for an

FHA standard-payment loan. They must meet the same payment-to-income and debt-to-income ratios, and the same credit standards.

Moreover, all potential borrowers would be required to participate in homeownership counseling. Our program data show that homeowners who have pre-purchase counseling are less likely to default than those that haven't. This administration has doubled the request for counseling funds since 2001, from \$20 million to \$40 million. You have appropriated those funds. And this year we're requesting a further increase, to \$45 million.

We would also require lenders to use our new FHA TOTAL Mortgage Scorecard to evaluate the overall credit-worthiness of borrowers. It allows FHA lenders to better predict which borrowers are good risks, and identify those that are bad risks. Further, our legislation would allow the Department to include additional requirements for borrowers, as we deem necessary.

Let me finish, briefly, by mentioning, the multifamily side, in particular, I know that Congress is concerned about the suspensions of activity within the GISRI Fund over the last year. We believe our proposed \$35 billion commitment level for the fund should minimize any possibility of suspension next year, and we are monitoring our activity every day this year. Secretary Jackson has said he's committed to provide information to you by May as to whether we felt we would need additional credit commitment authority this year.

Thank you, Mr. Chairman. I'll be glad to answer any questions.

FLEXIBLE VOUCHER PROPOSAL

Senator BOND. Thank you very much, gentlemen.

Mr. Liu, I'd say that that stack of regs cries out for regulatory reform. If we do not go along with the Flexible Voucher Program, that should really be fun to get rid of about two and a half of those stacks, or more. If you need some help from us, we'd be delighted to do it. I came to this body as a regulatory reformer, and, man, what a great opportunity right there. So I hope that will become a project.

Let me turn to the proposal. We've asked for analysis from HUD, which you've not been able to give us, on what each PHA receives in the current year under Section 8, and the amount of funds the PHA's would receive under Section 8 funding for 2005. If you don't have this data, I don't see how you can make this proposal without running models, using rent trends for each market in order to understand the impact of the cuts. In fact, HUD needs to analyze individual rents by market and possible increases to understand the impact of this proposal on low-income and extremely low-income families. If you have not run these models, why not? And if you have not, would you please do so, and provide them for the record?

Mr. LIU. Mr. Chairman, as you know, we are still in the 2004 year, and we are still calculating doing runs for individual PHA's relative to the formulas related to the 2004 budget. Our proposal for the Flexible Voucher Program deals with maintaining whatever proportionate share that a housing authority will ultimately get in 2004, to receive that proportionate share in 2005. So our ability to give specific dollar amounts for any particular PHA is limited at

this time because of where we are in the process of allocating our dollars for 2004. But we do believe that, in the aggregate, that allocation—again, keeping the proportionate level to whatever ends up being the share of the housing authority in 2004—will permit that housing agency, under our Flexible Voucher Proposal, which ultimately reduces the amount of work significantly of what a housing authority has to do in Section 8, to sustain?

Senator BOND. Well, this proposal has a ticking time bomb in it. We think that the OMB budget is underfunded by about \$2.2 billion, yet you say that HUD is confident it can maintain current levels of service, and even increase the number. But I'm concerned about the impact on extremely low-income families, those at or below 30 percent of median income. Those are the ones that we worked out in the 1998 agreement that we would serve them. But if a PHA has to maintain or increase the number of vouchers, it would seem to be a very strong incentive not to provide assistance to the low-income and, thus, the more expensive families needing the vouchers. And it would seem to me that the likely result would be a significant decline in the percent of low- and extremely low-income families served in the PHA's, because they won't be getting the money that they need, and yet they'll be charged with getting out more vouchers. I don't see how you can avoid that trap.

Mr. LIU. Mr. Chairman, as we have examined and collected information over the years from CORA, with the well-intentioned targeting of income that you described, and what we have found is that that has been, in some respects, yes, very successful, where 80 percent, currently, of those in the program actually are at the extremely low-income level, 18 percent are in the 30–50 percent of median-income level, less than 2 percent in the 50–80 percent level.

The difficulty comes where we definitely do have a limited resource—this is not an entitlement program, as we all know—and where we do have these long waiting lists. And housing authorities don't have the flexibility now, when they have reached the proportion, to make accommodations for those families that earn 35 percent of median income, maybe are working; or 40 percent of median income, trying to transition, trying to find a way up, and get that housing assistance. Housing agencies today don't have that flexibility to make that call, make that accommodation. And that's what we are asking housing agencies to at least have the option for. We're not mandating that they make the change, but they have the option to deal with those difficult situations.

Senator BOND. Thank you, Mr. Liu. I'll come back to these questions in my next round of questioning, but I'll turn it over to Senator Mikulski.

HOPE VI

Senator MIKULSKI. Thank you very much, Mr. Chairman.

I'd like to go to Assistant Secretary Liu and pick up on HOPE VI, which, as you know, is very important. I encourage the others to jump in. I know, Mr. Bernardi, you were a former mayor of Syracuse, and you had a lot of innovative ideas on urban development, so you know how it all goes hand in hand. HOPE VI was never meant to be a real-estate development, it was meant to be commu-

nity development. It was about a new physical architecture and a new social architecture.

Now, Mr. Liu, you're talking about how we still have \$2 billion in unspent HOPE VI funds. You estimate that this is going to go well into the decade. At the same time, what we understand is that there are somewhere between 50,000 and 80,000 severely distressed public-housing units still out there. Others, outside of HUD, tell me that, though there is the money in the pipeline, this is money that's on its way to being committed. This does not deal with the other issues of these 47,000 to 80,000. Can you tell me why we are cutting HOPE VI? And then, also, are you, at HUD, committed to looking at a reauthorization of HOPE VI and looking at lessons learned?

Mr. LIU. Senator Mikulski, we are definitely focused in on attempting to get the projects promised built. Besides the \$2½ billion, which is unexpended, there is going to be close to a half billion dollars after the announcements are made. Then there are billions more on top of that that are associated with these projects—some committed, some not yet committed, some part of these deals which have to be worked out. So—

Senator MIKULSKI. Well, how much of what is at HUD is uncommitted?

Mr. LIU. I'd have to check. I don't know the specifics—

Senator MIKULSKI. Well, I think that's important to know, and I appreciate the promises made, promises kept, where we are in the process, because we commit various amounts at various stages of development.

But let's go to the future of HOPE VI. We had been working with Secretary Martinez, who formed an internal group on HOPE VI to look at the future. Could you tell me where that internal group is? And also, using the work of the Urban Institute and others who have evaluated the need for this, are you all looking at a reauthorization of HOPE VI and what this would be, or do you all want to see it die?

Mr. LIU. We're looking at different tools for the area of redevelopment. There are a lot of ideas, a lot of great ideas, out there as to how—

Senator MIKULSKI. That wasn't my question.

Mr. LIU. We can—

Senator MIKULSKI. That wasn't my question.

Mr. LIU. Would you repeat the question? I'm sorry, Senator.

Senator MIKULSKI. Are you, or are you not, committed to the reauthorization of HOPE VI, knowing there needs to be review, refresh, reform, but also the restoration of HOPE VI as part of an authorized, funded program?

Mr. LIU. We have submitted our proposal, which is not to fund HOPE VI. We are looking at—

Senator MIKULSKI. Ever again?

Mr. LIU [continuing]. Other tools for redevelopment.

Senator MIKULSKI. Is the internal group on HOPE VI still at work?

Mr. LIU. We're still talking to people, doing research on this issue with that group and others, so the work continues to see—

Senator MIKULSKI. Work continues, but is it for the purpose of looking at what a 21st century HOPE VI would look like?

Mr. LIU. It would be for the purpose of looking at what a 21st century redevelopment program—I don't know if we'd call it HOPE VI, but some sort of a redevelopment program, yes.

Senator MIKULSKI. Well, you know where I am, because we have all this distressed housing, and we have more work to be done.

GAO REPORT ON FHA

Let me go now to FHA. First of all, Mr. Weicher, thank you for the work that you've done to help reduce predatory lending, not only in Baltimore, but all over. We understand the GAO is releasing a rather scathing report about HUD's disposition process today. We've only begun to get a preliminary look at it, but they're very, very critical of this, talking about payments for \$1,500 for a small kitchen cabinet, \$4,000 for an outdoor stoop with uneven patches—I won't go through all the specifics that are hair-raising examples—but could you tell us what is your view on the GAO report, particularly in implementing their recommendations for monitoring of their contractors, getting documentation of costs, and starting to take competitive work on repairs for FHA; in other words, getting value for their taxpayers' dollar, and ensuring that FHA is a good neighbor.

Dr. WEICHER. Yes, thank you, Senator Mikulski.

We have not seen the final report, but we commented on the draft report. And with respect to the examples you cited, these all concern properties which we took title to in clearing up a 203(k) fraud in New York, which occurred in 1999 and 2000, and early 2001. The GAO identified \$180,000 in payments on those properties which they consider to be improper payments. We, ourselves, identified almost \$900,000 in payments for bills from that contractor which we considered bills for work that had not been done.

Senator MIKULSKI. Yes, but—

Dr. WEICHER. We held—

Senator MIKULSKI [continuing]. The GAO report is more than the New York report. And I appreciate your efforts to clean it up. What about the recommendations on this? There are also those that believe that because HUD has contracted out property disposition, that debt has become more expensive and fraught, rife with waste, rather than bringing it back in-house with HUD people who know what to do. So where are we in cleaning up the overall issues? Because they cite the lack of internal controls, oversight of the single family and multifamily programs, and they go into other issues about it. I understand you inherited a mess in New York.

Dr. WEICHER. Well, in that vein—

Senator MIKULSKI. And I would acknowledge the validity of—

Dr. WEICHER [continuing]. In cleaning up that mess, we have terminated that contractor, we have referred that contractor to the Inspector General, and we held back almost \$900,000 from the final settlement of the contract with that contractor. Beyond that, I can say that, in 2002, the audit done by the Inspector General's office indicated that single family REO was a reportable condition. In 2003, the audit says that that condition has been resolved. I would say that we have—

Senator MIKULSKI. Well, that's not what they're saying.

Dr. WEICHER. That's the—

Senator MIKULSKI. I really need you to read the report.

Dr. WEICHER. I—

Senator MIKULSKI. They're talking about monitoring of contractors, getting documentation of the work done, competitive bids for repair work. And also: who does the property disposition? And there is significant material available that says when you contract that out, they're pretty sloppy about it.

Dr. WEICHER. Our—

Senator MIKULSKI. And this has a lot of issues in it. And I know you want to—

Dr. WEICHER. No—

Senator MIKULSKI. I mean—

Dr. WEICHER. I can tell you this, Senator; overall, we have the lowest loss rate, including the cost of maintaining property, that we've ever had in this program. We are losing 26 cents on the dollar; we've traditionally lost 40 to 45 cents on the dollar in this property. We have an inventory of 30,000 properties. It's down from 50,000 5 years ago. And it's come down straight during the recession.

Senator MIKULSKI. And I appreciate that good news. But have you looked at the GAO report? And do you intend to implement their reforms?

Dr. WEICHER. We looked at the report. We looked at the draft report. We haven't yet seen the final. We commented on the draft report. We took issue with the statements about questionable payments, most of the statements about questionable payments, which they made in the report. We recognize that, in some locations, only two reviews of individual invoices were made; whereas, the rules call for three, and we are correcting that so that the third review occurs, as well. We are also in the process of re-procuring the M&M contracts, and we will be re-procuring 24 contracts this year with a focus on providing opportunities for small business to participate more extensively—

Senator MIKULSKI. In doing what?

Dr. WEICHER [continuing]. In the program.

Senator MIKULSKI. In doing what?

Dr. WEICHER. In managing—the M&M contractors are the management and marketing contractors for the single family REO.

Senator MIKULSKI. Well, I'm sorry, I think that this is really rife with problems, and we want small business, but you've got to really look at competency.

Dr. WEICHER. I'm sorry, I didn't hear you.

Senator MIKULSKI. You've got to really look at competency. I was appalled to read the executive summary of GAO. I know you haven't had a chance to read it. I know we've had other such constructive work, and I know you really want to be the steward of taxpayers' dollars, as well as a good neighbor with HUD property in a community. I'm asking you to look at this. And while you're looking at expanding opportunity, let's make good use of this money.

Dr. WEICHER. We intend to do that, Senator, and I will be happy to, at any future time, have a more extensive discussion with you about what we have been doing.

Senator BOND. Mr. Weicher, following up on that, I see you have the report there on the table, just to Mr. Bernardi's right. Here is a picture of a new bathroom floor, which was approved for payment. You can see the holes in it, it's in terrible condition. This is a completed bathroom repair, which is a total disaster.

Now, here on page 38 is a bathroom repair that is so bad it should be X-rated. You may have procedures to have people sign off on the invoices, but I want to know who the HUD official is who is supposed to go out and look at that. I can't believe that you approve payments if three people look at an invoice, without sending a live person out to see if the work's done. Do you do that?

Dr. WEICHER. We do send people to look at repairs in individual cases. In this case, all of these refer to the New York properties that I mentioned in responding to Senator Mikulski. All of these examples are within that \$180,000. And we did, in fact, pursue those issues with the contractor, and we terminated the contractor, we referred the contractor to the Inspector General for further investigation, and we held back almost \$900,000 when we terminated the contract.

We have a new contractor, and the new contractor has been making the repairs, the needed repairs, and, by everything I know, doing a good job.

Senator BOND. Okay. Well, I mean, it took 6 years to get it done, and it seems to me if you're going to be paying hard cash for somebody to do the repairs, with the wonderful, talented field staff you have, you ought not to pay—

Dr. WEICHER. Uh-huh.

Senator BOND [continuing]. Until somebody goes out and looks and sees that the job's done. I mean, am I missing something here?

Dr. WEICHER. No, we have, ourselves, been following up on these properties ever since we began taking title to them in 2000 and 2001. We've followed up ourselves. We have tracked the performance of the contractor. We have had a lot of discussions with that contractor. They improved their performance for a while, they deteriorated again, and we terminated them.

Senator BOND. I'm not worried about the terminated contract. I want to make sure now when you get an invoice for somebody who's done repair work, does somebody from HUD go out and look and see if the job is done?

Dr. WEICHER. Yes. In this area in particular, we've had people specifically assigned to look at these properties, and they have come back and told us about the problems.

Senator BOND. Well, I would think that in every area it would make sense, before you pay—

Dr. WEICHER. Uh-huh.

FMRS

Senator BOND [continuing]. Somebody looks at it, because this one, obviously the serious problem should have been detected. I hope that you will get some real, live HUD person to look at it to

make sure the work's done before you pay for it. Otherwise, you're facing a disaster.

Let me go back to Mr. Liu. I'm worried about redlining in the concentration from this flexible voucher, because you're going to be shorting the PHA's, they're going to have to lower the amount of rent payments, that there will be a concentration of families into poor and distressed communities. And it seems to me that the potential is to increase homelessness and increase the "zip codes of poverty", as my colleague describes it. Why is this not a valid concern?

Mr. LIU. Mr. Chairman, as we have been collecting real market rent data from across the country, utilizing both our internal resources and those from the private sector—notably the Institute of Real-Estate Management, IREM, and Property Portfolio Research, PP&R, as well as work done by PD&R—in looking at the rents, we have seen that in the majority of areas across the country—not all, but in the majority of areas, the real rents have actually decreased across the market. And just the opposite has occurred with our FMR's, which are required to be set by Washington, by statute, and which have not been reflective of the changes in the marketplace in a timely fashion.

And the bottom line is, we, in fact, in many, many areas across the country, are paying more than what is really needed to provide safe and decent housing under Section 8.

Senator BOND. Well, No. 1, we'd like to have the data, if you'd provide that for us today.

Mr. LIU. Yes.

[CLERK'S NOTE.—The information referred to has been retained in Committee files.]

Senator BOND. No. 2, why can't you fix the FMR problem?

Mr. LIU. The FMR problems requires us to do it from Washington. And over the years, we have tried—and we are looking at it, and we're trying to deal with the issues at the edges, but it is very difficult, from Washington, DC, with the resources that we have, to go out and do the type of market-data research that truly reflects where we are.

Now, we are moving toward—

Senator BOND. You have staff out in the heartland, don't you? You've got a great staff, I know, in Kansas City.

Mr. LIU. Yes, we do, sir.

Senator BOND [continuing]. Can't they feed back to you something?

Mr. LIU. Well, we are working within that framework to do that, but what compounds this is the 110 percent payment standard, which, associated with whatever FMR we can come up with, has pushed the costs of the program to a very high level. The average payment standard now across the country is at 104 percent, and it's increasing every year.

Senator BOND. While you're speaking of Kansas City, we are hearing grave concerns that many PHA's, and specifically Kansas City, will have a significant shortfall. Kansas City Housing Authority projects it'll have a funding shortfall of over \$8.7 million. And even after using its 1 month reserve, HUD's formula would still

leave them with a shortfall of over \$5 million to support 1,237 families.

We included statutory language, at the recommendation of HUD, because HUD convinced us it was one way to assure that assisted-rent increases would reflect the increases of comparable unassisted units in the community.

How does HUD reconcile this failure to recognize the problem for 2004 with HUD's proposed total rewrite of Section 8 and the possible impact on families already receiving vouchers?

Mr. LIU. Mr. Chairman, the per-unit costs, as you know, were capped at the August 1, 2003 level, by statute, in the 2004 appropriations bill. And although Congress did add a billion dollars in funds to the requested amount, there was also a rescission of a billion dollars more than proposed by the President's request for 2004. So, in total, we did not get, you know, the increase needed, perhaps, to deal with the caps, which were set for 2004.

However, the fiscal year is not yet out, and there are still adjustments that both we and the housing agencies, as directed by Congress, can and need to make. So we're hopeful that we do not end up in the shortfall situation, sir.

FLEXIBLE VOUCHER

Senator BOND. You know, I have grave concerns that some areas are getting too much money, some areas are not getting enough.

Let me ask one other question. If you really want to deal with the problems, why do you propose to maintain the current restriction on project-based assistance? If HUD truly wants to allow PHA's to meet local housing needs, where there's a shortage of housing, where the rents have been driven up, why not allow PHA's the ability to use Section 8 assistance to develop more low-income housing as part of their mixed-income housing approach?

Mr. LIU. Well, under our flexible voucher proposal, Mr. Chairman, as well as under a proposed rule which is out right now, we move very much in that very direction, to allow much more flexibility on the part of housing authorities to use the tenant-based program for project-based reasons. For instance, the current cap of only 25 percent of the units in a building being eligible for project basing under the tenant-based program would be removed under our proposal, the flexible voucher. Both in the proposal, as well as in the Flexible Voucher Program, that would be listed. We are moving to take away site and location requirements of having to come back to Washington for review. We'd like to keep that in the field.

Senator BOND. I'll turn the questioning back to Senator Mikulski at this point.

FHA AND REAC

Senator MIKULSKI. Thank you very much, Mr. Chairman. That was an interesting line of questions, and I support the direction that you're going in.

I'd like to come back to FHA again. And it goes to something I call "public housing by proxy." And that goes to FHA-insured apartment buildings. Stick with me a minute. And I'll use Maryland as an example. One of the lessons learned was that high-rise public housing didn't work. And as suburbs contiguous to urban

areas tried to be innovative and use Section 8, where they welcomed Section 8, and people moved into apartment homes. Well, what we've seen is a pattern, particularly the closer you are into a city, is that apartment buildings or complexes have all become Section 8. So that's why I refer to it as "public housing by proxy." You sticking with me on that?

Dr. WEICHER. Yes, certainly.

Senator MIKULSKI. Now, what has happened, though, is that many of these units are older, many 40 or 50 years old. They do not have the oversight provided in public housing, with a professional housing authority, and so on.

Now, here, then, comes my set of questions, which goes to the fact of getting value. Section 8 is an opportunity for the poor, the way Mr. Liu has talked about, that it becomes the way to a better life, and, at the same time, we don't want to be in the business of publicly held big public buildings. Well, what we're seeing, though, is that these FHA-insured apartment buildings, in many instances, have taken on all the characteristics of slums, that they're run-down, they're not being maintained, that they become concentrations of both poverty and crime. But, at the same time, the landlords are taking the subsidies.

What is your role? First of all, I understand you have a REAC team that's supposed to inspect those.

Dr. WEICHER. Yes.

Senator MIKULSKI. And that there are 250 of them, but they're private contractors. What I'm going to is the fact that we make sure we're getting value, both for the taxpayer and the empowerment aspects. How are you really standing sentry and ensuring that these REAC teams, which are done by private contractors, not by government inspectors, are really doing their job, No. 1, and, No. 2, avoiding cronyism, kickbacks, and other kinds of winking and blinking? Because that same private contractor might have a deal with the owner of that complex, because many of them own several complexes in another area. And I know that this is—

Dr. WEICHER. Yeah.

Senator MIKULSKI. Could you share with me what your views on this and your operational procedures?

Dr. WEICHER. Sure. Part of this, I will refer back to Assistant Secretary Liu, because the REAC operation is formally part of public and Indian housing. But I can tell you this, we have looked at each of these buildings that we insure, and these include both the subsidized Section 8 project-based buildings and the insured buildings which are not subsidized, but which may have Section 8 voucher recipients in them, as well as those which have no subsidized recipients at all. We inspect each property. If it has a below-60 score, we inspect it every year. If it's between 60 and 80, we inspect it every other year. Above that, we inspect it every third year. We refer any project with a below-60 score to our Departmental Enforcement Center, which does its own review of the project and works with the owner to have the project upgraded to meet our standards.

Senator MIKULSKI. And how often, then, would you inspect them, then?

Dr. WEICHER. In that situation, we inspect them every year, but once they're in the Enforcement Center it's an ongoing process of working with the owner and verifying that the owner is making the—

Senator MIKULSKI. What happens if—

Dr. WEICHER [continuing]. Repairs.

Senator MIKULSKI [continuing]. But you do monthly inspections, weekly inspections, and so on?

Dr. WEICHER. They're—

Senator MIKULSKI. And then I want to come back. How do you insure the quality of the inspector? And, Mr. Liu, if you want to jump in so you see where I'm heading? We don't want to have government-subsidized slums. I like the idea that if you're a good-guy landlord, you don't have us running in every hour and a half—

Dr. WEICHER. Right.

Senator MIKULSKI [continuing]. But if you're on the edge or really are a skimmer, we want you in there a lot.

Dr. WEICHER. May I add one thing? The owner is required to tell us when the owner has completed the repairs, and then we go out and verify that the repairs have been made.

Senator MIKULSKI. And you actually go—

Dr. WEICHER. And that, of course—

Senator MIKULSKI [continuing]. An onsite—

Dr. WEICHER. Yes.

Senator MIKULSKI [continuing]. Repair.

Dr. WEICHER. Yes.

Senator MIKULSKI. You don't just go—

Dr. WEICHER. Yes, we do that. I wanted to add that before—

Senator MIKULSKI. Yes. And Mr. Liu, and also, then, to ensure what we would call the independence and vigor of the REAC team contractors.

Mr. LIU. What we have, Senator Mikulski, is—within the last year and a half, we had the same concern, because we had created a system with our contractors where they would be able to bid—let's say a housing authority on the public-housing side, or on a multifamily on a project base, without necessarily breaking it down on a per-unit base. So we have been very concerned about essentially some skimming—ability to get some float which is really not associated with the work being done.

We have put together a quality-assurance protocol where we do a periodic check of a certain random sample now every, I think, 3 months, of the contractors that we have. Secondly, if there is a variance of a score, whether it's multi-family or on public housing, I think if it varies above 15 points over the prior year, we send out a REAC, a HUD team, to do what we call a "confirmatory review", to check on the work of the contracting inspector.

Finally, we are now in the mode of a demonstration where we are working to cut out the middle person right now, because contractors who actually do the work are actually subcontractors of a few, relatively few, middle contractors, so that further diffuses the contact with HUD. And we are experimenting now with a system whereby individual contractors can bid on individual projects that are available for inspection, so that we have a closer link to the actual inspectors and inspections being done.

SALE OF PROPERTY TO OWNERS WITH CODE VIOLATIONS

Senator MIKULSKI. Well, I really want to support the momentum for reform that you have here, and oversight vigor and independence, at the same time, for rewarding good behavior, either through the person doing the inspections, or where they're really the good landlords, they have a cooperative Federal Government. So I want to support you on that.

The other is that in last year's legislation, we talked about a good-neighbor policy and to ask HUD to stop or curtail HUD from selling foreclosed buildings to owners with serious records of housing-code violations. These were the ones who were skipping it up and I call them "pre-predators", or another kind of way to weasel in.

Mr. LIU. Yes.

Senator MIKULSKI. We won't call them "predators", we'll call them "weasels." It's not a technical term found in regulators but it's out there in the neighborhoods and for the taxpayer.

Could you tell us where you are in helping with this again to get value and neighborhood development, et cetera?

Dr. WEICHER. We are in the process of developing regulations to prevent the sale of properties to purchasers who have demonstrated patterns of housing-code violations. We have put together a term sheet for the development of that proposed regulation, and asked the General Counsel's office to make that a priority, and we will be producing it. I can't give you a precise schedule at this point, but we know it's a priority, and we will be doing it—

Senator MIKULSKI. Yes, we had—

Dr. WEICHER [continuing]. As quickly as we can.

Senator MIKULSKI. Yes, we had a April 22 deadline, and—

Dr. WEICHER. If we have a proposed regulation by April 22, it will be a substantial achievement. We will certainly keep you apprised. But we can't, of course, possibly get a final regulation in place—

Senator MIKULSKI. But I think you would—

Dr. WEICHER [continuing]. In 3 months.

Senator MIKULSKI [continuing]. I think we agree on the spirit of the—

Dr. WEICHER. Yes.

Senator MIKULSKI [continuing]. Outcome.

Dr. WEICHER. We certainly—

Senator MIKULSKI. And then—

Dr. WEICHER [continuing]. Do.

FHA FORECLOSURE RATES

Senator MIKULSKI [continuing]. As well-paced of a implementation as we can.

Mr. Chairman, if I could just ask, Mr. Weicher, why you got our FHA proposal rates up so high?

Dr. WEICHER. Sure.

Senator MIKULSKI. And that will be my last question.

Dr. WEICHER. Sure.

Senator MIKULSKI. Yes, sir. FHA?

Dr. WEICHER. Sure. Our foreclosure—

Senator MIKULSKI. And, again, I really want to thank you for our tremendous inroads against predatory lending. At least at the FHA level. We've got a lot more to do at the sub-prime level. But—

Dr. WEICHER. Thank you for that. May I say, also, we haven't quit. We are not resting on our laurels. We have additional regulations to address predatory lending. And, just last week, we sent up, for the 15-day review period, a proposed regulation requiring treble damages to a lender for failure to engage in loss mitigation—

Senator MIKULSKI. Right.

Dr. WEICHER [continuing]. Which is part of our effort.

Let me say, with respect to foreclosure rates, our foreclosure rates in FHA are dropping, in fiscal year 2004, to where they were in fiscal year 2003. They're down nationally. They're down in most of the larger metropolitan areas. What we have seen is a typical pattern when there is a recession—foreclosures rise, but they keep on rising after we hit bottom in the recession, because people try to hang onto their house as long as they can, and people make the payments as long as they can. And it's after we've hit bottom in the recession and are starting up, but—

Senator MIKULSKI. So you think that—

Dr. WEICHER [continuing]. Some of the people who are still unemployed fail.

Senator MIKULSKI [continuing]. It's a temporary spike—

Dr. WEICHER. Yes.

Senator MIKULSKI [continuing]. Rather than a pattern.

Dr. WEICHER. Yes. And we are seeing it start to come down.

Senator MIKULSKI. Well, that's good news.

Dr. WEICHER. Our foreclosure rate last year was just over 1½ percent of our portfolio, and it's dropping slightly this year.

THE ELDERLY AND FAITH-BASED INITIATIVES

Senator MIKULSKI. Mr. Chairman, I know you want to pick up.

Mr. Liu, are you the senior housing guy? Who's the faith-based senior housing, where they build senior housing only?

Dr. WEICHER. I'm responsible for 202 and 811, Senator.

Senator MIKULSKI. Okay. Something that I will be putting in the report, but will be discussing with you at another time, is that we're concerned. First of all, we think it's been one of the greatest ways for there to be faith-based participation, and it's been really wonderful for communities, and it's also been constitutionally compliant, so we haven't gotten into the separation of church/State issues. What we're also noting is that the buildings are getting older. So many were built into the 1970's and the 1980's. And the people in them are getting old. We've got aging in place. And we're looking to HUD for ways for modernization, particularly where we have aging faith-based facilities, where they're now using philanthropic dollars for modernization. And, at the same, to understand that there needs to be a service component to it where these are faith-based, naturally-occurring retirement communities.

So we're not going to go into that today, but know that I want to look at this so that we can continue to have a robust faith-based initiative for the elderly, and, at the same time, acknowledge that, while they're hesitant to start the new because they've got these aging facilities.

Dr. WEICHER. I'll be happy to discuss that with you further. We certainly have put in place a regulation to allow prepayment and refinancing of the older properties to take advantage of the lower interest rates and to provide funds for rehabilitation of properties. And we are looking to make sure that that program is as effective—

Senator MIKULSKI. Well, I'm going to—

Dr. WEICHER [continuing]. As it can possibly be.

Senator MIKULSKI [continuing]. Ask my staff to talk to yours in more detail.

Dr. WEICHER. I'd be happy to do that, Senator.

Senator MIKULSKI. Thank you.

ZERO DOWNPAYMENT

Senator BOND. Thank you very much, Senator Mikulski. We will want to follow up with you on the foreclosure and delinquency rates. We get some sense that it may be much higher.

Going back to the Zero Down Payment Program, a couple of major problems I have with it. It seems to be a decision by FHA that it can afford to house as many people as possible, no matter the cost of the default to the fund or the impact of a family's credit in the future. Did you take those two things into account in proposing the Zero Down Payment Program?

Dr. WEICHER. We looked carefully at all aspects of the program. We looked at who we could be serving in that program. We worked with data that the Federal Reserve produces, the Survey of Consumer Finances, which identifies households both by assets and by income and by financial history, to see what the market could be and who would be in a position to afford zero down payment.

We put in safeguards to hold the default rate down like the requirement for counseling, the requirement that the loans be scored through our total scorecard, which does a better job of predicting risk than anything we've seen in the FHA or the conventional market. And we will retain our current underwriting requirements on payment-to-income, debt-to-income, credit history, as well. We're trying to reach people who have good jobs, but who haven't built up the assets to enable them to make the down payment.

Senator BOND. Are you sure you're not going to be attracting the highest-risk home buyers into this program?

Dr. WEICHER. No. Because we maintain our credit standards. We will serve buyers who are about as risky as the buyers we have now, but who have not accumulated the down payment. We expect that there will be more defaults in this program than there will be in our regular program, and that's why we have proposed a higher premium. But we intend to do everything we can to make sure that the borrowers we serve are creditworthy.

Senator BOND. As you may recall, one of my team worked at HUD during—

Dr. WEICHER. Yeah.

Senator BOND [continuing]. Your tenure as—

Dr. WEICHER. I do.

Senator BOND [continuing]. Assistant Secretary for Policy Development and Research. And during that time, you were responsible for legislation designed to increase the actuarial soundness of the

Fund, which included requirements that the home buyer have a stake in the home through reasonable down payment. One of the most significant concerns at that time was the impact of defaulted FHA housing on neighborhoods. As you know, through predatory lending issues, defaulted and distressed FHA properties, they remain a tremendous burden on communities, many of which are fragile.

How is HUD going to address this issue in the FHA Zero Down Payment Program?

Dr. WEICHER. Well, we are addressing it partly, as I said, through maintaining our underwriting standards and through the counseling requirement. And we know counseling makes a difference in people's performance after they buy a home. In addition to that, we know something we did not know 10 years ago. We have the information now about the importance of credit history as measured in FICO scores and other techniques. And we know that that is a more important predictor of default than the initial down payment or loan-to-value requirement, and we will be looking at credit scores in the total.

And what I would say also is—we were talking earlier about the single family side—we have worked hard to acquire and sell the single family properties when there is a claim—a foreclosure and a claim—and we are turning properties over faster than we have in many years. Four years ago, we would own a property for 7 months before we'd be able to sell it, on average. Now we're down to 5, and we're working to move that—

Senator BOND. Well, we commend you—

Dr. WEICHER [continuing]. Faster.

Senator BOND [continuing]. For progress in that area. And as you might have gathered, I am very much concerned about this.

What would you say to limiting the availability of the FHA zero down payment mortgage insurance to a trigger, for example, where HUD can only make this insurance available if FHA claims for their previous year do not exceed 3½ percent?

Dr. WEICHER. That would be fine. And if you felt that way—let me say this. Our claims last year were 1½ percent. There's been some confusion in the press about our defaults. I noticed, in the National Journal, a reporter said that 12 percent of our loans were past due, which has been interpreted by some of your colleagues in the House as being in foreclosure or in default, but that's not the case. Our defaults have been running 3 percent; our foreclosures and claims, half of that. And as I said in response to Senator Mikulski, those rates have been dropping in this fiscal year.

Senator BOND. Well, we're hearing things about different numbers, as well, so we'll have to do some work with you to get those clarified.

Dr. WEICHER. May I mention that FHA's delinquency rate is reported as 12 percent, but this is the rate for 30-day delinquencies. FHA's 90-day delinquency rates are approximately half this rate. And claims over the last 12 months are only 1½ percent of the current insurance-in-force. I will be happy to provide the program data to anyone who you feel would benefit from talking with us about it.

Senator BOND. We'd be happy to do that.

Well, as I indicated, we do need to close this down. We do have a number of other questions focusing on many of the areas of concern.

CHAIRMAN'S CLOSING REMARKS

We appreciate the progress you have made, and we've focused on concerns that we have with some of the proposed policies, which I have yet to be convinced are good changes. I continue to be disappointed that OMB or somebody somewhere has chosen to strike out the priorities that this committee and Congress have put in, in the past.

Mr. Bernardi, anything you want to say in closing?

ADDITIONAL COMMITTEE QUESTIONS

Mr. BERNARDI. Well, Senator, thank you for the opportunity. The questions that you would like answered in writing, we'll make sure our congressional relations folks have those, and we'll get responses back to you as quickly as we can.

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

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

SECTION 8 CERTIFICATE FUND—UNDERLYING ANALYSIS

Question. According to CBO estimates, HUD's proposed fiscal year 2005 level is some \$2.2 billion less than the CBO-projected needs for section 8 contract renewals in fiscal year 2005. This represents a loss of section 8 assistance for some 330,000 families.

We asked for analysis of what each PHA receives for fiscal year 2004 under section 8 and the amount of funds each PHA will receive under section 8 funding for fiscal year 2005. HUD has not been able to supply this information which was requested. However, I do not see how you seriously can make this proposal without running models using rent trends for each market in order to understand the impact of these budget cuts. In fact, HUD needs to also analyze the individual rents by market and possible increases to understand the impact of this proposal on low-income and extremely low-income families. Has HUD run these models and conducted this analysis? If not, why not? If not, please do so and provide for the record the different models and impact?

Answer. When the Flexible Voucher Program was proposed, the Department did not have an appropriation for fiscal year 2004 and did not know the level of funding PHAs would receive in fiscal year 2004 to make a comparison on a PHA-by-PHA basis. The proposal submitted based requirements at the national level, taking into consideration the cost savings that could with the flexibilities that could be implemented in a PHA program. That information has been made available via the Flexible Voucher Program—White Paper of May 18, 2004 entitled "The Flexible Voucher Program: Why a New Approach to Housing Subsidy is Needed."

SECTION 8 UNDERFUNDED—EXTREMELY LOW-INCOME FAMILIES

Question. HUD is proposing to underfund section 8 by some \$2.2 billion in fiscal year 2005. However, HUD has stated that it is confident that it will be able to maintain current levels of service and even increase the number of families served in the near future. How does HUD know this; how does this work—serve more families with less funding?

Answer. The President's Budget for fiscal year proposes to spend \$13.3 billion on the new Flexible Voucher Program, \$1.1 billion less than the current Housing Choice Voucher appropriation for fiscal year 2004. This difference in cost is driven by savings from the redesign of the program, not from reductions in the number of families assisted. In fact, the Department believes that the improved design of the new Flexible Voucher Program can, over time, help a greater number of families afford decent housing.

This is possible because of savings that will result from eliminating much of the current 1-month funding reserve, reducing the payment standard, reducing income-related errors, and permitting greater flexibility in income targeting. The Flexible Voucher Program will also trigger savings in administrative costs due to greater simplicity and flexibility in income determinations, reduced frequency of income certifications, and reduced frequency of housing quality inspections. The savings calculations are detailed in a HUD document entitled "The Flexible Voucher Program: Why A New Approach to Housing Subsidy Is Needed" that is currently on HUD's website and is attached.

[CLERK'S NOTE.—The document may be found at <http://www.hud.gov/utilities/intercept.cfm?/offices/pih/programs/hcv/fvp/wponfvp.pdf>.]

Following are extracts from this document.

"Enactment of the Flexible Voucher Program would permit substantial savings. The Administration has proposed \$1.1 billion less in subsidy payments in fiscal year 2005 than Congress appropriated in fiscal year 2004, and \$59 million less in administrative fees to PHAs. However, we estimate that in fiscal year 2005 alone, Flexible Vouchers would save \$1.804 billion in total, \$1.674 billion in subsidies and \$130 million in administrative expenses.

FIRST-YEAR SAVINGS SUMMARY TABLE

[In millions of dollars]

	Program Savings	Administrative Expense Savings
Payment Standard	\$815	.....
Income-related error	350	.....
Reserve elimination	450	.....
Targeting flexibility	59-350	.....
Total	1,674	.....
Income flexibility .....	.....	\$56
Less Recertification .....	.....	45
Less Inspection .....	.....	29
Total .....	.....	130

"Program Savings

"\$815 million in first-year savings and annually recurring savings in excess of \$1 billion due to the average payment standard returning to 95 percent of FMR

"After the first year, savings would occur over 12 months, rather than 9 months, and more than \$1 billion would be saved annually.

"\$350 million in annually recurring savings from net income-related error

"The Fiscal Year 2004 Appropriations Bill for HUD programs authorized HUD to have access to the Department of Health and Human Services' (HHS) New Hires database. One of the components of this database is a records system with comprehensive income source and earnings data reports. An income match for a sample of assisted housing tenants in 2000 showed that approximately \$700 million in excess subsidy payments was paid for voucher program units because of intentionally and unintentionally unreported income. It is estimated that at least \$350 million (50 percent) can be collected and will reduce subsidy requirements. The other thing that reduces income-related error is the actual subsidy calculations, which will decrease if not be eliminated by allowing PHAs to simplify rent policies.

"\$450 million one-time savings from elimination of the reserves

"The 1-month reserve will no longer be required in a dollar-based program. However, we plan to leave a small amount in reserves for PHAs in the first year of the Flexible Voucher Program to allow for some transition.

"\$59 to \$350 million in first-year savings from greater flexibility in targeting, and out-year savings significantly higher

"Currently 80 percent of new admissions in the voucher program are 'extremely low-income' families, in excess of the 75 percent of admissions that every PHA must reserve for the extremely low-income (less than 30 percent of area median income).

The actual savings amount resulting from targeting flexibility will vary depending on the income targeting policies adopted by PHAs. But savings are expected in all circumstances.

“For example, if PHAs reverted to the pre-QHWRA admission percentages of 68 percent extremely low-income, 23 percent very low-income, and 9 percent low-income families, at least \$59 million of savings would still result in the first year and at least \$118 million of savings would result in the second year. If PHAs exercise their targeting flexibility by admitting 40 percent extremely low-income families, 40 percent very low-income income (30 to 50 percent of area median income), and 20 percent low-income (50 to 80 percent of area median income) families, as much as \$350 million¹ would be saved.”

Question. I am very concerned about the impact on extremely low-income families—those who are at or below 30 percent of median income. Has HUD looked at the impact of the proposal on extremely low-income families—those with the greatest housing need and who are often elderly or disabled; esp. since the proposal would eliminate the requirement that three-fourths of all vouchers go to extremely low-income families. Please explain how these families would be protected?

Answer. You also expressed concern about the Flexible Voucher Program provisions to permit greater PHA discretion concerning admissions and removal of the extremely low-income targeting requirement that was established by law in 1998. It is not true that the voucher program will no longer serve poor families who are in need of housing—eligibility for the Flexible Voucher Program is still restricted to low-income families.

Like the original tenant-based certificate program, eligibility for the Flexible Voucher Program is intended to serve low-income families (80 percent of area median or less) without a requirement that 75 percent of new admissions be families with extremely-low incomes. We do not anticipate that PHAs will stop admitting extremely low-income families. As stated above, before QHWRA was enacted in 1998 (before there was a voucher program targeting requirement), 68 percent of voucher program admissions were extremely low-income families. PHA admission decisions before QHWRA are the best indicators of what is likely to happen if the extremely low-income targeting requirement is removed and PHAs are allowed to serve the needs of the low-income families on their waiting lists.

In addition, we do not anticipate that PHAs will stop admitting extremely low-income elderly and disabled families. It is noted that the voucher program has an outstanding track record in assisting disabled families, without any mandatory targeting requirements.

There are many advantages of providing more PHA flexibility in admissions. PHAs will be able to address other local needs such as families transitioning from welfare to work, families working full-time yet still in need, families experiencing housing emergencies, first-time, low-income homebuyers, and families at 35 percent or 45 percent of adjusted median income who have been on the PHA waiting list for prolonged periods of time.

Question. With limited funds, please provide any data that would demonstrate the likely treatment of extremely low-income families under this proposal?

Answer. The Flexible Voucher Program permits PHAs to design admission policies that are appropriate based on local needs. Although there would no longer be a requirement that at least 75 percent of all admissions be extremely low-income families, eligibility for the program remains limited to low-income families with incomes below 80 percent of the area adjusted median income.

Since each PHA may adopt local admission policies, it is not possible to model these local decisions. It is expected, however, that the Flexible Voucher Program will be successful in meeting the needs of low-income families as has been the case with the Moving to Work demonstration, community development block grants, and other programs that have maximized local administrative flexibility.

REDLINING AND CONCENTRATION

Question. Under the proposed HUD fiscal year 2005 section 8 block grant proposal, it would appear that many to most PHAs would have lower their payment standard to the extent that voucher families would be forced to rent housing in primarily low-income and distressed communities. This appears to mean that HUD would be endorsing policies that will effectively result in a type of redlining where

¹Savings amount for Scenario 2 of Table 4 (United States Department of Housing and Urban Development Housing Certificate Fund Analysis of Potential Savings from Income Targeting Flexibility) for the Housing Certificate Fund, Congressional Justification for 2005 Estimates.

low-income families will be concentrated into poor and distressed communities? Why wouldn't this happen?

Answer. The Flexible Voucher Program will not force families to live in "redlined" poor and distressed communities. Instead, the Flexible Voucher Program permits maximum PHA flexibility in setting payment standard levels. Under the Flexible Voucher Program, PHAs will be able to set accurate and appropriate rents for each neighborhood, regardless of where the family chooses to live.

However, HUD believes that many payment standards are now set at higher than necessary levels for families to rent modest housing in non-distressed areas, and anticipates that PHAs will lower these payment standards under the Flexible Voucher Program. In December 2000, the average public housing agency (PHA) payment standard was \$648, or 95 percent of the Fair Market Rent (FMR). By December 2003, however, the average PHA payment standard was \$844, and was equal to 104 percent of FMR. During this time, the percentage of program participants with payment standards between 101 and 110 percent of FMR rose from 25 percent to 50 percent of all participants. This 30.25 percent nationwide average increase in payment standards between December 2000 and December 2003 is not supported by the much lower 10.5 percent nationwide average increase in gross rents (as measured by Consumer Price Index) during this same period. This cost increase has occurred even as markets across the country exhibited record high vacancy rates and PHAs from across the country report to HUD that rents in their markets have declined.

Question. How does this proposal fit in with HUD's goal of ending homelessness by 2012 especially since by all accounts homelessness is increasing?

Answer. Designing programs to effectively address homelessness is a difficult task made all the more so by the fact that no objective and comprehensive count of the number of homeless exists to help steer policies. As such, and setting aside anecdotal stories, HUD would dispute that by all accounts homelessness is increasing. Instead, the Department points towards an array of programs funded through HUD that are successfully helping homeless individuals and families transition from the streets into permanent housing and employment. While not a central component of HUD's goal of ending homelessness, the Flexible Voucher Program gives more flexibility to local PHAs to address homelessness based on local needs. One example of the flexibility that the Flexible Voucher Program will provide is the ability to allow PHAs to give priority to homeless families when vouchers become available.

SECTION 8 FISCAL YEAR 2004 SHORTFALLS

Question. We are hearing concerns that HUD's implementation of how rent increases will be calculated under section 8 funding for this year will leave many PHAs with shortfalls that could result in the loss of affordable housing. As I understand it, the Kansas City Housing Authority will have a funding shortfall of over \$8.7 million, and that even after using its 1-month reserve, HUD's formula would still leave them with a shortfall of over \$5 million to support 1,237 families. We included the statutory language at the strong recommendation of HUD because HUD convinced us this was the way to control the spiraling cost of rents by ensuring any rent increases would reflect rent costs no greater than the rent costs of comparable unassisted units in the community. How does HUD reconcile these cost concerns and what is HUD doing to educate PHAs on how HUD will implement these rent baselines while ensuring that voucher families will be held harmless. Is there a problem? If a problem, what is the problem and what is HUD doing to resolve the problem?

Answer. HUD is working diligently to implement the Fiscal Year 2004 Act. On enacting the Act for this program, Congress has taken two important steps to bring the spiraling costs of the Section 8 voucher program under control. First, it has returned the program to a budget basis, in which public housing agencies (PHAs) are provided a set amount of funding. This is how the program operated prior to fiscal year 2003. Second, Congress provided the program with a 14 percent increase in funding over fiscal year 2003 levels to ensure that the transition back to a budget basis would not affect current families served.

Just this week, HUD announced that it is providing funding to restore program reserves for approximately 500 PHAs, totally approximately \$150 million. In addition, HUD has decided to apply the full AAF to each PHAs funding level for 2004, rather than phasing it in over the year. This will especially help PHAs that have a fiscal year ending in June or September of this year.

HUD is working with PHAs on a daily basis to understand how their funding is being calculated as well as steps they can take if their voucher costs have risen faster than HUD's AAF. Also, HUD is allowing PHAs to appeal the AAF if their actual market rents have increased at a faster rate than HUD's AAF.

The only cost and rent data available to HUD or Congress at the time of the Fiscal Year 2004 Act was data reported to HUD by PHAs as of August 1, 2003. This PHA-reported cost and rent data was much more recent than any data available to your committee in previous years for the purposes of calculating funding requirements for the voucher program. Not only was the data recent, it represented the highest per-voucher costs ever. Congress then decided to take HUD's published AAF inflation data for each market to adjust the August 2003 costs for 2004. HUD believes that this was a reasonable approach to funding the voucher program in fiscal year 2004. This approach also provided a 14 percent increase over fiscal year 2003 levels. Such an increase should provide adequate funding to support all vouchers in use in 2004, notwithstanding some PHAs who will likely have successful appeals for a higher AAF based on true rental increases in their markets.

Question. Assuming a cost of rent problem, how does HUD reconcile this failure to recognize this problem for fiscal year 2004 with HUD's total rewrite of the section 8 for fiscal year 2004?

Answer. The Department does not believe there is a problem. The Department believes that the fiscal year 2004 budget was developed using a reasonable approach to funding the fiscal year 2004 voucher program, i.e., adjusting the August 2003 costs by the published AAF inflation data for each market. The fiscal year 2004 approach provides a 14 percent increase over fiscal year 2003 funding levels. Such an increase should provide adequate funding to support all vouchers in use in fiscal year 2004, notwithstanding some PHAs who will likely have successful appeals for a higher AAF based on true rental increases in their markets. Moreover, it is well understood that budgeting and funding on a strict unit basis poses significant challenges and exposes even the best estimates to be thrown awry.

PROJECT-BASED SECTION 8

Question. The administration's proposal to block grant section 8 to PHAs still maintains the current restriction that no more than 20 percent of section 8 funds may be used for section 8 project-based assistance. If HUD truly wants to allow PHAs the flexibility to meet local housing conditions, why not allow PHAs unlimited ability to use their section 8 assistance to develop more low-income housing as part of mixed-income housing? Costs would be more controllable. This also would be particularly useful in tight rental markets and could be very helpful in keeping rents down over the long haul.

Answer. In developing the Flexible Voucher Program legislative proposal, HUD chose to continue to apply the current statutory provision that caps project-basing of tenant-based vouchers to 20 percent. This was done to preserve the core feature of the popular voucher program—freedom of housing choice for families. When a tenant-based voucher is used for project-basing, the family must live in the project-based unit initially and cannot select a unit of the family's choice. It is important to note that within the 20 percent cap of project-basing, PHAs will have much greater flexibility on how to project-base vouchers and develop additional affordable housing units.

PUBLIC HOUSING CAPITAL FUND—FREEDOM TO HOUSE DEMONSTRATION

Question. HUD is requesting \$5 million within the Capital Fund to administer the Freedom to House Demonstration, which is designed to test new ways for PHAs to manage their assets. This new 100 PHA demonstration is based on the Moving to Work "Block Grant" Demonstration. From reports developed by Abt Associates on the MTW demonstration, it appears that only a few PHAs have utilized this type of MTW model and the results are not all in. What have we learned from the MTW Block Grant demonstration?

Answer. In accordance with Section 204 of the Omnibus Consolidated Reversions and Appropriations Act of 1996, a report on the evaluation of the Moving to Work Demonstration program (MTW) was submitted to Congress in January 2004.

The evaluation of the MTW program, as contained in the January 2004 report, finds that MTW initiatives include experimentation with changes in three main areas: (1) merged funding assistance, (2) subsidy formulas, rent rules and time limits, and (3) HUD procedural and reporting requirements. Based on the three goals of the MTW demonstration as stated in the Appropriations Act, following are some determinations about whether or not deregulation and the initiatives implemented by the MTW sites are factors that contributed to PHAs achieving these goals:

—Changes in administrative procedures and reporting requirements resulted in more rational and efficient use of time and resources.

- An administrative benefit resulting from the simplification of rent rules and subsidy calculations is that tenants are less likely to under-report their income and staff are less likely to miscalculate tenant rent.
- Many PHAs focused on changes to rent rules and/or subsidy formulas to increase employment and self-sufficiency among assisted households.
- Some PHAs were able to expand housing choice by using their funding fungibility to help finance the acquisition or production of more assisted housing units (one-for-one replacement of public housing units demolished under HOPE VI, building larger units to suit larger families, scattered site acquisitions, and increasing the stock of affordable rental units for voucher holders in tight rental markets).
- Some PHAs merged their public housing and voucher program waiting lists to make the application process more efficient for staff, and less burdensome and easier to understand for applicants in an effort to give residents increased choice about housing type.

Question. What are the successes and what are the problems these PHAs face? Answer. Participating PHAs have realized some interesting results while experimenting with: (1) Alternatives to the standard approach for establishing tenant rents; (2) Time limits on the receipt of housing assistance; (3) Administrative streamlining (to cut costs and complexity); (4) Funding flexibility (by combining operating subsidies, modernization grants and Section 8 funding into a flexible funding stream); (5) Alternate development and financing arrangements to expand the stock of affordable housing.

Evidence to date suggests that deregulation of local HAs may yield benefits in terms of program design and implementation innovations.

For example, several participating PHAs have used the funding fungibility authority for standard program uses, but in a more flexible and efficient manner, to compensate for “losses” in one program area and to develop (through construction, acquisition or rehabilitation) new, affordable housing units. Some participating PHAs implemented changes in housing subsidy formulas with provisions (such as flat rents) that reward resident employment and income growth, and/or with provisions that penalize unemployment and/or with supplemental services and supports to help residents make progress towards self-sufficiency and/or with time limits on assistance. Many participants have used the demonstration to alter specific procedural and reporting requirements, including less frequent re-examination, merged waiting lists, local inspection standards and protocols and other streamlining and paperwork reduction initiatives.

The local flexibility and independence permitted under MTW appears to allow some PHAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities to an extent not otherwise permissible under standard rules.

Question. What has been the impact on extremely low-income families in these areas? More served, less served?

Answer. With respect to extremely low-income families (below 30 percent of median income), there are no measured effects of the demonstration on this group. However, the demonstration requires that participants “continue to serve substantially the same total number of eligible low income families (below 80 percent of median income) under MTW, and to maintain a comparable mix of families by family size, as would have been served or assisted if HUD funding sources had not been used under the MTW demonstration.” and that “at least 75 percent of the families assisted by the Agency under the MTW demonstration program be very low income families as defined in the 1937 Act” (below 50 percent of median income). MTW participants are monitored for compliance with these requirements, and no negative impacts have been noted to date.

Inquiries to several MTW PHAs confirm that agencies have continued to serve essentially the same income mix of households as they are required to do by program guidelines. In addition, trend data about all public and assisted tenant households indicate that the number of extremely low-income families assisted has increased even beyond statutory requirements. Before the Quality Housing and Work Responsibility Act (QHWRA) was enacted in 1998 71 percent of public housing program admissions were extremely low-income families. Today, 76 percent of public housing program admissions are extremely low-income families. In the voucher program, before QHWRA was enacted and an extremely low-income targeting requirement was established, 68 percent of voucher admissions were extremely low-income families. Today, extremely low-income families comprise 80 percent of all families served. In both the public housing and the voucher program, extremely low-income families exceed the targeted numbers of these families by 36 percent and 5 percent respectively.

Question. Also, what unique characteristics do these PHAs share?

Answer. Characteristics unique to these PHAs are hard to define, as the MTW participants vary greatly in size of program, location and performance status, etc. However, they do have one thing in common. All were interested in participating in the MTW demonstration and testing the effects of deregulation. In addition, these PHAs took the initiative to develop an MTW proposal and submitted it to HUD. Subsequently, they were selected for participation in the MTW demonstration in accordance with the Federal Register requirements.

Question. How would the new demonstration differ from the MTW Block Grant demonstration?

Answer. The Freedom to House demonstration differs in several ways from the MTW demonstration as follows:

- It will be conducted in a more controlled environment, where it will be easier to measure and quantify effects of various changes in policies on the public housing population. Under the Freedom to House demonstration, there will be test and control agencies.
- The number of participating agencies will be greater.
- The Freedom to House demonstration will be structured in such a way that time-consuming waiver requests will not be needed.
- The Freedom to House demonstration will require that participating PHAs implement project based accounting and management.

OVERLEASING

Question. Los Angeles has an overleasing problem in excess of some 5,000 vouchers and maybe many more. How big is this problem in Los Angeles and how big nationwide?

Answer. The Housing Authority of the City of Los Angeles is approximately 10 percent over-leased. Nationwide, there are 80 PHAs representing 3 percent of the PHAs affecting 3 percent of the total vouchers that have the potential of being over-leased in fiscal year 2004.

Question. Why didn't HUD catch this earlier and what is HUD doing to address the problem?

Answer. HUD did not detect this problem earlier because the PHA began the trend to over-lease late in calendar year 2003, especially as families who ported to other neighboring PHAs were charged to HACLA's leasing levels. HUD is addressing the problem through a Memorandum of Understanding that was signed in April 2004 that outlines specific actions that must be accomplished to reduce the leasing levels, in addition to other important management practices and policies that must be implemented to improve program performance.

Additionally, HUD has had staff on-site since April to assess the situation and to work with the agency to improve performance through intensive technical assistance and guidance. HUD will continue to have a presence in the agency until confident that all problems have been resolved.

Question. Has HUD looked at whether this funding represents an Anti-Deficiency Act violation and what are HUD's conclusions?

Answer. HUD's conclusion is that there has been no Anti-Deficiency Act violation. In the PHA 2003 fiscal year, the over-leasing occurred late in the year and was offset by the under-leasing that had occurred. The PHA ended the year at 99 percent utilization of authorized unit months, within the authorized level.

It is the 2004 calendar year (that began on January 1) that will have a financial impact as a result of the over-leasing because the PHA begins the year at approximately 110 percent. Since the appropriation prohibits HUD to provide funding for over-leasing, the PHA has implemented an aggressive attrition plan and HUD has required the agency to transfer back into the Section 8 account \$63 million in unobligated administrative fee reserves that had been transferred into other accounts. These funds are targeted to cover the cost of over-leasing during the period of attrition.

HOPE VI

Question. The Budget Request eliminates the HOPE VI program, which was funded at \$149 million in fiscal year 2004. The HUD Budget Justifications conclude that termination was appropriate because this program costs more than other programs that serve the same population (27 percent more costly than a voucher and 47 percent higher when all costs are included) and that projects are slow to move. However, this program accomplishes much more than the voucher program since it uses public housing capital investment to attract new investment to communities and helps to stabilize new communities.

Also, the Urban Institute in its Lessons from HOPE VI for the future of Public Housing echoed a 1998 Abt study that advised that public housing inventory has accumulated capital needs backlog of about \$18 billion, with an additional \$2 billion (\$1,679 per unit) accruing each year. Obviously the loss of HOPE VI funds plus the elimination of the Drug Elimination program several years ago has placed a larger and larger burden on PHAs, especially since the Operating Fund is underfunded per the formula every year. What is HUD proposing to do to address the growing problems associated with this deteriorating public housing stock?

Answer. Rather than funding new rounds of HOPE VI grantees in fiscal year 2005, it is prudent to allow the Department to aggressively manage and complete the grants currently awarded, many of which are years from completion. This pause will also give the Department time to develop better methods for assessing distress, develop new financing tools and delivery mechanisms that are less costly and more efficient. Of the 193 HOPE VI Revitalization sites, only 29 sites are completed. As of March 31, 2004, \$2.3 billion has not been expended out of \$5 billion in HOPE VI Revitalization Grant Awards.

HUD recognizes that there is an estimated \$18 billion capital backlog in the public housing inventory. While there is clearly serious need for investment in the inventory, it is not clear how much of this backlog is represented by severely distressed units needing wholesale demolition and replacement as articulated by HOPE VI. Current definitions used by HUD to define severe distress were developed in response to a sub-set of the public housing inventory that by and large no longer exists i.e., severely distressed, super-block, high-rise, public housing developments with significant social problems in major cities like Cabrini Green and Robert Taylor Homes in Chicago.

The Department feels that it is unwise to go forward with a full-scale revitalization program until it can complete a higher percentage of existing projects and develop a more quantifiable and accurate method for assessing severe distress. In its report, "Lessons Learned from HOPE VI for the Future of Public Housing," the Urban Institute acknowledged that due to the small number of completed sites and a lack of definitive data, it proved difficult to provide a rigorous analysis of the HOPE VI program. In fact, the Urban Institute could not conduct its study as directed because of a lack of projects that had progressed to a reasonable extent.

Nonetheless, the Department recognizes the importance of addressing the current capital backlog within the public housing inventory. In most cases this need can be more appropriately met through other modernization programs operated by the Department, e.g., the Capital Fund, Capital Fund Finance and Mixed-Finance development. The Department will encourage housing authorities in need of this assistance to submit project proposals to these programs. To date, the Department has approved over \$1.5 billion in transactions using Capital Fund Finance, with approximately \$500 million in additional funds in the pipeline.

NATIVE AMERICAN HOUSING BLOCK GRANT PROGRAM (NAHASDA)

Question. The Budget Request provides \$647 million for NAHASDA in fiscal year 2005, a decrease of \$3 million from the fiscal year 2004 level. As has been the problem with most block grant programs, this funding has been largely static since the creation of the program in 1996. What has been the overall growth or reduction in the program over the last 5 years?

Answer. The implementation of the Indian Housing Block Grant (IHBG) program began in fiscal year 1998. In fiscal year 2000, \$620 million was appropriated for the program; for fiscal years 2001 and 2002 the appropriated amounts were \$649 million each year; in fiscal year 2003, there was \$645 million; and in fiscal year 2004, \$650 million was appropriated.

The President's budget proposal for fiscal year 2005 includes \$647 million specifically for Native American housing under the IHBG program authorized under the Native American Housing Assistance and Self-Determination Act. Of that amount, approximately \$640 million is for direct, formula allocations through the IHBG program.

The Department made adjustments within the program in the fiscal year 2005 request to allow more funds to be available for direct tribal use. Reducing set-asides, results in an increase in IHBG grant dollars available to tribes. For example, in fiscal year 2004, \$2.72 million was set-aside for the Working Capital Fund. In fiscal year 2005, the Department requests only \$500,000 for this purpose.

On December 27, 2000, Congress created a new program, the Native Hawaiian Housing Block Grant (NHHBG) program (section 203 of the Omnibus Indian Advancement Act, Public Law 106-568). The NHHBG program, codified as Title VIII of the Native American Housing Assistance and Self-Determination Act (25 U.S.C.

4101 et seq.), provides the authority to support affordable housing activities on the Hawaiian Home Lands for Native Hawaiians eligible to reside there. The first year that funds were appropriated was fiscal year 2002, in the amount of \$9.6 million. The amount of \$9.6 million was appropriated in fiscal year 2003, and there is \$9.5 million for the program in fiscal year 2004. For fiscal year 2005, the President requested \$9.5 million for this program. There were across-the-board reductions in each fiscal year that reduced the amounts appropriated slightly.

Question. Is more or less housing being built?

Answer. Last year we reported that IHBG funding from fiscal year 1998 through fiscal year 2001, which was the most recent data available, resulted in an average of 2,149 units created each year. Data are derived from Annual Performance Reports and Indian Housing Plans, and reflect dwelling units started and completed. Figures are reliable to the extent those reports contain accurate information.

Data for fiscal year 2002 is now available. It shows that nationally, there were 896 rental units constructed, 164 rental units acquired, 1,625 homeownership units constructed and 426 homeownership units acquired using IHBG funds. This is a total of 3,111 units, nearly 1,000 more than the average of the previous 5 years.

Figures are affected by the transition from the way in which housing development funds were awarded competitively under the United States Housing Act of 1937, and the formula block grant allocation method under the IHBG authorized by the Native American Housing Assistance and Self-Determination Act of 1996, as amended. Numbers do not reflect "phased projects," where it may be necessary for a tribe or tribally designated housing entity (TDHE) to complete several pre-construction steps, such as acquisition of land and development of infrastructure prior to actual construction of dwelling units. Phased pre-construction activities are necessary in most areas of Indian Country, but somewhat more common in the East, the Midwest and the Northwest, less common in the Plains States. Alaska's phased construction is more the result of limited weather-related building seasons, materials acquisition challenges and smaller project sizes.

Question. Where do most of the funds go, rehabilitation, homeownership?

Answer. Last year HUD reported that, on average, during the 5-year period of fiscal year 1998 through fiscal year 2002, Indian tribes or their tribally designated housing entities (TDHE) have provided assistance designed to preserve the viability of 77,838 units each fiscal year.

Actual data on expenditures by category for fiscal year 2002 now exists. It shows that \$173 million was spent on modernization of dwelling units, \$2 million on rehabilitation of rental units, \$48 million on rehabilitation of homeownership units, \$86 million on construction of new homeownership units, \$27 million on acquisition of homeownership units, \$56 million on construction of new rental units and \$7 million for acquisition of new rental units.

The unit count includes moderate or substantial rehabilitation, and modernization and operating assistance related to units currently in management. It does not include other eligible affordable housing activities under the IHBG, such as down payment and buy down assistance, minor rehabilitation of under \$5,000, housing services, housing management services, crime prevention and safety, and model activities. The total does include Section 8 type programs operated by a tribe or TDHE. Figures are derived from Formula Current Assisted Stock (FCAS) data used to determine the FCAS allocation portion of the IHBG formula.

Other sources of funding that increase the availability of affordable housing and encourage homeownership; partnerships and leveraging funds to benefit Native American families include the Indian Community Development Block Grant Program, the Title VI Tribal Housing Activities Loan Guarantee Fund and the Section 184 Indian Housing Home Loan Guarantee Program.

Question. Have housing problems increased or decreased for low-income Native American families over the life of the program?

Answer. No studies have been conducted by the Department that address whether housing problems for low-income Native American families have increased or decreased during the life of the program.

HUD shares your concerns and values your observations regarding the housing needs in Native American communities. The Department believes that the President's budget request for HUD's Indian housing programs supports the progress being made by tribes in providing the housing needed throughout Indian Country. The Department is proud of its efforts and yet recognizes that much remains to be done.

HOMELESS VETERANS

Question. The Budget Request provides \$1.282 billion for Homeless Assistance Grants for fiscal year 2005, which is \$15 million above the fiscal year 2004 level. The administration set a goal of eliminating homelessness by 2012. While I find a Prisoner Reentry Initiative and Samaritan Housing Initiative interesting, I understand that veterans of the late and post-Vietnam period are 3 to 4 times more likely to become homeless as other Americans. While the VA needs to be more involved, HUD also needs to become more involved. What is HUD doing to specifically address this crisis?

Answer. HUD's Office of Special Needs Assistance Programs has taken some very direct steps to develop initiatives that target homeless assistance for veterans. Continuum of Care applicants for the Homeless Assistance competition are required each year to specify whether the proposed project will primarily serve veterans. Of the nearly \$1.3 billion in targeted homeless assistance awarded in 2003, 122 veteran-specific projects were awarded, totaling approximately \$40 million. In addition to these funds, HUD awarded \$583 million to 1,913 projects that indicated that they would serve homeless veterans among other homeless persons. During 2003, we estimate that approximately 62,000 homeless veterans were assisted through HUD's competitive homeless programs. Many thousands more were served through HUD's Emergency Shelter Grants Program and the Department's mainstream housing programs.

HUD has also developed collaborative interagency initiatives and relationships to address the administration's goal of ending chronic homelessness by 2012. Many chronically homeless persons, the most challenged subpopulation of all, are veterans. Our efforts to meet this goal have been broad and comprehensive, and our success in meeting this goal will have a proportional impact on veterans. The following are descriptions of these initiatives:

In the \$35 million HUD, HHS, and VA Collaborative Initiative to Help End Chronic Homelessness, the first program to specifically serve chronically homeless people, we required 10 percent of the funds be targeted to veterans. HUD has provided \$20 million (70 percent) of the funding. While this collaboration focuses on housing and employment, the grantees also have to offer other essential wrap-around services, such as health care, education, and life skills. We believe that housing and jobs will help the chronically homeless persons become self-sufficient. Eleven communities were chosen from across the Nation to provide housing and services for approximately 900 chronically homeless persons. The proposed \$50 million Samaritan Initiative (HUD portion) will build on this model and will further increase our capacity to serve the veterans population within the overall targeted chronic homeless population.

The \$13.5 million HUD/DOL 5-year demonstration initiative with HUD's contribution at the \$10.2 million also focuses on housing and employment for chronically homeless persons. The HUD/DOL grants will enable persons who are chronically homeless to achieve employment and self-sufficiency through placement in permanent housing units, supplemented by "customized employment" strategies through local Workforce Investment Boards (WIB). It is expected that nearly 300 chronically homeless individuals will receive permanent housing and employment opportunities in five major cities. Many chronically homeless veterans will be included in this population.

PHASES-Technical Assistance is a grant program awarded in fiscal year 2004 to technical assistance providers to develop training products that address the special needs of homeless assistance providers that serve homeless veterans. The goal is to increase the capacity of these providers to successfully apply for HUD Continuum of Care Homeless Assistance funding. This will facilitate an increase in the number of funded housing and service projects that target homeless veterans.

CHRONIC HOMELESSNESS

Question. Two years ago, the administration announced the goal of eliminating chronic homelessness in 10 years. I also support this goal. Unfortunately, homelessness seems to be getting worse. A 25-city survey by the U.S. Conference of Mayors released in December 2003 found that request for shelter rose by 13 percent in 2003 while request for food assistance grew by 17 percent in fiscal year 2002. What new steps has HUD taken or will take to eliminate homelessness by 2012?

Answer. The administration has set a goal of eliminating chronic homelessness by 2012. HUD does not foresee a decline in need for homeless emergency and transitional housing in the short-run, as illustrated by the U.S. Conference of Mayor's survey. However, HUD's focus on continuing to build an inventory of permanent housing and integrating inter-Departmental services for the chronically homeless popu-

lation through the \$50 million Samaritan Initiative offers, according to recent research findings, the chance to gain significant savings in resources because the chronic homelessness have been found to disproportionately use emergency shelter and services. These resources can be then used to more efficiently address the needs of other homeless persons.

PROGRESS IN ELIMINATING CHRONIC HOMELESSNESS

Question. One of the key components of eliminating chronic homelessness is the creation of more permanent housing units. Another key component is preventing homelessness from occurring in the first place. First, what specific steps the Department has taken towards meeting the goal of ending chronic homelessness? Second, does the budget request include adequate funding to fully fund all expiring Shelter Plus Care housing contracts? Lastly, your budget justification notes that the Deputy Secretary has established a Departmental task force to identify mainstream HUD resources to help chronic homelessness. Can you give us an update on what the task force has accomplished so far? Second, does the budget request include adequate funding to fund fully all expiring shelter-plus-care housing contracts? Lastly, your budget justification notes that the Deputy Secretary has established a Departmental task force to identify mainstream HUD resources to help chronic homelessness. Can you give us an update on what the task force has accomplished thus far?

Answer. The Department has undertaken several steps itself and in concert with other Federal agencies to increase the focus on chronic homelessness, targets additional resources to this subpopulation and has local Continuums of Care (CoC) identify and address chronic homelessness in their planning and prioritization process. For example, HUD:

- Helped develop the chronic homeless initiative with HHS and VA; and contributed \$20 million of the \$35 million awarded. HUD's funds are for permanent housing; services are funded by HHS and VA.
- Jointly developed a \$13.5 million initiative with DOL for the chronically homeless. HUD contributed \$10 million toward this initiative, to be used for permanent housing activities.
- Awarded \$6.5 million in HOME recaptures, targeted to the chronically homeless.
- In concert with HHS and VA, and in consultation with the Interagency Council on Homelessness, introduced the Samaritan Initiative, a \$70 million joint effort that will fund local collaborative strategies to move chronically homeless individuals from the streets to permanent housing with supportive services. HUD is the lead agency and is providing \$50 million for this effort.
- Increased homeless assistance funding for each year of the administration to record levels in support of homeless people, including chronically homeless, and the prevention of those who are at-risk of homelessness.
- Co-sponsored with HHS, VA, and DOL to fund various policy academies to assist States in accessing mainstream services for the chronically homeless.
- Added chronic homelessness as a focus to the Continuum of Care planning process. CoC's must identify chronic homeless needs, develop a strategy to meet those needs and measure their progress in addressing those needs. In addition, added an overall requirement that 10 percent of HUD's entire homeless program appropriation be used for chronically homeless projects.
- Exceeded the homeless goals in HUD's Management Plan; funding the move of 34,307 (goal of 25,000) formerly homeless persons into HUD McKinney-Vento funded permanent housing and helping 45,217 (goal of 29,000) homeless adults move from transitional housing into permanent housing.
- Is working with over 425 Continuums of Care, covering 93 percent of the country, to establish Homeless Management Information Systems (HMIS), which are improving the collection and analysis of data and obtain an unduplicated count of homeless persons and families, including chronically homeless.
- Is working with other Federal agencies to ease access to mainstream housing and supportive services for chronically homeless, resulting in greater funding of housing rather than services. Currently, the McKinney-Vento homeless assistance grants fund both supportive services and housing.

The budget request contains full funding to meet Shelter Plus Care renewal needs.

The Deputy Secretary's Task Force continues to meet and assess HUD resources to help address chronic homelessness. The use of HOME recapture funds for projects targeted to the chronic homeless was an example of the Task Force's efforts.

HUD-VETERANS AFFAIRS SUPPORTIVE HOUSING

Question. I was disturbed to read a recent Washington Post article about the continuing plight of homeless veterans. One tool that has shown some success in addressing homeless veterans is the HUD-Veterans Affairs Supportive Housing or "HUD-VASH" program. How many HUD-VASH vouchers have been distributed to homeless veterans and how much money is HUD spending on this program? Besides HUD-VASH, what other steps has HUD taken to address the needs of homeless veterans?

Answer. Although the HUD-VASH program is authorized under Section 12 of the Homeless Veterans Comprehensive Assistance Act of 2001, the program has not received any new funding for many years since new VASH vouchers are only available if funds for new Section 8 incremental vouchers is provided. No incremental vouchers have been provided since 2001 because rapidly increasing costs of renewing vouchers has precluded funding to expand the base of vouchers under lease. In addition, the Department does not track the level of continued use of prior Section 8 VASH vouchers which is dependent upon local decisions.

A comprehensive outline of HUD's targeted plans and substantial actions to serve homeless veterans is addressed in the response to a previous question on this topic and it should be noted that all of HUD's homeless programs targeted to ending chronic homelessness as well as the historic McKinney-Vento Act programs serve a significant number of at-risk veterans and homeless veterans.

RURAL HOUSING AND ECONOMIC DEVELOPMENT

Question. The administration continues to seek the elimination of the Rural Housing and Economic Development program, arguing that enough is being done through other HUD programs such as HOME and CDBG, and that this program is small and duplicative of the RDA programs in the Department of Agriculture. However, rural housing remains underfunded in Agriculture and is a poor step-child of the crop subsidy programs in terms of size and attention. I would like your assessment of why this program is not needed, despite the fact that it added some 6,000 repaired or new affordable housing units in rural areas.

Answer. This proposal addresses GAO's suggestion to merge similar HUD and USDA programs in order to make the process more efficient and cost-effective as well as to consolidate capacity building activities. The elimination of RHED reflects the existence of duplicative HUD and USDA efforts and the fact that USDA has far greater of resources in this area.

USDA's fiscal year 2005 budget, per their submission, includes \$2.2 billion in budget authority for rural development and a projected overall program level of \$11.626 billion, consisting of grants, loans, and related assistance. The request includes \$2.6 billion in program level funds for the Rural Community Advancement Program and maintains the flexibility to transfer funding among programs in this area. The \$2.6 billion includes \$403 million in grant funding, including Community Facility, Rural Business Enterprise, and Water and Waste Disposal grants. The USDA Rural Housing Service program requests \$938 million in loans and grants and projects a fiscal year 2005 program level of \$5.3 billion. The grant portion is \$669 million of the total. It should also be noted that the Department of Agriculture fiscal year 2005 budget request also rescinds \$100 million for planning grants and innovation grants to Regional Boards from the Commodity Credit Corporation because, ". . . the program purpose is redundant with the mission of Rural Development as a whole and of the Rural Development Council around the country, which Rural Development supports". The HUD funding of \$25 million for the separate Rural Housing and Economic Development Program is overshadowed by USDA's resources and infrastructure, which support USDA's historic effort in these areas.

BROWNFIELDS ECONOMIC DEVELOPMENT INITIATIVE

Question. HUD is proposing the elimination of the Brownfields program because it is slow to expend funds and enough is being done through the CDBG program. How much Brownfields activity is being conducted through CDBG?

Answer. At present, there is no single activity code that captures all Brownfields cleanup and redevelopment in the reporting system for the CDBG program. The most recent activity expenditure report for the CDBG program breaks activities down into almost 100 activities, 3 of which directly address Brownfields activities: Clean-up of contaminated sites/Brownfields; Asbestos removal; and Lead-based paint testing and abatement. As a percentage of total CDBG expenditures for the last 3 fiscal years, the average for the above 3 categories was about 1.6 percent, or \$17.8 million. However, there are other CDBG activities that also capture

Brownfields redevelopment activity, including but not limited to the following: Acquisition; Clearance and demolition; Rehabilitation of privately owned commercial/industrial properties; Commercial/industrial infrastructure development; Commercial/industrial building acquisition, construction and rehabilitation; Parking facilities; Flood and drainage facilities; Water & sewer; and Street improvements. Taken together, these activities averaged another 2.9 percent, or up to \$32.2 million of the total expenditures of approximately \$11.1 billion over 3 years, a portion of which was undoubtedly expended on Brownfields redevelopment activities.

In the last comprehensive study of the use of CDBG funds for Brownfields redevelopment (“Redeveloping Brownfields: How States and Localities Use CDBG Funds”), HUD’s Office of Policy Development and Research found that CDBG expenditures for Brownfield activities ranged from about 2 percent to more than 20 percent of the total block grant in entitlement cities that tracked their use of CDBG funds for that purpose. Among these cities, CDBG expenditures for Brownfields-related activities ranged from \$200,000 to more than \$5,000,000 for an entire redevelopment project.

BROWNFIELDS DEVELOPMENT TIME

Question. How does the development time compare between CDBG and Brownfields?

Answer. It is difficult to compare the development time frame associated with Brownfields Economic Development Initiative BEDI- and CDBG-assisted development projects since BEDI projects have averaged more than \$40 million in total project costs involving full-scale redevelopment by the private sector while the latter tend to be of smaller scale and are frequently confined to the investigation and clean-up of a site for prospective redevelopment. BEDI grant funds must currently be used in conjunction with a Section 108 loan, which can add some additional processing time before the project can get underway.

OLDER SECTION 202 PROJECTS

Question. HUD is beginning to see a number of problems in the section 202 program where older 202 projects are no longer economically feasible due to either a backlog of repairs or outmoded designs that are no longer competitive with the marketplace. What is the extent of this problem and what is HUD proposing to do about it?

Answer. As the Section 202 portfolio continues to age similar to the FHA portfolio, the Department will continue to be faced with the challenge of dealing with older projects that are no longer economically feasible due to outmoded designs or in need of major repairs. In 2000, the Department was pleased when Congress passed legislation allowing for the prepayment and refinancing of Section 202 direct loans. The refinancing of these loans allows additional funds to be made available to modernize, rehabilitate and make the necessary major repairs to these projects. The Department understands that FHA insurance is a primary means for refinancing these loans that have Section 8 contracts that allow the low-income residents to live in these properties on a long-term basis.

Due to the increasing number of sponsors desiring FHA insurance to refinance these aging projects, the Department has been reviewing how to provide more flexibility in underwriting the FHA-insured loan. In recognition of the great need to assist these affordable elderly housing projects and preserve this housing stock, the Department is pleased to announce that a policy will be implemented to allow these loans to be underwritten at either the Section 8 rent or market rent, whichever is greater. This change should substantially enable more Section 202 projects to be refinanced through FHA and provide the needed capital to make the necessary repairs and improvements.

OFFICE OF LEAD HAZARD CONTROL

Question. I consider lead-based paint hazards one of the most significant problems facing low-income children in urban areas. It is a problem that can be solved within our lifetime, a problem with a finite cost. Unfortunately, the administration proposes elimination of the Bond-Mikulski Lead Hazard Elimination program, which is funded at \$50 million in fiscal year 2004. How does HUD justify that it is doing enough to address lead-based paint hazards?

Answer. HUD agrees that lead-based paint hazards in housing remains a significant problem that is solvable. The “Bond Mikulski Lead Hazard Elimination” program (also known as the Lead Hazard Reduction Demonstration program) has made an important contribution. The grantees have 350 units either underway or completed. Another 500 units have been tested to determine the precise location of lead-

based paint hazards. In all, over 6,000 units will be completed under the first round of funding for this program and the second round will support additional units. These two rounds of funding will allow for targeting of funds to areas of high need and will further allow these grantees to mature their capacity and effort. With this maturation, the Department believes that these efforts can be best accommodated by integrating all efforts into the regular grant program. The fiscal year 2005 request reflects a \$14.8 million increase for the regular grant program and we believe that these increased funds are sufficient to make the progress necessary to meet our target to eliminate lead-based paint poisoning by 2010.

ZERO DOWNPAYMENT

Question. The administration is proposing a number of FHA mortgage insurance program changes, including creating a Zero Downpayment program where all fees and costs are rolled into the mortgage (this proposal poses substantial financial risks to the FHA Single Family Mortgage Insurance program—there are no disincentive against placing high-risk families in homes and new homeowners have no stake in these homes and obviously have no cushion to pay for any big ticket costs such as a failed furnace or leaky roof. From a historical perspective, FHA was almost bankrupt in the late 1980's due to defaults from housing families with high loan-to-value ratios which also helped to tip marginal neighborhoods where FHA foreclosures helped to drive down the value of other housing in a neighborhood.)

More troubling, the IG audit of the FHA financial statements, dated November 25, 2003, states, in relevant part, that FHA defaults rose from 2.76 percent in fiscal year 1999 to 4.25 percent in fiscal year 2002. More importantly, loans made in 1999 through 2001 contributed to over 50 percent of the total defaults in fiscal year 2002. In addition, claims rose 31 percent in fiscal year 2003 to over 85,000 claims, and FHA paid claims of \$5.5 billion in fiscal year 2002 which rose to \$7.8 billion in fiscal year 2003.

This is not to say that the FHA Mutual Mortgage Insurance Fund is not adequately capitalized. The actuarial study indicates that the MMIF is adequately capitalized and likely will be for years to come. However, there are serious issues with some of the estimates in the study. As I understand it, the 2002 actuarial study projected that economic value of the fund at end of fiscal year 2003 would be \$27.3 billion with the new estimate for fiscal year 2003 being \$22.7 billion. This represents a \$4.6 billion flaw which raises serious questions over the need for new economic models which would include borrower credit data to provide a better glimpse into the credit and default risk of the FHA book of business.

In addition, FHA share of the home purchase loan market fell by 16.5 percent in 2003 after falling by 1.4 percent in 2002 and 1 percent in 2001. In contrast, overall purchase loan originations by loan number went up in each of these years with 2003 being a record year for home sales. This and other data suggest that there is growing deterioration in the credit-quality of the FHA book of business; that FHA is essentially pricing itself into underwriting the highest risk mortgages.

HUD seems to be making a decision in the FHA Zero Downpayment program that it can afford to house as many people as possible, no matter the cost of default to the fund over time or the impact of a family's credit in the future. Is this the policy reason for proposing the Zero Downpayment program?

Answer. FHA has designed a Zero Downpayment program to serve borrowers who meet FHA's existing underwriting criteria, but lack the savings to pay a downpayment and closing costs. FHA expects Zero Down claim rates to be higher than those for the regular program and plans to charge a mortgage insurance premium sufficient to cover the costs that it expects to incur.

To reduce the risks associated with the program, FHA plans to require pre-purchase counseling and the use of the TOTAL mortgage scorecard in loan underwriting.

FHA RISK

Question. As discussed, the FHA Zero Downpayment program appears to be structured to encourage the highest risk homebuyers to use FHA. Why is HUD structuring its portfolio this way? What oversight requirements has FHA imposed to ensure that mortgage underwriters do not make available mortgage insurance to high-risk, non-creditworthy homebuyers?

Answer. HUD disagrees that borrowers without the cash to close represent "the highest risk" homebuyers. The mortgage industry, in developing automated risk assessments tools, has discovered that the downpayment is much less of a factor in predicting default than previously thought. FHA's own mortgage scorecard, TOTAL, also confirmed that the borrower's credit and the payment-to-income ratio were

much more powerful predictors of risk than the initial equity. It is in fact “risk layering” that represents the highest risk homebuyers. Further, the cash not used at loan settlement becomes available during the early months of the mortgage for payments, minor repairs, and the other costs associated with moving to a new home. By offering its own Zero Downpayment program, HUD will be able to adopt underwriting requirements, structure its insurance premiums, and add loss mitigation tools to ensure the financial stability of the mortgage insurance fund.

FHA will require that all mortgages be risk assessed by its TOTAL mortgage scorecard, which looks at credit, and application variables found to be predictive of loan performance. While those applications that are “referred” (i.e., the outcome of the risk-assessment was not an “approve”) to an underwriter for a personal review will not all be rejected, FHA expects a substantial portion of referred loans to be denied as these represent the greatest risk. FHA also intends to aggressively monitor loan performance as well as lender performance under this program and prohibit participation rights to lenders with unacceptably high claim and default rates, as we do in the regular program.

DEFAULTED HOUSING

Question. Dr. Weicher, in the late 1980’s, you served HUD Secretary Kemp as the Assistant Secretary for Policy Development and Research. During that time, you were responsible for legislation designed to increase the actuarial soundness of the fund which included requirements that homebuyer have a stake in the home through reasonable downpayments. One of the most significant concerns at the time was the impact of defaulted FHA housing on neighborhoods. As you know, through predatory lending issues, defaulted and distressed FHA properties remain a tremendous burden on communities, many of which are fragile. How is HUD expecting to specifically address this issue in the FHA Zero Downpayment program?

Answer. FHA will promote use of its Loss Mitigation Program by the servicing lender as a means of curing default instances. Loss Mitigation options include Special Forbearance, a structured repayment plan, Mortgage Modification, a recasting of the terms of the mortgage and Partial Claim, a loan from HUD secured by a subordinate note that becomes due upon payoff of the first mortgage. Non-home retention options for borrowers, who can no longer maintain ownership, but wish to avoid the stigma of foreclosure, are Deed-in-Lieu and Preforeclosure sale. Use of the Loss Mitigation Program has increased markedly since program inception in 1996, and is credited with a cure ratio of better than 70 percent per instance of use.

HUD measures and enforces use of loss mitigation by lenders through a scoring system called the Tier Ranking System (TRS) developed and monitored by HUD’s National Servicing Center (NSC) in Oklahoma City. Since its inception, the Department has seen a dramatic improvement in the utilization of loss mitigation, and most importantly, an increase in home retention for borrowers. TRS has been widely accepted in the industry and will play a critical role in measuring both the effectiveness of Loss Mitigation Tools and also the lenders’ servicing of their borrowers.

Providing assistance, as needed, to enable families to retain their homes and cure their delinquencies stabilizes neighborhoods that might otherwise suffer from deterioration and problems associated with vacant and abandoned properties. Avoidance of foreclosure and the resultant losses further stabilize the mortgage insurance premiums charged by FHA and the Federal budget receipts generated from those premiums.

HUD’s commitment to community revitalization presents a second level of effort designed to reduce future incidences of foreclosure. When local governments identify neighborhoods with high rates of foreclosure and vacant properties, and they commit an investment of their own resources to solutions, HUD will designate such neighborhoods as revitalization areas and offer special sales incentives on HUD-owned (foreclosed) properties. Those properties in revitalization areas are first offered for sale at a deep (50 percent) discount to law officers, teachers and firemen committing to owner occupancy for a minimum of 3 years. Remaining properties are then offered at discounts of up to 50 percent to cities and their nonprofit partners who agree to rehabilitate the properties and resell them to mid- and low-income owner-occupant buyers.

PROPERTY HOLDING PERIOD AND COSTS

Question. What are the current holding periods for defaulted FHA housing and what is the average daily cost for holding this housing?

Answer. As of May 31, 2004, the average current holding period for defaulted FHA housing was 155 days. As of May 31, 2004, FHA’s on-hand inventory was

28,602. Based on that portfolio, it costs the Department approximately \$1,080,000 in daily holding expenses.

PRIVATE SECTOR COMPARISONS

Question. How does this compare with the private sector?

Answer. HUD does not have comparable private sector data.

TIME IN FORECLOSURE

Question. What is the current average time for foreclosing on a FHA property that is more than 90 days in arrears?

Answer. The average time for foreclosing on an FHA property was 8.3 months for fiscal year 2003.

LOSS MITIGATION

Question. How is HUD dealing with FHA homeowners that have payment problems?

Answer. HUD has loss mitigation programs used by mortgagees to help FHA homeowners who have payment problems retain their homes. Also, HUD has counseling programs to aid homeowners in learning how to minimize payment problems.

SECTION 8 ADMINISTRATIVE FEES

Question. The new HUD Section 8 Block Grant would cap administrative fees for PHAs at 7 percent. This is a big reduction. As you know, many small and rural PHAs are already underpaid by the current section 8 administrative fee scheme. Has HUD analyzed the impact of these proposed requirements on PHAs? If not HUD needs to conduct this review and submit for the record an assessment of the impact on PHAs, especially rural and small PHAs.

Answer. The Department's original Flexible Voucher proposal did include a 7 percent base administrative fee to be paid to PHAs, with an additional 2 percent of the total fee account set aside for high performance. The base fee was reduced on the fact that the flexibility in the proposal will reduce administrative costs of PHAs.

Subsequent to the proposal, further analysis did identify that the reduction of the base level to 7 percent would impose a disparate effect on some PHAs. The overall level of funding included in the account is adequate for the proposal and HUD is exploring other methods to distribute a fee structure that will provide an adequate funding level to administer the program. There are several proposals under review, and a recommendation will be made very soon.

CONTRACT RENEWALS (HCF)

Question. HUD is requesting \$16.92 billion for fiscal year 2005—a reduction of \$715 million. These funds would be used to renew expiring tenant-based and project-based rental assistance contracts and for other purposes. How was the fiscal year 2005 request for \$16.92 billion calculated?

Answer. From 1998 to 2004, the Housing Certificate Fund has grown from 36 percent to 51 percent of the HUD budget. During that same time period the budget authority for the Housing Certificate Fund alone has risen 105 percent. By comparison, the increase for the non-Section 8 portions of the Department's budget have risen only 13 percent since 1998. This rate of increase is unsustainable. Without reform, reduction in the number of families served by the voucher program is inevitable.

The President's Budget for fiscal year 2005 proposes the new Flexible Voucher Program. HUD believes that the improved design of the new Flexible Voucher Program can help a greater number of families afford decent housing. The Flexible Voucher proposal would allow public housing agencies to adopt rent structures and other policies that will enhance self-sufficiency and reduce long-term dependency.

The funding level for the Housing Certificate Fund, of which the Flexible Voucher Program is a significant portion, was determined by taking into account projected leasing levels in the tenant-based program (97 percent) as well as the renewal of existing project-based contracts. Additional amounts were added to cover administrative fees, a central reserve, and anticipated tenant protection needs based on historical usage. Funds for contract administrators and the Working Capital Fund were also included. Finally, the first year savings from the Flexible Voucher Program, both programmatic and administrative, were subtracted from the total amount. The result is a reasonable and responsible funding level for the Housing Certificate Fund that provides for the long-term stability of the Section 8 program.

Question. The following questions assume that changes to the current program have not been authorized for fiscal year 2005. Would this funding level be sufficient to fund renewal of all rental assistance units currently under lease?

Answer. No, the amount of funding requested for fiscal year 2005 assumes adoption of the Flexible Voucher Program. This funding level would not be adequate if there are no changes to the current program to reduce the cost of providing assistance.

Question. Would Central Reserve funds be available to make up any shortfalls in renewal funding?

Answer. Only to the extent that additional funding was not provided to fund vouchers at a per unit cost above the adjusted August 1, 2003 cap. However, should Congress change this through subsequent legislation the amount requested for the Central Reserve would be significantly inadequate to address the shortfall for renewals should the requested funding level be enacted without the reforms of the Flexible Voucher Program.

RENTAL ASSISTANCE (HCF)

Question. HUD is requesting \$163 million for fiscal year 2005—a reduction of \$43 million. Rental Assistance funds would be used for relocation and replacement of housing units demolished pursuant to the Omnibus Consolidated Rescissions and Appropriations Act of 1996 (Public Law 104–134). According to HUD’s budget justification, the rental assistance program will have \$386 million in fiscal year 2004 resources, yet the Budget Appendix estimates \$217 million in fiscal year 2004 obligations by program activity. Obligations by program activity are estimated to be \$163 million for fiscal year 2005. In the past several years, demand has been limited, resulting in large carryover balances. How does HUD define obligations by program activity as used in the Budget Appendix?

Answer. “Obligations by Program Activity” provides a breakout of anticipated obligations in the Housing Certificate Fund by program line item.

Question. How was the fiscal year 2005 request for \$163 million calculated?

Answer. The request of \$163 million in new Budget Authority for Rental Assistance funds was calculated by multiplying the projected fiscal year 2005 per units cost (\$6,287) times the projected need of 25,927 units based on historical usage.

Question. How much fiscal year 2004 program carryover does HUD estimate will be available at the start of fiscal year 2005?

Answer. It is currently anticipated that \$170 million will carryover from fiscal year 2004 into fiscal year 2005.

RENTAL HOUSING (HCF)

Question. Could part of the \$386 million available resources for fiscal year 2004 be used to offset the fiscal year 2005 request for \$163 million?

Answer. The anticipated carryover of Rental Assistance funds into fiscal year 2005 has already been taken into account as part of the \$1.6 billion proposed rescission.

CENTRAL RESERVE FUND

Question. HUD is requesting \$100 million for fiscal year 2005—a reduction of \$36 million. The Central Reserve was created in 2003 and funded at \$389 million. HUD’s budget justification indicates that \$423 million in total resources will be available in fiscal year 2004. HUD indicated previously that the Central Reserve would be obligated in full by the end of fiscal year 2004. HUD obligated \$105 million in fiscal year 2003 and would have to obligate almost 4 times as much in fiscal year 2004 to “fully obligate” these funds by the end of 2004. What formula was used to determine the original estimate for the reserve?

Answer. The Department did not request funding for a Central Reserve in fiscal year 2003. The creation of the Central Reserve, and the determination of its funding level in fiscal year 2003 was the result of Congressional decision-making. As such, the Department is unable to articulate the formula that was used to determine the original estimate for the reserve.

Question. What is the current estimate for obligations for fiscal year 2004?

Answer. Taking into account carryover, as well as new appropriations, it is estimated that \$336 million in Central Reserve funds will be obligated in fiscal year 2004.

Question. For fiscal year 2003, how much Central Reserve funding was obligated to (1) assist PHAs to lease up to their authorized baselines under the Housing Choice Voucher program and (2) fund unanticipated rental unit cost increases?

Answer. In fiscal year 2003, the Department obligated the following amounts in the Central Fund:

- Increase Cost—\$69,085,492;
- Increase Leasing—\$5,056,000;
- Reserves Restoration—\$31,193,000.

Question. How much carryover does HUD currently estimate will be available at the start of fiscal year 2005?

Answer. The Department anticipates that all Central Reserve funds will be fully utilized by the end of fiscal year 2004.

Question. Could part of the \$423 million available resources for fiscal year 2004 be used to offset the current request in fiscal year 2005 of \$100 million?

Answer. No. The Department expects that these funds will be fully utilized by the end of fiscal year 2004.

Question. Are Central Reserve funds no-year, 1-year, or multi-year funds?

Answer. Central Reserve funds, as well as all funds in the Housing Certificate Fund appropriation, are no-year funds.

Question. What was the national utilization rate for the Housing Choice Voucher Program in fiscal year 2002 and in fiscal year 2003?

Answer. The fiscal year 2002 unit-based utilization rate was 88.9 percent and for fiscal year 2003 the utilization rate was 94.9 percent.

CAPITAL FUND TECHNICAL ASSISTANCE AND MODERNIZATION

Question. HUD is requesting \$35 million in fiscal year 2005—a \$15 million reduction in assistance from fiscal year 2004. However, given fiscal year 2003 and 2004 carryovers and obligations of \$34.5 million and \$55.5 million, respectively, HUD has reported that \$105 million is available in fiscal year 2004 for technical assistance. If HUD obligates amounts in 2004 similar to that obligated in 2003, carryover balances alone (totaling \$71 million) could almost cover twice the total amount requested in 2005. What is the projected utilization for fiscal year 2004?

Answer. HUD expects to fully obligate all of its TA and modernization funding under the Public Housing Capital Fund to ensure a high utilization of resources.

Question. What is the projected carryover amount for fiscal year 2005?

Answer. The Fiscal Year 2005 Budget assumes that all funds under the Public Housing Capital Fund will be obligated; therefore, no funds are expected to carry over into fiscal year 2005.

Question. Can HUD absorb more of a reduction than that requested (given growing carryover amounts) without impacting the program?

Answer. The Department's technical assistance request is designed to ensure that the Department has the appropriate resources to carry out its statutory and legal requirement. In addition, the request insures that PHAs and other recipient of HUD resources have the appropriate level of assistance. A reduction to the 2005 request for technical assistance funding will cause disruptions in the provision of technical assistance to the Departments partners and clients. All carryover will be obligated by the end of this fiscal year.

Question. What analysis has been done to support the reduction in fiscal year 2005?

Answer. The 2005 technical assistance request is based on the estimated level of technical assistance that will be required to implement PIH programs and the Department's internal capacity to provide assistance.

CONTRACT ADMINISTRATORS

Question. According to HUD's budget justification, the fiscal year 2005 budget request proposes \$101.9 million in funding for the Contract Administrators program—an increase of about \$3 million. HUD's Budget Appendix reports actual obligations of \$170 million in fiscal year 2003 and estimates fiscal year 2004 obligations at \$217 million and fiscal year 2005 obligations at \$102 million. As of January 5, 2004, there were approximately 11,412 contracts under the Contract Administrators program, and HUD estimates that the program will include 18,445 contracts by fiscal year 2005. The Department proposes funding \$275 million in program activity in fiscal year 2005, yet the budget appendix estimates obligations by program activity for fiscal year 2005 of \$102 million.

How does the Department define program activity (in the budget justification) and obligations by program activity (in the Budget Appendix)? What is the difference?

Answer. The \$275 million in the Budget Justification represents total program obligations expected to be funded from all sources in fiscal year 2005 including carryover, new budget authority and other sources. The \$102 million in the Budget Ap-

pendix represents obligations supportable only by the new BA requested in fiscal year 2005—\$101.9 million.

Question. How was the fiscal year 2005 request for \$101.9 million calculated?

Answer. Represents \$100 million fiscal year 2004 request increased by a 1.9 percent inflation factor. Remaining funding requirements in fiscal year 2005 to be derived from carryover and use of funds made available under the Housing Certificate Fund heading.

Question. What is the total number of contracts under HUD's Section 8 project-based program?

Answer. There are 18,975 active contracts, as of September 30, 2003.

Question. How many Section 8 contracts were funded under the Contract Administrators program in fiscal year 2002 and 2003?

Answer. Contracts assigned to Contract Administrators are as follows:

—Fiscal year 2002—1,401 Contracts;

—Fiscal year 2003—306 Contracts.

It is expected that additional geographic areas will be added to the program in fiscal year 2004 including: District of Columbia, Connecticut, Arkansas, Virginia, Northern California, Florida, Illinois, Utah and Nebraska. Several of these entities have been pending resolution of legal issues, which have now largely been resolved. It is expected that these areas will begin participating within the next several months during fiscal year 2004. This will lead to an increase in obligation activity in both fiscal years 2004 and 2005.

Question. What is HUD's latest estimate for obligations in fiscal year 2004?

Answer. The latest estimate for obligations in fiscal year 2004 is \$185 million.

Question. How much carryover does HUD estimate will be available at the start of fiscal year 2005?

Answer. HUD estimates \$32.1 million will be available at the start of fiscal year 2005.

Question. How can estimated obligations fall to \$102 million in fiscal year 2005 when the number of contracts in the program will be increasing from under 12,000 to over 18,000?

Answer. The \$102 million in estimated obligations for fiscal year 2005 are from fiscal year 2005 appropriations only. Total estimated obligations in fiscal year 2005 are estimated to be \$275 million.

EMERGENCY CAPITAL NEEDS

Question. HUD is requesting \$50 million—an increase of about \$10 million over fiscal year 2004—in reserves for public housing authorities emergencies and natural disasters. According to the Budget Appendix, these funds are allocated according to the Department's approved plan. Trends in the resources for this program shows HUD obligating about \$9.5 million in 2003 with carryover balances in the program totaling \$40.1 million. Given additional budget authority approved in fiscal year 2004, current resources available in the program are almost \$80 million. Please provide a copy of the approved plan.

Answer. The reference in the Fiscal Year 2005 Budget Appendix to "a Department-approved plan" refers to the plans submitted by the PHA at the time of their request to justify their need for emergency capital funding. Accordingly, at this time, there is no approved plan indicating how the Department will allocate these funds. By their nature, emergencies and disasters are unplanned events, so a funding plan cannot be developed in advance of the need, but will be developed as emergencies and disaster applications are received. It should be noted that HUD believes that it is restricted by appropriation language in terms of how funding set aside for emergencies and natural disasters can be used: HUD can only use funds that correspond to the year the emergency or natural disaster occurred. This restriction limits HUD's flexibility to respond to these unforeseen events.

Question. What analysis has the Department done to justify the need for the current request for \$50 million in fiscal year 2005?

Answer. By their nature, it is impossible to predict emergencies and disasters. Projections can only be based on past experience. Therefore, the fiscal year 2005 request for \$50 million is based on an analysis of the fiscal year 2000 through 2003 emergency/disaster funds that were requested by the Field Office and the amounts that were substantiated by Headquarter staff and approved for obligation by the Field Office. The substantiated and approved amounts for fiscal years 2000–2003 are as follows:

Fiscal Year	Fund Requests Substantiated and Approved for Obligation
2000	\$62,115,061
2001	32,330,995
2002	10,148,605
2003	24,175,275

The estimated requirements of \$50 million for fiscal year 2005 is also based on the pending requests for fiscal year 2003 carryover funds of \$40 million. These pending requests exceed the amount made available for fiscal year 2003, and all of the fiscal year 2003 emergency and disaster monies will be used to fund events that occurred in fiscal year 2003.

Question. What are the projected spend-outs, and utilization in the program?

Answer. By their nature, it is impossible to predict disasters. Projections can only be based on past experience. Although PIH has carried over \$40 million from fiscal year 2003, claims for these funds exceed the amount available. To date, PIH has obligated \$22,159,440. It usually takes a significant amount of time for a PHA to recover from the emergency/disaster event and submit a request for funding to PIH for review. It takes additional time for PIH to substantiate the requests that it receives. The necessary delay often results in PIH carrying over funds from this set-aside to the following fiscal year. PIH is in the process of substantiating the few remaining claims from fiscal year 2003 that remain pending. PIH anticipates that virtually all of the fiscal year 2003 funding set-aside for emergencies and disasters will be exhausted to fund disasters that occurred in fiscal year 2003.

Question. To what extent does the current request include allocations to public housing authorities in New York for the 9/11 disasters? If so, does this take into account supplemental funds appropriated for the New York disaster?

Answer. PIH has not received any requests from the New York City Public Housing Agencies to provide funding related to the 9/11 disaster.

AMERICAN DREAM DOWNPAYMENT INITIATIVE (ADDI)

Question. The administration is proposing \$200 million for this program in fiscal year 2005 for assistance to low income homebuyers in need of down payment assistance that will be distributed by a separate formula to participating jurisdictions and States. The distribution formula is described in the program's authorizing legislation signed into law December 16, 2003. (Note.—The distribution formula is outlined in HUD's congressional budget justification). It received \$87.5 million last year. HUD's original request in fiscal year 2004 (\$200 million) was derived based on an estimate of \$5,000 per loan down payment for 40,000 loans. HUD estimates the fiscal year 2005 request will assist 3,000 families in fiscal year 2005 and 40,000 over time. What analysis has been done to determine that \$5,000 per loan for 40,000 loans might be needed?

Answer. The average cash needed for a family at 50 percent of median income for downpayment and closing costs on a home whose sales price was at 50 percent of the Median Sales Price for the area ranged from \$4,380 (in the West) down to \$2,620 (in the South) according to a 2000 study conducted by LISC ("Minding the Gap"). Using the mid-range average of \$3,660 (in the Northeast) and assuming a 5 percent increase in home prices per year since the 1999 American Housing Survey data used in the study, the cash needed would be \$4,671. This figure was rounded up to \$5,000 to determine the number of families that would be assisted with ADDI since eligible properties in the HOME program are those up to 95 percent of median income while "low-income" is capped at 80 percent of median, thus having the overall effect of raising the average amount needed for downpayment and closing costs overall.

Question. What analysis has been done to determine that 3,000 families would be assisted in fiscal year 2005 and 40,000 over time? How long a period does "over time" cover?

Answer. Since the provision of downpayment assistance through ADDI is much less complicated and more focused than HOME assistance, an outlay level of up to 10 percent can be anticipated over the first year. During fiscal year 2005, assistance will be provided predominantly from fiscal year 2003 and fiscal year 2004 ADDI funding which totaled a combined \$161 million (32,000 families assisted over time at \$5,000 each on average). Fiscal year 2003 and fiscal year 2004 ADDI funds will become available to participating jurisdictions mostly during the fourth quarter of fiscal year 2004 following publication of the interim rule reflecting the enacted legis-

lation of December 2003. This being the case, the program will only have been in place for approximately 1 year by the end of fiscal year 2005. At a 10 percent outlay level, approximately \$16 million will have been disbursed and at least 3,000 households assisted during that period.

“Over time” is that time period required to spend out all fiscal year 2005 ADDI funds, assumed to be 4 or 5 years. The 40,000 “over time” figure is obtained by dividing the \$200 million requested level by an average per household assistance level of \$5,000.

ADDI FUNDING FOR FISCAL YEAR 2004

Question. Why was only \$87.5 million approved in 2004?

Answer. The President’s Fiscal Year 2004 Budget requested \$200 million; however, the fiscal year 2004 Consolidated Appropriations Act provided \$87.5 million (pre-rescission).

STUDY ON USE OF HOME FUNDS FOR HOMEBUYER ACTIVITIES

Question. Has HUD completed the study on the use of HOME funds for homebuyer activities? If so, please provide a copy.

Answer. Yes, the Department has completed the study of HOME-assisted homebuyer programs. The basis of the analysis on production was derived from IDIS information, which provides data on the number of homebuyers assisted, the average amount of assistance and the demographics of those served, e.g. the percentage of minority homebuyers. The purpose of the study was to further examine trends in IDIS, e.g. the increase in funding directed to homebuyers over time as well as study characteristics of programs not reflected in current IDIS data, such as the incidence of homebuyer counseling, the neighborhood choices of assisted buyers, who is being served, income level, family size etc. The study provides valuable insights that inform the implementation of ADDI. A copy of the study is attached. The study can also be found on the web at: <http://www.huduser.org/publications/hsgfin/homebuy.html>.

RULING ON ALLOCATION OF ADDI FUNDS

Question. Has HUD completed the ruling for allocation of the funds? If so, please provide a copy.

Answer. The ADDI interim rule was published in the Federal Register on March 30, 2004. The rule was effective on April 29, 2004. A copy is provided. The text of the rule can also be viewed at the following URL: <http://www.hud.gov/offices/cpd/affordablehousing/lawsandregs/regs/addi.pdf>.

ADDI funds are now available to HOME Program Participating Jurisdiction (PJs) and, depending upon the PJs program year start-date (e.g., January 1, July 1, etc.), prospective homebuyers may already be able to apply.

IMPACT OF ADDI LEGISLATION ON ALLOCATION OF FUNDS

Question. Did legislation impact the allocation formula for the American Dream program?

Answer. Yes, the legislation was very specific about the formula factor for the distribution of ADDI, providing an amount to each State equal to its share of the number of low-income households residing in rental housing. Local participating jurisdictions within each State would receive a portion of the allocation based on its share of the State-wide number of low-income households residing in rental housing if they had more than 150,000 in population or garnered more than \$50,000 in formula funds.

CONVERSION TO ASSISTED LIVING

Question. This fund provides grants to owners of existing HUD-subsidized elderly properties to convert some or all units in these properties to assisted living facilities. The Department is currently requesting \$30 million for fiscal year 2005, an increase of about \$5 million. Starting in fiscal year 2003, new budget authority for ACLP was reduced from about \$50 million to about \$25 million due to the low response from eligible owners. HUD has carried over about \$108 million from fiscal year 2002 into fiscal year 2003—of which \$39 million (plus another \$25 million in new BA) was made available to applicants in the fiscal year 2003 Notice of Funding Availability. What analysis has been done to support the current request of \$30 million for fiscal year 2005?

Answer. Carryover funds in the Conversion to Assisted Living Program amounted to \$83.1 million at the start of fiscal year 2004. Of this amount, \$25.3 million had been committed to projects and \$57.8 million remained unobligated.

A combination of increased outreach efforts and the implementation of the Emergency Capital Repair program will have the effect of utilizing available carryover balances as well as raising the annual level of program awards. It is anticipated that the combined program demand through the end of fiscal year 2005 will absorb both the available carryover and the \$30 million of new authority requested for fiscal year 2005.

Question. Can the current request be offset by carryover funds that will be made available again for the fiscal year 2004 Notice of Funding Availability?

Answer. Carryover funds in fiscal years 2004 and fiscal year 2005 will be part of the funding mix for the combined conversion and emergency repair program. The combined program is expected to generate sufficient demand to absorb both the carryover as well as the requested \$30 million of new appropriations requested for fiscal year 2005.

Question. Has participation in ALCP improved? Specifically, how many project owners applied for the ALCP funds in each year for fiscal years 2000 through 2003 and how much did they receive in grants?

Answer. Please see chart below.

Fiscal Year	Applications Received	Applications Funded	Amount Awarded (In Millions of Dollars)
2000	29	13	19.5
2001	22	12	21.2
2002	31	21	54.3
2003	13	9	15.4

Question. In the “Proposed Changes in Appropriations Language,” HUD states that part of the \$30 million may be used for emergency capital repairs. What share of this fund is set-aside for this purpose? And what analysis has been done to support this request?

Answer. While no hard analysis was done to substantiate the amount, the preliminary estimate for emergency capital repairs in fiscal year 2005 is \$10 million. This estimate was based on the numerous requests HUD has received for this type of funding. We believe that as awareness of the availability of these funds increases within the industry, demand will increase accordingly.

NEED FOR INCREASED FUNDING FOR SERVICE COORDINATORS/CONGREGATE SERVICE PROGRAMS

Question. HUD is requesting \$53 million in funding for Service Coordinators and to fund congregate housing service programs. This is a \$23 million increase over the fiscal year 2004 enacted level. What analysis has been done to justify the need for a \$23 million increase in this program?

Answer. Fiscal year 2004 request was based on approximately \$20 million in carryover being available in fiscal year 2004 to supplement the requested \$30 million. This provided a total programs level of almost \$50 million for fiscal year 2004. Based on activity to date, we fully anticipate utilizing the \$50 million by the end of fiscal year 2004.

The \$53 million funding requested for fiscal year 2005 will be sufficient to maintain funding at the historical levels while providing \$3 million for the Section 811 Housing for Persons with Disabilities program.

SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAM (SHOP)

Question. HUD is requesting \$65 million for the SHOP program—an increase of about \$38 million over the fiscal year 2004 enacted level. According to the budget justification, this increase is designed in part to support the administration’s goal to triple this program, and reflects the ability of the existing participants to expand their staffing outreach and production. While demand for such projects are demonstrated for two grant recipients, HUD has a total of \$51.9 million in resources at the end of fiscal year 2004. If HUD obligates what it has in the past (\$22 million) and the full amount requested (\$65 million) is granted, HUD would have about \$94 million available in fiscal year 2005 if the full requested amount was granted. Would projected program demand require over \$90 million in funding for fiscal year 2005?

Answer. Absolutely, SHOP grantees have completed construction on 11,025 housing units from all funding years as of December 31, 2003. The demand for the program has exceeded the supply as evidenced by the fact that the \$25 million made available under the NOFA process generated \$47 million in funding requests from applicants even though they were aware that available funding was constrained. In addition, both the demand for and capacity to use additional funds is further evidenced by the fact that only 486 out of 1,600 Habitat for Humanity affiliates have received SHOP funding since the program's inception in 1996 and only 200 currently participate in the program. The additional funds requested in fiscal year 2005 could be put to immediate use since many local affiliates of the existing national and regional grantees have not yet participated in the SHOP Program.

We continue to believe that this expanded funding for the SHOP program is a high priority since the average Federal per-unit SHOP investment has been a modest \$10,000. The homebuyer's required sweat equity contribution significantly reduces the cost of construction, and has result in home purchase prices as low as \$31,000. The program provides Homeownership opportunities for families with average incomes between 50 to 65 percent of area median income, some with incomes as low as \$15,000 per year. The unique structure of the SHOP program and the Federal subsidy solely for land costs provides the means to successfully reach families whose incomes normally make homeownership completely out of reach.

Finally, the fiscal year 2004 NOFA increased the Federal subsidy for land to up to \$15,000 recognizing that in some areas the cost of land has risen and the opportunities to acquire land for homeownership is becoming more difficult. Thus, the additional funding will reflect this fiscal year 2004 change and allow for a further increase in homeownership opportunities for families with very modest incomes who provide substantial sweat equity to make their dream of homeownership come true.

DEMOLITION GRANTS

Question. HUD proposes \$30 million for Demolition Grants in fiscal year 2005. Funds are to be used for relocation, demolition, and site remediation for obsolete and distressed public housing units. What analysis has been done to determine that \$30 million might be needed?

Answer. The Department estimates that there is a need for additional appropriated funds to be directed toward assisting PHAs in complying with the requirements of Section 202 Mandatory Conversions and Section 18 Demolition approvals. The set-aside will aid in expediting the actual demolition of units that the Department has already approved, but have not yet been demolished. Based on the Department's experience in the most recent HOPE VI Demolition grant competition, there is clearly a demand for such funds. HUD received applications requesting more than \$65 million for the most recent competition. However, the Notice of Funding Availability only made approximately \$40 million available.

Question. Does the HOPE VI program or other HUD programs cover similar activities and, if so, what might be covered by these grants that may not be covered by HOPE VI or other programs?

Answer. With the elimination of the HOPE VI program, such funds will no longer be available. These funds will be used to accomplish a portion of the demolition and related activities that were formally executed under the HOPE VI program. PHAs may use Public Housing Capital Fund monies to demolish public housing units. However, PHAs are faced with tough decisions whether to use these funds toward such costly demolition when there are so many other demanding needs. This is why the Department believes that setting aside \$30 million out of the \$2.7 billion requested in fiscal year 2005 for the Public Housing Capital Fund to target the most distressed units is more feasible than an individual PHA spending its limited Capital Fund for these purposes.

FREEDOM TO HOUSE DEMONSTRATION

Question. HUD is requesting up to \$5 million for the Freedom to House Demonstration Initiative. This Initiative will establish a demonstration program for 50 PHAs aimed at assessing the impact of locally determined public housing programs. It will build on certain elements of the Moving to Work demonstration by granting PHAs flexibility to manage their resources.

What analysis was done to justify \$5 million request amount?

Answer. The requested amount of \$5 million for the Freedom to House Initiative is based on the amount of funds appropriated in fiscal year 1996 to initiate the Moving to Work Demonstration program.

Question. Has the performance of the Moving to Work Demonstration been assessed? If so, what has resulted from that demonstration?

Answer. In accordance with Section 204 of the Omnibus Consolidated Reversions and Appropriations Act of 1996, a report on the evaluation of the Moving to Work Demonstration program (MTW) was submitted to Congress in January 2004.

The evaluation of the MTW program, as contained in the January 2004 report, finds that MTW initiatives include experimentation with changes in three main areas: (1) merged funding assistance, (2) subsidy formulas, rent rules and time limits, and (3) HUD procedural and reporting requirements. Based on the three goals of the MTW demonstration as stated in the Appropriations Act, following are some determinations about whether or not deregulation and the initiatives implemented by the MTW sites are factors that contributed to PHAs achieving these goals:

- Changes in administrative procedures and reporting requirements resulted in more rational and efficient use of time and resources.
- An administrative benefit resulting from the simplification of rent rules and subsidy calculations is that tenants are less likely to under-report their income and staff are less likely to miscalculate tenant rent.
- Many PHAs focused on changes to rent rules and/or subsidy formulas to increase employment and self-sufficiency among assisted households.
- Some PHAs were able to expand housing choice by using their funding fungibility to help finance the acquisition or production of more assisted housing units (one-for-one replacement of public housing units demolished under HOPE VI, building larger units to suit larger families, scattered site acquisitions, and increasing the stock of affordable rental units for voucher holders in tight rental markets).
- Some PHAs merged their public housing and voucher program waiting lists to make the application process more efficient for staff, and less burdensome and easier to understand for applicants in an effort to give residents increased choice about housing type.

PUBLIC HOUSING OPERATING FUND COST STUDY REPORT

Question. Please provide a copy of the June 6, 2003, Public Housing Operating Cost report.

Answer. Attached is a copy of the report. It can also be found at: http://www.gsd.harvard.edu/research/research_centers/phocs/documents.html.

ADMINISTRATIVE RECEIVERSHIPS

Question. HUD is requesting \$10 million to support the costs of administrative and judicial receiverships or other intervention activities. According to HUD, the average cost of a receivership is estimated at \$1 million per PHA. Therefore, it appears the office is planning to cover about 10 PHAs during fiscal year 2005.

How many PHAs have courts asserted operational authority over through judicial receivership?

Answer. Since 1985, four PHAs have been placed into judicial receivership: (1) Boston, MA, (2) Washington, DC, (3) Kansas City, MO, and (4) Chester, PA. Kansas City and Chester are still active judicial receiverships.

Question. How many PHAs has HUD taken over through administrative receivership?

Answer. Since 1985, 14 PHAs have been placed into administrative receivership. Eight of those PHAs remain in active administrative receivership. Of those 14 administrative receiverships, six have been returned to local control. A current listing of active administrative receiverships is below:

- 1. Beaumont, TX (Administrative)
- 2. Camden, NJ (Administrative) (Control to be returned by 6/30/04)
- 3. East St. Louis, IL (Administrative)
- 4. New Orleans, LA (Administrative)
- 5. Orange County Housing Authority, TX (Administrative)
- 6. Sanford, FL (Administrative)
- 7. Virgin Islands Housing Authority, VI (Administrative)
- 8. Wellston, MO (Administrative).

Administrative receiverships returned to local control:

- 1. Chicago, IL (Administrative)
- 2. LaFayette, LA (Administrative)
- 3. San Francisco, CA (Administrative)
- 4. Shelby County, TN (Administrative)
- 5. Springfield, IL (Administrative)
- 6. St. James Parrish, LA (Administrative).

Question. On what basis is HUD anticipating additional receiverships?

Answer. When PHA deficiencies are demonstrated to be at such a level that current local management of the authority is unable to effectively remedy the situation, alternative management through receiverships is the primary tool for corrective action available to the Department. The provisions for administrative receivership stem from the PHA's failure to substantially follow HUD requirements to maintain decent, safe and sanitary housing (substantial default) or for their breach of one or more of the provisions of the Annual Contributions Contract (ACC) they have with the Department which outlines the parameters for receiving Federal assistance in compliance with appropriate statutes, rules and regulations or their failure to meet "substantial improvement" under the PHAS regulations. In accordance with Section 6(j)(3)(A) and its subparts, of the 1937 Housing Act as amended, HUD anticipates that approximately four PHAs will not meet the requirements of meeting "substantial improvement" under the PHAS program in fiscal year 2005. HUD also anticipates another three to five PHAs which are currently experiencing management difficulties, either because of lack of effective managerial operations or failure to comply with HUD requirements in accordance with Section 6(f) which may be placed into administrative receivership in fiscal year 2005. It should be noted that though HUD's estimates demonstrate an average of \$1 million per receivership, that figure is just an average. Some receiverships, either full or partial, may come either under or over that average. Judges make the determination over which issues will be addressed under judicial receiverships. Consequently, these receiverships typically are more expensive than administrative receiverships. Every receivership action is unique. The level of resources and assistance necessary to bring the PHA back into compliance is dependent upon the extent of the PHA's management deficiencies, the size of the Authority and the overall financial and physical condition of the PHA. This level of funding should meet HUD's projections to adequately address the serious compliance and management problems faced by those severely non-compliant PHAs that, as a last resort, are placed into receivership for remedial action.

Question. Are compliance monitoring reviews indicating an increase, decrease, or the same number of PHAs likely entering receivership? Please provide copies of compliance review summaries.

Answer. Field Office program compliance reviews are used as one of several other indicators to identify PHAs which may likely enter into receivership. When determining which PHAs are in serious non-compliance thereby necessitating receivership, both program compliance and performance assessment information is used. From information residing in our performance data systems and communication provided by field staff, we are kept abreast of compliance violations. We have noticed a slight increase in the number of program compliance findings through our program compliance reviews and performance reviews conducted by field staff including but not limited to Independent Public Accountant Audits, field office program compliance reviews as well as our automated performance systems i.e., PHAS and SEMAP. Our early analysis suggests that this is a result of the Department's enhanced focus on monitoring IPA auditors through our aggressive quality assurance process, our enhanced monitoring of PHAs including the Rental Integrity Monitoring reviews and Section Eight Management Assessment Program confirmatory reviews as well as the full implementation of the PHAS program. Copies of program compliance review summaries are being retrieved from the relevant Field Offices archives and will be submitted by end of July.

Question. How have receiverships been funded in the past?

Answer. Historically, receiverships have been funded in a variety of ways including through the use of the PHA's own financial means, through technical assistance funds and Salaries and Expense funds. The Department's first goal is for the PHA's to use their own resources to fund receivership activities. Whenever HUD staff has been involved either through training or management oversight, we have used HUD appropriated Salaries and Expense funds to meet those needs. HUD has not had a separate funding account for PHAs in receivership because the Authority's operations and financial streams are not altered during the receivership. However, HUD has provided technical assistance monies to some PHAs in receivership to support training and other activities when the use of those dollars was eligible under the technical assistance set-asides appropriated to the Department. The current restrictions of the Capital Fund Technical Assistance Set-aside allow the use of TA funds for Troubled and near-troubled PHAs, but not receiverships.

Question. Is the request for funding in fiscal year 2005 1-year, no-year, or multi-year money?

Answer. This request is for no-year money.

VOLUNTARY GRADUATION BONUS

Question. HUD is requesting \$15 million to provide incentive awards to PHAs who increase graduation turnover rates. The program is intended to promote the concept that assisted housing is transitional, not permanent, by giving PHAs incentives to graduate more families out of assisted housing. HUD plans to award PHAs that exceed a baseline number of families that have exited public housing. Eligibility thresholds would be established for housing authorities depending on size and other program factors. What analysis has been done to justify that \$15 million might be needed for the program?

Answer. Currently HUD's Office of Public and Indian Housing administers five programs that specifically promote self sufficiency—the Resident Opportunity and Self Sufficiency program, which is made up of four smaller grants, and the Family Self-Sufficiency program. These programs range in cost between \$9 million and \$15 million annually. HUD believes that based on the above funding, the requested \$15 million in additional funds will reinforce and influence Housing Authorities to promote the concept that assisted housing is transitional, not permanent. The \$15 million is a small portion of funds available to support public housing programs, but is a starting point intended to encourage transition out of public housing without being such a large number as to be detrimental to the operation of public housing programs. This amount will be assessed as program activity unfolds.

Question. Has eligibility criteria for the program been established? If so, please document. If not, when does HUD plan to establish criteria?

Answer. The finalized eligibility criteria for the program has not been completed, however, HUD has narrowed its focus to one of two-measurement criteria; the average duration in public housing and the end of participation date. Under either methodology units for elderly and disabled will not be included.

Under the average duration in public housing measurement, PIH would create a variable that reflects the average length that a tenant resides in public housing at the authority. Once a baseline is established, the PHA would be measured by including the last measurement time frame data versus its baseline. If the overall duration has decreased, the PHA would be eligible for bonus funding. A new baseline would be established each year.

Under the end of participation measurement, PIH would establish a measure that looks only at the end of participation date or turnover rate. The calculation would be the difference between the end of participation date or turnover rate for the baseline period versus the last measurement time frame. If the end of participation were greater than the previous period, the PHA would be eligible for bonus funding. A new baseline would be established each year. HUD has already completed preliminary research and testing and is in the process of finalizing the final criteria and methodology.

DEVELOPMENT CHALLENGE PILOT

Question. HUD is requesting \$10 million to test ways to better coordinate, target, and leverage existing Federal community and economic development programs. The pilot awards new flexible grants in fiscal year 2005 to 5 to 10 communities that are prepared to commit to ambitious performance targets and to community participation in the governance of their development. HUD projects program improvements and offsets amounting to \$10 million in this program. What analysis has been done to justify that \$10 million might be needed for the program?

Answer. The President's Management Agenda, as well as the Government Performance and Results Act, call for Federal agencies to better integrate their budgets and program performance. This pilot will allow HUD to experiment with several communities to examine the benefit of various incentives to achieve closer program coordination and performance measurement. While a pure numerical analysis was difficult to do, the proposal will build on the experience and anecdotal evidence in a number of communities, including Richmond, VA, that have begun to target for revitalization strategically selected neighborhoods. In some cases, improved targeting has more effectively leveraged additional resources in communities; resulting in safer neighborhoods, better housing and increased property values. These beneficial neighborhood effects could more than offset the initial cost of the pilot program and would help ensure the efficiency of the \$4.3 billion annual level of formula funding.

Question. What is the projected amount needed per award?

Answer. HUD's Justification initially suggests 5–10 communities could be assisted with the \$10 million appropriation, but the amounts needed will ultimately be determined at a later date based on applications. An interagency group will advise on

the standards for awarding the funds competitively and help develop a common framework of performance measures and accountability for the Federal investment.

PLANNED IMPROVEMENTS/OFFSETS OF DEVELOPMENT CHALLENGE PILOT

Question. What are the planned improvements/offsets?

Answer. The information from this pilot will generate information that could provide the basis for future reforms or legislative/budget proposals. The line "program improvements/offsets" represents whether there is an increase or decrease in funding for a specific category and this proposal is an "improvement" rather than an "offset."

FAITH-BASED PILOT

Question. HUD is proposing a new 5-city pilot program aimed at increasing the participation of faith-based and community organizations in the cities' community development strategies. Cities will submit plans that demonstrate strategies for involving faith-based and community organizations and for making small sub-grants to faith-based and community groups. Funding is estimated to provide grants for 5 to 20 faith-based partners competitively.

What analysis has been done to justify that \$10 million might be needed for the program? What is the projected amount needed per award?

Answer. The requested budgeted amount for the Faith-Based pilot is \$5 million. While we did not have a numeric analysis as to the scope of the request, we did base the funding level on our experience which was garnered in large part through over 92 education and training events we did in fiscal year 2003. This number includes six field office-sponsored conferences and six regional conferences, three of which were sponsored by the White House office of Faith-Based and Community Initiatives. This effort guides us in gauging how many grantees and how much funding might be necessary to establish a better model on how to further expend and help faith-based and community development organizations.

Funding will vary depending on the proposals received, but would be available to cover costs required both to execute its plan and make sub-awards to leverage the contribution of grassroots organizations in affordable housing and community development activities.

The flexibility and reach of the \$4.3 billion Community Development Block Grant formula program is a top priority for communities throughout the Nation. The expenditure of \$5 million to further develop the capacity and activity of Faith Based and other new community development organizations within the program is necessary to ensure maximum impact of the overall program.

STATUS OF SAMARITAN HOUSING INITIATIVE

Question. HUD is requesting \$50 million for Samaritan Housing to advance the goal of ending chronic homelessness. When will the new Samaritan Housing Initiative be submitted to Congress?

Answer. Legislation for the Samaritan Initiative was developed and introduced as H.R. 4057 by Congressman Rick Renzi of Arizona, on March 30, 2004. On April 20, 2004, it was referred to the Subcommittee on Housing and Community Opportunity. Senate companion legislation has been drafted by Senator Allard of Colorado, but has not yet been introduced. HUD is ready to implement the program as soon as the Congress passes authorizing legislation and the President signs it into law.

FUNDING MECHANISM FOR SAMARITAN HOUSING INITIATIVE

Question. What funding mechanism is included in the legislation for this program (i.e., How will VA and HHS funding be coordinated? How will the funds be allocated? Have eligible activities been established?)?

Answer. Funds from HHS and HUD will be pooled. VA will provide in-kind supportive services. HUD will serve as the administering agency. The participating agencies shall establish an interagency implementation and monitoring team to review and conduct oversight of program grantees. The team shall establish uniform or coordinated requirements, standards, procedures, and timetables to the maximum extent possible. HHS and VA will provide supportive services. Eligible housing activities have been established as acquisition, rehabilitation, operating costs, leasing, housing counseling and rental assistance.

ANALYSIS OF FUNDING NEEDED FOR SAMARITAN HOUSING INITIATIVE

Question. We understand that the \$50 million request builds on the \$35 million funding level of the 2003 Chronic Homeless Initiatives. What analysis was done to determine funding levels for that initiative?

Answer. The fiscal year 2003 \$35 million Chronic Homeless Initiative was a smaller demonstration program and HUD's portion of the program was \$20 million. HUD's contribution to the fiscal year 2003 Initiative was in part, dependant on recaptured program funds and also reflected the effort to pursue program design and establish program performance. The fiscal year 2005 request for the Samaritan Housing initiative proposed \$50 million in HUD funds and \$10 million each from the Department of Veterans Affairs and the Department of Health and Human resources. The increased level of funding reflects that the program design involving interagency cooperation among several Departments has been well developed. In addition, the requested \$50 million funding level dovetails with the overall HUD and other agency resources targeted and available to ending chronic homelessness over a 10-year period. The request in part reflects the view that the number of chronic homeless has been estimated as a discrete number of 150,000 to 200,000. The analysis projects that increased housing resources, particularly development of permanent housing for the homeless, coupled with improved and increased delivery of related homeless services over a 10-year period, can meet the needs of this population. The Department believes that this is a realistic projection and outcome if the requested total resources are provided.

FAITH-BASED PRISONER RE-ENTRY INITIATIVE

Question. The budget proposes \$25 million to fund HUD's portion of a joint Federal initiative with the Departments of Labor and Justice designed to help individuals exiting prison make a successful transition to community life. What analysis has been done to justify that \$25 million might be needed for the program? What is the projected amount needed per award?

Answer. The scale of the proposal reflects the high priority of the 10-year goal of ending chronic homelessness, as well as reducing overall homelessness while at the same time recognizing that this is a new initiative that will provide many lessons learned to help direct future policy. HUD calculates that \$6,500 is required to house a homeless individual annually. The \$25 million figure was calculated by figuring that \$3,250 could serve nearly 7,700 individuals for 6 months as they are coming out of prison and getting re-established.

Question. How is HUD's portion coordinated with the Departments of Labor and Justice?

Answer. A working group will soon be convened by the White House to bring senior officials from the Department of HUD, Labor and Justice to plan the programmatic policy for the initiative.

ZERO DOWNPAYMENT PROPOSAL

Question. HUD is proposing a legislative change that would enable HUD to insure mortgages with a zero downpayment. Borrowers would also be able to finance upfront insurance premiums and certain other settlement costs (e.g., initial service charges, appraisal, inspection, and other fees in connection with the mortgage—just as they do now under FHA's 203(b) program). Borrowers are subject to standard FHA requirements for mortgage amounts and income-to-debt ratio. The program is targeted to first-time homebuyers, however, borrowers are eligible if they have not owned a house in the past 3 years. FHA would charge borrowers upfront and annual premiums that are higher than those for FHA's regular 203(b) mortgage product. Up-front premiums for this new product would be 2.25 percent and annual premiums would be 0.75 percent for the first 5 years and then 0.5 percent thereafter. In comparison, under the Mutual Mortgage Insurance program, borrowers pay upfront premiums of 1.5 percent and annual premiums of 0.5 percent. Borrowers would also be required to participate in homebuyer counseling. Per HUD's suggested appropriations language, the Secretary would also be authorized to establish additional requirements. HUD's budget justifications also indicate that this new product could also be insured by the GI/SRI fund.

HUD expects an increased risk of default associated with these mortgages; specifically, HUD estimates a default rate of 18.73 percent (i.e., lifetime defaults as percentage of disbursements) as compared to the estimated default rate of 9.06 for FHA's regular 203(b) mortgage product. HUD also estimates a recovery rate of 71.90 percent (i.e., recoveries as a percentage of lifetime defaults). HUD estimates that these products would have a subsidy rate of -0.95 percent, compared with a sub-

sidy rate of -1.93 percent for the Mutual Mortgage Insurance program. HUD expects this new program/product to generate 109,000 new cases in 2005 and \$184 million in additional negative subsidy. HUD also estimates that 36,000 cases that would otherwise qualify for the regular 203(b) program are expected to choose the zero downpayment product; as a result, HUD estimates that (a) the risk of the base program will be decreased and (b) this will add \$16 million to the baseline negative subsidy.

Will the proposed zero downpayment product be underwritten using the new TOTAL Scorecard system? If so, since the zero downpayment mortgages are viewed to be "more risky" than FHA's standard 203(b) product, how will TOTAL Scorecard assess this risk?

Answer. Yes, all mortgages under the zero downpayment program must be risk assessed using the FHA TOTAL mortgage scorecard. The FHA TOTAL mortgage scorecard never rejects any application, but rather refers the loan application to an individual underwriter for his or her personal review of the risk of the mortgage.

The mortgage scorecard includes the initial loan to value in the algorithm. Thus, zero downpayment loans—since they are higher risk—will be more likely to be referred by the scorecard to an underwriter who will analyze the overall risk of the mortgage and make the credit decision.

TOTAL SCORECARD

Question. What factors would TOTAL Scorecard weigh most heavily when considering whether a borrower with no downpayment would be approved?

Answer. The scorecard algorithm assesses these credit and application variables:

- Borrower's credit
- Monthly Housing Expense Ratio
- Number of Monthly Payments in Reserve following loan closing
- Loan-to-Value (LTV)
- Loan Term (number of years).

UNDERWRITING CRITERIA

Question. Will HUD require borrowers to meet certain underwriting criteria that are not now considered under TOTAL or otherwise considered under the standard 203(b) product?

Answer. HUD will require housing counseling as a condition of loan approval. FHA program data show that minority first-time homebuyers who received counseling in fiscal years 1998–2000 in order to reduce their upfront premium have lower cumulative claim rates than comparable homebuyers who did not. Analyses performed by Freddie Mac show similar results.

ADDITIONAL REQUIREMENTS

Question. According to HUD budget justification documents, the HUD Secretary reserves the right to establish additional requirements for the zero downpayment product. At this point in time what, if any, type of requirements does the Secretary envision establishing?

Answer. The administration proposes an upfront premium of 2.25 percent and an annual premium of 75 basis points for the first 5 years of the loan, dropping to 50 basis points until LTV reaches 78 percent. Also intended is a requirement to underwrite applicants using the TOTAL automated scorecard and that borrowers receive pre-purchase counseling.

REDUCTION IN THE HOPE VI PROGRAM

Question. The administration's fiscal year 2004 budget did not request funding for HOPE VI program. This program received \$570 million in fiscal year 2003. Secretary Martinez indicated that there were sufficient unspent funds in the pipeline to keep this program operating. However, the House recommended \$50 million, the Senate \$195 million, and \$150 million was actually provided. Has HUD completed and submitted its report to the Appropriations Committee identifying the status of each HOPE VI project funded before 1999 and actions taken towards timely completion of these projects, detailing the department's plans for implementing the recommendations made by GAO, etc.? Please provide a copy if available.

Answer. Yes. This report was submitted to the U.S. House of Representatives Committee on Appropriations and the U.S. Senate Committee on Appropriations on March 8, 2004 that provides the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects. A copy of the report is provided.



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20510-6015

Dear Representative Obey:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

As you know, the President's FY 2005 budget recommended that HOPE VI not be funded. This will allow the Department to focus on the completion of existing grants. It will also allow the Department to develop strategies for addressing distress in the public housing inventory in more flexible ways, as described in this report.

Thank you for continuing to work with the Department on the public housing program.

Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Christopher S. Bond
Chairman, Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510-6032

Dear Mr. Chairman:

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Sincerely,

Steven B. Nesmith
Assistant Secretary for Congressional and
Intergovernmental Relations



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Robert C. Byrd
Ranking Member
Committee on Appropriations
United States Senate
Washington, DC 20510-6025

Dear Senator Byrd:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

As you know, the President's FY 2005 budget recommended that HOPE VI not be funded. This will allow the Department to focus on the completion of existing grants. It will also allow the Department to develop strategies for addressing distress in the public housing inventory in more flexible ways, as described in this report.

Thank you for continuing to work with the Department on the public housing program.

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ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Barbara A. Mikulski
Ranking Minority Member
Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
United States Senate
Washington, DC 20510-6031

Dear Senator Mikulski:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable James T. Walsh
Chairman, Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6022

Dear Mr. Chairman:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Ted Stevens
Chairman, Committee on
Appropriations
United States Senate
Washington, DC 20510-6025

Dear Mr. Chairman:

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WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable Alan B. Mollohan
Ranking Minority Member
Subcommittee on VA,
HUD, and Independent Agencies
Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6022

Dear Representative Mollohan:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

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WASHINGTON, DC 20410-1000

ASSISTANT SECRETARY FOR CONGRESSIONAL
AND INTERGOVERNMENTAL RELATIONS

MAR 8 2004

The Honorable C. W. Bill Young
Chairman, Committee on Appropriations
U.S. House of Representatives
Washington, DC 20515-6015

Dear Mr. Chairman:

The Conference Report to accompany H.R. 2673 making appropriations for Agriculture, Rural Development, Food and Drug Administration, and related agencies for the fiscal year ending September 30, 2004, requested that HUD submit a status report on the HOPE VI program to Congress.

The conferees requested that the report describe the changes implemented and planned to improve HUD's oversight of HOPE VI grantees; the status of each HOPE VI project funded prior to 1999 and any actions taken to ensure timely completion of such projects, and the Department's plans for implementing the recommendations made by GAO. The Department has addressed each of these questions in the attached report.

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HOPE VI Status Report
Submitted to the House and Senate Appropriations Committees
February 2, 2004

A. Changes planned or implemented to improve HUD oversight of HOPE VI grantees

HUD has made significant strides in its oversight of HOPE VI grantees and management of the HOPE VI program. HOPE VI oversight and management has evolved from an overly flexible approach with fluid production deadlines and expectations to a more balanced approach that makes HOPE VI grantees and HUD staff accountable for the progress of HOPE VI projects.

In 2001, the Department established a HOPE VI Policy Committee and HOPE VI Project Review Panel¹ composed of senior HOPE VI staff to standardize policy interpretations and increase the consistency of HUD technical assistance across grantees. The role of the Policy Committee is to answer policy questions that emerge and to create new policies in response to these issues. The committee has increased the consistency of HUD policy and oversight, and standardized HUD guidance.

In furthering its cost control and streamlining efforts, the Department established a Project Review Panel with the purpose of reviewing Term Sheets submitted by PHAs for each mixed-finance transaction. To facilitate the review and approval process, HUD has developed a Term Sheet for PHAs to complete and submit to HUD for each mixed-finance transaction. The Term Sheet includes a description of the program and specific business terms, and is the basis of the Mixed-Finance Proposal. The Project Review Panel, similar to a bank loan committee, is a sitting body that is scheduled to meet twice a week to perform timely review of mixed-finance projects through the assessment of Term Sheets.

The goals of this review process are to: streamline proposal approval by enabling PHAs to get quick and final approval of negotiated terms as early in the development process as possible; give all parties – housing authorities, developers, and HUD – an increased sense of certainty as they prepare for closing; provide consistency in the mixed-finance development program; and provide an outline for preparing portions of a Mixed-Finance Proposal.

In addition to these efforts, HUD has placed a greater emphasis on meeting deadlines and completion of HOPE VI developments. HUD provided a grace period during the first half of 2002 that allowed PHAs to revise their existing development schedules based on their own determinations of when they would complete a milestone activity. However, in June of 2002 these self-imposed checkpoints were "locked". To better track progress toward achieving the locked checkpoints, the Department upgraded the Grants Management System so that grantees have the ability to update their locked checkpoint completion dates on a continual basis via the system website.

Review of locked checkpoint completions is the Department's primary method of measuring the progress of the HOPE VI program and determining whether there might be a future grant default. As such, it is imperative that grantees move forward to complete the development activities that are related to these locked checkpoints and to inform the Department immediately upon completion of each activity. Failure to complete grant activities by the planned completion dates, or failure to report completion of a critical milestone, may cause the Department to place a grant in default.

¹ For information on the HOPE VI Project Review Panel visit:
http://www.hud.gov/offices/pih/programs/ph/hope6/mfph/project_review.cfm

In November 2003, five housing authorities (Biloxi, MS; Detroit, MI; Tulsa, OK; Washington, DC; and Wheeling, WV) were put into default because they had missed more than 10 of these critical milestones. Even though many grants are behind schedule, these grants have missed 10 or more key activities e.g., hiring a developer, relocating residents, beginning and ending construction. The default letters stated that the Department would deduct funds from their HOPE VI grants if they did not meet their implementation checkpoints within 90 days.

If a PHA does not meet these self-imposed performance measures within 90 days, \$1,000 daily will be deducted from the original grant for each critical milestone that is missed. For example, if a housing authority missed 10 critical milestones, they would be fined a total of \$10,000 a day.

Recapturing the entire grant from low-performing or slow-moving projects is also a possibility. In 2000, the Department attempted to recapture the Hollander Ridge grant funds from the City of Baltimore after the housing authority failed to produce an acceptable plan. Subsequent to HUD's notification that the funds would be recaptured, Congress passed legislation allowing the housing authority to retain the grant funds. HUD has also placed housing authorities in default for not proceeding with their plan. In November 2003, HUD notified the Detroit Housing Authority that it was in default of its Grant Agreement. The housing authority then provided a sound plan for how to proceed. The Department accepted its plan and the housing authority is now making progress.

Oversight of community and supportive services (CSS) has also improved significantly over the last three years. In 2000, HUD added a CSS section to the quarterly reporting system. Grantees report their current caseload, location of residents in the caseload and the number of enrollments and completions for social services (e.g., employment preparation, job skills training enrollments / completions, high school or equivalent education enrollments and completions, childcare, employment, and homeownership) every quarter through this system. Grantees also set yearly and quarterly goals for service enrollments and completions. HUD staff monitor progress toward these goals and score grantees across a portfolio triage system to determine the level of technical assistance that each site requires. Poor performance in meeting service goals, difficulty in establishing and managing case management services, conflicts with resident groups, relocation problems, and loss of leverage / in-kind support or service partners can trigger site visits from HUD staff. Additional monitoring and technical assistance is provided by technical assistance providers contracted by HUD to work directly with HOPE VI grantees on their CSS plans and implementation.

The Department has also placed a strong emphasis on past performance, up-front capacity and readiness in the HOPE VI Notice of Funding Availability to ensure that grantees are prepared to begin the HOPE VI process. In the FY 2002 Notice of Funding Availability HUD included past performance as both a threshold factor² and rating factor³. Applicants were disqualified if they had: a) an open IG or GAO audit finding related to the HOPE VI or Capital Fund Programs as of the date the application was due to HUD and / or b) failed to meet its performance requirements as required in the applicable HOPE VI Revitalization Grant Agreement by the date the application was due to HUD. Other threshold factors were site control, committed funds and zoning. As a rating factor, past performance included whether an applicant had met deadlines for submission of supplemental submissions; submission of the community and supportive services work plan; procurement of the program manager; and

² 2002. *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 20.

³ 2002. *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 25.

execution of the master development agreement. The factor also included a score for percent of HOPE VI funds obligated, with low obligation rates being penalized.

In FY 2003 HUD continued using past performance as a criterion for funding⁴. Similar to FY 2002, this criterion included threshold factors and a rating factor. Applicants were disqualified if they had an open IG or GAO audit finding related to the HOPE VI or Capital Fund programs as of the date the application was due to HUD. Other threshold factors included site control, committed funds and zoning. As a rating factor, past performance included a score based on the percent of unit construction completed.

In addition to these changes, HUD field offices are now playing a larger role in grant management and oversight. Field offices in Florida, Kentucky, New York, and Ohio are now directly managing HOPE VI grants in their region and helping to alleviate large grant portfolios among headquarters based grant managers. Moreover, the HOPE VI program is coordinating project oversight and annual audits with field offices across the HOPE VI portfolio to expand the capacity of HUD to more directly monitor the progress of HOPE VI projects.

B. Status of each HOPE VI project funded prior to 1999

HUD awarded 110 HOPE VI grants between 1993 and 1998. Only 26 (24%) of these developments are 100% completed and only 20 (18%) are nearing completion (i.e., are 80% or more completed).⁵ The following list provides an update for each grant funded between 1993 and 1998. The summary includes the demolition, relocation, and construction status⁶ for each site. In addition, the summary provides a short explanation for why a project is behind schedule and how HUD is working with the grantee to rectify the delay.

The schedules used to determine if a grantee is on time in the following descriptions were approved in the summer of 2002, and in some cases approved revisions since then. This information does not reflect, in most cases, schedules that were developed at the start of the grant.

1993

Atlanta, GA: Techwood Homes / Clark Howell Homes

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Boston, MA: Mission Main

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed. The development is on schedule and meeting all critical milestones. The housing authority has not closed out the grant because there is money remaining in their CSS budget. The authority will use the money to provide services to eligible residents; after the money is spent the grant will be closed. HUD is providing technical assistance to the housing authority in using this money to effectively deliver services to residents.

Charlotte, NC: Earle Village

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

⁴ 2003 Notice of Funding Availability for Revitalization of Severely Distressed Public Housing. Federal Register, Vol. 68, No. 203. 60189-60190.

⁵ HOPE VI Quarterly Progress Report, September 30, 2003.

⁶ All demolition, relocation, construction/rehabilitation and occupancy data presented for sites in this summary is from the HOPE VI Quarterly Progress Report, September 30, 2003.

Cuyahoga County, OH (Cleveland): King Kennedy / Outhwaite

Relocation, construction/rehabilitation and occupancy are all 100% completed. A lawsuit with the contractor is resolved. The Grantee has submitted a plan detailing how the remaining \$1.5 million will be spent and HUD is closely monitoring the housing authority.

Houston, TX: Allen Parkway Village

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed. The development is on schedule and meeting all critical milestones. The grant will close out in 2004 following the completion of a community facility and community and supportive services.

Kansas City, MO: Guinotte Manor

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are both 97% completed. Significant emphasis is being placed on the submission of the legal and financial documents for the remaining phase of construction. HUD is monitoring the progress of this grant and providing guidance to the grantee as it completes the final phase of construction.

Los Angeles, CA: Pico Gardens

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are both 91% completed. The development is on schedule and meeting all critical milestones.

Milwaukee, WI: Hillside Terrace

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

New Haven, CT: Elm Haven

Demolition and relocation are 100% completed. Construction/rehabilitation is 92% completed. Occupancy is 89% completed. A housing authority consultant found on-site environmental conditions that needed remediation and abatement. New Haven is currently working to resolve the problem and HUD is providing guidance during this process.

Philadelphia, PA: Richard Allen Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 84% completed. Occupancy is 78% completed. The development is on schedule and meeting all critical milestones.

Pittsburgh, PA: Allequippa Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation is 87% completed. Occupancy is 81% completed. The development is on schedule and meeting all critical milestones.

San Francisco, CA: Bernal / Plaza

Demolition, relocation, construction and occupancy are all 100% completed.

Washington, DC: Ellen Wilson Homes

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed. Following discussions with HUD staff, the housing authority submitted a request that revises the Ellen Wilson HOPE VI budget, and, if approved, would enable the grant to be closed out. The major changes are (1) building the community center without the use of HOPE VI funds, thereby removing this component from the budget, and (2) eliminating funding for a CSS long-term sustainability initiative. In both instances, the housing authority has submitted material

justifying these changes and they will not adversely impact the overall revitalization program. HUD is providing guidance to the housing authority as they prepare to close out the grant.

1994

Baltimore, MD: Homeownership Demonstration

Construction/rehabilitation and occupancy are 3% completed. The homeownership demolition grant was created as a result of the Thomson v. HUD partial consent decree, which stated that \$18.6 million of Baltimore's Lafayette Courts HOPE VI grant must be set aside for homeownership opportunities in economically and racially non-impacted areas. While the housing authority has hired a consultant to develop these units, the housing authority has had difficulty in achieving the goals of the partial consent decree. HUD is providing technical assistance funds to support mediation among the parties and holds all parties accountable for their responsibilities.

Baltimore, MD: Lafayette Courts

Demolition, relocation, construction and occupancy are all 100% completed.

Camden, NJ: McGuire Gardens

Demolition, relocation, construction and occupancy are all 100% completed.

Chicago, IL: Cabrini Green

Demolition is 78% completed. Relocation is 82% completed. Construction/rehabilitation and occupancy are 34% completed. The project has been delayed by a consent decree and a lawsuit involving the developer. HUD is providing the housing authority with technical assistance and guidance as it moves forward with the project and navigates legal issues.

Columbus, OH: Windsor Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 65% completed. The Columbus HOPE VI program experienced a severe delay in its construction schedule when a lawsuit was filed to stop the housing authority from developing in a semi-rural area. The lawsuit took almost two years to resolve, but this phase of the site has since been developed and is fully occupied. The final two phases of this grant are under construction. The housing authority is currently on schedule to meet production milestones for future phases.

Dallas, TX: Lakewest

The site involved no demolition or relocation. Construction/rehabilitation and occupancy are 26% completed. As a result of litigation, the housing authority has only completed and occupied 76 units under this grant. In March 2003, HUD approved the housing authority's revised Revitalization Plan (RP) for the grant, which proposed a new acquisition phase. The 220 units in this new phase have been acquired and are undergoing rehabilitation. HUD is providing guidance and technical assistance to the housing authority as it rehabilitates the final 220 units of the development.

Denver, CO: Quigg Newton Homes

Demolition, relocation, construction and occupancy are all 100% completed.

Detroit, MI: Jeffries Gardens

Demolition and relocation are 100% completed. Construction is 33% completed. Occupancy is 21% completed. The grant was placed in default in November 2003. The housing authority has resolved the default status by submitting Mixed-Finance Proposals for homeownership and senior units, and implementing the plans for these phases. The housing authority has made progress in constructing public housing, tax-credit and market rate rental units and has started occupying these units. HUD is providing the housing authority with technical assistance to complete the remaining phases of the development.

New Orleans, LA: Desire

Demolition is 100% completed. Relocation is 90% completed. Construction/rehabilitation and occupancy are 0% completed. The housing authority was placed in receivership by HUD two years ago, in part, because of their failure to manage their two HOPE VI grants. Under HUD receivership, the housing authority has closed two phases of development at Desire and currently has over 400 housing units in production, with Phase I nearing completion and Phase II under construction. The HUD receivers are working with the housing authority and their developers on financing the final phases of residential construction.

Newark, NJ: Archbishop / Walsh Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 27% completed. Initial construction delays were due to a change in the RP from rehabilitation of existing towers to demolition and replacement with new construction on-site (Phases I and III) and off-site (Phase II). Construction on Phases I and II was delayed due to bankruptcy and default/termination of the turnkey developers. One hundred and eleven units at Phase I are completed and occupied. Construction on the remaining 87 units started with a new developer, but was delayed due to a water-main break and unforeseen corrective work due to poor performance of the prior developer. Construction at Phase II (off-site) is nearing completion, but is delayed due to infrastructure work by local utility companies. Phase III (on-site) was delayed by third-party lawsuits, and is now scheduled to be complete in the third quarter of 2005. To expedite completion, HUD has approved work-out plans for Phases I and II, and reductions to the scope of work in Phase II.

Oakland, CA: Lockwood Gardens / Lower Fruitvale

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 67% completed. The development is on schedule and meeting all critical milestones.

San Antonio: Spring View

Demolition and relocation are 100% completed. Construction/rehabilitation is 54% completed. Occupancy is 23% completed. In 2003, in part because of HOPE VI difficulties, a full turnover took place among the housing authority Board of Commissioners and the HOPE VI administrative staff. Now under new leadership, the housing authority has recently submitted a detailed analysis and report to HUD, including a completion strategy with specific proposals. A HUD Inspector General (IG) audit of the grant is underway.

San Juan, PR: Cristantemos y Manuel A. Perez

Demolition is 100% completed. Relocation is 97% completed. Construction/rehabilitation and occupancy are 55% completed. The housing authority's HOPE VI program was put into receivership. After two years of resolving a variety of IG audit findings, the housing authority

focused its attention on the HOPE VI project. The housing authority issued a stop-work order to its builder due to faulty construction and repeated delays. Since that time, the housing authority has been in negotiation with the issuer of the builder's performance bond in order to resume construction. At this point, negotiations have stalled and it is likely that the parties will bring suit against each other. No revised construction schedule has been submitted to HUD by the housing authority. HUD will provide technical assistance and guidance where appropriate to assist the housing authority to resolve these issues.

Springfield, IL: John Hay Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 88% completed. As of January 2004, Springfield had one remaining phase of development that has suffered many delays because the housing authority has been unable to obtain Low Income Housing Tax Credits (LIHTC). After four unsuccessful attempts, it became apparent that Springfield needed to restructure this development phase. HUD has approved the housing authority's request for a revision to their RP. The RP revision will allow them to decrease the total number of units developed from 41 mixed-income/public housing units to 27 public housing units. HUD's approval has enabled the housing authority to move forward with the last phase of development in a timely manner utilizing funding that is already in place.

1995

Baltimore, MD: Lexington Terrace

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Boston, MA: Orchard Park

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 86% completed. Construction was delayed because lots originally selected for off-site units required environmental remediation, and the housing authority lacked the funds for remediation activities. Subsequent efforts to secure new lots and a new developer are underway and making progress. HUD is providing technical assistance as these efforts unfold.

Cuyahoga County, OH (Cleveland): Carver Park

Demolition is 63% completed. Relocation is 100% completed. Construction/rehabilitation and occupancy are 1% completed. HUD provided guidance and technical assistance as the housing authority restructured its deals, negotiated with partners and prepared materials for submission. This resulted in submission of legal and financial documents for two phases, the closing of one phase (homeownership), and construction on a third phase. HUD will continue to provide technical assistance to the housing authority and assist them in expediting unit construction.

Detroit, MI: Parkside Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 41% completed. The housing authority is revising their RP for the final two phases of the development. Progress has been delayed while the housing authority settles financing details with tax equity investors. The housing authority has made progress in constructing and occupying public housing / LIHTC units in two previous phases. The housing authority is also resolving a major IG audit. HUD is providing technical assistance to the housing authority as they revise their RP.

El Paso, TX: Kennedy Brothers

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Indianapolis, IN: Concord/Eagle Creek

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 91% completed. Since the September 30, 2003 HOPE VI Quarterly Progress Report, the housing authority has constructed the remaining units and submitted grant close-out documents.

Memphis: College Park/LeMoyné Gardens

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 83% completed. The housing authority was behind schedule because they did not meet their homeownership close out certification date. The housing authority misunderstood the definition of this date, and thus entered an incorrect date. In addition, the housing authority discharged their developer during this period and is now acting as their own developer, which has caused further project delays. The housing authority also divided the homeownership phase into on-site and off-site homeownership, and established new milestones for the off-site homeownership component. On-site construction is progressing and the project appears back on schedule. HUD is providing the housing authority with guidance and technical assistance as it addresses project delays.

New York, NY: Arverne / Edgemere

There was no demolition at this site. Relocation is 100% completed. Construction/rehabilitation and occupancy are 68% completed. The grantee had numerous setbacks in the modernization of this development. The architect that the housing authority procured to design several phases of the project was terminated in 2002. Tenants occupying the commercial site initiated lawsuits and continue negotiations toward prospective relocation sites. Discussions with the grantee to clarify a \$1.5 million Mixed-Finance Proposal are nearing resolution. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Pittsburgh, PA: Manchester

Demolition and relocation are 100% completed. Construction/rehabilitation is 88% completed. Occupancy is 87% completed. Progress was delayed by shifting priorities among residents in the surrounding community and financing commitments. The housing authority is finalizing plans that will enable it to proceed and will submit them for HUD approval in the near future. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Antonio, TX: Mirasol

Demolition and relocation are 100% completed. Construction/rehabilitation is 100% completed. Occupancy is 99% completed. Delays in the completion of this grant were affected by staff turnover at the housing authority. A recent housing authority analysis proposes changes in the homeownership program to remedy recent delays in this phase. The grantee plans to close out the grant in 2004. The HUD IG is also conducting an audit. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Francisco, CA: Hayes Valley

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Seattle, WA: Holly Park

Demolition and relocation are 100% completed. Construction/rehabilitation is 81% completed. Occupancy is 75% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

St. Louis, MO: Darst-Webbe

Demolition is 92% completed. Relocation is 100% completed. Construction/rehabilitation and occupancy are 24% completed. The housing authority is behind on the last rental phase and is planning to submit a proposal to the HUD field office for approval of this phase. The housing authority anticipates starting construction in early 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

1996

Atlanta, GA: Herman E. Perry Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. However, since the September 30, 2003 HUD Quarterly Progress Report, the housing authority has completed 124 units (16%), with another 382 units under construction (48%). The housing authority has completed or is in the process of constructing over 64% of all planned units. The development is now on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Baltimore, MD: Hollander Ridge

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The United States Court of Appeals for the Fourth Circuit halted the implementation of the Hollander Ridge HOPE VI grant. However, the FY 2002 Appropriations Act authorized the authority to use the \$19.3 million remaining in this grant for the rehabilitation of the Claremont Homes project and for the provision of affordable housing in areas within Baltimore City. HUD requested that the housing authority submit a RP for the Claremont site, and in a letter dated January 3, 2003, the housing authority requested a six-month extension on submission of an RP. This request was the subject of numerous legal reviews. In a letter dated October 24, 2003, HUD granted the housing authority an extension until April 24, 2004 to submit a RP for the HOPE VI funds. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Charlotte, NC: Dalton Village

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 45% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chester, PA: Lamokin Village

Demolition is 88% completed. Relocation is 83% completed. Construction/rehabilitation and occupancy are 83% completed. Additional funds were required to complete the homeownership component. The housing authority is currently restructuring its financing plan to coordinate the

construction of homeownership units with another HOPE VI grant that they were awarded in 1998. HUD is assisting the housing authority in restructuring the RP to complete the final phase.

Chicago, IL: ABLA (Brooks Extension)

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 44% completed. Delays were largely due to ineffective administration of the grant by prior managers of the housing authority - from ineffective program management to inadequate planning during the early stages of the grant. However the project is now moving forward and Phase I of construction is scheduled to close this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chicago, IL: Henry Horner

Demolition is 54% completed. Relocation, construction/rehabilitation and occupancy are 0% completed. The project was initially delayed because of a lawsuit filed on behalf of the tenants; the suit has since been settled. Since the September 2003 HOPE VI progress report, construction on Phase 1A (87 public housing units) was completed. Phase 1B is proposed to close this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chicago, IL: Robert Taylor Homes

Demolition and relocation are 100% completed. Construction and occupancy are 27% completed. A total of 56 off-site units (Heart United I and II) have been delivered since 2000. Delays have been caused by protracted tenant relocation; lack of land and site control; and the Gautreaux ruling. The housing authority is now making progress and plans to construct more units this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Cuyahoga County, OH (Cleveland): Riverview/Lakeview

Demolition and relocation are 100% completed. Construction/rehabilitation is 19% completed. Occupancy is 9% completed. This grant involves two distinct projects, one that is primarily public housing and rehabilitation and the other mixed-finance and privately developed. Construction was slowed by site erosion and financing issues. However, the grantee is now making progress and construction is complete on one phase and underway on the second phase of the rehabilitated units. The site issues have been resolved on the mixed-finance deal and the developers are discussing next steps with the grantee and HUD. HUD has also kept in close contact with the City, so that they are apprised of progress since close coordination of housing authority and City projects will be needed to meet the critical project milestones.

Detroit, MI: Herman Gardens

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. This grant is currently in default. The housing authority is attempting to resolve its default status and has procured a land developer to assist in revisions to the RP to meet HUD production expectations. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Holvoke, MA: Jackson Parkway

Demolition is 98% completed. Relocation is 99% completed. Construction/rehabilitation is 42% completed. Occupancy is 38% completed. The development is on schedule and meeting all

critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Jacksonville, FL: Durkeeville

Demolition, relocation, and construction/rehabilitation are 100% completed. Occupancy is 70% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Kansas City, MO: Theron B. Watkins

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 65% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Louisville, KY: Cotter and Lang Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 66% completed. Occupancy is 61% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

New Orleans, LA: St. Thomas

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. HUD placed the housing authority in receivership two years ago, in part, because of their failure to manage their two HOPE VI grants. Under receivership, both environmental and TIF financing issues have been resolved and the project is moving forward. The HUD receivers are working with the housing authority and their developers on financing the residential construction at St. Thomas.

Pittsburgh, PA: Bedford

As of the September 30, 2003 HOPE VI Quarterly Progress Report, construction/rehabilitation and occupancy were 0% completed. However, since this time the housing authority has completed and occupied 38 units, with additional units under construction. The grant was delayed by difficulties in acquiring more than 200 properties. However, the housing authority was able to resolve these problems and is making progress. Construction is scheduled to be completed by 2007. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Francisco, CA: North Beach

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. While the development is on schedule and meeting all critical milestones, unit production has been slow. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Spartanburg, SC: Tobe Hartwell Extension

Demolition and relocation are 100% completed. Construction/rehabilitation is 81% completed. Occupancy is 77% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Tucson, AZ: Connie Chambers

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Wilmington, NC: Robert S. Jarvey Place

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 6% completed. The housing authority began construction of the Phase I homeownership units in 2002. Construction of this phase was complete in 2003. Phase II construction of 100 LIHTC rental units began in 2002. Construction of these units will be completed by early 2004. Construction on both phases has been delayed due to unforeseen circumstances, including: inclement weather, State and City approval processes for financing and construction, and delays in securing a contractor to develop the units. Once the authority and its developer/partner were able to work through these issues, unit production increased. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

1997

Allegheny County, PA: McKees Rocks Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 61% completed. As a result of complications with the developer, resulting in the development agreement being re-negotiated, the housing authority's homeownership phase was delayed. The homeownership phase is the last phase to be completed and HUD continues to provide technical assistance and support. HUD expects this final phase to be completed by late 2004.

Baltimore, MD: Murphy Homes / Julian Gardens

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Buffalo, NY: Lakeview Homes / Lower West Side

Demolition is 69% completed. Relocation is 89% completed. Construction and rehabilitation are 57% completed. Occupancy is 55% completed. The project was delayed by a change in the RP from rehabilitation of the existing development to a four-phase demolition/replacement plan involving three phases of new construction that are dependent on LIHTC project cycles. The project was further delayed by mandatory terms in the Comer v. Kemp/Cuomo court-supervised consent decree. Phase I (138 rental units) is now complete and occupied. Final completion of Phase II (150 rental units and a community center rehabilitation) is anticipated in 2004. To expedite the HOPE VI project, Phase III has been reduced from 122 units to 67 units so that it can be completed in one LIHTC funding cycle. Phase III tax credits (for 67 rental units) were awarded in 2003, and the housing authority anticipates closing the phase and starting construction in early 2004, with completion in late 2005. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chester County, PA: Oak Street

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 56% completed. Significant emphasis is being placed on the submission of the legal and financial documents by early 2004 for the three homeownership phases that remain to be completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Elizabeth, NJ: Pioneer Homes / Migliore Manor

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 39% completed. As a result of HOPE VI development activities, off-site property values increased and the housing authority could not acquire off-site properties for its homeownership program at prices within the original HOPE VI budget. The PHA requested an amendment to its RP, which was approved by HUD, and all critical milestones are currently being revised. HUD expects a closeout agreement to be submitted by late 2005. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Helena, MT: Enterprise Drive

There was no demolition or relocation. Construction/rehabilitation and occupancy are all 100% completed.

Houston, TX: Allen Parkway Village 2

There was no demolition or relocation. Construction/rehabilitation is 62% completed. Occupancy is 45% completed. In late 2003, HUD approved major changes in the RP for this grant. The plan added a new mixed-finance development phase, which is under construction. The plan also restructured on-going homeownership programs, with more realistic goals. This grant is now scheduled for completion of all construction by late 2004, and grant closeout in early 2005.

Jersey City, NJ: Curries Woods

Demolition is 100% completed. Relocation is 78% completed. Construction/rehabilitation and occupancy are 80% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Kansas City, MO: Heritage Homes I

There was no demolition. Relocation is 100% completed. Construction/rehabilitation and occupancy are 76% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Knoxville, TN: College Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 53% completed. Occupancy is 48% completed. The housing authority was delayed by revisions to its RP. The plan was revised in order to change the unit mix at the HOPE VI site. The change increased the number of public housing rental units in the community and decreased the number of homeownership units. HUD is providing guidance to the housing authority as they move forward with this revised plan.

Nashville, TN: Vine Hill Homes

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Orlando, FL: Colonial Park

There was no demolition for this project. Relocation is 100% completed. Construction/rehabilitation and occupancy are 44% completed. The development is on schedule

and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Paterson, NJ: Christopher Columbus

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 91% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Peoria, IL: Colonel John Warner Homes

Demolition is 97% completed. Relocation is 95% completed. Construction/rehabilitation is 86% completed. Occupancy is 69% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Philadelphia, PA: Schuylkill Falls

Demolition is 56% completed. Relocation is 100% completed. Construction/rehabilitation is 6% completed. Occupancy is 0% completed. Progress on the homeownership phase has been delayed due to on-going litigation brought against the housing authority by the East Falls Community Counsel. In 2003, the housing authority submitted financial and legal documents for the homeownership phase, but only for 28 of the proposed 135 homes. Plans for the remainder of the units have not been provided to HUD. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Portsmouth, VA: Ida Barbour Revitalization

Demolition is 95% completed. Relocation is 43% completed. Construction/rehabilitation is 43% completed. Occupancy is 42% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Richmond, VA: Blackwell

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 17% completed. Significant emphasis is being placed on submission of the legal and financial documents by late 2003 for the two remaining homeownership phases. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

San Francisco, CA: Valencia Gardens

Demolition is 0% completed. Relocation is 100% completed. Construction/rehabilitation and occupancy are 0% completed. The project was delayed by changes in the RP. The housing authority redesigned the project from rehabilitation to new construction. This required a long planning process involving the residents and surrounding community. The project is currently delayed while the housing authority awaits allocations from the California Tax Credit Allocation Committee. The housing authority expects to be awarded the credits in the spring of 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

St. Petersburg, FL: Jordan Park

Demolition is 100% completed. Relocation is 94% completed. Construction/rehabilitation is 71% completed. Occupancy is 56% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Stamford, CT: Southfield Village

Demolition is 48% completed. Relocation is 93% completed. Construction/rehabilitation is 55% completed. Occupancy is 50% completed. The housing authority is awaiting tax credit approval, which has been delayed by state budget issues. The housing authority cannot complete the financial documents needed for the development of the rental units until the approval and allocation of the tax credits. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Tampa, FL: College Hill / Ponce de Leon

Demolition and relocation are 100% completed. Construction/rehabilitation is 67% completed. Occupancy is 30% completed. The implementation of the College Hill/Ponce de Leon development was delayed because the housing authority applied for and was not awarded tax credits for Phase I. The housing authority closed on Phase II, which was bond financed, and then successfully reapplied for tax credits for Phase I in a subsequent year. Phase I closed in December 2002 and is under construction. The housing authority was granted an extension on its construction completion date to early 2005. The authority applied for 9% tax credits for Phase III, but because of the competition for this funding in Florida, it was unsuccessful. The housing authority is exploring alternative methods for completing the project, such as using 4% tax credits or subdividing Phase III into two development phases. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Washington, DC: Valley Green / Sky Tower

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Winston-Salem, NC: Kimberly Park Terrace

Demolition is 100% completed. Relocation is 96% completed. Construction is 46% completed. Occupancy is 24% completed. The housing authority was initially unsuccessful at securing tax credit financing which resulted in a one year delay in the construction of multi-family units. In addition, the housing authority was not able to secure lots from the city within their proposed development schedule, which delayed the construction of single-family housing. Subsequently, the housing authority has received tax credit financing, completed construction on the multi-family units and secured lots to begin construction on single-family housing. HUD is currently reviewing the homeownership plan for the single-family housing and is advising the housing authority as they move forward to complete this phase.

1998

Albany, NY: Edwin Corning Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 67% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Alexandria, VA: Samuel Madden Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The project has been delayed by a series of lawsuits filed against the housing authority and HUD. The grant was further delayed by the withdrawal of the first developer. A new developer was selected in early 2002. However, a new lawsuit against HUD was filed in

late 2002, creating further delays. This lawsuit was eventually dismissed in 2003. Tax credits were received and construction started in late 2003 on the on-site phase of the project. The off-site phases are expected to get underway in the summer of 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Allegheny County, PA: FDR and Homestead Apartments

Demolition is 50% completed. Relocation is 68% completed. Construction/rehabilitation and occupancy are 33% completed. As a result of investor negotiations regarding the amount of equity and the equity pay-in to the development, the grantee has submitted a revised Rental Term Sheet and anticipates submitting legal and financial documents in early 2004. HUD continues to monitor the grantee and its development team to ensure timely completion of the project.

Atlanta, GA: Carver Homes

Demolition and relocation are 100% completed. Construction/rehabilitation is 51% completed. Occupancy is 32% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Baltimore, MD: Flag House Courts

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The implementation of this grant was substantially delayed by a lawsuit. The lawsuit was resolved and the housing authority is now moving forward. The housing authority has closed on Phase I, which will provide 124 rental units, and legal and financial documents have been submitted for Phase II. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Cambridge, MA: John F. Kennedy Apartments

There was no demolition for this project. Relocation is 100% completed. Construction/rehabilitation is 59% completed. Occupancy is 51% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Charlotte, NC: Fairview Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 39% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chester, PA: McCaffrey Village

Demolition is 88% completed. Relocation is 83% completed. Construction/rehabilitation and occupancy are 87% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Chicago, IL: ABLA Homes

Demolition is 52% completed. Relocation is 34% completed. Construction/rehabilitation and occupancy are 0% completed. The project was delayed by ineffective administration of the grant - from ineffective program management to inadequate planning. The housing authority is now

making progress. Development functions have been combined under one developer and Phase I of the revitalization is scheduled to close this year. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Cincinnati, OH: Lincoln Court

Demolition and relocation are 100% completed. Construction/rehabilitation is 84% completed. Occupancy is 65% completed. The original developer was unable to complete the second homeownership phase on schedule. A sub-contractor was hired by the developer to expedite the completion of this phase and the housing authority board will approve this change in early 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Dallas, TX: Roseland

Demolition is 100% completed. Relocation is 92% completed. Construction/rehabilitation is 61% completed. Occupancy is 57% completed. The housing authority plans to increase the number of affordable housing units it produces by taking a significantly different development approach through the participation of a new non-profit community-based partner. These changes have resulted in project delays. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Denver, CO: Curtis Park Homes and Arapahoe Courts

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 59% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Greensboro, NC: Morningside Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 16% completed. Progress has been delayed due to litigation among the development partners and failed attempts to secure tax credits. While neither issue is completely resolved, the housing authority continues to push forward and has several phases completed or under construction. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Kansas City, MO: Heritage House II

Demolition, relocation, construction/rehabilitation and occupancy are all 100% completed.

Lexington, KY: Charlotte Court

Demolition and relocation are 100% completed. Construction/rehabilitation is 29% completed. Occupancy is 23% completed. The project is behind schedule on the remaining two phases due to litigation, site problems and delay in the receipt of tax credits. Tax credits will not be formally awarded until early 2004, therefore housing authority staff are attentive to the schedule and ready to submit documents as soon as possible. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Los Angeles, CA: Aliso Village

Demolition and relocation are 100% completed. Construction/rehabilitation is 80% completed. Occupancy is 50% completed. The housing authority is closing on the third and final phase of this project. The project is behind schedule on several critical milestones because the lender

changed law firms during the financial closing. The new law firm would not accept the legal documentation prepared by the previous firm, and insisted on re-submitting the legal documents. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Miami, FL: Ward Tower

There was no demolition or relocation for this project. Construction/rehabilitation and occupancy are 0% completed. Despite delayed unit production, the development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Milwaukee, WI: Parklawn Housing Development

Demolition, relocation and construction/rehabilitation are 100% completed. Occupancy is 96% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Mobile, AL: Central Plaza Towers

There was no demolition for this project. Relocation is 100% completed. Construction/rehabilitation and occupancy are 0% completed. Despite delayed unit production, the development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

New Bedford, MA: Caroline Street Apartments

There was no demolition for this project. Relocation, construction/rehabilitation and occupancy are 100% completed.

New Brunswick, NJ: New Brunswick Homes

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 32% completed. The housing authority experienced construction delays in 2001 after it failed to obtain union labor and earth moving equipment to excavate and prepare the site. During that period of time, all excavation contractors were in New York, NY working on excavation and remediation projects at the World Trade Center site. HUD expects that the housing authority will prepare closeout certification by 2005. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

New York, NY: Prospect Plaza

Demolition is 0% complete. Relocation is 100% complete. Construction/rehabilitation and occupancy are 0% complete. Phases of the Prospect Plaza development are behind schedule due to continued negotiations with the project developer. The housing authority pre-development activities and the execution of the developer's agreement for the Phase B mixed-finance rental tax credit units along with issues regarding total development costs (TDC) have delayed progress in the program. HUD is working with the grantee to align TDC within accepted guidelines.

Oakland, CA: Chestnut Court and 1114 14th Street

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 98% completed. The development is on schedule and meeting all critical milestones. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Philadelphia, PA: Martin Luther King Plaza

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 20% completed. Phases IV and V were delayed due to difficulties in completing off-site acquisition. The housing authority submitted homeownership legal and financial documents for Phase IV in late 2003. HUD review, approval, closing and construction start is anticipated by early 2004. The housing authority submitted its Rental Term Sheet for Phase V in late 2003. The housing authority and its development partner are also working on the legal and financial documents for Phase V rental development, but have not yet submitted them to HUD. Submission is anticipated in early 2004, with HUD review, approval, closing and construction start later in 2004.

Roanoke, VA: Lincoln Terrace

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 69% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Seattle, WA: Roxbury House and Village

Demolition and relocation are 100% completed. Construction/rehabilitation is 100% completed. Occupancy is 82% completed. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Tulsa, OK: Osage Hills Apartments

Demolition is 82% completed. Relocation is 100% completed. Construction/rehabilitation is 3% completed. Occupancy is 1% completed. The housing authority was put into default in late 2003. However, since the September 2004 HOPE VI Quarterly Progress Report significant progress has been made and the development is nearly 75% completed. Delays have been caused by a number of factors including availability of tax credits and difficulties in obtaining off-site property at prices within the original budgets. With the assistance of HUD and the approval of the Assistant Secretary for Public and Indian Housing, the housing authority has successfully restructured the remainder of the development and is on schedule to begin construction on the final phase of HOPE VI units by early 2004. The housing authority anticipates closing out the grant on schedule. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

Wilmington, DE: Eastlake Family Public Housing

Demolition and relocation are 100% completed. Construction/rehabilitation and occupancy are 0% completed. The housing authority and developer submitted a revised homeownership plan in late 2003 and are completing legal and financial documents, which they expect to submit to HUD in early 2004. Construction is expected to begin in early 2004. HUD continues to work closely with the grantee to monitor and assist in expediting completion of the project.

C. HUD plans for implementing GAO recommendations

Congress requested that the General Accounting Office (GAO) comprehensively review the HOPE VI program. Because of the scope of the project, GAO agreed to provide the information in a series of three reports. The first report, issued in November 2002, discussed the

financing of HOPE VI sites⁷. The second report, issued in May 2003, described HUD's management and oversight of the HOPE VI program⁸. The third and final report, focused on the effect that the HOPE VI program has had on residents and the neighborhoods surrounding HOPE VI sites⁹. GAO made five recommendations to HUD in these reports:

- a) HUD should provide the amounts and sources of funding used at HOPE VI sites, including equity raised from low-income housing tax credits, to Congress as required by law in annual reports;
- b) HUD should provide the total cost of developing public housing units at HOPE VI sites, including the costs of items subject to HUD's development cost limits and those that are not, to Congress as required by law in annual reports;
- c) HUD should continue to include past performance as an eligibility requirement in each year's notice of funding availability;
- d) HUD should clarify the role of field offices in HOPE VI oversight and ensure that HUD field offices conduct required annual reviews of HOPE VI grants; and
- e) HUD should develop formal, written enforcement policy to hold public housing authorities accountable for the status of their grants.

Annual Reports to Congress

As GAO indicated in its report, an annual report on the HOPE VI program is required under Section 24 of the U.S. Housing Act of 1937, as amended. This annual report requirement became law on October 21, 1998. Thus, annual reports should have been filed for fiscal years 1999 through 2003.

HUD did not submit annual reports on the HOPE VI program for FY 1999, FY 2000 and FY 2001. However, HUD submitted annual reports on the HOPE VI program to Congress for FY 2002 and FY 2003. HUD agrees with the GAO recommendation to submit annual reports, in accordance with the format required in Section 24 of the Act, and will continue submitting annual reports to Congress on the HOPE VI program.

The annual reports in FY 2002 and FY 2003 included a description of the number, type and cost of public housing units revitalized; the status of projects identified as severely distressed public housing; the amount and type of financial assistance provided under and in conjunction with the HOPE VI program; and the recommendations from HUD for statutory and regulatory improvements. The reports also provided total development costs and the elements that are included or excluded from the calculation of these cost limits.

Currently, HUD's HOPE VI reporting system does not provide for the level of detail requested by GAO regarding the amount of tax credit equity. The system collapses all non-federal sources into one category; thus HUD is unable to disaggregate the amount of equity raised through low-income housing tax credits. HUD includes these funds in the non-federal sources category, because the sale of tax credits generate private capital to support low-income

⁷ 2002 GAO-03-91 HOPE VI Leveraging has Increased, but HUD has not Met Annual Reporting Requirements. General Accounting Office: Washington, DC.

⁸ 2003 GAO-03-555 HUD's Oversight of HOPE VI Sites Needs to be More Consistent. General Accounting Office: Washington, DC.

⁹ 2003 (Draft) GAO-04-109 HOPE VI Resident Issues and Changes in Neighborhoods Surrounding Grant Sites. General Accounting Office: Washington, DC.

housing. However, HUD recognizes that tax credits represent forgone federal income and are therefore a direct cost to the federal government.

In addition to annual reports, the Conference Report on the Departments of Veterans Affairs on Housing and Urban Development and Independent Agencies Appropriations Act for FY 2002, enacted November 26, 2001, directed HUD to file by June 15, 2002 a report on the lessons learned in HOPE VI, including best practices, the extent of leveraging and neighborhood economic development, and the extent to which HOPE VI can be a model for treatment of the distressed Project-based Section 8 stock. This report was filed on June 14, 2002.

Past Performance as an Eligibility Requirement

In the FY 2002 Notice of Funding Availability HUD included past performance as both a threshold factor¹⁰ and rating factor¹¹. Applicants were disqualified if they had: a) an open IG or GAO audit finding related to the HOPE VI or Capital Fund Programs as of the date the application was due to HUD and / or b) failed to meet its performance requirements as required in the applicable HOPE VI Revitalization Grant Agreement by the date the application was due to HUD. Other threshold factors were site control, committed funds and zoning. As a rating factor, past performance included whether an applicant had met deadlines for submission of supplemental submissions; submission of the community and supportive services work plan; procurement of the program manager; and execution of the master development agreement. The factor also included a score for percent of HOPE VI funds obligated, with low obligation rates being penalized.

In FY 2003 HUD continued using past performance as a criterion for funding¹². Similar to FY 2002, this criterion included threshold factors and a rating factor. Applicants were disqualified if they had an open IG or GAO audit finding related to the HOPE VI or Capital Fund programs as of the date the application was due to HUD. Other threshold factors included site control, committed funds and zoning. As a rating factor, past performance included a score based on the percent of unit construction completed.

Field Offices and HOPE VI Oversight

HUD recognizes the importance of coordinating HOPE VI grant management and oversight activities with field offices. Field offices in Florida, Kentucky, New York, and Ohio are now directly managing HOPE VI grants in their region and helping to alleviate large grant portfolios among headquarters based grant managers. Moreover, the HOPE VI program is coordinating project oversight and annual audits with field offices across the HOPE VI portfolio to expand the capacity of HUD to more directly monitor the progress of HOPE VI projects.

Making HOPE VI Grantees Accountable

HUD has made significant strides in its oversight of HOPE VI grantees and management of the HOPE VI program. HOPE VI oversight and management has evolved from an overly flexible approach with fluid production deadlines and expectations to a more balanced approach that makes HOPE VI grantees and HUD staff accountable for the progress of HOPE VI projects.

¹⁰ 2002 *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 20.

¹¹ 2002 *HOPE VI Revitalization Grant Application*. U.S. Department of Housing and Urban Development. Pg. 25.

¹² 2003 *Notice of Funding Availability for Revitalization of Severely Distressed Public Housing*. Federal Register, Vol. 68, No. 203. 60189-60190.

To increase accountability, HUD has placed a greater emphasis on meeting deadlines and completion of HOPE VI developments. HUD provided a grace period during the first half of 2002 that allowed PHAs to revise their existing development schedules based on their own determinations of when they would complete a milestone activity. However, in June of 2002 these self-imposed checkpoints were "locked". To better track progress toward achieving the locked checkpoints, the Department upgraded the Grants Management System so that grantees have the ability to update their locked checkpoint completion dates on a continual basis via the system website.

Review of locked checkpoint completions is the Department's primary method of measuring the progress of the HOPE VI program and determining whether there might be a future grant default. As such, it is imperative that grantees move forward to complete the development activities that are related to these locked checkpoints and to inform the Department immediately upon completion of each activity. Failure to complete grant activities by the planned completion dates, or failure to report completion of a critical milestone, may cause the Department to place a grant in default.

In November 2003, five housing authorities (Biloxi, MS; Detroit, MI; Tulsa, OK; Washington, DC; and Wheeling, WV) were put into default because they had missed more than 10 of these critical milestones. Even though many grants are behind schedule, these grants have missed 10 or more key activities e.g., hiring a developer, relocating residents, beginning and ending construction. The default letters stated that the Department would deduct funds from their HOPE VI grants if they did not meet their implementation checkpoints within 90 days.

If a PHA does not meet these self-imposed performance measures within 90 days, \$1,000 daily will be deducted from the original grant for each critical milestone that is missed. For example, if a housing authority missed 10 critical milestones, they would be fined a total of \$10,000 a day.

Oversight of CSS has also improved significantly over the last three years. In 2000, HUD added a CSS section to the quarterly reporting system. Grantees report their current caseload, location of residents in the caseload and the number of enrollments and completions for social services (e.g., employment preparation, job skills training enrollments / completions, high school or equivalent education enrollments and completions, childcare, employment, and homeownership) every quarter through this system. Grantees also set yearly and quarterly goals for service enrollments and completions. HUD staff monitor progress toward these goals and score grantees across a portfolio triage system to determine the level of technical assistance that each site requires. Poor performance in meeting service goals, difficulty in establishing and managing case management services, conflicts with resident groups, relocation problems, and loss of leverage / in-kind support or service partners can trigger site visits from HUD staff. Additional monitoring and technical assistance is provided by technical assistance providers contracted by HUD to work directly with HOPE VI grantees on their CSS plans and implementation.

D. Proposed alternative housing strategies to mitigate recapture of funds on residents at failed HOPE VI projects

The original Senate language in the Appropriations Conference Report to accompany H.R. 2673 for the Fiscal Year Ending September 30, 2004 included a request that HUD provide information on proposed alternative housing strategies that would mitigate recapture of funds on residents at failed HOPE VI projects. This request did not pass and was removed from the final appropriations language.

Therefore, the Department has not developed a proposal for alternative housing strategies to mitigate the impact that a large-scale recapture of funds would have on residents. However, the Department will continue to evaluate the need to recapture all or a portion of a grant from low-performing projects on a case-by-case basis. The Department will also continue to hold housing authorities responsible for unit production, including fines for poor performance.

HOUSING COUNSELING

Question. Will FHA require borrowers who secure a zero downpayment mortgage to participate in homeownership counseling? If so, is FHA—as the insurer—planning to implement additional oversight or enhanced monitoring of these mortgages? Will FHA require that loan servicers conduct additional loan monitoring for zero downpayment loans? What plans are in place for assessing the effectiveness of the new zero downpayment product?

Answer. Yes, housing counseling will be a requirement to participate. FHA has developed this program to complement its existing affordable housing programs. As a result, FHA's existing monitoring and review infrastructure provide sufficient and appropriate program controls. In addition, because all mortgages made under this program will be risk assessed by the TOTAL mortgage scorecard, which allows FHA to collect important information about loan characteristics including a "ranking" of the overall perceived risk, FHA will be able to quickly determine if underwriting criteria need to be revised based on loan performance.

FHA expects loan servicers to provide the same level of professional and responsive service irrespective of the initial equity in the property. Servicers are required to track loan performance and to report to FHA any instances of default.

FHA will carefully monitor loan performance. FHA tracks performance of all its mortgages by product type, by fiscal year endorsed, by originating lender and other criteria as needed. These mortgages will be separately identified in FHA's system of records and will be monitored for performance, as are all other mortgages that FHA insures.

DEMAND FOR ZERO DOWNPAYMENT

Question. In HUD's budget justification, HUD estimates that the demand for the zero downpayment product will be 109,000 new cases in 2005. How did you come to this estimate, and in developing the estimate, did you consider the following:

- Experience of other agencies, such as VA or USDA?
- Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- Consult with other mortgage underwriters, such as private mortgage insurers?

Answer. In estimating the demand for the Zero Downpayment program, FHA took into account its knowledge of the home lending and mortgage insurance industries, its experience with homebuyers using various types of downpayment assistance, and assumptions about how rapidly it could implement a new program.

Furthermore, FHA's demand estimate is consistent with studies showing that initiatives to assist potential homebuyers in overcoming the downpayment hurdle will have a larger impact in raising homeownership rates than initiatives that lower the interest rates or monthly mortgage expenses. These studies show that about 28 percent of renters who cannot afford a modestly priced home are constrained only by downpayment costs.

CONVENTIONAL CREDIT

Question. In HUD's budget justification, HUD estimates that 36,000 cases that would otherwise qualify for the regular 203(b) program are expected to choose the zero downpayment product. Would the rest of the 109,000 cases have received loans from the conventional market? Under what terms and conditions?

Answer. HUD does not assume that the rest of the 109,000 cases would have received loans from the conventional market. It is unlikely that many borrowers seeking a mortgage under the Zero Downpayment program would qualify for a conventional mortgage outside of the subprime market. Most borrowers would probably postpone the decision to purchase a home until they had sufficient savings.

CONVENTIONAL ZERO DOWN MORTGAGES

Question. Currently zero downpayment mortgages are available in the conventional market (in which they may use stricter underwriting requirements for these products than FHA would be using for the zero down product). What is the size of this market? Who makes such loans now?

Answer. HUD does not have data on the size or composition of the conventional market for zero downpayment mortgages.

CREDIT RISK

Question. What types of borrowers does FHA expect to attract with the zero downpayment product, and how will the credit risk of these borrowers compare to the

credit risk of borrowers receiving low downpayment loans from the conventional market?

Answer. The program would assist those creditworthy but cash-poor working individuals and families excluded from purchasing their first home. The program is limited to first-time homebuyers and HUD expects that the program would be especially beneficial to those in markets where high rental costs inhibit the tenants' ability to save the downpayment. As the President said when signing the American Dream Downpayment Act, the inability to save the required downpayment is the most significant barrier to homeownership. Further, numerous studies since have indicated that removing the downpayment barrier would have a more dramatic effect on the homeownership rate than would other tools because removing the downpayment barrier would address the most significant reason why families and individuals cannot afford to purchase a home. The downpayment and closing cost barrier would be lessened and funds that would otherwise have to go towards the downpayment could be used to lower other debts to manageable levels. In fact, studies show that about 28 percent of renters who cannot afford a modestly priced home are constrained only by downpayment costs.

FHA does not have credit profiles on low downpayment loans from the conventional market so it cannot perform such a comparison.

ADVERSE SELECTION

Question. To what extent does the zero downpayment product address the issue of adverse selection as it relates to the borrowers for whom FHA is competing with the conventional market?

Answer. Adverse selection will continue with or without the Zero Downpayment product offering; the GSEs have resources not available to HUD and offer an array of mortgage products that FHA does not have authority to provide. Nevertheless, this program will allow FHA to have a product offering similar to those of Fannie Mae and Freddie Mac, and without the income and location restrictions often associated with those products in the conventional market. FHA's product would be available everywhere with only the amount of the mortgage limited by property location. Many conventional products are limited to borrowers with incomes that do not exceed 100 percent of the area's median or to specific geographical areas.

COMPETITION WITH THE CONVENTIONAL MARKET

Question. To what extent will FHA be able to compete with the conventional market and ensure that the mortgages FHA underwrites are not too risky?

Answer. FHA is not attempting to "compete" with the conventional market, but rather wishes to operate a successful program that provides homeownership opportunities to those creditworthy individuals and families that may not qualify under the more stringent guidelines of Fannie Mae and Freddie Mac. FHA believes that it can serve that underserved segment of the market and do so in a prudent and responsible manner by adopting sound credit-underwriting standards.

FANNIE MAE AND FREDDIE MAC

Question. Have Fannie Mae and Freddie Mac implemented pilot programs for their low and no downpayment products before making these products generally available? If so, did you consider taking such an approach with FHA's zero down product?

Answer. HUD is not privy to the market tests that may have been conducted by Fannie Mae and Freddie Mac. However, FHA believes that the program should be available nationwide to all qualified families and not limited to certain geographical areas or otherwise restricted by income limits.

LOAN MONITORING

Question. Will you be monitoring any differently loans made with no downpayment? Do you expect that FHA loan servicers to monitor these loans any differently? How and when will you know whether these loans are performing better or worse than you expected?

Answer. Since all mortgages made under this program will be risk assessed by the TOTAL mortgage scorecard, which allows FHA to collect important information about loan characteristics including a "ranking" of the overall perceived risk, FHA will be able to quickly determine if underwriting criteria need to be revised based on loan performance. In addition, the algorithm that FHA has adopted to select mortgage insurance applications for post-endorsement review includes the initial loan-to-value; the Zero Downpayment mortgages will be selected more often for

quality review. The actual “monitoring,” for which FHA interprets to mean default and claim experience, will be performed as usual. FHA expects loan servicers to provide the same level of professional and responsive service irrespective of the initial equity in the property. FHA tracks performance of all its mortgages by product type, by fiscal year endorsed, by originating lender. These mortgages will be separately identified in FHA’s system of records and will be monitored for performance, as are all other mortgages that FHA insures. FHA will know as soon as a mortgage insured under this program is reported as in default.

HOMEOWNER EQUITY

Question. With a zero downpayment loan, borrowers effectively end up with a loan that exceeds the value of the property. Now, in recent years home values have been increasing dramatically, but if home values were to decline, what value is there to homebuyers in having mortgages that exceed the value of the house?

Answer. Generally, in the long run, home values have tended to rise. If home values were to decline for a brief period, borrowers with an FHA-insured Zero Downpayment Mortgage might choose to continue to enjoy the shelter and housing services provided by their home, especially if their borrowing costs compare favorably with rental costs in the community.

LOAN PERFORMANCE ASSUMPTIONS

Question. Do you expect the zero downpayment loans to perform worse than other FHA insured loans? To what extent? Likewise, how do you expect the performance of zero downpayment loans to compare to the performance of comparable conventional loans? On what basis did you estimate the performance of the zero downpayment loans? For example, did FHA take into consideration the following?

- 1. Extrapolate from a subset of a prior program study, such as FHA loans with very low downpayments (i.e., 97 percent or greater)?
- 2. Experience of other agencies, such as VA or USDA?
- 3. Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- 4. Consult with mortgage underwriters, such as private mortgage insurers?

Answer. FHA does not have data on the performance of conventional zero downpayment loans. FHA has conservatively priced the premiums required to maintain its fiduciary responsibility to the MMI Fund. In addition, many industry sources would argue that credit history is the primary indicator of default risk, not the initial equity investment in the property.

CASH FLOW ASSUMPTIONS

Question. How would you expect the projected loan performance for the zero downpayment product to affect cash flows for existing FHA mortgages?

Answer. FHA expects that, in fiscal year 2005, 36,000 (one-quarter) of the homebuyers for the Zero Downpayment program would otherwise have been served by the FHA regular program, most probably as homebuyers with downpayment assistance. Because these borrowers pose above average risk to the Fund, FHA expects that cash flows for its regular program will improve.

PREPAYMENTS

Question. How do you expect the zero downpayment product to perform in terms of prepayment?

Answer. FHA did not make any explicit prepayment assumptions for the Zero Downpayment program. Loans with higher loan-to-value ratios generally prepay more slowly than loans with lower LTV ratios, but most FHA loans have high loan-to-value ratios.

CREDIT SUBSIDY ANALYSES

Question. Can you please provide for the committee the analyses HUD prepared in developing the estimated credit subsidy for this new product, including any analysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries.

Answer. FHA used the regular MMI credit subsidy model for fiscal year 2005 with the claim and premium assumptions applicable to the Zero Downpayment program to make credit subsidy estimates for the Zero Downpayment program.

ACTUARIAL REVIEW

Question. The latest actuarial review of the MMI fund, prepared by Deloitte & Touche, states that the MMI fund had an economic value of \$22.736 billion at the end of fiscal year 2003. How do you expect the proposed zero downpayment product to effect the value of the fund over the coming years?

Answer. Because we estimate the zero downpayment loans to have a negative credit subsidy, we expect them to contribute to the positive economic value of the Fund.

ACTUARIAL TOOLS

Question. GAO recommended in 2001 that HUD should develop criteria for measuring the actuarial soundness of the Fund and develop better tools for assessing the impact that policy changes may have on the volume of riskiness of loans that FHA ensures. What tools have you used to evaluate the proposed zero-down product? Generally, what steps has HUD taken to improve the tools it uses to assess such policy changes?

Answer. HUD gauges the soundness of FHA's insurance funds in several ways. First, the annual independent actuarial review of the MMI Fund provides us with an outside expert's estimate of the capital ratio of the overall fund, and the economic value of new business coming into the Fund. The capital ratio tells us if the existing books of business are financially sound, while the economic value estimates of new business tell us if the marginal impact of new loans insured is adding or detracting from the financial health of the Fund. Secondly, HUD has developed its own cash flow models of FHA's MMI, and GI/SRI Funds business, and uses these models: (1) to estimate the liability for loan guarantees (net present value of future cash flows from existing insured loans) for the existing books of business, and (2) to estimate the credit subsidy rate (net present value of all cash flows at the time new loans are insured divided by dollars endorsed) on future business. Finally, HUD continually monitors trends in defaults and claims through regular monthly and quarterly management reports, and ad-hoc reports as specific issues or loan performance issues arise.

For the proposed zero-down product, HUD was able to measure the relative claim experience of other loans it already insures for which borrowers make no downpayment (specifically loans with downpayment assistance), and used this experience to make assumptions as to the likely performance of the zero down loans. These assumptions were run through our cash flow models along with the higher proposed premium structure for these loans to determine that the zero down loans would have a negative credit subsidy, and would not adversely affect the economic value of the MMI Fund.

ACTUARIAL SOUNDNESS

Question. In proposing the zero down product, does that mean that you think that the fund is actuarially sound, and what criteria have you developed for making this judgment?

Answer. Yes, FHA believes that the MMI Fund is actuarially sound based on annual independent actuarial analyses which show the fund's capital ratio has remained well above the statutory 2 percent minimum for 8 years in a row now, and the economic value of new business coming into the Fund each year continues to be positive (has a negative credit subsidy). Together, these mean that the fund is healthy and new business is sound, suggesting the Fund will remain healthy.

Specifically, the fiscal year 2003 review estimated the economic value of the MMI Fund at the end of fiscal year 2003 to be \$22.736 billion and the Fund's Capital Ratio to be 5.21 percent, the eighth full year this ratio has exceeded the congressionally mandated target of 2.0 percent. (Economic value is the net present value of the Fund's reserves plus expected future cash flows, and the capital ratio is economic value divided by insurance-in-force.)

In comparison, the fiscal year 2002 actuarial review estimated the economic value and capital ratio of the Fund at \$22.636 billion and 4.52 percent, respectively. The increases in both measures for fiscal year 2003 were driven by the large positive economic value Deloitte and Touche placed on a record dollar volume of new loans FHA insured in fiscal year 2003 along with the rapid prepayment of older loans, keeping the end-of-year insurance-in-force (denominator of the capital ratio) down.

GI/SRI FUND

Question. The possibility of using the GI/SRI fund to insure the zero downpayment product has been raised. Under what circumstances would you envision the

GI/SRI fund insuring the zero downpayment product? What impact would the new zero downpayment product have on the credit subsidy rate of the GI/SRI fund?

Answer. FHA does not plan to create a zero downpayment product in the GI/SRI Fund.

DOWNPAYMENT ASSISTANCE

Question. What do you know about the performance of FHA insured loans that have received downpayment assistance, and what does this tell you about how the new zero down loans may perform?

Answer. FHA loans to homebuyers with downpayment assistance from nonprofits or government agencies have claim rates that are approximately twice those of the average FHA borrower.

DOWNPAYMENT ASSISTANCE PROGRAMS

Question. What impact do you see the proposed zero downpayment loans having on programs which provide downpayment assistance?

Answer. FHA expects the Zero Downpayment program to expand opportunities for homebuyers to purchase a home without cash for a downpayment, especially in communities without downpayment assistance providers. Studies suggest that a nationwide program that removes the downpayment barrier would especially benefit minority homebuyers.

PAYMENT INCENTIVES

Question. HUD is proposing a legislative change that would enable borrowers with poor credit ratings to qualify for FHA insurance. FHA would still require borrowers to meet debt, income, and repayment ability standards. FHA would also require borrowers to have greater owner equity and would charge borrowers upfront and annual premiums that are higher than those for FHA's regular 203(b) mortgage product. Up-front premiums for this new product would be 2.25 percent and annual premiums would be 0.75 percent. Subsequently, the annual premium may be reduced or eliminated due to good mortgage payment performance; the budget justifications indicate that 60 months would be the trigger point. HUD's proposed appropriations language would, however, enable HUD to establish and collect an annual premium not exceeding 1.0 percent of the remaining insured principal. Furthermore, HUD's proposed appropriations language dictates that these mortgages would be insured by the MMI fund.

HUD expects an increased risk of default associated with these mortgages; specifically, HUD estimates a default rate of 18.73 percent (i.e., lifetime defaults as percentage of disbursements) as compared to the estimated default rate of 9.06 for FHA's regular 203(b) mortgage product. HUD also estimates a recovery rate of 71.90 percent (i.e., recoveries as a percentage of lifetime defaults). HUD estimates that these mortgages would have a subsidy rate of -0.56 percent and that this program will generate 60,000 new mortgages per year and \$45 million in additional negative subsidy. (HUD estimates that its MMI program has a subsidy rate of -1.93 percent.)

Will the underwriting standards for the proposed payment incentives product be very similar to those for FHA's 203(b) product? If so, will the payment incentives product be underwritten using the new TOTAL Scorecard system? Since the payment incentives product is viewed to be "more risky", did HUD consider using more rigorous standards for borrowers qualifying for the zero down product?

Answer. Yes, all mortgages under the payment incentives program must be risk assessed using the FHA TOTAL mortgage scorecard. Underwriting criteria, other than the downpayment percentage, have not yet been developed.

OWNER EQUITY

Question. Are you asking for greater owner equity? If so, How much additional equity? How will the other underwriting criteria counterweight the additional risk of a loan to a borrower with a lower credit score?

Answer. It was assumed that these loans would not exceed 90 percent LTV.

ANNUAL PREMIUMS

Question. Regarding annual premiums associated with the payment incentive product: (a) will annual premiums be reduced or eliminated at 60 months?; (b) will there be specific criteria used to determine that premiums will be reduced or eliminated (e.g., what payment history would be necessary)?; and (c) if they are reduced, what will they be reduced to?

Answer. It was assumed that borrowers would pay an annual premium of 75 basis points for the first 5 years of the loan, dropping to 50 basis points until the loan was paid down to 78 percent LTV.

HOMEOWNERSHIP COUNSELING

Question. Will FHA require borrowers who secure a payment incentive product to participate in homeownership counseling?

Answer. Housing counseling will be required for purchase transaction.

RISKS

Question. Considering the risks associated with the payment incentive product, did HUD consider initiating a pilot program?

Answer. FHA is confident that the agency can operate the program nationwide without first offering the program as a pilot.

OVERSIGHT

Question. Will FHA implement additional oversight or enhanced monitoring of payment incentive mortgages?

Answer. FHA has developed this program to complement its existing affordable housing programs. As a result, FHA's existing monitoring and review infrastructure provides sufficient and appropriate program controls. In addition, since all mortgages made under this program will be risk assessed by the TOTAL mortgage scorecard, which allows FHA to collect important information about loan characteristics including a "ranking" of the overall perceived risk, FHA will be able to quickly determine if underwriting criteria need to be revised based on loan performance.

LOAN SERVICERS

Question. Will FHA require that loan servicers conduct additional loan monitoring for payment incentives loans?

Answer. No, FHA expects loan servicers to provide the same level of professional and responsive service irrespective of the initial equity in the property. Servicers are required to track loan performance and to report to FHA any instances of default. Mortgagors may also opt to have counseling agencies contact them directly should they become 60 days delinquent on the mortgage.

PROGRAM ASSESSMENT

Question. What plans are in place for assessing the effectiveness of the proposed payment incentives product?

Answer. FHA will monitor the performance of the Payment Incentives program as carefully as it monitors the performance of all of its mortgage insurance programs. With a new program, early default and claim rates are the best indicators of program performance.

VOLUME ESTIMATE

Question. In HUD's budget justification, HUD estimates that this program would generate 60,000 new mortgages per year. How did you come to this estimate? In developing this estimate, did you consider the following?

- 1. Experience of other agencies, such as VA or USDA?
- 2. Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- 3. Consult with other mortgage underwriters, such as private mortgage insurers?

Answer. To estimate the potential demand for the Payment Incentives program, HUD analyzed data from the Survey of Consumer Finances on renters with sufficient income to purchase a home but who have imperfect credit.

SUBPRIME MARKET

Question. Currently mortgages are available in the conventional market (subprime market) to borrowers with questionable credit histories. How relevant is the experience of these mortgages that are available through the subprime market? To what extent will FHA be able to compete with subprime market and ensure that the mortgages FHA underwrites are not too risky?

Answer. HUD does not have data on the performance of subprime loans. In developing underwriting criteria for this program, FHA will rely on its experience in serving borrowers with imperfect credit. In addition, it will require pre-purchase

counseling and the use of the TOTAL mortgage scorecard. TOTAL provides FHA with a tool with which to manage the incremental risk assumed by the payment incentive loans.

BORROWERS

Question. What types of borrowers does FHA expect to attract with the payment incentives product, and how will the credit risk of these borrowers compare to the credit risk of borrowers receiving loans similar to the payment incentives loans from the conventional market?

Answer. HUD does not have data on the performance of conventional loans. With the Payment Incentives program, FHA expects to serve borrowers who have impaired credit, but have the cash for a significant downpayment. It also expects to serve borrowers with subprime loans who have impaired credit but have established a payment history and wish to refinance into a lower cost product.

LOAN PERFORMANCE

Question. Do you expect the payment incentives loans to perform worse than other FHA insured loans? To what extent? On what basis did you estimate the performance of the payment incentives loans? For example, did FHA take into consideration the following:

- Extrapolate from a subset of a prior program study, such as FHA loans with questionable credit histories?
- Consult with secondary market participants that purchase zero downpayment mortgages, such as Fannie Mae or Freddie Mac?
- Consult with mortgage underwriters, such as private mortgage insurers?

Answer. Based on its experience with credit impaired borrowers and its knowledge of the home lending and mortgage insurance industries, FHA expects that the Payment Incentives program will have claim rates that about double those of its regular program.

CREDIT SUBSIDY ANALYSES

Question. Can you please provide for the committee the analyses HUD prepared in developing the estimated credit subsidy for this new program, including any analysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries?

Answer. In developing a credit subsidy estimate, FHA used its regular MMI credit subsidy model with downpayment, claim rate, and premium assumptions applicable to the Payment Incentives program.

ACTUARIAL REVIEW

Question. The latest actuarial review of the MMI fund, prepared by Deloitte & Touche, states that the MMI fund had an economic value of \$22.736 billion at the end of fiscal year 2003. How do you expect the payment incentives program to effect the value of the fund over the coming years?

Answer. As with the zero downpayment loans, we estimated that the payment incentive loans would have a negative credit subsidy, and therefore, we expect them to contribute to the positive economic value of the fund.

GAO RECOMMENDATIONS

Question. GAO recommended in 2001 that HUD should develop criteria for measuring the actuarial soundness of the Fund and develop better tools for assessing the impact that policy changes may have on the volume of riskiness of loans that FHA ensures. What tools have you used to evaluate the proposed payment incentives product? Generally, what steps has HUD taken to develop better tools for assessing such changes?

Answer. HUD gauges the soundness of FHA's insurance funds in several ways. First, the annual independent actuarial review of the MMI Fund provides us with an outside expert's estimate of the capital ratio of the overall fund, and the economic value of new business coming into the Fund. The capital ratio tells us if the existing books of business are financially sound, while the economic value estimates of new business tell us if the marginal impact of new loans insured is adding or detracting from the financial health of the fund. Secondly, HUD has developed its own cash flow models of FHA's MMI, and GI/SRI fund business, and uses these models: (1) to estimate the liability for loan guarantees (net present value of future cash flows from existing insured loans divided by dollars endorsed) for the existing books of business, and (2) to estimate the credit subsidy rate (net present value of

all cash flows at the time new loans are insured) on future business. Finally, HUD continually monitors trends in defaults and claims through regular monthly and quarterly management reports, and ad-hoc reports as specific issues or loan performance issues arise.

For the proposed payment incentive product, HUD will set underwriting criteria such that the relative claim rate experience of these new loans will be about two times that of the average claim rates for all loans currently being insured by the MMI Fund under the regular program. Using this claim rate assumption HUD used its cash flow models along with the higher proposed premium structure for these loans to determine that the payment incentive loans would have a negative credit subsidy, and would not adversely affect the economic value of the MMI Fund.

ACTUARIAL SOUNDNESS

Question. In proposing the payment incentives product, does that mean that you think that the fund is actuarially sound, and what criteria have you developed for making this judgment?

Answer. Yes, FHA believes that the MMI Fund is actuarially sound based on annual independent actuarial analyses which show the fund's capital ratio has remained well above the statutory 2 percent minimum for 8 years in a row now, and the economic value of new business coming into the fund each year continues to be positive (has a negative credit subsidy). Together, these mean that the fund is healthy and new business is sound, suggesting the Fund will remain healthy.

UNEARNED PREMIUM REFUNDS

Question. HUD is proposing a legislative change to restrict payments of refunds of unearned upfront premiums to borrowers who refinance with a new FHA loan; in other words, HUD would eliminate the payment of partial refunds of unearned upfront premiums to borrowers who sell their homes or refinance with conventional loans. HUD's rationale for this change is to provide an incentive for high quality current MMI borrowers to refinance with MMI—as retaining the refund for MMI refinances will partially offset the upfront premium cost to the borrower for a new loan. The restriction will affect mortgages that become insured on or after the date of enactment of the legislation. HUD estimates that eliminating refunds for borrowers who refinance with conventional loans will add \$78 million in negative subsidy. Can you explain HUD's rationale for this change?

Answer. With this policy change, some borrowers who might have refinanced into a conventional mortgage will have a small, albeit declining, incentive to refinance with FHA.

FHA BORROWERS

Question. Does this mean that an FHA borrower who sells his house would lose his upfront premium?

Answer. Yes, a borrower who sells his house would be ineligible for a refund.

PROGRAM DEMAND

Question. What is the expected impact of the proposed change in policy on demand for FHA mortgage insurance? How many additional FHA borrowers do you estimate will choose to refinance with FHA under this proposal? Conversely, how many potential FHA borrowers do you think FHA will lose due to the effective increase in the premium?

Answer. The number of borrowers who choose to refinance with FHA depends largely upon interest rates and house price appreciation. When interest rates are falling, borrowers whose homes have appreciated sufficiently will refinance into conventional mortgages, while those whose homes have appreciated more slowly will refinance with FHA. Between fiscal year 2001 and 2003, a period of falling interest rates, FHA recapture rates (the percent of prepaid loans refinanced with FHA) ranged between 18.5 and 24.7 percent. In contrast, in fiscal years 1995 and 2000, years when interest rates rose, FHA recapture rates were 3.9 and 3.2 percent, respectively. Borrowers who refinance with FHA are unaffected by the policy change. Borrowers who are eligible to refinance into conventional mortgages will experience a small and declining incentive to remain with FHA.

CREDIT SUBSIDY ANALYSIS

Question. Please provide for the committee the analyses HUD prepared in developing the estimated credit subsidy for these proposed changes, including any anal-

ysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries.

Answer. FHA used the regular MMI credit subsidy model for estimating the credit subsidy impact of the change in refund policy. All assumptions remained the same except for the assumptions about the refund policy.

EFFECT ON MMI ECONOMIC VALUE

Question. The latest actuarial review of the MMI fund, prepared by Deloitte & Touche, states that the MMI fund had an economic value of \$22.736 billion at the end of fiscal year 2003. How do you expect the proposed legislative and administrative changes to effect the value of the fund over the coming years?

Answer. Because we believe the administrative changes will result in a credit subsidy that is more negative, we believe that the impact of these changes on the economic value of the Fund will be positive.

ACTUARIAL CRITERIA

Question. GAO recommended in 2001 that HUD should develop criteria for measuring the actuarial soundness of the Fund and develop better tools for assessing the impact that policy changes may have on the volume of riskiness of loans that FHA ensures. What tools have you used to evaluate the proposed changes in refunds of upfront premiums? Generally, what steps has HUD taken to develop better tools for assessing such policy changes?

Answer. HUD gauges the soundness of FHA's insurance funds in several ways. First, the annual independent actuarial review of the MMI fund provides us with an outside expert's estimate of the capital ratio of the overall fund, and the economic value of new business coming into the fund. The capital ratio tells us if the existing books of business are financially sound, while the economic value estimates of new business tell us if the marginal impact of new loans insured is adding or detracting from the financial health of the fund. Secondly, HUD has developed its own cash flow models of FHA's MMI, and GI/SRI fund business, and uses these models: (1) to estimate the liability for loan guarantees (net present value of future cash flows from existing insured loans) for the existing books of business, and (2) to estimate the credit subsidy rate (net present value of all cash flows at the time new loans are insured divided by dollars endorsed) on future business. Finally, HUD continually monitors trends in defaults and claims through regular monthly and quarterly management reports, and ad-hoc reports as specific issues or loan performance issues arise.

For the proposed administrative changes, HUD was easily able to evaluate the impact of these changes by making small adjustments in its cash flow models consistent with the proposed changes.

PREMIUM REFUND CRITERIA

Question. In proposing changes involving refunds of the upfront premium, does that mean that you think that the fund is actuarially sound, and what criteria have you developed for making this judgment?

Answer. Yes, FHA believes that the MMI Fund is actuarially sound based on annual independent actuarial analyses which show the fund's capital ratio has remained well above the statutory 2 percent minimum for 8 years in a row now, and the economic value of new business coming into the fund each year continues to be positive (has a negative credit subsidy). Together, these mean that the fund is healthy and new business is sound, suggesting the fund will remain healthy.

PREMIUM EARNING PERIOD

Question. HUD is proposing an administrative change to shorten the time available for partial rebates of upfront insurance premiums from the current 5 years to 3 years. Only homeowners repaying their FHA loans within this period (i.e., 3 years) would get a portion of the upfront premium back, on a sliding scale of amortization. This provision will only apply to loans insured after the effective date of the administrative changes. HUD estimates that this will yield \$91 million in additional negative subsidy. Can you explain the rationale behind this change? FHA borrowers used to be eligible to receive this rebate for up to 7 years after the loan was originated. This was changed to 5 years, and now HUD is seeking to change the time limit to 3 years. That is, what has changed that causes you to believe that FHA should accelerate the speed with which it earns the upfront premium?

Answer. The cash flow analysis shows that MMIF upfront premiums approximately equal claim outflows at the end of 3 years, suggesting the premium is fully earned before the cut-off of the current 5-year refund schedule.

SUBSIDY ESTIMATE

Question. In HUD's budget justification, it states that this change is expected to yield additional negative subsidy of \$91 million. How did HUD arrive at this estimate?

Answer. FHA used the regular MMIF credit subsidy model for estimating the credit subsidy impact of the change in refund policy. All assumptions remained the same except for the assumptions about the refund policy.

CREDIT SUBSIDY ANALYSES

Question. Please provide the analyses HUD prepared in developing the estimated credit subsidy for these proposed changes, including any analysis showing the expected prepayments and foreclosures for these loans and all cash flows, including premiums and recoveries.

Answer. FHA used the regular MMIF credit subsidy model for estimating the credit subsidy impact of the change in refund policy. All assumptions remained the same except for the assumptions about the refund policy.

LEAD BASED PAINT REDUCTION OFFSETS

Question. HUD is requesting \$139 million for lead based paint hazard reduction—a \$35 million reduction over the amount enacted in fiscal year 2004. The reduction results largely from the \$49.7 million for grants targeted at areas with the highest lead paint abatement needs—Lead Hazard Demonstration Project. According to the budget justification, no funding is requested for fiscal year 2005 for this project because the program needs can now be met (offset) in part through the Lead Hazard Control Grants Program. The budget also increased the Lead Hazard Control Grants Program by \$14.8 million. In addition, HUD eliminated the \$25 million Lead Reduction Initiative from the HOME program under Community Planning and Development. What analysis was done to justify eliminating the Lead Reduction Initiative from the HOME program?

Answer. The Lead Reduction Initiative within the HOME program was never funded by Congress. After further discussion and analysis, it became clear that the activities under this program appeared to largely duplicate the Department's regular and successful Lead Hazard Control Program because lead-based paint activities are already an eligible expense under the HOME program. Thus, it was not proposed again in the President's budget request for the HOME program.

STATUS OF UNEXPENDED BALANCES (ALL PROGRAMS)

Question. HUD carries over large unobligated uncommitted balances from year to year. These balances result from underutilization of program funds and other reasons. According to HUD's Budget Appendix, its fiscal year 2003 end-of-year unobligated balance was \$8.9 billion. While the amount unexpended needs to be reconciled, some of these funds may be available to offset HUD's fiscal year 2005 budget request.

Are unexpended balances being used to offset HUD's fiscal year 2005 budget request? If so, can this action be attributed to their assessment of unexpended balances (recommended by GAO in 1999, 2001 and again in 2002)?

Answer. Yes, unexpended balances are being used to offset HUD's fiscal year 2005 budget request. In addition to the smaller rescissions proposed in other HUD programs, \$1.6 billion is proposed for a rescission under the Housing Certificate Fund. HUD has been proposing offsets/rescissions in its Budget request at least since the 1997 Budget, long before any GAO recommendations.

STATUS OF UNEXPENDED BALANCES (HCF)

Question. About \$3.28 billion of the total amount in unobligated uncommitted funds remained in the Housing Certificate Fund at the end of fiscal year 2003. HUD's fiscal year 2004 end of year unobligated balance estimate for the Housing Certificate Fund is \$184 million. While the amount unexpended needs to be reconciled, some of these funds may be available to offset HUD's fiscal year 2005 budget request. How much of the \$3.28 billion is attributable to unexpended obligations with in the Housing Certificate Fund in the Section 8 Moderate Rehabilitation program and in the Section 236 Multifamily Mortgage Interest Reduction program?

Answer. Section 236 Multifamily Mortgage Interest Reduction programs a separate program, therefore, none of the unexpended balances in the Housing Certificate Fund are associated with Section 236.

Question. How much of these unexpended obligations will likely be needed for program purposes?

Answer. All unexpended obligations are needed for program purposes.

Question. How does HUD intend to reduce its unexpended balance in the Housing Certificate Fund to \$184 million at the end of fiscal year 2004 as estimated in HUD's Budget Appendix?

Answer. HUD does not intend to reduce its unexpended balance in the Housing Certificate Fund to \$184 million at the end of fiscal year 2004, but rather, the unobligated balance. The unexpended balance includes funds that have already been obligated as well as unobligated funds. The unobligated balance (the \$184 million in the Budget Appendix) is that those funds that have not been obligated.

HOMELESS DEMONSTRATION PROJECT

Question. This was a new initiative approved in fiscal year 2003 for a 2-year period ending in fiscal year 2005. Funds totaling \$10 million were appropriated at that time. The Congress requested that HUD report on the demonstration by March 15, 2004. In response, HUD indicates that it is reporting as part of the Congressional Budget Justification. As such, HUD states that it is proposing to serve homeless persons that have substance abuse issues, and demonstration funds would be used to provide housing. Other resources would be leveraged to provide needed supportive services. Through a competitive selection process, HUD expects to identify best practices and share this information with other homeless providers. HUD is carrying over \$9 million in program funds in fiscal year 2005. What has HUD accomplished under this program since 2003? What analysis has been done to justify that \$10 million might be needed for the program? What is the projected amount needed per award? Why haven't funds been obligated? What is the projected utilization?

Answer. Since this initiative was funded by Congress, we requested and recently received clarification of Congress' intent for the program. While a needs assessment has not been conducted, a substantial portion of chronically homeless people have substance abuse and/or mental illness issues. These individuals either have been on the street for at least a year or have had four episodes of homelessness in the past 3 years. This group is particularly vulnerable. They need permanent housing with comprehensive services. We would anticipate that the awards per project would be up to \$2 million. Once the housing demonstration program is developed and funds are awarded, we would expect that funds would be expended within 3 years.

PUBLIC HOUSING CAPITAL FUND—FREEDOM TO HOUSE DEMONSTRATION

Question. What are the successes and what are the problems these PHAs face?

Answer. Participating PHAs have realized some interesting results while experimenting with: (1) Alternatives to the standard approach for establishing tenant rents; (2) Time limits on the receipt of housing assistance; (3) Administrative streamlining (to cut costs and complexity); (4) Funding flexibility (by combining operating subsidies, modernization grants and Section 8 funding into a flexible funding stream); and (5) Alternate development and financing arrangements to expand the stock of affordable housing.

Evidence to date suggests that deregulation of local HAs may yield benefits in terms of program design and implementation innovations.

For example, several participating PHAs have used the funding fungibility authority for standard program uses, but in a more flexible and efficient manner, to compensate for "losses" in one program area and to develop (through construction, acquisition or rehabilitation) new, affordable housing units. Some participating PHAs implemented changes in housing subsidy formulas with provisions (such as flat rents) that reward resident employment and income growth, and/or with provisions that penalize unemployment and/or with supplemental services and supports to help residents make progress towards self-sufficiency and/or with time limits on assistance. Many participants have used the demonstration to alter specific procedural and reporting requirements, including less frequent re-examination, merged waiting lists, local inspection standards and protocols and other streamlining and paperwork reduction initiatives.

The local flexibility and independence permitted under MTW appears to allow some PHAs to experiment with innovative solutions to local challenges, and to be more responsive to local conditions and priorities to an extent not otherwise permissible under standard rules.

OMHAR

Question. In 2001, the Congress reauthorized the “mark-to-market” program. One of the key provisions of the reauthorization bill requires the Office of Multifamily Housing and Assistance Restructuring or “OMHAR” to be brought under the direct supervision of the Federal Housing Commissioner on October 1, 2004. Can you tell me how OMHAR is operating and what transition plans you have in mind to move the office under FHA by October 1?

Answer. OMHAR continues to operate effectively. They have completed 1,102 restructuring transactions to date. The Office of Housing will assume OMHAR’s activities once OMHAR sunsets on September 30, 2004. A reorganizational plan to effect this change was approved by Deputy Secretary Bernardi on June 22, 2004 and submitted to the appropriate committees in the Senate and House on July 9, 2004.

SECTION 811 DISABLED HOUSING

Question. There is a concern that vouchers that are funded under this account are moved into the mainstream voucher program after being turned in and thus lost to the disabled population. What does HUD do to ensure these vouchers remain funded and available to only eligible persons with disabilities?

Answer. All of the Mainstream Notices of Funding Availability (NOFAs) issued from fiscal years 1997 have included language indicating Mainstream vouchers from Housing for Persons with Disabilities Fund must be initially issued to disabled families, and must be reissued to disabled families upon turnover. Several months ago, HUD initiated changes to its procedures that will enable it to track the usage of Mainstream vouchers (5-year budget authority derived from Section 811 appropriations) designated for disabled families. By no later than September 2004, public housing agencies (PHAs) will be required to begin reporting electronically to HUD (using the Form HUD-50058, Family Report) on the usage by disabled families of these Mainstream vouchers.

SALARIES AND EXPENSES

Question. According to HUD’s Budget Appendix, the Department is requesting \$592 million to fund salaries and expenses in fiscal year 2005—an increase of about \$48 million over the amount enacted in fiscal year 2004 (\$544 million). (Note.—However, the amount enacted in fiscal year 2004 does not reconcile with HUD’s Congressional Budget Justification. HUD’s justification reports \$547 million as the enacted amount in fiscal year 2004). Despite differences in amounts observed in the enacted amount for fiscal year 2004, HUD’s budget justification states that the amount requested in fiscal year 2005 would support 9,405 full time equivalent staff (FTE) in fiscal year 2005. This reflects current FTE increases totaling 126 in the fiscal year 2004 budget, and increases due to anticipated pay raises, time-in-grade increases, promotions, health and other benefits.

HUD’s resource estimation allocation process (REAP) supports a requirement of 9,661 FTEs in fiscal year 2005. According to HUD’s justification, the 9,405 FTE level reflects a pathway to the REAP target of 9,661, incorporating current staffing levels, approved reorganizations, and planned workload accomplishments for fiscal year 2004 and 2005. It appears that the administration is not requesting the increase in staff dictated by its REAP analysis. In addition, HUD’s justification indicates that the 9,405 level includes \$3 million in funding for 8 FTEs for HUD’s Center for Faith-Based and Community Initiatives.

If Congress in fiscal year 2005 does not approve the Center, will there be a need for the full proposed 9,405 level? Does the 2004 FTE level (9,405) factor in the Faith-Based Initiative? If so should it be reduced by 8 FTE? Please reconcile Salaries and Expense enacted levels for fiscal year 2004 between the Budget Justification and the Budget Appendix.

Answer. HUD’s Center for Faith-Based and Community Initiatives (CFBI) was established by Executive Order 13198, Agency Responsibilities with Respect to Faith-Based and Community Initiatives, on January 29, 2001. The purpose of establishing this Executive Department Center was to coordinate department efforts to eliminate regulatory, contracting, and other programmatic obstacles to the participation of faith-based and other community organizations in the provision of social services. Since 2001, Congress has approved annual budgetary requests for this organization each year through fiscal year 2004.

Fiscal year 2004 FTE level of 9,405 includes 8 FTE for CFBI and should not be reduced by 8 FTE. Congress approved 8 FTE in the House of Representatives Conference Report 108-401, Page 1103, dated November 25, 2003 specifically for the CFBI.

HUD's Salaries and Expenses enacted levels for fiscal year 2004 in the 2005 Congressional Budget Justification and the 2005 President's Budget Appendix are reconciled.

The 2005 Congressional Budget Justification, Page I-1, Enacted 2004 column, line "Salaries and Expenses, HUD" reflects \$547,000 and line "Rescission Public Law 10807" reflects -\$3,227 the .059 percent across-the-board rescission, resulting in a net request of \$543,773.

The President's Budget Appendix, Page 555, Program and Financing Schedule, 2004 Estimated column, lines 43.00 Appropriations (Total Discretionary) and 89.00 Budget Authority reflects \$544, the amount net of the rescission, that reconciles with the Budget Justification.

QUESTIONS SUBMITTED BY SENATOR CONRAD BURNS

MONTANA SECTION 8 VOUCHER PROGRAM WAITING LIST

Question. The current waiting list for the State of Montana Section 8 program numbers over 7,685 for a number of vouchers of roughly half this amount. Public housing authorities around the State have separately operated Section 8 programs with similarly long waiting lists. A typical wait in Montana communities for a voucher runs from 2 to 7 years depending on if you qualify for a priority on the waiting list. How will drastic cuts to the voucher program affect these waiting periods?

Answer. The Flexible Voucher Program is expected to be able to serve at least the current number of families assisted, if not more. HUD expects that the program reforms and the administrative flexibility provided to PHAs will result in an increase in the number of families that can be assisted under the Flexible Voucher Program. These reforms will help more needy families make the transition from public assistance to self-reliance and work. As more families transition out of the program, more families on the waiting list will be served. The Flexible Voucher Program will also encourage and enable PHAs to maximize Federal subsidy to serve more families, as was the case in the original Voucher Program.

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TARGETING LOW-INCOME AND DISABLED PEOPLE

Question. By making these reductions, are you targeting the people (low-income and disabled) that need this program the most?

Answer. The Flexible Voucher Program is intended to preserve and improve assistance for low-income and disabled families in need of housing. As previously stated, HUD expects that the program reforms and the administrative flexibility provided to PHAs will result in an increase in the number of disabled and other low-income families that can be assisted under the Flexible Voucher Program.

M&M CONTRACTOR

Question. What is the status of the renewal of the First Preston contract?

Answer. The First Preston's contract expires on July 31, 2004 and we are negotiating a transition period to a new M&M contractor.

METH HOMES

Question. What procedures are in place for HUD and First Preston to handle meth homes?

Answer. These types of homes are not common in HUD's portfolio and are treated on a case-by-case basis. When it has been determined that a meth home has been acquired by HUD, the home is tested by an environmental organization. If abatement is necessary, HUD is responsible for ensuring that the work is completed. Full disclosure at the time of property listing is made to advise potential purchasers that the property was a meth home and what steps HUD has taken to resolve outstanding issues.

In those instances where HUD and/or its management and marketing (M&M) contractors are not aware that a meth home was sold and it is subsequently brought to HUD's attention, the home is inspected/tested and abated as necessary.

FIRST PRESTON

Question. Will First Preston services be "regionalized"?

Answer. No, First Preston's will not be regionalized.

PUBLIC HOUSING RESTRUCTURING

Question. What steps is HUD taking to help with restructuring of public housing?

Answer. The Department actively works with a wide array of stakeholders in the preservation of assisted, affordable housing. Specific restructuring tools were provided by the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) to the Office of Multifamily Housing Assistance Restructuring (OMHAR). OMHAR sunsets on September 30, 2004, but the Mark-to-Market (M2M) restructuring authorities under MAHRA continue until September 30, 2006.

OMHAR SUNSET

Question. With OMHAR ready to sunset after this fiscal year, will restructuring services revert back to the HUD agency?

Answer. Yes. The Office of Multifamily Housing Assistance Restructuring (OMHAR) sunsets on September 30, 2004, but the Department retains the Mark-to-Market (M2M) restructuring authorities under the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) until September 30, 2006.

RESTRUCTURING PUBLIC HOUSING

Question. Will there be additional training for these folks to conduct a fair and equitable survey for comparable rents?

Answer. It is anticipated that the existing group of Participating Administrative Entities (PAEs) will continue to perform their contractual roles in determining market rents as part of their due diligence, when developing their recommendation for a restructuring plan. The Department will continue to provide oversight, direction and training to the PAEs. This includes the PAEs responsibility for rent determinations.

MANUFACTURED HOUSING RULES

Question. When will the rules for Manufactured Housing be released? These were initially passed in the 107th Congress and States like Montana do not currently have the infrastructure to deal with issues surrounding manufactured homes.

Answer. The Department is working to publish a proposed rule for the Model Installation Standards this year. The Department is also developing the proposed regulations for both the installation and dispute resolution programs.

The Manufactured Housing Improvement Act of 2000 mandates that the Department establish the new installation and dispute resolution programs by December 2005. Advanced Notices of Proposed Rulemaking for these programs were published for comment in March 2003. The Department is cooperating with the Manufactured Housing Consensus Committee to maintain a timely publication schedule for the rules.

The Department understands that States such as Montana do not currently have the infrastructure to deal with issues surrounding manufactured homes. In Montana, and any other State that chooses not to establish a manufactured housing installation or dispute resolution program, the Department will assume the responsibility for administration of these programs.

SAFETY AND SECURITY FUNDING

Question. The drug elimination funds were cut last year from their budget. They asked for security measures/funding due to the budget cuts, especially with regard to the large public housing facilities. Public housing could be the subject to terrorist

attacks, meth labs, and/or prostitution organizations. The President's budget came out with zero funding for safety and security. How can these problems be addressed?

Answer. Anti-drug and anti-crime activities, formerly associated with the Public Housing Drug Elimination Program, are currently allowable expenses of a Public Housing Agency (PHA) under the Public Housing Operating Fund. As with any allowable expense, including protective services, it is a matter of local determination and priority to establish the level of services a PHA wishes to provide for its residents.

FAMILY SELF-SUFFICIENCY COORDINATOR POSITIONS FUNDING

Question. Additionally, the budget also cut the Restoration/Continuation of the (FSS) Family Self Sufficiency position, who keeps families moving to Section 8 homeownership. Without this person, they don't have the personnel resources to focus on this priority. How can the President's goal of increased homeownership be met with the elimination of this essential position?

Answer. Family self-sufficiency activities will remain a core component of the Flexible Voucher Program and PHAs participating in self-sufficiency activities will be rewarded through incentive bonuses. The administrative fee bonus funding may be used for activities such as FSS staff salaries to ensure coordination with supportive service providers, job training and vocational and educational activities.

Further, homeownership assistance for first-time homebuyers is an enhanced activity under the Flexible Voucher Program. The PHA may provide monthly assistance payments to the homebuyer, or may choose instead to provide assistance for the family in the form of a one-time grant of up to \$10,000 to be used as down payment assistance.

Additionally, the Flexible Voucher Program will permit PHAs to design local homeownership programs that address the concerns of local lenders and realtors. HUD expects that this flexibility, along with the new downpayment option, will enhance, not hinder, successful PHA homeownership efforts. PHAs will have the flexibility to address any current lending, real estate or other programmatic barriers that impede wider use of the homeownership voucher option in their communities.

PROPOSED SECTION 8 CUTS

Question. The proposal cuts over \$1 billion in funding from this year's actual funding level. The proposal does not provide full funding for fiscal year 2005. Full funding to pay for all vouchers currently leased requires \$1.6 billion more than the administration's request. Future spending is proposed to be even greater upwards of 30 percent of current funding by fiscal year 2009. Why are these cuts proposed when the Section 8 program is significantly underfunded currently, and with need far outstripping current resources by two or three times the current funding level?

Answer. The Flexible Voucher Program is expected to be able to serve at least the current number of families assisted, if not more, and at funding levels more sustainable than the current program structure will allow. The program reforms and administrative flexibility provided to PHAs will result in an increase in the number of families that can be assisted under the Flexible Voucher Program. This is possible because of savings that will result from badly needed program reforms that reduce the nearly \$2 billion in improper payments that are being made every year, permitting greater flexibility by PHAs to reduce overhead costs and streamline the assistance process, and by encouraging PHAs to provide only as much Federal assistance as needed to pay for fair market rents rather than exceeding market rents. The Flexible Voucher Program will also trigger savings in administrative costs due to greater simplicity and flexibility in income determinations, reducing the necessity of income certifications, and streamlining housing quality inspections.

PREDATORY LENDING

Question. What efforts are being made to combat predatory lending practices?

Answer. Since the Spring of 1999, HUD has been actively involved in combating predatory lending through research, regulation, consumer education and enforcement actions against lenders, appraisers, real estate brokers, and other companies and individuals that have victimized homebuyers. Below are HUD's numerous efforts:

—*Research.*—HUD, through various offices and divisions, is actively engaged in efforts to understand how predatory lending practices occur and their effects on victims so that effective strategies and tactics may be developed to effectively address the problem.

—*Reference/Research Information.*

- HUD Policy Development and Research maintains a predatory lending subject in its electronic FieldWorks, a reference to sources of information on various topics.
- PD&R annually compiles a list of subprime lender specialists that can be used with HMDA data to identify subprime lending patterns. This list has made it possible for researchers and policy analysts to examine both national and local subprime lending patterns.
- PD&R has research in progress that will examine the role of prime lenders and borrower credit quality on subprime lending patterns in low-income and minority areas. This research is also looking at the importance of non-traditional lenders (e.g., pawnshops, payday lenders, cash checkers) in low-income and minority neighborhoods.
- Collaboration.*—The Baltimore Predatory Lending Task Force is a group sponsored by the Community Law Center of Baltimore and has been meeting monthly since 1999. The Task Force is examining all aspects of the issue using Baltimore as a kind of “laboratory.” The Task Force has produced studies and a report to Congress. A wide range of advocacy groups, Federal, State and local government officials, and community groups participate.
- Regulations and Administrative Actions.*
- Anti-flipping Rule.*—HUD published a rule on May 1, 2003, to stop unscrupulous investors from quickly reselling properties at inflated values using an FHA-insured loan. The rule makes properties that have been sold within 90 days of previous sale ineligible for FHA insurance, effectively prohibiting the quick purchase and resale of the property.
- Government Sponsored Enterprise (GSE) Oversight.*—HUD’s most recent regulation establishing the current goals published in October 2000 includes a provision that prohibits Fannie and Freddie from receiving credit toward their affordable housing goals for purchasing loans that are deemed by HUD’s Office of Housing to be high-cost and contain prepaid, single-premium credit life insurance; or prepayment penalties.
- Lender Accountability Rule (pending).*—HUD published a Proposed Lender Accountability Rule in January 2003, that would re-establish requirements previously published in 1994 Lender Select regulation, whereby lenders are held accountable for the quality of FHA appraisals. The proposed rule provides that lenders are held strictly accountable for the quality of appraisals on properties securing FHA insured mortgages; provides that lenders who submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by the HUD Mortgagee Review Board; applies to both sponsor lenders, who underwrite loans, and loan correspondent lenders, who originate loans on behalf of their sponsors; and will help protect the FHA Insurance Fund, ensure better compliance with appraisal standards, and help to ensure that homebuyers receive an accurate statement of appraised value. The Final Rule is scheduled for issuance in 2004.
- Appraiser Standard Rule.*—HUD published a Final Rule in May 2003 and an implementing mortgagee letter in June 2003, that establishes more stringent licensing and certification requirements for FHA Roster appraisers, based on industry-recognized Appraiser Qualifications Board (AQB) standards for education and experience; provides for a 12-month phase-in period for all appraisers currently on the FHA Appraiser Roster to meet the minimum licensing/certification criteria; does not permit “grandfathering” of appraisers who are currently on the FHA Appraiser Roster. All appraisers who previously qualified for State licensing, and placement on FHA’s Roster under reduced educational or experience requirements will have until June 2004 to meet the new, more stringent levels; clarifies FHA’s procedures for sanctioning and removing appraisers from the FHA Appraiser Roster.
- Appraiser Watch Initiative.*—In September 2003, FHA formally announced deployment of the Appraiser Watch tool, a monitoring tool that FHA now uses to identify appraisers for review. The system uses traditional risk-based factors to select appraisers for performance evaluation. Using Appraiser Watch, FHA has been able to conduct a relatively small number of field reviews that result in a much higher rate of removals of poorly performing appraisers from FHA’s Appraiser Roster.
- Enforcement Mechanisms and Tools.*
- Departmental Enforcement Center (Center), Office of General Counsel.*—The Center “works cooperatively with HUD’s program offices to assure compliance of business agreements and regulations.” Tools available to the Center particularly suited to predatory lending violators include suspension and debarment actions and pursuing Civil Money Penalties (CMPs) or double damages.

- Mortgagee Review Board (MRB)*.—The Board oversees the performance of lenders participating in FHA insurance programs and has the authority to withdraw approval to participate in the programs for serious violations. This includes violations related to predatory lending practices when the activity involves a HUD program. The MRB works closely with the Enforcement Center.
- Fair Housing Initiatives Program (FHIP)*.—FHIP supports important help from private fair housing organizations by funding enforcement and education and outreach activities carried out by private, non-profit fair housing organizations. Most recently, HUD competitively awarded a \$600,000 contract to carry out enforcement testing and education and outreach in geographic areas where sub-prime lenders and mortgage companies are suspected of engaging in predatory lending practices. The education component of the contract includes conducting seminars, housing counseling for buyers and renters, developing brochures and newsletters, and a range of other activities to inform and educate the public about lending discrimination and particularly predatory lending tactics.
- Public Education*.—HUD supports a wide variety of information sources and assistance available to the public.
- Internet*.—Recognizing that an increasingly large number of Americans use the Internet as a source of information, the Department uses this medium to communicate with the public about predatory lending. Web pages cover various subjects, including contact information.
- Training*.—Various offices and divisions provide training to the industry focusing on how to identify, avoid or self-protect against predatory lending.
- Local Information*.—HUD supports web pages special to each State providing local information for consumers in the State.
- Section 8 Tenants to Homeowners*.—HUD has issued guidance to State and local public housing authorities (PHA) to protect low-income families participating in the Section 8 homeownership program from abusive lending practices. With this guidance, PHAs are establishing policies to prevent program participants from agreeing to financing they cannot afford. PHAs are working with local lenders that have been educated about the voucher homeownership program to establish solid working relationships. Based on recommendations by a joint HUD-Treasury task force report in 2000 on predatory lending, HUD has issued guidance to PHAs on how to review lender qualifications and loan terms for any “predatory” features before issuing a down payment voucher.
- Intervention*.—The Department supports measures to intervene in the homebuying process in an effort to prevent predatory lending abuses and, where the opportunity is available as a result of legislation, to correct abuses.
- Homebuyer Counseling*.—The Department awards housing counseling grants to agencies all across the country. In fiscal year 2003, HUD made over 440 awards, totaling approximately \$38 million in grants, to nonprofit housing counseling organizations, including 17 awards to national or regional entities that represent another 400 or so affiliate housing counseling agencies. Of the \$38 million awarded, \$2.7 million was awarded specifically to combat predatory lending or to assist victims of predatory lending.
- Loss Mitigation*.—Is a process to avoid foreclosure. The lender tries to help a borrower who has been unable to make loan payments and is in danger of defaulting on his or her loan. The National Servicing Center (NSC) in HUD plays an important role on behalf of FHA borrowers by using its authority and influence as the mortgage insurer to encourage lenders of FHA loans to work with borrowers in difficulty in an attempt to preserve the loan and the home. NSC administers this program.
- Foreclosure Holds*.—Pending foreclosures on FHA insured loans may be held for predatory loan reviews. NSC has placed “holds” on 8,453 threatened foreclosures since August 2000, of which 380 were suspected predatory lending causes.
- Other New Measures*.
 - Office of Fair Housing and Equal Opportunity (FHEO) Organization Changes*.—FHEO is creating a Division dedicated to the education of consumers nationwide. The new Division will address a range of housing discrimination issues, with special attention given to minority communities and the dangers of predatory lending. It will also respond to this administration’s challenge to promote minority homeownership by helping to ensure that those minorities who are already homeowners stay in their homes.
 - Federal Interagency Task Force on Fair Lending*.—HUD participates on the Federal Interagency Task Force on Fair Lending, which is comprised of ten

agencies, including the Federal Reserve Board, and the Department of Justice. We have worked together to prepare and release a brochure titled, "Putting Your Home on the Loan Line is Risky Business." The brochure warns consumers about the potential pitfalls of borrowing money using their home as collateral. The brochure highlights the risks of high-cost home loans, and provides tips for getting the best financing possible.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

SAMARITAN HOUSING

Question. The Bush Administration's Samaritan initiative represents an important step forward in reorienting Federal homeless policy toward a focus on ending chronic homelessness. It is welcomed by many of us on this committee. As you know, it is Congress that initiated this policy when we first proposed a 30 percent minimum requirement on HUD within the McKinney-Vento program for the development of permanent housing targeted to people with disabilities experiencing chronic homelessness. How do you envision the Samaritan initiative building on what this subcommittee has already done with respect to focusing on chronic homelessness and permanent supportive housing under the McKinney Act?

Answer. Since 1987, the programs created by Congress under the McKinney-Vento Homeless Assistance Act have been a major source of Federal assistance to States, local governments, and nonprofits organizations for the purpose of developing and implementing permanent housing. The 30 percent permanent housing requirement contained each year in the appropriations law has served as an additional incentive for providers to develop permanent housing for homeless persons, including those who are chronically homeless. The Samaritan initiative would provide added focus and resources to current efforts. Samaritan would be the first Federal program dedicated to the chronically homeless population. Moreover, the program's unique design of having a joint collaboration between HUD, and the Departments of Health and Human Services (HHS) and Veterans Affairs, will demonstrate to communities that agencies, including those locally, can pool resources to effectively end chronic homelessness.

PERMANENT SUPPORTIVE HOUSING

Question. What else can Congress be doing to push the Department of Health and Human Services to fund services in permanent supportive housing where HUD support is diminishing?

Answer. The vast majority of funds administered by the Department of Health and Human Services (HHS) are in mandatory, entitlement programs that for the most part are administered by State agencies. HHS has indicated that currently States have sufficient flexibility to use these funds to address the needs of homeless persons. Given this and to help States focus their attention on this important issue, HHS initiated State Policy Academies. HUD joined HHS in this effort both financially and operationally. HHS, HUD and later other Federal agencies met with key stakeholders from each participating State to develop specific plans to access their mainstream resources for homeless persons. We are now assessing the results of that effort. To further increase access to HHS and other Federal agencies' mainstream programs, HUD and HHS jointly developed a CD-ROM. The interactive CD-ROM is designed for outreach workers and case managers to better assist homeless persons in accessing Medicaid, TANF and other mainstream programs. HUD is strongly encouraging providers to use HHS and other Federal mainstream service programs through the annual continuum of care competition. The continuum application provides points based on the extent to which communities help homeless persons access mainstream programs.

SHELTER PLUS CARE

Question. Is HUD committed to maintaining ongoing funding for Shelter Plus Care renewals in fiscal year 2005 and beyond to ensure that the goal of 150,000 units of permanent supportive housing is met over the next decade?

Answer. The law does not provide for a separate appropriation for Shelter Plus Care (S+C) renewals. Rather these renewals are funded through the Homeless Assistance Grants account, as are all other HUD homeless assistance programs. As provided for each year in appropriations language, HUD non-competitively awards S+C renewals that meet the standards set forth in the law. Remaining funds are used for the Emergency Shelter Grants (ESG) program and the national continuum of care competition for new S+C and Section 8 SRO projects, and new and renewal

Supportive Housing Program projects. This past year, approximately \$141 million of the 2003 appropriation was required for S+C renewals; \$150 million was awarded for ESG and approximately \$975 million remained available for the continuum of care competition.

The achievement of the bold goal to eliminate chronic homelessness will require a multiple of resources requested in HUD's budget including the McKinney-Vento programs, the Samaritan Housing Initiative, the Prisoner Re-Entry Initiative as well as resources provided through the HOME, CDBG, Public Housing and Section 8 programs. Continued support of growing renewal needs is clearly a major component of the overall strategy.

SUBCOMMITTEE RECESS

Senator BOND. We will do that, and look forward to working with you, and with the new Secretary.

Thanks very much. The hearing is recessed.

[Whereupon, at 11:30 a.m., Thursday, April 1, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

TUESDAY, APRIL 6, 2004

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

The subcommittee met at 2:02 p.m., in room SD-192, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond, Shelby, Domenici, Stevens, Mikulski, and Leahy.

DEPARTMENT OF VETERANS AFFAIRS

STATEMENT OF HON. ANTHONY J. PRINCIPI, SECRETARY

ACCOMPANIED BY:

**JONATHAN B. PERLIN, M.D., DEPUTY UNDER SECRETARY, HEALTH
VICE ADMIRAL DANIEL L. COOPER (USN RET.), UNDER SEC-
RETARY, BENEFITS**

JOHN W. NICHOLSON, UNDER SECRETARY, MEMORIAL AFFAIRS

WILLIAM H. CAMPBELL, ASSISTANT SECRETARY, MANAGEMENT

**D. MARK CATLETT, PRINCIPAL DEPUTY ASSISTANT SECRETARY,
MANAGEMENT**

RICHARD GRIFFIN, INSPECTOR GENERAL

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. The Subcommittee of VA, HUD, and Independent Agencies will come to order. Senator Mikulski has been temporarily delayed, but she is on her way and asks that we go ahead.

This afternoon we conduct a budget hearing on the fiscal year 2005 budget for the Department of Veterans Affairs. I welcome back the Secretary of the VA, Tony Principi. Mr. Secretary, we are very pleased to have you today. We appreciate your hard work, your commitment and your compassion as the Secretary of VA. In my humble opinion, for what it is worth, your record identifies you as the finest VA Secretary I have ever worked with and we are proud to have your leadership.

As you know, there has been a tremendous amount of attention on the VA and veteran issues in recent months. This is no surprise given the deployment of our military around the world to fight the global war on terror and the war in Iraq. Today hundreds of thousands of brave servicemen and women are deployed across the

globe in such unstable regions as Afghanistan, Iraq, Kosovo, Bosnia, and Haiti. Unfortunately, some of these men and women will return to the States with physical, mental, and spiritual wounds that can never be fully healed. The VA was created with the central purpose of being a safety net for our veterans, and its mission today is probably more important than ever. From what I have seen, we are saving more lives on the battlefield, but often the lives saved are lives of people who have very severe injuries.

Overall, I strongly believe you, Mr. Secretary, have done an outstanding job in meeting the changes and the challenges of serving our Nation's veterans. Veterans have no better ally or friend than you. As a veteran yourself and a father of two sons currently serving in the military, no one can question or criticize your commitment or compassion for our Nation's veterans. As the Secretary of VA, more veterans are served than ever before. During your 3 years as Secretary, the number of veterans enrolled in the medical care system has grown by 2.4 million people and the medical care budget has grown by some \$7.3 billion.

You have rightly refocused VA's health care system to give priority service to our most needy veterans. You have begun a new program that allows some veterans to fill privately written prescriptions at the VA. You have reduced the number of veterans waiting more than 6 months for an appointment from 300,000 to less than 20,000, and I expect this waiting list will be eliminated within the next month. You have reduced VA's inventory of benefit claims by almost 100,000 and you have reduced the average processing time from 233 to 187 days. And you have made great strides in expanding burial space. More important perhaps, you have begun the critical process to modernize and rebuild the veterans' health care system that will ensure access and quality of care for future generations of veterans, as well as the current ones. It is an outstanding record and we congratulate you.

Nevertheless, we still face major challenges, namely, providing timely quality care for veterans. During our first budget hearing, I told Senator Mikulski I felt like we were in the movie "Groundhog Day" because our main VA-HUD priorities are underfunded year after year and this year is no exception. By far the most troubling is veterans medical care funding. The budget request underfunds VA medical care and proposes to make up for the shortfall by proposing once again to charge new fees on veterans seeking care, which are essentially a new tax imposed on veterans. These budget proposals were unacceptable last year to the Congress and I can almost certainly assure you they are unacceptable again this year. We should not be balancing our books on the backs of veterans.

VA medical care is a top priority again of this committee. I am committed to ensuring our veterans are not shortchanged, especially in time of war. While on duty, we expect our brave service members to face dangers on a daily basis. They, however, should not expect to face the danger of inadequate medical care services when they return from duty.

I have seen firsthand the scars of combat with visits to the Walter Reed Army Medical Center here in DC. I had the privilege of meeting injured soldiers like Phillip Ramsey from Kansas City,

Missouri who recently returned from combat in Iraq. It really saddens you to see a young man, any young person, with such a personal sacrifice for our country. But I am very pleased with the care that the Department of Defense was providing to him. But we know that Phillip is going to face a lot more challenges when the military discharges him from the service and VA enrolls him in their system. We cannot let soldiers like Mr. Ramsey fall through the cracks.

Mr. Secretary, you are at the center of a perfect storm due to the overwhelming demand for VA health care services. As I discussed last year, this storm was created by a convergence of factors mainly created by Congress with legislation that opened up health care eligibility to all veterans and expanded benefit packages to many. Prior to the enactment of these laws, the VA mainly served the most vulnerable veterans, veterans with service-connected disabilities, with low income, and veterans needing special services, otherwise known as the VA's core constituents. The authors of the 1996 act predicted that the cost of opening up eligibility would be budget neutral because there would be few new enrollees. Wow, did they miss that. Reality, however, has demonstrated the opposite as veterans seeking care have besieged the VA. Since 1996, the number of veterans served by the VA has grown from 2.7 million to 4.7 million in 2004. Let me repeat myself. Since 1996, the number of veterans served has gone from 2.7 million to 4.7 million. And VA projects this growth to continue well into the future.

To respond to this fast-growing workload, we have worked on a bipartisan basis to appropriate substantial funding increases for VA medical care. The account has grown from \$16.5 billion in 1996 to almost \$28.3 billion in 2004. That is a staggering 71.5 percent. During the last 3 years alone, VA medical care has grown by some \$7.3 billion, or 34.7 percent. These massive funding increases have resulted in more veterans being served and provided with improved quality and accessible care. These additional resources have allowed the VA to reduce significantly the number of veterans waiting for service. Nevertheless, the workload growth continues to overwhelm the VA and some veterans, including the core constituents, are still being asked to wait for care. I still believe that is unacceptable.

Further, while the VA has made significant progress in improving its performance in seeing all patients within 30 days, recent data indicate that the VA is only able to see 48.1 percent of new patients within 30 days. That is not good enough and we are not out of the storm yet.

Mr. Secretary, you have taken some significant steps to respond to the overwhelming demand such as prioritizing care for VA's core constituents and implementing the transitional pharmacy benefit program. You have made some unpopular but necessary decisions to suspend the enrollment of lower priority veterans, the so-called Priority 8's. We would all like to be able to serve more but the truth is you cannot serve everyone with the resources available and VA's central purpose is to provide the care for the core constituents.

In order to get out and stay out of the perfect storm, we need to continue to provide VA with adequate resources. The budget re-

quest includes \$32.07 billion for discretionary spending. That level is \$1.18 billion, or 3.8 percent more than fiscal year 2004. For medical care, the budget request includes \$29.2 billion, a \$904 million increase over 2004.

I recognize and credit the administration for the significant budget increases during the past 3 fiscal years, but the 2005 request is simply inadequate. The inclusion of new enrollment fees and increased co-payments is especially troubling and disappointing since Congress rejected them last year. I regard the budget request for medical care as a floor, but there is a ceiling due to our other compelling needs such as affordable housing, clean water, and scientific research.

Further, it is clear that the funding level increases for VA medical care cannot be sustained without reform of the system. A critical component of the system is the Capital Asset Realignment for Enhanced Services, or CARES. I fully support CARES. It is critical in ensuring VA has the right facilities in the right places. We still hark back to the GAO report that VA is wasting \$1 million a day on unnecessary and under-utilized medical facilities. That money could be converted into direct medical care for 200 new veterans a day.

You set out on an ambitious 2-year plan to emphasize CARES nationally. I appreciate your willingness to listen and respond to concerns of Members of Congress. I also recognize the hard work done by the Honorable Everett Alvarez who reviewed the draft plan and submitted a report last month that addressed most, if not all, of the major concerns expressed by Members of Congress.

Despite your progress and efforts, some members still oppose CARES and they try to portray it as an effort to hurt veterans. This is disturbing to me because I think they have misinterpreted, either out of ignorance or intentionally, the purpose of CARES. It is not a cost-cutting proposal. And it is wrong and unnecessary to worry affected veterans. I urge you to get the truth out about CARES. Everybody needs to understand. It is a most ambitious effort the Federal Government is making to meet the needs of our current veterans.

The truth about CARES is that it will improve access and quality of care. It will result in the construction of new hospitals, new clinics, and nursing homes. Under it, the Federal Government will invest billions of dollars in construction projects and currently you have up to \$1 billion available to spend in construction funds, and you could make substantial down payments on new hospitals, new renovation projects, and new outpatient clinics. These are good stories.

Change is difficult but the VA's health care delivery system for serving our veterans is necessary and vital. I believe that CARES will be a major part of your legacy because of its positive effects.

And as I said, I am fully committed to funding the health care needs of the VA core constituents. We need to ensure accountability in performance at the VHA and manage its resources responsibly and efficiently. Veterans from Missouri and across the Nation have told me about wide performance variations that exist among and even within the 21 VISN's. The President's Task Force on Improving Health Care last May said the VISN structure alters the ability

to provide consistent, uniform national program guidance in the clinical areas, the loss of which opportunities for improved quality, access, and cost effectiveness. PTF recommended structure and process of VHA should be reviewed and I agree.

One last item to discuss. Last Tuesday's edition of the local paper had an article entitled "Soldiers of Misfortune", describing the plight of local homeless veterans. I am appalled that some quarter of a million veterans on any given night in this Nation are homeless. You assumed the chair recently of the Interagency Council on Homelessness. I would like to hear how you plan to address this problem.

I look forward to our continued working relationship in addressing the needs of veterans. It is going to be a rough year. It is obviously clear that it would be much rougher for our Nation's veterans if you were not at the helm of the VA. You have my personal confidence. I thank you for your personal attention and responsiveness to the veterans in my State and around the country.

PREPARED STATEMENT

I now turn to my colleague and ranking member, Senator Mikulski, for her statements and comments. Welcome, Senator.

[The statement follows:]

PREPARED STATEMENT OF SENATOR CHRISTOPHER S. BOND

The subcommittee will come to order. This afternoon, the VA-HUD and Independent Agencies Subcommittee will conduct its budget hearing on the fiscal year 2005 budget for the Department of Veterans Affairs. I welcome back the Secretary of VA Tony Principi to our subcommittee. Mr. Secretary, I am very pleased to have you here today. I appreciate your hard work, commitment, and compassion as the Secretary of VA and in my humble opinion, your record will identify you as the finest VA Secretary ever.

Mr. Secretary, there has been a tremendous amount of attention on the VA and veteran issues in recent months. This is no surprise given the deployment of our military around the world to fight the global war on terror and the war in Iraq. Today, hundreds of thousands of our brave service men and women are deployed across the globe in such unstable regions as Afghanistan, Iraq, Kosovo, Bosnia, and Haiti. Unfortunately, some of these men and women will return to the States with physical, mental, and spiritual wounds that can never be fully healed. The VA was created with the central purpose of being a safety net for our veterans and its mission today is probably more important than ever.

Overall, I strongly believe that you, Mr. Secretary, have done an outstanding job in meeting the challenges of serving our Nation's veterans. Veterans have no better ally or friend than you, Mr. Secretary. As a veteran yourself and a father of two sons who are currently serving in the military, no one can question or criticize your commitment or compassion for our nation's veterans. As the Secretary of VA, more veterans are being served than ever before. During your 3 years as Secretary, the number of veterans enrolled in the medical care system has grown by 2.4 million and the medical care budget has grown by some \$7.3 billion. You have rightly refocused VA's health care system to give priority service to our most needy veterans. You have begun a new program that allows some veterans to fill privately-written prescriptions at the VA. You have reduced the number of veterans waiting more than 6 months for an appointment from 300,000 to less than 20,000 and this waiting list will be eliminated within the next month. You have reduced VA's inventory of benefit claims by almost 100,000 and reduced the average processing time from 233 days to 187 days. You have made great strides in expanding burial space. Most importantly perhaps, you have begun the critical process to modernize and rebuild the VA health care system that will ensure greater access and quality care for current and future veterans. Mr. Secretary, your record is simply outstanding and I congratulate you.

Nevertheless, you still face major challenges—namely, providing timely, quality health care for veterans. During our first budget hearing, I told Senator Mikulski

that I felt like we were in the movie "Groundhog Day" because our main VA-HUD priorities are under-funded year after year and this year is no exception. By far, the most troubling problem is veteran medical care funding. The budget request under-funds VA medical care and proposes to make up for the shortfall by proposing again to charge new fees on veterans seeking care, which are essentially a new tax imposed on our veterans. These budget proposals were unacceptable last year to the Congress and they clearly are unacceptable again this year. We should not balance our books on the backs of our veterans.

VA medical care is my top priority area again this year and I am committed to ensuring that our veterans are not short-changed, especially in a time of war. While on duty, we expect our brave service-members to face dangers on a daily basis. They, however, should not expect to face the danger of inadequate medical care services when they return from duty.

I have seen first-hand the scars of combat with visits to the Walter Reed Army Medical Center, here in the District of Columbia. I had the privilege of meeting injured soldiers like Phillip Ramsey from Kansas City, Missouri who recently returned from combat in Iraq. It deeply saddens me to see such a young man make such a personal sacrifice for our country. I was pleased with the care that the Department of Defense was providing to him but we know that Phillip will face more challenges when the military discharges him from service and the VA enrolls him into their system. We cannot let soldiers, like Mr. Ramsey, fall through the cracks.

Mr. Secretary, you are at the center of a "Perfect Storm," due to the overwhelming demand for VA health care services. As I discussed last year, this storm was created by a convergence of factors, mainly created by the Congress with legislation that opened up health care eligibility to all veterans and expanded benefit packages to many veterans. Prior to the enactment of these laws, the VA mainly served the most vulnerable veterans—veterans with service-connected disabilities, veterans with low-income, and veterans who need specialized services—otherwise known as VA's core constituents. The authors of 1996 Act predicted that the cost of opening up eligibility would be budget neutral because there would be few new enrollees. Reality, however, has demonstrated the opposite as veterans seeking care have besieged the VA. Since 1996, the number of veterans served by the VA has grown from 2.7 million to 4.7 million in 2004. Let me repeat that: Since 1996, the number of veterans served by the VA has grown from 2.7 million to 4.7 million in 2004. Further, the VA projects this growth to continue well into the future.

To respond to this fast growing workload, we have worked on a bipartisan basis to appropriate substantial funding increases for VA medical care. In fact, the VA medical care account has grown from \$16.5 billion in 1996 to almost \$28.3 billion in 2004. That is a staggering 71.5 percent increase! During the last 3 years alone, VA medical care has grown by some \$7.3 billion or 34.7 percent. These massive funding increases have resulted in more veterans being served and provided with improved quality and accessible care. Further, these additional resources have allowed the VA to reduce significantly the number of veterans waiting for services. Nevertheless, the workload growth continues to overwhelm the VA and some veterans—including VA's core constituents—are still being asked to wait for care. That is unacceptable. Further, while the VA has made significant progress in improving its performance in seeing all patients within 30 days, recent data indicates that the VA is only able to see 48.1 percent of new patients within 30 days. That too is unacceptable. We are clearly not out of the storm.

Mr. Secretary, you have taken some significant steps to respond to the overwhelming demand for VA health care such as prioritizing care for VA's core constituents and implementing a transitional pharmacy benefit program for veterans on the waiting list. You also made the unpopular but necessary decision to suspend enrollment of lower priority veterans who have higher incomes and no service-connected disabilities—the so-called Priority 8s. Of course, all of us would like the VA to serve more veterans, including the Priority 8s, but the truth of the matter is that the VA cannot be everything for everyone, especially when the VA still has a long ways to go in meeting the needs of its core constituents. I emphasize that the VA's central purpose is to provide timely, accessible, and quality health care for its core constituents. There can be no compromise on this purpose. These men and women rely on VA's health care system. They have nowhere else to go.

In order to get out and stay out of the "Perfect Storm," we clearly need to continue to provide the VA with adequate resources. The administration's budget request proposes \$67.27 billion for the VA, including \$32.07 billion for its discretionary programs. The discretionary funding request is \$1.18 billion or 3.8 percent more than the fiscal year 2004 enacted level. For medical care, the budget request includes \$29.2 billion budget for medical care—a \$904 million increase over the fiscal year 2004 level. I recognize and credit the administration for the significant budget in-

creases during the past 3 fiscal years but the fiscal year 2005 request is simply inadequate. The inclusion of new enrollment fees and increased co-payments is especially disappointing, especially since the Congress rejected them last year. Thus, I regard the budget request for medical care a floor but there is a ceiling due to our other compelling needs such as affordable housing, clean water, and scientific research. Further, it is clear that the funding level increases for VA medical care cannot be sustained without reform of the system.

A critical component of reforming the VA medical care system is the Capital Asset Realignment for Enhanced Services or "CARES" initiative. The budget provides a substantial investment of \$524 million to implement the CARES program. I fully support CARES because we cannot continue to pour resources into hospitals that are half-empty or exist primarily to serve the research and financial interests of medical schools. Further, CARES is absolutely critical in ensuring that the VA has the right facilities in the right places so that more veterans can be served on a timely basis. According to the General Accounting Office, the VA is wasting \$1 million a day on unnecessary and underutilized medical facilities. These funds are being paid out of VA's medical care account. Thus, instead of wasting \$1 million a day on empty buildings, the VA could provide direct medical care to 200 new veterans a day. Obviously, VA must maximize its funds on meeting its first and foremost mission of caring for our Nation's veterans. That is why CARES is so critical and urgently needed.

Mr. Secretary, you initiated an ambitious schedule 2 years ago to develop a national CARES plan. The process has not been easy but I believe that you have made tremendous progress. I especially appreciate your willingness to listen and respond to the concerns of veterans and Members of Congress. I also recognize the hard work done by the 16-member CARES Commission, led by the Honorable Everett Alvarez, who reviewed the Draft Plan and submitted a report last month that addressed most, if not all, of the major concerns expressed by members of Congress and veterans.

Despite your progress and efforts, some members of Congress and stakeholders still oppose CARES. Sadly, some portray CARES as an effort to hurt veterans. I am frankly disturbed by these sorts of characterizations. For example, some folks in the media have portrayed CARES as a cost-cutting proposal. This is simply wrong and it unnecessarily incites fear and stress among our affected veterans. Mr. Secretary, I urge you to get out the truth about CARES. The public and stakeholders need to understand that CARES is the most ambitious effort the Federal Government is making to meet better the needs of our current veterans; and, because of the lack of space currently available, it will allow the VA to meet the exploding demand for medical care from future veterans.

The truth about CARES is that it will improve access and quality care for our veterans. The truth about CARES is that it will result in the construction of new hospitals, new clinics, and new nursing homes. The truth about CARES is that it will modernize and address safety and seismic problems at existing hospitals to ensure patient safety. The truth about CARES is that the Federal Government will invest billions of dollars in construction projects, which will boost local economies and create jobs. The last point I emphasize is that you currently have up to \$1 billion in construction funds available to spend now. With these funds, you have the opportunity to make a substantial downpayment on new hospitals, new renovation projects, and new outpatient clinics throughout the nation. These are good stories.

Change is difficult but in the case of the VA's health care delivery system and for serving our veterans, it is necessary and vital. The future of VA's health care delivery system depends on a modernized infrastructure system that is located in areas where most of our veteran population lives. Many VA buildings were built after World War II and are not all configured for modern health care delivery and some are no longer appropriately located. If we expect today's service-members to fight with modern equipment and weapons, then why can't we expect our veterans to be provided with health care service in modern facilities?

Mr. Secretary, CARES is your biggest challenge today and I am confident you will make the right decisions. I believe that CARES will be a major part of your legacy because of its far-reaching and longstanding positive effects. I am committed to CARES and committed to funding it so that we can begin to address as much of VA's infrastructure needs as quickly as possible and without delay.

As I said earlier, I am also committed to funding fully the health care needs of VA's core constituents, however, let me say this clearly: addressing the health care needs of our veterans is more than a funding matter. As I just discussed, CARES is a critical component in addressing health care for veterans. Further, management and accountability cannot be ignored. With your leadership, Mr. Secretary, the VA has made some significant strides in its management, but clearly, much more needs

to be done. VA especially needs to ensure greater accountability and performance consistency at the Veterans Health Administration (VHA) and manage its resources more responsibly and efficiently. Veterans from Missouri and across the Nation have told me about the wide performance variations that exist among and even within the 21 Veterans Integrated Service Networks or "VISNs." In fact, the President's Task Force on Improving Health Care Delivery for VA and DOD (PTF) found last May that the "VISN structure alters the ability to provide consistent, uniform national program guidance in the clinical arena, the loss of which affects opportunities for improved quality, access, and cost effectiveness." Due to these findings, the PTF recommended "the structure and processes of VHA should be reviewed." I agree.

Before closing, I raise one more issue that continues to trouble me—homeless veterans. Last Tuesday's edition of the Washington Post contained an article titled "Soldiers of Misfortune." The article described the plight of local homeless veterans and their challenges. I am appalled that there are still some 250,000 homeless veterans on any given night in this Nation. Mr. Secretary, you recently assumed the chair of the U.S. Interagency Council on Homelessness. I would like to hear how you plan to address this problem.

Mr. Secretary, I look forward to our continued working relationship in addressing the needs of our veterans. This is going to be a rough year—perhaps the most difficult year during your tenure. However, it is obviously clear that it would be much rougher for our Nation's veterans if you were not at the helm of the VA. You have my personal confidence because you have already made many long-lasting and meaningful changes to the VA that will benefit millions of current and future veterans for years to come. I also thank you for your personal attention and responsiveness to the veterans in my home State of Missouri. Your recent visit to Mt. Vernon, Missouri with me was much appreciated.

I will now turn to my colleague and ranking member, Senator Mikulski for her statement and any comments.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman.

Mr. Secretary, I am very pleased to welcome you. This is your fourth year in testifying before this subcommittee and, of course, you also served another Bush administration. I want to thank you and the people who work for you and all of those who staff our VA facilities for the work that they do.

I particularly want to say thank you for the quick response we got on the VA outpatient clinic at Fort Howard. When Maryland was hit by Hurricane Isabel, the VA outpatient clinic was absolutely devastated and we were told by the locals that it would take 18 months to repair. Your quick response really helped us and now it is open. I will tell you if you toured that community around there, they were terribly hit. So we want to say thank you for your responses on Fort Howard, as well as on Perry Point. You and I are in absolute agreement on the direction to go. So thank you.

We have such great respect for you, Mr. Secretary. You are a combat-decorated Vietnam vet. You continue to serve your country. You remember the lessons learned from one war and how we need to continue to serve not only our veterans of other wars, but those men and women who are now returning from the Afghan and Iraqi conflicts.

While you served your country battling against enemies, we know that you are now arm wrestling with OMB over the budget, and your appearance before the authorizing committee really outlined how spartan this budget is.

First of all, know that I am going to associate myself with the remarks from the chairman and know that I have always had two principles for the VA's budget. No. 1, the promises we made to our veterans need to be promises kept, while also making the best use

of the taxpayers' dollars. We need to make sure that we do not have waiting lines for veterans. No. 2, issues like membership fees if you are a category 7 or increased co-payments really do not work. I am concerned that this budget falls short on these principles.

We will be able to talk about many of the issues, but we do want to acknowledge some of the good things in this budget. We want to say thank you for reducing the financial burden on former POW's, also on our terminally ill veterans, and also on our poorest of the poor veterans. These are very good ideas and we want to work with you to support those, and you have been a real advocate in this area.

But what we are concerned about is, No. 1, the whole issue of both the money and the outcomes. I understand that you told the VA authorizing committee that you needed \$1.2 billion more, but unfortunately, OMB did not hear you. But we hear you and we have got to figure out how to give you the resources you need. I am very concerned in the area of shortages, I know that one of our outpatient clinics in the Glen Burnie area is full. We understand that blind veterans now do not have access to rehab programs. These are of great concern to us.

Now, we have worked on a bipartisan basis to increase VA funding every single year, and we need to continue to do that. But OMB continues to shut out Priority 8 veterans and wants to implement fees. I am not going to go over what the President's summary does in the interest of time, but you need to know I am concerned about a \$250 annual user fee, as well as prescription drug co-payments. I look forward to hearing your comments on that. I also look forward to hearing about the demonstration project you initiated that where someone sees a primary care doctor and has a bona fide prescription, say, to manage cholesterol or diabetes, that they could get it filled at the VA without having to see a VA doctor. We want to make sure we prevent waste and abuse, but also I think your own estimate said this could be a new way to reduce the stresses on our medical profession. We want to know about that and how are we doing with the prescription drug benefit and how you are managing it. How are you getting discounts? How is it working for you?

Again, I mentioned the waiting lines. The Blind Veterans Association told our staff that there are over 2,000 veterans waiting up to 1 year for admission to a blind rehab center. We would like to hear your comments on that, whether you believe that is accurate, but particularly for those who have truly been disabled because of the permanent and irrevocable wounds of war, what can we do. That will also take me to talking about our Iraq men and women.

We are concerned also about another waiting time, which we have been working on for over a decade, in claims processing. We want to know the status. Have we reduced the waiting time and the waiting lines? We understand that in this budget we are talking about reducing over 500 staff in the Benefits Administration. This work to reduce the claims processing has been such a long-standing one that started with the VA-HUD Subcommittee under Bush One, Clinton, and now you. We would hope that just as we get it on track, we are not having a self-imposed derailment of the progress that has been made.

Also, we are concerned and puzzled by how OMB continues to insist that VA medical funding be focused on outsourcing studies. We know that our subcommittee rejected a \$75 million outsourcing study, and we understand that OMB is trying it again and we will be discussing this with you.

When we take a look at our returning Afghan and Iraq veterans, we want to be sure that we are ready for them. They are coming back with new types of injuries. For those of us who have been to Walter Reed, it is tough. I do not have to tell you and others at the table how tough it is. They have been injured in body, in mind, and in spirit. We have to make sure, when they leave Walter Reed and go back to the community, we are ready to receive them. We understand that the prosthetic injuries are significant and severe because of the types of attacks after the battle of Baghdad. Therefore, we are interested in where we are on meeting those kinds of needs but also in the area of research.

We know that research has had a bit of a rocky road during this last year, and yet we believe that it is in VA medical research which often gives such practical research in patient care, patient rehabilitation, breakthroughs in new technologies that are truly rehabilitative that will benefit our veterans who have been so severely injured and at the same time, it will ultimately benefit the larger American population who will face this.

These are the types of things we look forward to having a discussion with you about. We thank you and your team at the table.

Senator BOND. Thank you very much, Senator Mikulski.

Since our chairman of the full committee is here——

Senator STEVENS. Senator Shelby was here first.

Senator BOND. All right. Senator Shelby was next in line.

Senator SHELBY. I will defer to the chairman, if he wants to.

Senator STEVENS. No.

Senator BOND. Everybody is doing that these days.

Senator SHELBY. Absolutely.

Senator BOND. It makes a lot of sense.

Senator SHELBY. It makes a lot of sense to all of us members, does it not?

Senator BOND. Yes. We each get a point. Thank you.

STATEMENT OF SENATOR RICHARD C. SHELBY

Senator SHELBY. Thank you, Senator Bond. Thank you, Mr. Chairman.

I ask first that my entire statement be made part of the record.

Senator BOND. Without objection.

Senator SHELBY. And I have a few comments. I will try to be brief.

Mr. Secretary, welcome to the committee. We all appreciate you personally, but more than that, we appreciate what you and your staff do. You are a very principled Secretary.

Your testimony, Mr. Secretary, points to a number of different initiatives that are underway within the VA to improve the benefits claim process. I applaud the work you and your staff have done to reform this system and will support you as you continue this work.

I am pleased to see funding requested in this budget for the virtual VA project, compensation and pension evaluation redesign project, the training and performance support systems project, and the veterans service network. Would you discuss in your testimony the tools these programs will give you to improve the claims process and how this budget helps you to accomplish your goals there? We all know you continue to face challenges in the claims area, and based on the correspondence that I receive as one Senator, some of these challenges are basic and fundamental. Customer service seems to be a persistent problem.

I have seen two very recent examples. These are representative of a large majority of the letters I get from veterans about their experiences with the Montgomery, Alabama VA regional office.

COMPENSATION AND PENSION CLAIM PROCESS

One gentleman went to the Montgomery regional office to inquire about disability benefits he might qualify for and establish a claim in December of 2003. He refiled the same claim four times in less than 3 months because it continued to be lost. Once he returned to follow up 2 hours after having refiled and was told there was no record of his claim.

Secondly, a lady wrote the Montgomery regional office on January 27 about DIC benefits. To date she has received no response.

A common refrain I hear is that "the mission of the VA regional office seems to be to make the process as difficult, confusing, and frustrating as possible to discourage anyone from seeking benefits or compensation." I know that is not your tone and that is not your mission. But how do we overcome this?

MEDICAL RESEARCH

The VA's own document, getting into medical research now, Appropriation Requirements by Strategic Goal, indicates a need for 2005 funding at \$460 million for the direct cost of the VA research program, the same level recommended by the independent budget and the friends of VA medical care and health research. The budget request is \$20 million below last year's level of \$405 million. I am concerned about this funding cut. Would you discuss that during your research funding discussion?

I also see that VA anticipates very large increases in the amount of non-VA Federal and private funding for VA researchers, \$60 million and \$50 million, respectively, a 14 percent increase in non-VA sources. Why the sharp increase next year when you only anticipate a 4 percent increase this year? Is it really appropriate to put the VA in the position of depending on other agencies or the private sector to fund research important to veterans?

During the time of war, which we are in now in Iraq, and one that is generating large numbers of injuries, Mr. Secretary, if you are not already, should you not be looking to increase rather than reduce the research program? If VA research is funded at the requested level, what areas of research will be cut? We would be interested in that. If provided with additional funding, what areas of research would VA add or expand? I believe these are relevant questions.

And now concurrent receipt. To what extent is the VA working with DOD to implement the concurrent disability payment and combat-related special compensation programs? This CDP and CRSC program workload has not had a negative impact on the claims operations I hope.

PREPARED STATEMENT

Mr. Chairman, I know those are a lot of questions and I hope the Secretary will see fit to discuss these during his time to talk. Thank you.

[The statement follows:]

PREPARED STATEMENT OF SENATOR RICHARD C. SHELBY

The President has requested \$67.7 billion for the Department of Veterans Affairs for fiscal year 2005. This includes \$35.6 billion for entitlement programs and \$32.1 billion for discretionary programs.

The fiscal year 2005 request for VA Medical Care is \$27.1 billion, and it also projects \$2.4 billion in collections. This is a 4.1 percent increase over the fiscal year 2004 enacted level. Given the increase in the number of veterans using the VA health care system, I am pleased to see this increase but strongly feel the VA needs greater resources to adequately meet the health care needs of our deserving veterans. Experts agree, including the VA's own Undersecretary of Health in testimony given last year, that the VA needs funding increases on the order of 15 percent a year to maintain current medical care services.

I am disappointed this budget cuts funding for VA Medical and Prosthetic Research. The direct cost and research support accounts are both funded at \$384.7 million, a \$20 million and \$30 million cut respectively. I believe these cuts are harmful to the VA's core mission of providing the best medical care possible to our veterans. I plan to address this issue with Secretary Principi and hope the subcommittee will take action in the fiscal year 2005 bill to provide additional funding for both VA Medical Care and VA Medical and Prosthetic Research.

While, in my opinion, this budget again falls short in total funding for our veterans, it does include important initiatives like the Capital Asset Realignment for Enhanced Services (CARES) program that will take major steps to construct new facilities across the country to improve access for our veterans. This budget includes \$1.2 billion for benefits management as well as a number of programs that seek to continue this administration's efforts to improve and streamline the veteran's benefits claim process. It also includes \$455 million to improve the VA burial program. Eighty-one million dollars is provided for cemetery construction, expansion and improvement. I am pleased that advanced planning funding is included for a new national cemetery in Birmingham.

I look forward to working with Chairman Bond and Senator Mikulski on this bill and will continue to do everything I can to support the VA and our veterans in Alabama and across the Nation.

Senator BOND. Thank you, Senator Shelby.
Chairman Stevens.

STATEMENT OF SENATOR TED STEVENS

Senator STEVENS. Thank you very much, and I would ask that my complete statement appear in the record, Mr. Chairman.

Senator BOND. Without objection.

Senator STEVENS. It is nice to be with you again, Secretary Principi, and your colleagues. I am aware of the recent VA-released report called Capital Asset Realignment Enhanced Services, which I understand you call CARES, which recommends the reallocation of capital assets necessary to meet the demand of veterans' health care over the next 20 years.

VA LEASES IN ALASKA

The commission reviewed the VA leases in Anchorage that are due to expire in 2007 and the Army provided space at the Bassett Army Community Hospital in Fairbanks. It is my understanding that the report proposes a joint venture between the VA and the Air Force to construct a new building next to the Elmendorf Hospital and the report also discussed VA space for the Bassett Army Community Hospital in Fairbanks. Upon completion of that new facility, the VA outpatient clinic will gain an additional 1,100 square feet for a total of 3,000 square feet as part of the construction, which is very much needed in the interior of Alaska.

I do hope that you will join us in moving ahead with some of these projects. I keep hearing from veterans in Alaska regarding their concerns over the funding of veterans health care. We all do here in the Congress, and I think this committee hears more than anyone about it. We will do all we can to maximize funds for health care in 2005 and work with you in that regard. Until the new Medicare legislation is fully implemented in 2006, many senior vets are turning to the VA as an alternative source of medical coverage partially due to the prescription drug benefit, a problem that is addressed by our new bill but will not really crank in to providing real assistance until 2006. I would ask that you take a look at the problems that are listed in my comments concerning the State as a whole, Secretary Principi.

SOUTHEASTERN ALASKA

I do, in the interest of time, want to ask you to respond to this question. I must go to another hearing. But I am concerned about southeastern Alaska, which was not covered by your report, as I understand it. The regional hospital which is owned by the city and borough of Juneau operates the Juneau Recovery Hospital. It is a State-licensed and accredited 16-bed substance abuse facility. The veterans of the southeast are not covered by the VA for the services they obtain from that Juneau Recovery Hospital, and it is my understanding they must leave Alaska if they seek aid in getting treatment for their alcohol-chemical dependency treatment. I am told that last year that VA told the Juneau Recovery Hospital that it was not interested in contracting for services from that facility and that leaves no alternative for southeastern Alaska veterans but to leave Alaska to fly 900 miles south to obtain treatment.

PREPARED STATEMENT

I think most people do not understand our distances. Mr. Secretary, I know you do and I know that you will do all you can to try to deal with that problem. But clearly, we have I believe the highest per capita population of veterans in our population. Although we are a small population State, we have an enormous number of veterans and they live in very remote areas. It is very difficult to care for them now as they are aging and they need a lot of attention. I would hope that somehow or other we would work out something in terms of this contract care concept and let them have an opportunity to obtain treatment in Alaska. It costs a lot of money to fly to Seattle for a doctor's appointment and it

is just impossible for many of them. Many of them are my age. I know the problems that they face, and I would like to help them if I can.

So thank you very much, Mr. Chairman.
[The statement follows:]

PREPARED STATEMENT OF SENATOR TED STEVENS

Thank you very much, and I would ask my complete statement appear in the record Mr. Chairman.

It's nice to be with you again Secretary Principi. I am aware of the recently released CARES (Capital Asset Realignment for Enhanced Services) report, which recommends the reallocation of capital assets necessary to meet the demand for veterans' health care services over the next 20 years. With respect to Alaska, the commission reviewed the VA leases in Anchorage, due to expire in 2007, and the Army-provided space at the Basset Army Community Hospital in Fairbanks.

The report mentions a proposed joint venture between the VA and the Air Force to construct a new building adjacent to the Elmendorf Hospital. This new facility is expected to increase primary care space by 75 percent, specialty care space by 100 percent, and mental health space by 100 percent.

The report also discusses VA space at the Bassett Army Community Hospital in Fairbanks. The Army is constructing a new hospital facility scheduled for completion in fiscal year 2005. The VA community-based outpatient clinic will gain an additional 1,100 square feet for a total of 3,000 square feet as part of this construction.

With the Alaska Market outgrowing its leased space in Anchorage and continued constraints common to Veterans throughout Alaska, I ask you to join me in ensuring these projects move ahead as expeditiously as possible.

I continue to hear from veterans in Alaska regarding their concerns with the level of funding for Veterans Healthcare. I am fully aware of the funding issues you are currently facing as you run the Nation's largest integrated health care system, and recognize that this is an issue not limited to Alaska. My colleagues and I will do all we can to maximize funds for VA healthcare in fiscal year 2005. However, it is my understanding that there are many individuals who continue to use the VA as a primary source of medical care, even though they have access to alternative sources of medical coverage. I understand this may be partially due to the prescription drug coverage provided by the VA that some plans don't provide. Until the new Medicare legislation is fully implemented in 2006, that is also true for many senior vets. The unnecessary burden this puts on a system already overwhelmed with high priority cases must be an issue worth reviewing.

Last year the VA notified the Alaska delegation that it planned to move the administration of veterans benefits (but not health care) to Salt Lake City, consistent with the implementation of the VAMROC (VA Medical and Regional Office Center) Plan. VA staff in Alaska assured my office that the proposed move would not result in any personnel transfers or layoffs in Anchorage and that the move was intended to result in more efficient and timely processing of claims for veterans benefits. This has been successful.

Alex Spector, Director of the VA in Anchorage, and Douglas Wadsworth, Director of the VA Regional Office in Salt Lake, tell me that the percentage of rating claims pending over 6 months has been reduced from 39 percent to 26 percent, and that as of February, the VA has already successfully rehabilitated 23 veterans through its Vocational and Rehabilitation & Employment Program, compared to a total of 31 veterans in fiscal year 2003.

I thank you again for all your hard work on developing a special physician payment system for veterans' health care in Alaska. Your leadership has preserved access to healthcare for our veterans. That system helped us gain a special physician rate in Alaska for Medicare and TRICARE beneficiaries last year when the Medicare Modernization legislation was enacted.

I am concerned about Southeast Alaska issues that are not covered in the CARES report. It's my understanding that the Bartlett Memorial Hospital, owned by Juneau, operates JRC, state licensed and accredited 16-bed substance abuse facility, providing treatment of alcoholism and drug dependency. JRH offers many services including: intensive outpatient, inpatient rehabilitation, partial hospitalization and continuing care.

One last additional issue I would like to raise is regarding our Veterans in Southeast Alaska. These veterans are not being covered by the VA for services they obtain at the Juneau Recovery Hospital (JRH) and must leave Alaska if they desire the VA to cover their alcohol and chemical dependency treatment. JRH has negotiated

with the VA office in Anchorage since 2002 in order to obtain a contract for services. In March, 2003, JRH was told that the VA was not interested in a contract for services.

This leaves no alternative for Alaskans but to travel 900 miles south to obtain treatment. Most people don't understand our distances in Alaska, and I know you do, and will do all you can to help with this problem.

We have the highest per capita population of veterans, Mr. Secretary, and they live in remote areas, making it difficult to care for them as they age. I hope we can work out something in terms of this contract care treatment, so they can obtain treatment in Alaska. Many of them are my age and I would like you to join me in helping them.

Senator BOND. Thank you very much, Chairman Stevens. We appreciate your being here.

Secretary PRINCIPI. If I can, I would like to briefly answer the question. You are absolutely right about this. We have an extraordinary opportunity to share with the Air Force at Elmendorf and with the Army up at Wainwright. It is critically important that we move forward very quickly on the new outpatient clinic at Elmendorf because our lease is expiring and they do not want to renew it because they have to expand. So we have to do that. It is just a great partnership.

The same up at Wainwright. That is coming along well with the new hospital up at Wainwright. We will continue to cement that bond between the military services and the VA in Alaska.

Not as well as you, Senator, I have been to Alaska so many times I understand the extraordinary difficulty of commuting back and forth for veterans, and I will look into that contract in southeastern Alaska to see if there is something we can do to keep veterans close to their home and not have to transport them all the way down to Seattle.

[The information follows:]

CONTRACTING OUT SERVICES FOR SOUTHEASTERN ALASKA VETERANS

Southeast Alaska veterans currently receive primary care both at the VA Clinic located in Anchorage and through fee basis care in their home community. Veterans who are 50 percent service-connected (SC) and higher are authorized for fee care in their home community. Also, any veteran enrolled in the VA system who meets the medical criteria for emergent care, obviating the need for hospitalization, is also authorized care in their home community. Veterans who are less than 50 percent SC, or are non-service connected (NSC), are offered primary care at the VA Clinic in Anchorage. Veterans who meet the VA Beneficiary Travel guidelines are provided travel to Anchorage for appointments.

The Alaska VA Healthcare System had a vendor outreach meeting in Juneau, AK, on April 6, 2004. Thirteen individuals representing nine provider groups were present. A separate meeting occurred with the Family Practice Clinic. The purpose of the outreach was to update vendors about the Alaska fee basis program, answer questions, and talk about possible partnerships with the VA. Although a formal proposal for contracting care was not presented, it did not appear as though any of the participants were particularly interested in contracting with VA, given the quality measures, referral processes, and clinical data requirements required in a healthcare contract with VA.

VA is willing to further explore contracting with providers in Southeast Alaska, as well as pursuing other possible options that would be a cost effective solution and alleviate travel to Anchorage for southeastern Alaska veterans. It should be noted that the availability of specialty care is very limited, not only in Southeast Alaska but throughout the State. VA appreciates the inconvenience to patients who need to travel outside Alaska for care, and attempts to minimize that inconvenience to the extent possible within available resources.

Senator STEVENS. Thank you very much. I am going to offer to take the whole committee to Alaska, and I am going to start at

Ketchikan and put them on a ferry and take them up through southeastern by how veterans get between places because that is the least expensive way to travel. Then I am going to take them up to Anchorage and let them travel by train up to Fairbanks, and then we will fly around in some small planes from village to village to village and let them see how it works.

When Senator McClellan was chairman of this committee, I was a younger Senator. He did that for me and we went up there and spent 10 days and there was not a request I made for the next 2 years that was denied.

Secretary PRINCIPI. Well, we have allocated an additional \$10 million to Alaska for contract care in the community because of the needs up there and we will continue to look at it, Senator.

Senator STEVENS. Thank you very much. Thank you, Mr. Chairman.

Senator BOND. Senator Domenici.

STATEMENT OF SENATOR PETE V. DOMENICI

Senator DOMENICI. I was just going to tell Senator Stevens he does not have to take me up there. Whatever you want, you can have. You do not have to take me up on the trip. I have too many other trips to take. Just believe me.

Mr. Chairman, let me just have a couple of minutes and I will insert my remarks.

First, I want to thank you, Mr. Secretary. I think they are saying your name wrong, but they say mine wrong also. I tell them my name is Domenici and they say, no, it is not. It's Domenici. So I have to take them home to Italy and let them talk to my relatives. But your name is Principi.

In any event, let me say I have three issues and I am just going to cover them very quickly.

TELEHEALTH

One has to do with telehealth. As you know, for a long time I have been interested in enhanced access of care for rural veterans. Establishing more community-based outpatient clinics is one way that the VA and Congress have worked together to reach these areas. In fact, my home State of New Mexico now operates 11 such clinics for rural veterans. I believe Congress and the VA should work together to improve the use of technology for serving rural veterans. In particular, we can do much more in the area of telehealth and telemedicine.

What is the current state of the VA telehealth, and what legislative initiatives would you recommend to improve that?

It is my understanding that VA is implementing a telehealth pilot project to provide medical services in remote parts of eastern New Mexico. I would like you to describe that for the record if you do not have it ready, if you would do that for us.

[The information follows:]

TELEHEALTH

VA is recognized as a leader in the field of telehealth. VA's former Telemedicine Strategic Healthcare Group has been incorporated into a new Office of Care Coordination (OCC) and the term telehealth is increasingly being used in VHA rather than

telemedicine. These changes recognize that implementing telehealth is more than a technology issue. It involves embedding telehealth and other associated technologies directly into the care delivery process and that it now involves many different professionals. VA is undertaking telehealth in 31 different areas. OCC is supporting all these areas but is focusing particularly on those where there is particular need. It is therefore designating lead clinicians in the areas of telemental health, tele-rehabilitation and telesurgery. VA is formalizing guidance for the development of telehealth, with a particular emphasis on the community-based outpatient clinic in relation to major areas of veteran patient need. This has commenced with the following:

- Telemental health,
- Teledermatology,
- Telesurgery (enabling remote pre-op and post-op assessments),
- Teleretinal Imaging for diabetic retinopathy, and
- Telerehabilitation.

Teleradiology is a major associated area of need where VA is seeking to work to bring resources at a local level into an interoperable infrastructure and create a national system. Such a system, if developed, will enable sharing of resources and acquisition of services when local difficulties with recruitment and retention of radiologists create challenges to delivering care. OCC is working to support VHA's Chief Consultant for Diagnostic Services in this endeavor and to make sure that the various areas of telehealth practice harmonize with respect to such processes as credentialing and privileging. This will facilitate working with the Department of Defense.

In recognition of the demographics of the veteran population and the rural and underserved areas in which veteran patients often live VA is placing a particular emphasis on developing care coordination that uses home telehealth technologies. The rationale for this program is to support the independent living of veterans with chronic diseases through monitoring of vital signs at home e.g. pulse, blood pressure etc. at home. A piloting of this care coordination/home telehealth (CCHT) program demonstrated very high levels of patient satisfaction and reduced the need for unnecessary clinic admissions and hospitalizations. For example by monitoring a heart failure patient at home it is possible to detect any worsening of the condition when there is breathlessness and weight gain. Early detection in this way means medication can be adjusted and the problem resolved rather than have the patient deteriorate unnoticed and require admission to hospital in extremis at risk of dying, and often necessitating an intensive care unit admission.

Because the support of a patient at home usually requires a caregiver in the home OCC is paying attention to caregiver issues and working on this collaboratively with other organizations and agencies, as appropriate.

Care coordination is being incorporated into VA's long-term care strategic plan as a means of supporting non-institutional care, when appropriate for veteran patients who want to remain living in their own home and live independently.

At this time we have no specific legislative initiatives to recommend.

TELEHEALTH PILOT IN NEW MEXICO

VA is implementing a telehealth pilot to provide medical services to patients in remote parts of VISN 18. Telehealth is remote patient case management using devices located in the patient's home that connect to hospital staff via a normal phone line. The patient responds to short, disease-specific questions each day. The devices may also be used to transmit vital signs and medical information to hospital staff monitoring the daily reports. Hospital staff can send patients reminders, tips, and feedback on their progress. Telehealth enhances veteran health care because it allows for earlier intervention and enhanced veteran self-care and self-assurance. To begin, selected patients with congestive heart failure and chronic obstructive pulmonary disease will receive telehealth care in their homes. Implementation will begin with the Geriatric Clinic and the Spinal Cord Injury Clinic in Tucson, Arizona, followed by their Primary and Medical Care teams. Then the pilot will be expanded to Amarillo VA Health Care System patients. Amarillo will start enrolling medical center patients with congestive heart failure and chronic obstructive pulmonary disease for care coordination in Phase One. When this is operational, Phase Two will begin to enroll patients with these same diseases at the Clovis, New Mexico, and Lubbock, Texas, community based outpatient clinics. VA anticipates that Phase Two will occur in fiscal year 2005.

STAFFING IN RURAL FACILITIES

Given the increased workload throughout the system, a majority of sites are experiencing an increase in demand for services. This is having an impact on VA's ability to maintain capacity and provide services within its 30-day access standards. Remote rural facilities face even greater challenges in the recruitment of providers, because frequently the pool of providers for recruitment is not as extensive as in non-rural locations. This is especially true for specialists, because many specialty positions are scarce. In some of the small rural facilities, the loss of a specialist can have a major impact on the services provided, resulting in prolonged waiting times and wait lists.

In recent years, VA has improved access to care for veterans in rural areas through development of Community-Based Outpatient Clinics (CBOCs). Where we have staffing shortages, these clinics are managed via contracts. Additionally, VA has a new initiative on care coordination that uses telehealth technology to provide care in patients' homes. Telehealth technologies allow greater access to care for veterans in rural areas, while simultaneously reducing travel and inconvenience. Through telehealth technology, staff at VA medical centers can provide services remotely, thus filling in the void where staffing shortfalls exist.

We do not have readily available, detailed information on staffing shortfalls in specific rural locations. This type of information would fluctuate on a weekly, even a daily basis. Obtaining reliable information would require an extensive survey of field facilities.

We have sent to Congress legislative initiatives that would assist us in recruitment of physicians and nurses, not only in rural locations, but throughout the VA health care system. One is a Physician Pay Bill, which would allow VA to be more competitive in the market for recruiting physicians to work within VA. This is especially true for specialty physicians which VA has difficulty recruiting. The second is a legislative proposal allowing enhanced flexibility in scheduling tours of duty for registered nurses. The ability to offer compensation, employment benefits and working conditions comparable to those available in their community is critical to our ability to recruit and retain nurses, particularly in highly competitive labor markets and for hard-to-fill specialty assignments.

Senator DOMENICI. And then medical research has been touched on a bit. I would just like you to describe in more detail the current trends of medical research and tell us where we might expect some new breakthroughs. We talk about collaboration with other government agencies and universities. I can tell you there are great opportunities for the VA to contract and go into partnership with other branches of the government. I think you know in my home city of Albuquerque, we were the second—and actually the first of a significant partnership of a hospital. Air Force veterans, one big hospital instead of two hospitals. It has worked well. Either would be too big without the other, and putting them together, they just are right.

RURAL OUTPATIENT-BASED CLINICS

Outpatient-based clinics are working splendidly and I have some questions asking you to address the staffing shortfalls that may exist in these rural facilities. I know your problems are terrific. I would just hope that you would take this opportunity to look carefully at the current group of veterans and make sure that we do not let any of them fall between the cracks. We do not need anyone coming to the American people saying we have let any of them get denied when they should have been cared for. That will be a very big story and a big black mark. So currently they are getting a lot of good care, but I hope the word is out that you all better make sure you take care of them and take care of them well.

Thank you. Thank you very much, Mr. Chairman.

Senator BOND. Thank you very much, Senator Domenici, for your very appropriate comments.

And now, finally, we will get to the testimony of Secretary Principi. We thank you for your attention to our concerns, and we will make your full statement a part of the record and ask you to proceed.

STATEMENT OF ANTHONY J. PRINCIPI

Secretary PRINCIPI. Thank you, Mr. Chairman, Chairman Bond, Senator Mikulski, and members of the committee. I am pleased to have this opportunity to testify on our proposed budget for fiscal year 2005 to address some of the challenges that you raise. I too am constantly reminded that we live in a difficult time and young men and women are coming back to our shores, having served so magnificently in combat theaters of operation and even on the front lines in the ramparts of freedom, and we need to be there for them and we cannot afford to have anyone fall through the cracks. It is a very, very high priority. I feel very deeply about this.

I want to thank you both for your kind comments, but most importantly, I want to thank you for your extraordinary support for my Department and for the veterans of this Nation. I think the progress we have made in recent years is directly proportional to the tremendous support that you, Mr. Chairman, and Senator Mikulski have given to my Department.

The President proposed a VA budget for fiscal year 2005 that will, if it is approved, ensure that 800,000 more veterans receive medical care than VA cared for in 2001, the year I became Secretary of Veterans Affairs. As you indicated, our health care budget has grown dramatically in recent years and with the 2005 budget, the 4-year cumulative will be more than 40 percent. Again, on behalf of America's veterans I thank both the President and the members of this committee for your enormous contribution to this achievement. This 4-year cumulative total is probably the largest increase certainly in 50 years and perhaps in the history of the VA. My budget has gone from \$48 billion overall to about \$65 billion in 2004, and with this budget, it will go up well over \$70 billion in 2005.

As a result of these budget increases and the tremendous hard work of the people at the table with me and those throughout the VA, quality of veterans' health care in my view has never been so good. This is not my dad's VA. Never before has access been this broad. We have almost 800 community-based outpatient clinics, and prior to the mid-1990's we had none. Never before have we treated so many veterans at so many locations. That is the good news.

The challenging news is that we have a lot of work ahead of us because more and more veterans are coming to us for health care. But I believe that with the 2005 budget and what you have provided to us in 2004, we will have the resources we need to meet our goal of scheduling non-urgent primary care appointments for 93 percent of the veterans within 30 days and 99 percent within 90 days.

In July of 2002, not really too long ago, we had 317,000 veterans who were waiting more than 6 months for an appointment. Today

that number is down to about 22,000, of which only about 5,000 are waiting for an initial visit. We will continue to focus on the medical needs of veterans identified by Congress as the highest priority, the service-connected disabled veterans, the poorest of the poor, the low income who have few if any other options for health care in this country, and those who need our specialized services like blind rehabilitation and spinal cord injury.

This budget request also more than doubles from the current fiscal year our appropriation request for construction of the new and improved facilities soon to be identified through our CARES process. And I look forward to the opportunity to talk with you about CARES during the question and answer period.

In addition, I plan to use the authority that you have given me to apply up to \$400 million of the 2004 appropriation to CARES projects to modernize our infrastructure throughout the country. This makes a total of approximately \$1 billion that we will be able to commit during 2004 and 2005 to transforming VA's medical facilities into a 21st century health care system and not one from the century gone by.

Perhaps most importantly the budget will fund high quality care for veterans returning to our shores from overseas conflicts. Approximately 19,600 of the 145,000 returnees from Iraq and Afghanistan have sought and been provided VA health care, and I know that number will increase in years to come.

The budget request also sustains our tremendous progress in bringing down the disability claims backlog. By the end of last fiscal year, we reduced our inventory of rating-related claims, claims for disability compensation and pension, from a high of 432,000 to 253,000. And the percentage of veterans waiting more than 6 months for a decision was down to 18 percent from 48 percent. A court of appeals decision in September 2003 made us hold claims where part of the decision was a denial for a year, and our backlog shot back up, but the Congress fixed that problem and we are now back on track to achieve my goal of 250,000 and about 100 days' processing time by the end of this year. We now decide more than 60,000 cases a month, up from about 40,000 per month in 2001. And that is because of the people you have given us and the hard work of our Veterans Benefits Administration folks.

The President's request will also continue the greatest expansion of the national cemetery system since the Civil War and fund long-deferred maintenance needed to ensure our cemeteries are recognized as national shrines. We will open up 11 new national cemeteries between now and the year 2009, which will increase our gravesite capacity by 85 percent. And that is needed because of the large number of World War II veterans and Korean veterans that are passing from us.

As you indicated, Senator Mikulski, the budget emphasizes our health care commitment to the poor. So we propose to raise the income threshold, exempting low income veterans from pharmacy co-payments, from an income of \$9,800 a year to \$16,500. Of course, we ask for elimination for all co-payments for former prisoners of war and those in end-of-life care and hospice care and palliative care. We also ask for the authority to reimburse veteran patients for their out-of-pocket costs in those cases where they must make

co-payments to their insurance companies for non-VA emergency care, when they seek emergency care in private hospitals and have to make co-payments.

The budget does propose an increase, as you indicated, for pharmacy co-payments to \$15 for a 30-day supply and I believe a modest annual fee for higher income veterans, non-disabled veterans, using our system that really totals less than \$21 a month, a very small portion of the cost of care and comparable to the amount military retirees, enlisted people who retire after 20 years of service, devote their career to the military, have to pay to enroll in the TRICARE prime program. So I think there is an equity issue and that is why I think the \$250 was a reasonable amount for veterans with the higher incomes and no disabilities to pay. But I understand the reticence of the members of the committee.

PREPARED STATEMENT

I place a very high priority on effective and efficient management of the resources entrusted to the Department by Congress. By financial management initiatives and medical care collections, debt management procurement reform, we will continue to increase the resources that are made available to veterans because every dollar we waste is a dollar that we cannot spend on veterans' health care. The same is true with CARES. Every dollar we spend on utility bills for empty buildings is a dollar we do not have to spend on veteran's health care. And that is why I believe the CARES process is so important.

That concludes my testimony, Mr. Chairman, Senator Mikulski. I look forward to answering your questions.

[The statement follows:]

PREPARED STATEMENT OF ANTHONY J. PRINCIPI

Mr. Chairman and members of the committee, good afternoon. I am pleased to be here today to present the President's 2005 budget proposal for the Department of Veterans Affairs (VA). The focal point of this budget is our firm commitment to continue to bring balance back to our health care system by focusing on veterans in the highest statutory priority groups.

The President's 2005 budget request totals \$67.7 billion (an increase of \$5.6 billion in budget authority)—\$35.6 billion for entitlement programs and \$32.1 billion for discretionary programs. Our request for discretionary funds represents an increase of \$1.2 billion, or 3.8 percent, over the enacted level for 2004, and supports my three highest priorities:

- provide timely, high-quality health care to our core constituency—veterans with service-connected disabilities, those with lower incomes, and veterans with special health care needs;
- improve the timeliness and accuracy of claims processing;
- ensure the burial needs of veterans and their eligible family members are met, and maintain veterans' cemeteries as national shrines.

The growth in discretionary resources will support a broad array of benefits and services that VA provides to our Nation's veterans. Including medical care collections, funding for the medical care program rises by \$1.17 billion over the 2004 enacted level. As a principal component of our medical care budget, we are requesting \$524 million to begin implementing recommendations stemming from studies associated with the Capital Asset Realignment for Enhanced Services (CARES) program.

We are presenting our budget request using a slightly modified new budget account structure that we proposed for the first time last year. This new structure more clearly presents the full funding for each of the benefits and services we provide veterans. This will allow the Department and our stakeholders to more effectively evaluate the program results we achieve with the total resources associated with each program. I am committed to providing Congress with the information and tools it needs to be comfortable with enacting the change.

MEDICAL CARE

The President's 2005 request includes total budgetary resources of \$29.5 billion (including \$2.4 billion in collections) for the medical care program, an increase of 4.1 percent over the enacted level for 2004, and more than 40 percent above the 2001 level. With these resources, VA will be able to provide timely, high-quality health care to nearly 5.2 million unique patients, a total 21 percent higher than the number of patients we treated in 2001.

I have taken several steps during the last year to refocus VA's health care system on our highest priority veterans, particularly service-connected disabled veterans who are the very reason this Department exists. For example, we recently issued a directive that ensures veterans seeking care for service-connected medical problems will receive priority access to our health care system. This new directive provides that all veterans requiring care for a service-connected disability, regardless of the extent of the injury or illness, must be scheduled for a primary care evaluation within 30 days of their request for care. If a VA facility is unable to schedule an appointment within 30 days, it must arrange for care at another VA facility, at a contract facility, or through a sharing agreement.

By highlighting our emphasis on our core constituency (Priority Levels 1–6), we will increase our focus on the Congressionally-identified highest priority veterans. The number of patients within our core service population that we project will come to VA for health care in 2005 will be nearly 3.7 million, or 12 percent higher than in 2003. During 2005, 71 percent of those using VA's health care system will be veterans with service-connected conditions, those with lower incomes, and veterans with special health care needs. The comparable share in 2003 was 66 percent. In addition, we devote 88 percent of our health care funding to meet the needs of these veterans.

While part of our strategy for ensuring timely, high-quality care for our highest priority veterans involves a request for additional resources, an equally important component of this approach includes a series of proposed regulatory and legislative changes that would require lower priority veterans to assume a small share of the cost of their health care. These legislative proposals are consistent with recent Medicare reform that addresses the difference in the ability to pay for health care. We are submitting these proposals for Congress' reconsideration because we strongly believe they represent the best opportunity for VA to secure the necessary budgetary resources to serve our core population. Among the most significant legislative changes presented in this budget are to:

- assess an annual use fee of \$250 for Priority 7 and 8 veterans; and
- increase co-payments for pharmacy benefits for Priority 7 and 8 veterans from \$7 to \$15.

We will work with Congress to enact our legislative proposal to eliminate the pharmacy co-payment for Priority 2–5 veterans, who have fewer means by which to pay for these costs, by raising the income threshold from the pension level of \$9,894 to the aid and attendance level of \$16,509 (for a single veteran). This would allow about 394,000 veterans within our core constituency to receive outpatient medications without having to make a co-payment.

The 2005 budget includes several other legislative and regulatory proposals that are designed to expand health care benefits for the Nation's veterans. Among the most significant of these is a provision that would give the Department the authority to pay for insured veteran patients' out-of-pocket expenses for urgent care services if emergency/urgent care is obtained outside of the VA health care system. This proposal would ensure that veterans with life-threatening illnesses can seek and receive care at the closest possible medical facility. In addition, we are proposing to eliminate the co-payment requirement for all hospice care provided in a VA setting and all co-payments assessed to former prisoners of war. Currently, veterans are charged a co-payment if hospice care cannot be provided in a VA nursing home bed either because of clinical complexity or lack of availability of nursing home beds.

The President's 2005 budget for VA's medical care program also continues our effort to expand access to long-term care for veterans. This budget includes a legislative proposal to focus long-term care on non-institutional settings by expanding the 1998 average daily census nursing home capacity requirement to include the following categories of extended care services—nursing homes, community residential care programs, residential rehabilitation treatment programs, home care programs, non-institutional extended care services under VA's jurisdiction, and long-term care beds for which the Department pays a per diem to States for services in State homes. As part of this effort, we aim to significantly enhance access to non-institutional care programs that allow veterans to live and be cared for in the comfort and familiar setting of their home surrounded by their family.

In return for the resources we are requesting for the medical care program in 2005, we will continue to aggressively pursue my priority of providing timely and accessible health care that sets a national standard of excellence for the health care industry. During the last 3 years, we have significantly enhanced veterans' access to health care. We have opened 194 new community clinics, bringing the total to 676. Nearly 9 out of every 10 veterans now live within 30 minutes of a VA medical facility. This expanded level of access has resulted in an increase in the number of outpatient visits from 44 million in 2001 to 51 million in 2003, as well as a 26 percent rate of growth in the annual number of prescriptions filled to a total of 108 million last year. To further highlight the Department's emphasis on the delivery of timely, accessible health care, our standard of care for primary care is that 93 percent of appointments will be scheduled within 30 days of the desired date and 99 percent of all appointments will be scheduled within 90 days. For appointments with specialists, the comparable performance goal is 90 percent within 30 days of the desired date.

As I mentioned earlier Mr. Chairman, a key component of our overall access goals is the assurance that veterans seeking care for service-connected medical problems will receive priority access to health care. In addition, we have dramatically reduced the number of veterans on the waiting list for primary care.

VA's health care system continues to be characterized by a coordinated continuum of care and achievement of performance outcomes that improve services to veterans. In fact, VA has exceeded the performance of private sector and Medicare providers for all 18 key health care indicators, from diabetes care to cancer screening and immunizations. The Institute of Medicine has recognized the Department's integrated health care system, including our framework for using performance measures to improve quality, as one of the best in the Nation. Additionally, VA's quality score based on a survey conducted by the Joint Commission on Accreditation of Healthcare Organizations exceeds the national average quality score (93 versus 91).

We will continue to use clinical practice guidelines to help ensure high-quality health care, as they are directly linked with improved health outcomes. We expect to show improvements in both of our principal measures of health care quality. The clinical practice guidelines index will rise to 71 percent in 2005, while the prevention index will increase to 84 percent.

The 2005 budget includes additional management savings of \$340 million that will partially offset the need for additional funds to handle the increasing utilization of health care resources, particularly among our highest priority veterans who require much more extensive care, on average, than lower priority veterans. We will achieve these management savings through improved standardization policies in the procurement of supplies, pharmaceuticals, and other capital purchases, as well as in other operational efficiencies such as consolidations.

Our projection of medical care collections for 2005 is \$2.4 billion. This total is 38 percent above our estimated collections for 2004 and is more than three times the collections level from 2001. Approximately \$407 million, or 61 percent, of the increase above 2004 is possible as a result of the proposed medical care policy initiatives. The Department continues to implement the series of aggressive steps identified in our revenue cycle improvement plan in order to maximize the health care resources available for the medical care program. We are establishing industry-based performance and operational metrics, developing technological enhancements, and integrating industry-proven business approaches, including the establishment of centralized revenue operation centers. For example, during the last year we have lowered the share of reimbursable claims receivable greater than 90 days old from 84 percent to 39 percent, and we have decreased the average time to produce a bill from 117 days to 49 days. Further, the Department is implementing the Patient Financial Services System in Veterans Integrated Service Network 10 (Ohio). This will be a single billing system that we will use for both hospital costs as well as physician costs, and involves comprehensive implementation of standard business practices and information technology improvements.

As you know Mr. Chairman, one of the President's management initiatives calls for VA and the Department of Defense (DOD) to enhance the coordination of the delivery of benefits and service to veterans. To address this Presidential initiative, our two Departments established a high-level Joint Executive Council to develop and implement significant collaborative efforts. We are focusing on three major system-wide issues: (1) facilitating electronic sharing of enrollment and eligibility information for services and benefits; (2) establishing an electronic patient health record system that will allow rapid exchange of patient information between the two organizations by the end of 2005; and (3) increasing the number of shared medical care facilities and staff. The sharing of DOD enrollment and eligibility data will reduce the burden on veterans to provide duplicative information when making the transi-

tion to VA for care or benefits. Shared medical information is extremely important to ensure that veterans receive safe and proper care. VA and DOD are working together to share facilities and staff in order to provide needed services to all patients in the most efficient and effective manner.

CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES (CARES)

The 2005 budget includes \$524 million of capital funding to move forward with the Capital Asset Realignment for Enhanced Services (CARES) initiative, a figure more than double the amount requested for CARES for 2004. This is a multi-year program to update VA's infrastructure to meet the needs of veterans in the 21st century and to keep our Department on the cutting edge of medicine. CARES will assess veterans' health care needs across the country, identify delivery options to meet those needs in the future, and guide the realignment and allocation of capital assets so that we can optimize health care delivery in terms of both quality and access. The resources we are requesting for this program will be used to implement the various recommendations within the National CARES plan by funding advance planning, design development, and construction costs for capital initiatives.

Mr. Chairman, the independent commission that reviewed our draft CARES plan has delivered their report to me. I am in the process of reviewing the commission's analysis and recommendations. We will thoroughly evaluate their report and seriously consider their recommendations before making our final realignment decisions and preparing for the next phase of the CARES program.

MEDICAL AND PROSTHETIC RESEARCH

The President's 2005 budget includes total resources of \$1.7 billion to support VA's medical and prosthetic research program. This request is comprised of \$770 million in appropriated funds, \$670 million in funding from other Federal agencies such as DOD and the National Institutes of Health, as well as \$230 million from universities and other private institutions. Our budget includes an initiative to assess pharmaceutical companies for the indirect administrative costs associated with the clinical drug trials we conduct for these organizations.

This \$1.7 billion will support nearly 2,900 high-priority research projects to expand knowledge in areas critical to veterans' health care needs—Gulf War illnesses, aging, diabetes, heart disease, mental illness, Parkinson's disease, spinal cord injury, prostate cancer, depression, environmental hazards, women's health care concerns, and rehabilitation programs.

VETERANS' BENEFITS

The Department's 2005 budget request includes \$36 billion for the entitlement costs associated with all benefits administered by the Veterans Benefits Administration (VBA). Included in this total, is an additional \$2.740 billion for disability compensation payments to veterans and their survivors for disabilities or diseases incurred or aggravated while on active duty. Recipients of these compensation benefits will have increased from 2.3 million in 2001 to over 2.6 million in 2005. The budget includes another \$1.19 billion for the management of these programs—disability compensation; pensions; education; vocational rehabilitation and employment; housing; and life insurance. This is an increase of \$26 million, or 2.2 percent, over the enacted level for 2004.

We have made excellent progress in addressing the Presidential priority of improving the timeliness and accuracy of claims processing. Not only have we hired and trained more than 1,800 new employees in the last 3 years to directly address our claims processing backlog, but the productivity of our staff has increased dramatically as well. Between 2001 and 2003, the average number of claims we completed per month grew by 70 percent, from 40,000 to 68,000. Last year the inventory of rating-related compensation and pension claims peaked at 432,000. By the end of 2003, we had reduced this backlog of pending claims to just over 250,000, a drop of over 40 percent. We have experienced an increase in the backlog during the last few months, due in large part to the impact of the court decision (*PVA v Secretary of Veterans Affairs*) that interpreted the Veterans Claims Assistance Act of 2000 as requiring VA to wait a full year before denying a claim. However, this rise in the number of pending claims will be temporary, and we expect the backlog to be back down to about the 250,000 level by the end of 2004. We thank the Congress for the legislation that eliminated the mandatory 1-year waiting period.

In 2002 it took an average of 223 days to process a claim. Today, it takes about 150 days. We are on track to reach an average processing time of 100 days by the end of 2004 and expect to maintain this timeliness standard in 2005. One of the main reasons we will be able to meet and then sustain this improved timeliness

level is that we have reduced the proportion of claims pending over 6 months from 48 percent to just 19 percent during the last 3 years.

To assist in achieving this ambitious goal, VA established benefits delivery at discharge programs at 136 military installations around the country. This initiative makes it more convenient for separating servicemembers to apply for and receive the benefits they have earned, and helps ensure claims are processed more rapidly. Also, the Department has assigned VA rating specialists and physicians to military bases where servicemembers can have their claims processed before they leave active duty military service.

We expect to see an increase in claims resulting from the return of our brave servicemen and women who fought to protect the principles of freedom in Operation Enduring Freedom and Operation Iraqi Freedom. We propose to use \$72 million of the funds available from the war supplemental during 2004 to address the challenges resulting from an increasing claims processing workload in order to assist us in reaching our timeliness goal of 100 days by the end of 2004. We propose to use the remaining \$28 million in 2005 to help sustain this timeliness standard.

At the same time that we are improving timeliness, we will be increasing the accuracy of our claims processing. The 2005 performance goal for the national accuracy rate for compensation claims is 88 percent, well above the 2001 accuracy level of 80 percent.

This budget request includes additional staff and resources for new and ongoing information technology projects to support improved claims processing. We are requesting \$2 million for the Virtual VA project, the ultimate goal of which is to replace the current paper-based claims folder with electronic images and data that can be accessed and transferred electronically through a web-based solution. The 2005 funding will maintain Virtual VA at the three Pension Maintenance Centers. We are seeking \$3.4 million for the Compensation and Pension Evaluation Redesign, a project that will result in a more consistent claims examination process. In addition, we are requesting \$2.6 million in 2005 for the Training and Performance Support Systems, a multi-year initiative to implement five comprehensive training and performance support systems for positions critical to the processing of claims.

The Veterans Service Network (VETSNET) development is nearing completion and is scheduled to begin deployment in April 2004. This system offers numerous improvements over the legacy Benefits Delivery Network (BDN) that it is replacing (e.g., correction of material weaknesses and implementation of comprehensive claims processing within a modern corporate environment). Sufficient platform capacity is required to successfully deploy VETSNET and to ensure the continued and uninterrupted payment of approximately \$24 billion annually in benefits to around 3.4 million deserving veterans and their beneficiaries. Therefore, \$5 million in funding is requested to procure the capacity required. This platform capacity will ensure successful deployment and operation of VETSNET throughout VBA's Regional Offices and in a modern corporate environment that integrates all components of claims processing (e.g., establishing the claim, rating the claim, preparing the claim award, and paying the claim award). Without sufficient platform capacity, the Veterans Benefits Administration will be unable to operate this critical new system.

In support of the education program, the budget proposes \$5.2 million for continuing the development of the Education Expert System. These resources will be used to expand upon an existing prototype expert system and will enable us to automate a greater portion of the education claims process and expand enrollment certification. This initiative will contribute toward achievement of our 2005 performance goals for the average time it takes to process claims for original and supplemental education benefits of 25 days and 13 days, respectively.

VA is requesting \$9.6 million for the One-VA Telephone Access project, an initiative that will support all of VBA's benefits programs. This initiative will result in the development of a Virtual Information Center that forms a single telecommunications network among several regional offices. This technology will allow us to answer calls at any place and at any time without complex call routing devices.

In order to make the delivery of VA benefits and services more convenient for veterans and more efficient for the Department, we are requesting \$1.5 million for the collocation and relocation of some regional offices. Some of this will involve housing regional office operations in existing VA medical facilities. In addition, we are examining the possibility of collocations using enhanced-use authority, which entails an agreement with a private developer to construct a facility on Department-owned grounds and then leasing all or part of it back to VA. At the end of these long-term lease agreements, the land and all improvements revert to VA ownership.

BURIAL

The President's 2005 budget includes \$455 million for the burial program, of which \$181 million is for mandatory funding for VA burial benefits and payments and \$274 million is for discretionary funding, including operating and capital costs for the National Cemetery Administration and the State Cemetery Grant program. The increase in discretionary funding is \$9 million, or 3.4 percent, over the enacted level for 2004, and includes operating funds for the five new cemeteries opening in 2005.

This budget request includes \$926,000 to complete the activation of new national cemeteries in the areas of Detroit, MI and Sacramento, CA. These are the last two of the six locations identified in the May 2000 report to Congress as the areas most in need of a national cemetery. The other four cemeteries will serve veterans in the areas of Atlanta, GA, South Florida, Pittsburgh, PA, and Fort Sill, OK.

With the opening of new national cemeteries and State veterans cemeteries, the percentage of veterans served by a burial option within 75 miles of their residence will rise to 83 percent in 2005. The comparable share was less than 73 percent in 2001.

The \$81 million in construction funding for the burial program in 2005 includes resources for Phase 1 development of the Sacramento National Cemetery (CA) as well as expansion and improvements at the Florida National Cemetery (Bushnell, FL) and Rock Island National Cemetery (IL). The request includes advanced planning funds for site selection and preliminary activities for six new national cemeteries to serve veterans in the following areas—Bakersfield, CA; Birmingham, AL; Columbia/Greenville, SC; Jacksonville, FL; Sarasota County, FL; and southeastern Pennsylvania. Completion of these new cemeteries will represent an 85 percent expansion of the number of gravesites available in the national cemetery system since 2001, almost doubling the number of gravesites during this time period. In addition, the budget includes \$32 million for the State Cemetery Grant program.

In return for the resources we are requesting for the burial program, we expect to achieve extremely high levels of performance in 2005 and to continue our noble work to maintain the appearance of national cemeteries as shrines dedicated to honoring the service and sacrifice of veterans. Our performance goal for the percent of survey respondents who rate the quality of service provided by the national cemeteries as excellent is 96 percent, and our goal for the percent of survey respondents who rate national cemetery appearance as excellent is 98 percent. In addition, we will continue to place emphasis on the timeliness of marking graves. Our performance goal for the percent of graves in national cemeteries marked within 60 days of interment is 82 percent in 2005, a figure dramatically above the 2002 performance level of 49 percent.

MANAGEMENT IMPROVEMENTS

Mr. Chairman, we have made excellent progress during the last year in implementing the President's Management Agenda. Our progress in the financial, electronic government, budget and performance, and DOD/VA coordination areas is currently rated "green." Our human capital score is "yellow" due only to some very short-term delays. However, VA's competitive sourcing rating is "red" because existing legislation precludes us from using necessary resources to conduct cost comparisons of competing jobs such as laundry, food and sanitation service. The administration will work with Congress to develop legislation to advance this effort that would free up additional resources to be used to provide direct medical services to veterans. We will continue to take the steps necessary to achieve the ultimate goals the President established for each of the focus areas.

We have several management improvement initiatives underway that will lead to greater efficiency and will be accomplished largely through centralization of several of our major business processes. We are currently realigning our finance, acquisition, and capital asset management functions into business offices across the Department. There will be one business office in each of the 21 Veterans Integrated Service Networks and a single office for the National Cemetery Administration. For the Veterans Benefits Administration, the majority of the field functions will be centralized into product lines. In addition, we are establishing an Office of Business Oversight in our Office of Management that will provide much stronger oversight of these functions by our Chief Financial Officer, will improve operations through more specialization, and will achieve efficiencies in staffing. The realignment of these business functions will reduce and standardize field business activities into a more manageable size, limit the number of sites to be reviewed, provide for more consistent interpretation of policies and procedures, and promote implementation of performance metrics and data collection related to these business functions. As a re-

sult of the realignment, we will significantly strengthen compliance and consistency with finance, acquisition, and capital asset policies and procedures.

We continue to make excellent progress in implementing the recommendations of our Procurement Reform Task Force, as 43 of the 65 recommendations have been completed. By the end of 2004, we expect to implement all of the remaining recommendations. These procurement reforms will optimize the performance of VA's acquisition system and processes by improving efficiency and accountability. We expect to realize savings of about \$250 million by the end of 2004 as a result of these improvement initiatives. This figure will rise after we have completed all 65 recommendations.

During 2005 VA will continue developing our enterprise architecture that will ensure that all new information technology (IT) projects are aligned with the President's E-government initiatives as well as the Department's strategic objectives. The enterprise architecture will help eliminate redundant systems throughout VA, improve IT accountability and cost containment, leverage secure and technologically sound solutions that have been implemented, and ensure that our IT assets are built upon widely accepted industry standards and best practices in order to improve delivery of benefits and services to veterans. One of our primary focus areas in IT will be cyber security. We will concentrate on securing the enterprise architecture and providing continuous protection to all VA systems and networks. This will require purchases of both hardware and software to address existing vulnerabilities.

We are continuing the development and implementation of our CoreFLS project to replace VA's existing core financial management and logistics systems with an integrated, commercial off-the-shelf package. CoreFLS will help us address and correct management and financial weaknesses in the areas of effective integration of financial transactions from Department systems, necessary financial support for credit reform initiatives, and improved automated analytical and reconciliation tools. We have conducted initial tests at selected sites and are still on schedule for full implementation during 2006.

The Department has developed a comprehensive human capital management plan and has started implementing some of the strategies outlined in this plan. In addition, we are implementing a redesigned performance appraisal system to better ensure that all employees' performance plans are linked with VA's mission, goals, and objectives.

CLOSING

Mr. Chairman, VA has achieved numerous successes during the last 3 years that have significantly improved service to our country's veterans. We have enhanced veterans' access to our health care services that set the national standard with regard to quality; improved the timeliness of health care delivery; expanded programs for veterans with special health care needs; dramatically lowered the time it takes to process veterans' claims for benefits; and expanded access to our national cemetery system. The President's 2005 budget will provide VA with the resources necessary to continue to improve our delivery of benefits and services, particularly for veterans with service-connected conditions, those with lower incomes, and veterans with special health care needs.

That concludes my formal remarks. My staff and I would be pleased to answer any questions.

MEDICAL CARE FUNDING

Senator BOND. Thank you very much, Mr. Secretary.

I understand you recently sent a letter to House Budget Committee Chairman Nussle endorsing an additional \$1.2 billion over the budget request for VA medical care, making the safe assumption that the administration's proposed fees will not be accepted by the Congress. Will \$1.2 billion be adequate to ensure that the VA will be able to meet its medical care needs for 2005?

Secretary PRINCIPI. Yes, it certainly will, Mr. Chairman. I am very pleased I was given the authority to endorse the budget resolution, adding \$1.2 billion to our appropriation because of the understanding that Congress would not enact the policy reforms on user fees and co-payments. Therefore, those dollars would be necessary to ensure that our waiting lists and waiting times for ap-

pointments do not go up. It will also allow us to slightly increase staffing in our Benefits Administration, increase the amount for research and a little bit for CARES as well. So the \$1.2 billion would, indeed, allow us to continue to stay on track.

CARES

Senator BOND. Speaking of CARES, I understand you had some personal experiences where you have seen veterans' hospitals apparently with some unneeded space, maybe in Chicago and something about New York. You said rather than spending the money on unneeded electricity, what do you mean by that, Mr. Secretary?

Secretary PRINCIPI. Well, I had an interesting evening one night. I was in New York City driving up 1st Avenue to an event up in midtown, and I was caught in traffic at the corner of 23rd and 1st Avenue and looking up the VA medical center, an 18-story bed tower at about 7:30 at night and I noticed no lights on or virtually no lights on. I knew there was power because some lights were on.

I went back to my office the next day and I asked for the information on the New York City medical centers, Brooklyn, Manhattan, and Bronx, and how large are these medical centers and how many patients do we have in them because I did not see any lights on in the bed tower. They came back and said the Bronx was built to 1,800 beds in 1920, downsized to about 850 beds in the 1970's. Manhattan was built to 1,000 beds in 1950 and Brooklyn was built to 1,300 beds in 1950 as well. And the day I was in New York, they had a combined inpatient census of 385 patients. So we have three medical centers within relatively short distance of one another that were built to 3,000 beds. Of course, they had been converted to other uses, and there were only 385 patients in them.

I think that is an indication that medical care has changed so dramatically in this country going to outpatient care and ambulatory surgery and reducing lengths of stay and drug therapy and using technology, telehealth, that we were spending an awful lot of money on maintenance of very old buildings that are no longer defined as health care delivery. And veterans deserve better than that.

That is why I believe this process is so important to ensure that we have a modern infrastructure with medical centers, tertiary care hospitals that are supported by multi-specialty outpatient clinics and that are supported by primary care clinics. That was the example I used.

Senator BOND. In addition to the obvious benefits of CARES, I believe it will also spur some major construction spending. There are some estimates that VA would spend some \$4 billion to \$6 billion in new construction under CARES. For 2004, how much money will VA be able to spend on new construction projects under CARES and how many do you think could be funded immediately? How would you prioritize the funding?

Secretary PRINCIPI. Mr. Chairman, CARES is not about saving money. CARES is about modernization. The VA health care infrastructure is aging and we have not made the investment in it for many years that we should. So I think the budget estimates in the area that you mentioned, \$5 billion to \$7 billion, over a period of years is approximately correct. We have almost \$1 billion in 2004

and 2005 that would be available to begin the process. Much of it will be advance planning and design funding in 2004 that would allow us in 2005 to award contracts to begin to modernize.

Senator BOND. I will now defer to my colleague from Maryland to continue the questioning. Thank you.

Senator MIKULSKI. Thank you, Mr. Chairman.

ENROLLMENT FEE AND COPAYMENTS

Mr. Secretary, I want to raise the issue once again about something that Congress rejected last year, which is the issue of charging category 7 and 8 veterans, those who do not have literally a service-connected disability, a \$250 enrollment fee as well as more than doubling their drug co-payments from \$7 to \$15 and also outpatient co-payments by another \$5. Some people call this \$250 a user fee. I call it a toll charge to get into VA, which of course I object to.

Could you tell us why you picked \$250? How many veterans will not enroll because of this fee? Was this done as a deterrent for veterans coming in? What is the point of the \$250?

Secretary PRINCIPI. Well, I think the focus is to make sure that we first and foremost care for those high priority groups established by Congress, the service-connected disabled, the very poor, and those in need of specialized services and to ask those who can most afford to make a small contribution, if you will, to the cost of their care.

Why \$250? Again, I am an E-6. I mean, I am a staff sergeant and I am in uniform for 20 years or 30 years and I have been overseas on combat tours. And I retire with maybe an income of \$1,000 a month, \$12,000 a year retirement after 20 years of military service. I have to enroll in TRICARE Prime to get medical care for myself and my family. I have to pay a minimum of \$250-some-odd. So why is it fair that we mandate in this country that military retirees who have 20 years' service pay \$250 to be enrolled in the TRICARE Prime program, but it is unfair to ask a veteran who maybe only served 2 years or 4 years in the military and has no disabilities to pay the same amount. So that is how I came up with the \$250.

Senator MIKULSKI. Well, Mr. Secretary, I appreciate that. As you know, I feel and I think in your heart you feel that people paid their dues. They paid their dues in active duty. By the very nature of active duty, they might not have the kind of permanent wound of an orthopedic injury, spinal cord, or amputation. But you do not come home from war without consequences.

And I agree with your commentary about the TRICARE men and women. But you see, my response to that is why charge them \$250 as well.

Secretary PRINCIPI. Of course, that is Department of Defense.

Senator MIKULSKI. I know that, but I want you to know that you are seeking parity with them because of essentially what you see is a fairness issue. I see as a fairness issue that when you serve in the military and if you have put in 20 years—while the rest of us are eating turkey on Thanksgiving, they are chasing some turkey down some hole somewhere. So I believe we have got to stand by our military.

But I understand your situation. You understand where we are coming from, but I just do not think you have to pay dues to get veterans health care.

But let me take an issue which we do know is exploding whether it is in the civilian population, the veterans' population, or in TRICARE: the cost of prescription drugs. We know many are turning to VA medical care because you offer a prescription drug benefit. Could you tell the committee how you are controlling the cost of drug purchases and at the same time not shackling the physician to prescribe what is medically necessary or medically appropriate? This is a challenge that we are facing and we would like to know, one, how are you doing it and, second, would there be lessons learned in other Government initiated programs?

PHARMACY BENEFIT MANAGEMENT PROGRAM

Secretary PRINCIPI. We have a model program in my view and one that has been very, very successful because it is a pharmacy benefit management program that brings clinicians and administrators and pharmacists together to make decisions on our program.

How do we do it? We have a national formulary. Of course, physicians, if they need to order a drug off the formulary, they can do so, but we try to stick to the formulary.

Senator MIKULSKI. And that would be because of evidence-based medical necessity.

Secretary PRINCIPI. Exactly. Sixty-five percent of the drugs we prescribe are generic. So we try to use generic drugs whenever therapeutically equivalent. And we buy in large sums. We leverage our purchasing power and use consolidated mail-out pharmacies.

The results of all of this have been that we have been able to keep our prescription drug costs to manufacturers' level just over the past 4 years. The only inflation comes from the large number of veterans who are coming to us. But the actual cost for ingredients has been steady at around \$15 for a 30-day supply of drugs. And that is pretty extraordinary in my view. It comes about from a formulary, generic drugs, and national procurement.

Senator MIKULSKI. So you have a pharmacy benefit management. Second, you use generic drugs. You also use mail-out pharmacies so that, for example, for a diabetic, you do not have to continually have to go to get your testing supplies and some of those things that are—

Secretary PRINCIPI. It is mailed to you. Exactly. It is mailed from one of six or seven consolidated mail-out pharmacies.

Senator MIKULSKI. What you take is predictable. Then, of course, where there might be an infection or something, it requires timely treatment.

Now, let us go to the bulk purchasing. Essentially when I go to the Price Club or Sam's Club, it is discount because of bulk. You have got an Uncle Sam's Club. Right? You have got an Uncle Sam's Club with your bulk purchasing because essentially you are talking about managing primarily chronic illness which has a predictability, not the infections and so on.

Could you share with the committee how much you save in the bulk purchasing?

Secretary PRINCIPI. Well, I just have five drug classes here. I probably cannot even pronounce the names. Maybe I should let Dr. Perlin do so to give you an idea of the magnitude of the cost avoidance by buying in these large quantities for five drugs.

Dr. PERLIN. Senator, it is really quite remarkable. One is an acid reflux ulcer drug omeprazole. The savings by partnering and buying in bulk are \$134 million to VA this year alone. Metformin is a drug for diabetes. The savings for that are \$45 million this year alone. Terazosin, diltiazem, and felodipine all for blood pressure, and the savings for each of those are \$44 million for terazosin, \$23 million for diltiazem, and felodipine, \$22 million. And that is just our top five.

Secretary PRINCIPI. Our 6-year savings in pharmaceuticals, as a result of the pharmacy benefit management program, have exceeded \$1.1 billion. So we need to replicate that now in surgical, medical supplies, and equipment. There is an awful lot of money we are leaving on the table. We need to do more standardization, more national contracting for high-tech equipment like MRI's, as well as stents and bandages and surgical gloves. There is an awful lot of money that we can save the taxpayer and use for more medical care in the future.

Senator MIKULSKI. Well, we are all for this Uncle Sam's Club. I know my time is up, but what is interesting to me is for all the calls we get from veterans' families saying, "My father needs a nursing home, there is a waiting line for certain specialty care," et cetera, "nobody has called me and said I am not getting the drug that I need or the VA would not give me the drug. I went to another primary care doctor and got X." So it must be working. I think that, first of all, these are very informative. I would like to have more of a documentation on the savings. I think that these are lessons to be learned, and we want to follow up on that.

And then I will be talking about your demonstration issue in a minute.

Thank you, Mr. Chairman.
[The information follows:]

PRESCRIPTION DRUGS BULK PURCHASING

Question. Provide documentation on the savings of bulk purchasing of prescription drugs.

Answer.

Fiscal Year 1996	\$1,900,000
Fiscal Year 1997	32,800,000
Fiscal Year 1998	88,600,000
Fiscal Year 1999	127,800,000
Fiscal Year 2000	186,800,000
Fiscal Year 2001	278,800,000
Fiscal Year 2002	444,400,000
Fiscal Year 2003	394,200,000
Fiscal Year 2004 (1st Qtr)	83,300,000
TOTAL	1,638,241,300

While standardization contracting is an important cost avoidance tool, VA uses other tools to reduce the expense of drug therapy, including: (1) purchasing drugs through a Pharmaceutical Prime Vendor using negative distribution fees; (2) purchasing drugs in bulk quantities not available in the commercial supply chain and repackaging those drugs in unit of use quantities; and, (3) managing the appropriate

utilization of drugs through the development and dissemination of evidence-based drug utilization guidelines. These strategies work together to help contain the growth of VA's pharmaceutical expenditures.

CARES

Senator BOND. Thank you, Senator Mikulski.

I would like to go back to the CARES discussion and ask you about Chicago. I would like an update on how progress on CARES is going in VISN 12, hear how the program is operating where one of the hospitals was scheduled to close and how it is affecting medical care. Has the closure of Lakeside had any adverse impact on the services for veterans and has the medical care service in VISN 12 improved?

Secretary PRINCIPI. I think this has become a success story. It was the first pilot that we started on CARES, and since the CARES decision was made, we have allocated \$100 million to Chicago. Seventy-two million dollars is obligated, with the rest in minor projects. All of the Lakeside inpatients have been moved over to Westside which is in the poorer part of Chicago. We are in design at the present time for a new bed tower, a 200-bed bed tower. The intensive care unit has been completed. We have got a brand new, modern, state-of-the-art ICU. We have, through the enhanced use leasing, a new regional office and parking garage on the grounds of the VA medical center at Westside. At Hines, the new spinal cord injury and blind rehabilitation center, which is state-of-the-art, nothing like it in the country, is under construction and should be completed by the end of 2004. So I think this is an example of what could be done, how we can modernize a health care system and provide state-of-the-art, 21st century health care to 21st century veterans.

Senator BOND. I thank you for that. That is good news.

TRANSITIONAL PHARMACY BENEFIT PLAN

Let me turn to the transitional pharmacy benefit plan. I commend you for implementing the pilot program. We estimated originally that over 200,000 veterans would be eligible, but it now appears only 41,000 are eligible. I would like to know how it has reduced the waiting list. Why has the number changed so drastically? What is your current cost estimate of the program and how much does it save?

Secretary PRINCIPI. I will turn this over to Dr. Perlin. Let me just start out by saying about a third of the veterans who come to us, some places much higher, are only coming for prescription drugs. They may be enrolled in Medicare and have seen a doctor but they cannot get prescription drugs, so they are coming to us.

When we had those long waiting lists, I wanted to do a pilot project to see how well we could reduce the waiting times and provide the veterans with what they needed, prescription drugs. The pilot was generally successful although I think the data still needs to be analyzed. I know the Inspector General is looking into this and will have a report available shortly on the success of this pilot project. Perhaps Dr. Perlin can just give us some specifics.

Dr. PERLIN. Thank you, Mr. Chairman. The inception of the project occurred when we had huge waiting lists. As the Secretary

mentioned, a year and a half ago we had 176,000 patients waiting for their first appointment over 30 days. Since the time when it was implemented, I am pleased to say that the waiting list has diminished. That meant that the number of veterans who were waiting over 30 days came down to 42,000.

Of this 42,000, sir, 8,000 took part in the pharmacy benefit which was, in fairness, lower than we expected. We believe that some veterans may not have heard about the pharmacy benefit. We also believe that some may have found the process complex. It was a new process for us, a learning process in terms of processing prescriptions from outside of the system.

Because we have tighter control within our system with electronic prescribing and the closed formulary, we had some implementation challenges with prescriptions that were outside of our formulary. So all told, about 20 percent of those people used the program who were eligible and it was substantially lower than we initially had considered.

Senator BOND. I would like to ask Mr. Griffin if he has any additional views, the Inspector General. Have you come to any conclusions? Is there anything additional that you could provide on the program at this point? And if you would state your name for the record.

Mr. GRIFFIN. My name is Richard Griffin. I am the Inspector General for the Department of Veterans Affairs.

Senator BOND. Welcome.

Mr. GRIFFIN. As indicated by the Secretary, we have done some work in this area. We have recently finished a draft report which will be going to VHA for comments.

I would say that, in general, there were a number of issues that impacted the ability to have this program successfully kicked off. I would go back a few months prior to the start of the program to another audit which we had done at the Secretary's request on waiting times throughout the system. At that time, the reported waiting times in VHA were 309,000. Through the course of our audit, we determined that the actual number in May of 2003 was really 218,000, and that was as a result of some double-counting of some individuals. There were some other veterans who had enrolled in the system just so they would be enrolled but who were not actively seeking appointments from the Department. And there were some that were canceled or changed administratively but the record-keeping did not reflect that activity. So that is what was discovered in May.

One of our recommendations to VHA was that they continue to pursue electronic waiting times, which they have been doing and have been making good progress on. But that is just a few short months before the July date when the temporary pharmacy benefit was going to start, and some of those growing pains with the electronic process still existed. So as a result, the data that was being utilized to try and track how many veterans benefited from this program was not always accurate.

The other truth is that as a result of increases in staffing from previous budget years, a tremendous dent was made in those waiting lists in the 12 months preceding the kickoff of this benefit program.

So you had a combination of increased staffing being brought to bear against the workload. You had some facilities that accepted the challenge and put in the overtime and got the numbers down, and then we had a continued problem with the software and with the administration of the program.

Senator BOND. Thank you very much, Mr. Griffin. We will look forward to seeing your full report when it is ready.

Now I turn to Senator Leahy who has joined us. Thank you, Senator.

STATEMENT OF SENATOR PATRICK J. LEAHY

Senator LEAHY. Thank you, Mr. Chairman. I look around here. I wonder who is back running the store. Secretary Principi you have got everybody here. I know the buck stops here and I appreciate that. It is good to see you.

I really get worried—and I have told you this before—on the Veterans Affairs budget. We seem to go around and around. Last year we went back and forth to add \$1.6 billion to the administration's budget request for fiscal year 2004, the current year. A month before the administration submitted its fiscal year 2005 budget, I joined several members of this subcommittee and the Veterans Committee to end the pattern of the administration where they come in with an unreasonably low request. They know that it is a request that nobody is going to accept, hoping that then Congress will find the money somewhere to bring it up, and it leaves a lower funding baseline the next year.

And the same thing happened again this year. The administration submitted a budget clearly short by several hundreds of millions of dollars. Veterans groups, everybody else has said it is short. They point to inflation. They point to increased costs of hospitalization, especially with so many coming back from Iraq and Afghanistan.

I do not know why we are in this. It has been reported that you asked for an additional \$1 billion and you were turned down. I appreciate your asking for it. But what do you have to do? Even in an election year, you would think that somebody would listen to what veterans are saying. It is somewhat of a rhetorical question, but I would be delighted to hear an answer.

Secretary PRINCIPI. No. I appreciate the question.

Again, I would say I guess we always want more.

Senator LEAHY. No, no. Mr. Principi, it is not that we want more, it is we need more. And with the number of people coming back from Iraq and Afghanistan and everything else, we need more.

Secretary PRINCIPI. Well, men and women coming back from Iraq and Afghanistan have the highest priority in my view, and we will be there for them. We have to be there for them. We have no choice.

But again, my budget just in health care over this 4-year period has increased, if you include the 2005 budget as requested and if it becomes enacted, over 40 percent. Twenty-seven percent of that increase is from the President's request; 13 percent from congressional add-ons. So the problem is we, our government, opened the doors in 1998 to 25 million veterans. Prior to 1998 only 3 million had eligibility for the full continuum of VA health care. So we went

one day from 3 million to 25 million, and as the chairman said, we have this perfect storm. We have eligibility for all 25 million. No one is entitled but everyone is eligible. We have the best prescription drug program in the Nation. We have opened up now some 760 outpatient clinics that did not exist prior to 1995, and the quality of care is much better than for my dad. So we have this tremendous demand for health care, although our budget has risen rather dramatically.

MEDICAL RESEARCH

Senator LEAHY. Mr. Secretary, in your budget is a summary on page 1 to 6, take, for example, medical research spending. It says it is increased, but you are asking for a direct appropriation for medical and prosthetic research of \$769 million. That is a \$50 million cut. So, on the one hand, we are increasing all this, but then when you go to the fine print, it is saying it is cut.

MENTAL HEALTH

Now, you said that people coming back is the first priority, and I am sure you mean that and that is the way it should be. But I look at this article—and I am sure you read it—that was in the New York Times magazine on the incidence of post-traumatic stress disorder, depression among many of our troops returning from Iraq and Afghanistan. It says in this particular article a wounded veteran who is photographed here—you can see that he has lost an arm. Many are going through the medical evaluation board process. They get medical discharges. They become eligible to access care through the VA. But then we find that notwithstanding this huge increase, because of Iraq and Afghanistan, the mental health programs seem to be kind of an ugly stepchild of the VA. Notable shortages in psychiatric care for veterans in my own home State of Vermont which has a good VA hospital. We have the National Center for Post-traumatic Stress Disorder at the White River Junction VA Medical Center. They provide care and advice to the Army. They are going to continue doing that, but they have been flat-lined for the past few years, notwithstanding the increase in need.

You have so much support up here. I do not know how all this comes about. I mean, the administration can do all the great photo ops, and some of them are very valid. But a lot of them are not because we hear then from the veterans saying, oh, great, we got this increase. It is not really the way the budget came up. What are we going to do?

Secretary PRINCIPI. Well, again, Senator Leahy, when I started this business 3½ years ago, my budget was \$48 billion. Today it is \$65 billion.

Senator LEAHY. A lot of that was pushed in by the Congress.

Secretary PRINCIPI. But it has grown dramatically. We have treated 800,000 more veterans than the year before I became Secretary. I am not taking credit for that. I am just saying that 800,000 new veterans have come to the VA and received health care that did not in 2001. That is an extraordinary increase. And yes, more and more veterans are coming to the VA for lots of different reasons.

Mental health. You are right. Sometimes it does not get the allocation that I think it deserves. It is not as glamorous, if you will, as high-tech medicine, and we have to continually stress the importance of mental health programs.

Senator LEAHY. Will it get the allocation?

Secretary PRINCIPI. Sir?

Senator LEAHY. Will you give it the allocation?

Secretary PRINCIPI. Yes, I will give it the allocation. I convened a task force on mental health. They made some excellent recommendations to ensure that we have a baseline of spending across our entire system. Right now it is too un-uniform and inconsistent across the Nation.

In research, the appropriation piece has dropped by \$50 million in this request, but the appropriation is one small part of our research program of \$1.7 billion. From 2000 to 2003, we have gone from \$504 million in grants from NIH and DOD to \$704 million. So we are increasing the amount of money that is coming to the VA from other sources, NIH and Defense and pharmaceutical companies. So we will continue to work to ensure that our research program is robust.

Senator BOND. Thank you very much, Senator Leahy.

Senator LEAHY. Mr. Chairman, I will submit some other questions for the record.

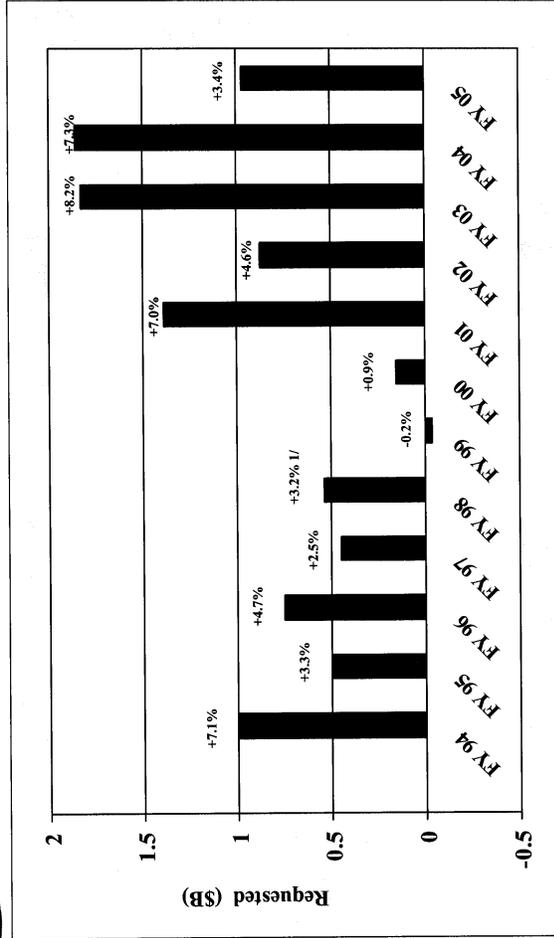
Senator BOND. Thank you, sir. We will do that.

I think there is a medical care chart request that we will put in the record too, going back to the presidential requests for about the last 10 years, showing the percentage increase in requests. I have that here and we will make this available in the record.

[The information follows:]



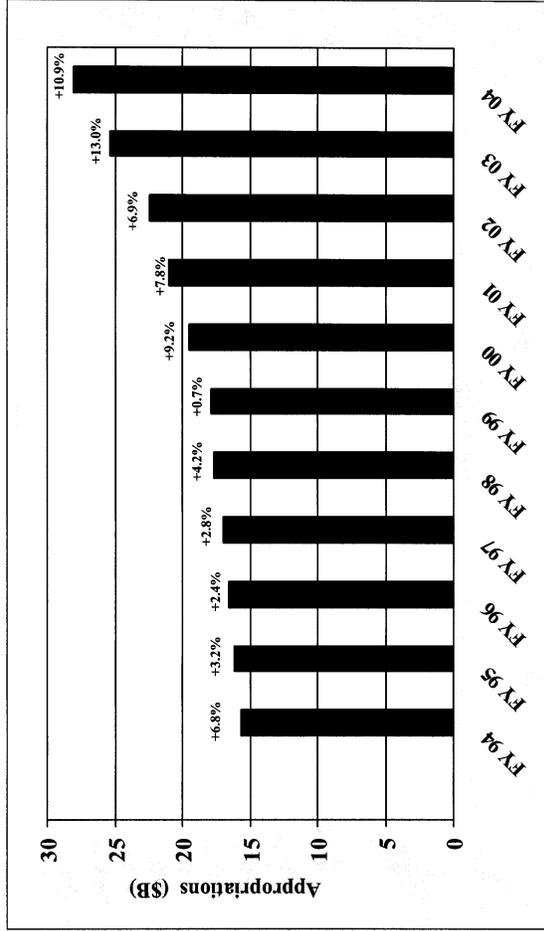
Medical Care Request Change Over Prior Year



1/ Starting in 1998, open enrollment began and collections were made available to VA



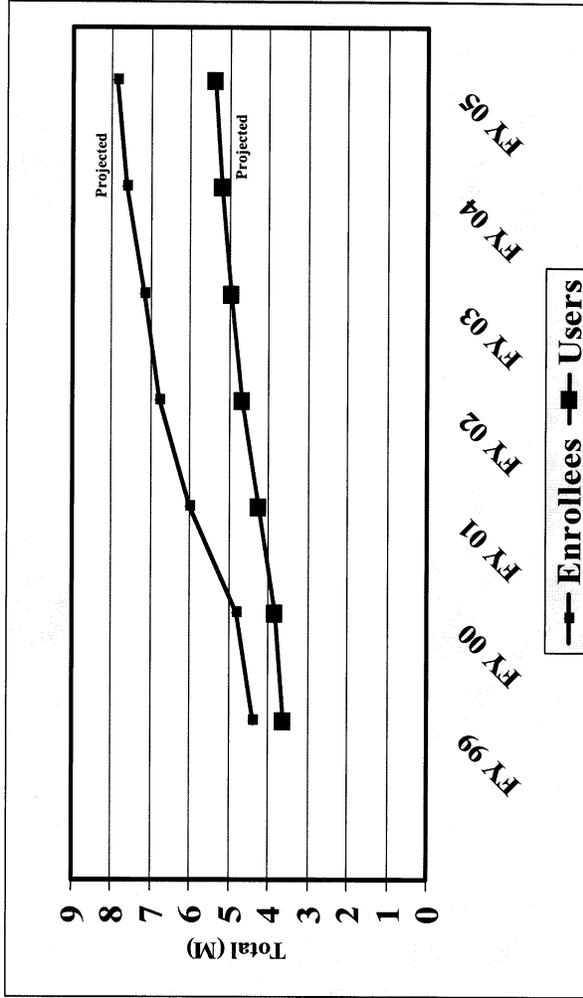
Medical Care Enacted Appropriations Includes Collections



Percent change from prior year enacted levels. Starting in 1998, collections are available for VA

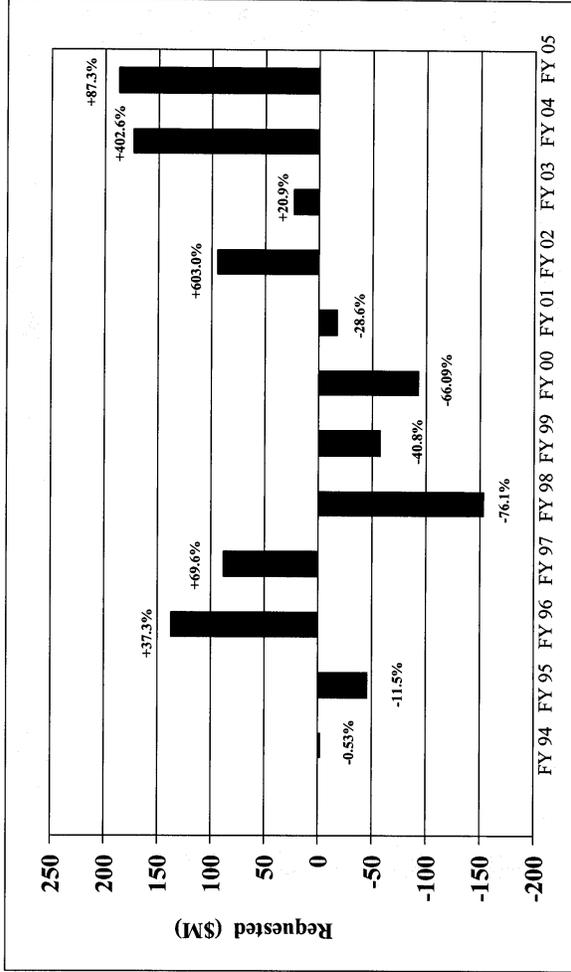


Health Care Workload



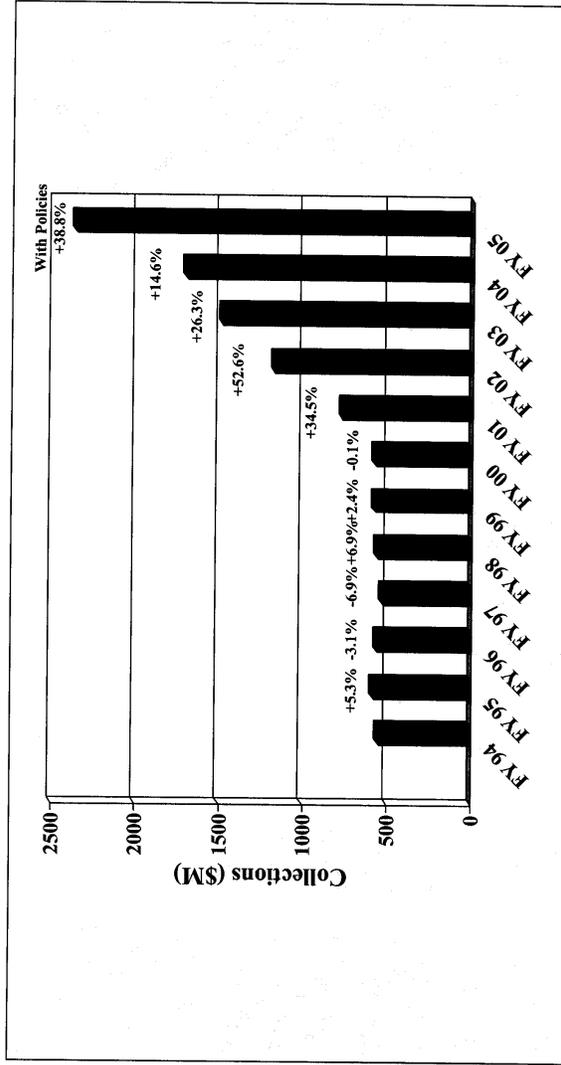


VHA Major Projects Request Change Over Prior Year



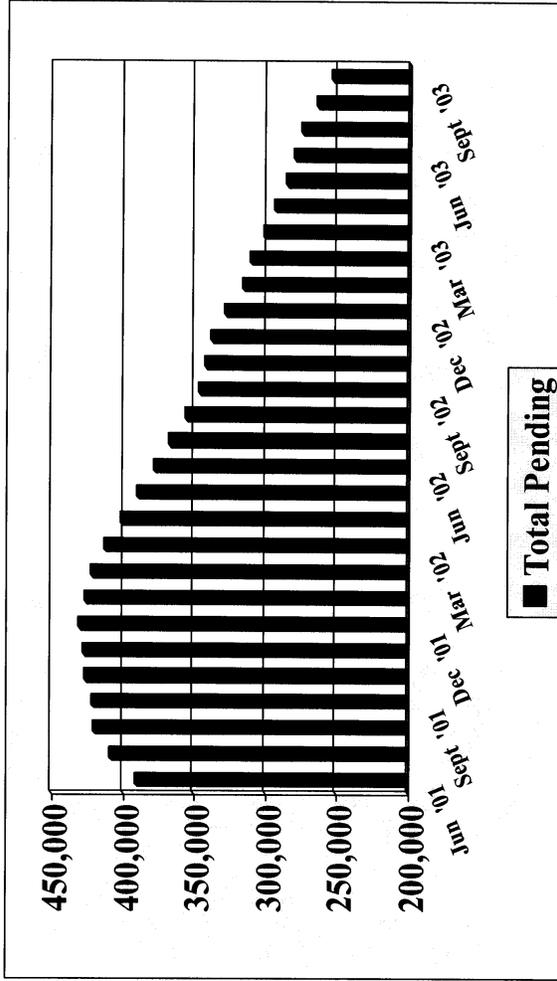


Medical Care Collection Fund





Status of Disability Claims Inventory



Senator BOND. Senator Mikulski, do you have some questions?

Senator MIKULSKI. Thank you very much, Mr. Chairman. I believe Secretary Principi and Dr. Perlin answered the question I had about the demonstration project on delivery a pharmaceutical benefit, in other words, those who had gone to another primary care physician but had come in to see you. This sounds like this has momentum.

And you have also significantly reduced waiting lists. Waiting lists are a big issue with me. It is a very big issue with the veterans' organizations, and the fact that they have been reduced is commendable.

WAITING LINES IN SPECIALTY CARE

But let us go to those waiting lines in the area of specialty care. Am I right, Dr. Perlin, that this is where there is a waiting list? In other words, do you feel confident that you have reduced the waiting list for what we would call primary care and primary care management? The blind veterans' organizations have told me that there is a now a waiting list to get into blind rehab programs.

Dr. PERLIN. Senator, we have made progress in the area of specialty care as well. Our goal for 2005 is that 90 percent of all appointments will be in 30 days or less. In point of fact, we still do have pockets where we need to make improvement. One of the areas you mentioned, blind rehabilitation, is such an area.

For veterans who have suffered acute injury, immediate injury, such as someone coming back from war, we will see them immediately. Those people categorically do not wait.

We need to modernize our programs. In fairness, the programs we have had for someone who has a traumatic loss of vision would be different than for some of our veterans who are aging and because of diabetes, suffer from macular degeneration, a very slow and progressive onset. The programs that we have worked with, the inpatient programs for 6 weeks of care, are both labor-intensive and require a 6-week commitment on the part of the veteran. In point of fact, those veterans do wait, between 4 months and a year, but because of the 6-week commitment, they often schedule that. My point is we need to do better in terms of reducing that waiting list and add new programs to address both causes, trauma and slow disease progression.

Senator MIKULSKI. Well, what you are saying is if you are coming back from Iraq or Afghanistan and you have left a military hospital and there needs to be medical management of the loss or traumatic injury to the eye, they are seen right away.

Dr. PERLIN. Yes, ma'am.

Senator MIKULSKI. For those who have a chronic and degenerative visual situation that comes from, say, diabetes, what you are saying is they might have to wait, but they are not going to wait indefinitely.

What would you say are the specialties most challenging for you right now?

Dr. PERLIN. Specialty care is sort of a reflection of the diseases in society. Cardiology, endocrinology, all of those are areas we are working on, but we are moving the waiting times forward. Again, we have set the standard to be 90 percent of all appointments with-

in 30 days and then 99 percent within 90 days. We believe we will hit the marks on that. We are about 41 days overall as an average wait at the moment.

WORKFORCE SHORTAGES

Senator MIKULSKI. Well, first of all, that is very good, but let me ask a question on workforce shortages. We understand in the medical profession generally there is not a shortage of doctors, but there is a shortage of allied health care people that are able to meet both acute needs as well as chronic management. What are your challenges in the area of nursing, x-ray technology? What should we be looking at to help VA not only have the money to hire but also to have a farm team to help create opportunities for those who would like to come in to health care and then serve their Nation as well?

Dr. PERLIN. Well, thank you, Senator, because that is absolutely right. Our farm team serves the Nation. Sixty percent of all health professionals experience some part of their training in VA. So that is a farm team for the Nation.

As with the Nation, we suffer because of the national nursing shortage. I am proud to say that in contrast to turnover rates of 17 percent annually, VA has retention rates and turnover of only 7 percent among R.N.'s, but there are areas of the country where it is very, very difficult to get R.N.'s into the workforce.

You identified x-ray technicians, nuclear technologists. Some of these allied health professions are areas where in fact some of the salaries in the private sector have gone up disproportionately. I know that legislation, title 38 hybrid, has been something under review, and those are areas that are important for us to maintain both training and adequate staff.

Senator MIKULSKI. Well, Doctor, I am going to ask you, along with the Secretary, if you could give recommendations to us. Where there are national shortages, you could end up in a war for talent which then becomes a bidding war. When we say the private sector, we are not talking about the profit hospitals. We are talking about nonprofit. So you are in a bidding war for many people. Am I correct in that?

So my question would be what would be those ideas which we could both recruit people through either debt forgiveness ideas for service to the VA, like debt for duty, or other scholarship programs? I know this would be a subject of authorization, but also we see these in other fields. I am out now touring the community colleges. There are people who want to come into these fields, but they almost have to be in a work-study environment and this becomes of question of where maybe the VA could play a role and also then have new thinking, new energy.

Dr. PERLIN. Well, thank you, Senator. I absolutely agree with the idea that novel programs such as debt forgiveness such as is used in the military would be one of the mechanisms in which we can bring people in to VA, retain them in VA, and actually provide a service for the country as well.

When we have to contract care, it becomes very expensive. As you know, we have legislation proposed for physician pay reform,

something that has not occurred for over a decade. In all of those areas, that helps us be more competitive.

For nurses in particular, the associate degree nurses can have a full scholarship to attain their baccalaureate degree in VA, and we would appreciate any help in getting that word out because that is a program and your suggestion to emulate that in other areas is, I believe, right on target.

Senator MIKULSKI. Well, thank you very much.

Senator BOND. Thank you, Senator Mikulski.

PERSIAN GULF WAR VETERANS

Mr. Secretary, we all know, of course, that the returning service members, including the Reserve and Guard, are entitled to 2 years free health care upon separation from service after having served in the Persian Gulf. Congress has appropriated \$100 million in emergency appropriations in 2003 to assist the war veterans. I would be interested in knowing what specific steps the VA is taking to respond to the needs of returning Persian Gulf War vets.

Secretary PRINCIPI. On the medical side, we have had about 145,000 active duty service members return to our shores, of which almost 20,000, if you will, have come to the VA for medical care and for various reasons, some related to their combat injuries, others unrelated.

We did receive a \$100 million supplemental that could be used for either medical or benefits. I have chosen to use the supplemental to assist us in addressing the claims of men and women returning from Iraq and Afghanistan to reduce the backlog. So I think we are making progress on both fronts, and the \$100 million supplemental has helped us significantly.

U.S. INTERAGENCY COUNCIL ON HOMELESSNESS

Senator BOND. Mr. Secretary, I spoke earlier on homelessness and the responsibility you took on as chair of the U.S. Interagency Council on Homelessness. My colleague and I are very strong supporters of the mission. Can you tell us briefly what are your goals as chairman of the ICH? How do you ensure that veterans are receiving adequate support from other Federal agencies? I would be interested to know how homeless veterans' access to permanent housing programs is being supported by HUD, for example.

Secretary PRINCIPI. We are addressing the homelessness issue on many fronts. From the VA perspective, with the latest round of grants and per diem, we will have 10,000 beds, the highest number we have ever had, transitional housing beds for homeless veterans.

We need to continue to attack the underlying causes of homelessness, substance abuse, PTSD, serious mental illness, employment-related issues. So it is very, very important that we address the clinical issues if we really want to prevent and overcome homelessness.

I was proud the President named me chairman of the Interagency Council on Homelessness and my goals this year really are to work as hard as I can to achieve the goal of eradicating homelessness in our society in 10 years. Specifically, we will only do so if the Federal agencies involved work together, VA, HUD, HHS, and Labor. To that degree, my goal is to bring all of these agencies

together, to share our resources, and address our respective expertise in housing, in employment, in health care. Last year we had \$35 million towards this effort. We have now upped that amount. The President has authorized us to use \$75 million of interagency funding. Most of it is funded by HHS.

We have a guaranteed loan program for housing, and we will have three to five projects started this year. We have one in Chicago with Catholic Charities. I am very excited about it. We are going to provide a guaranteed loan to Catholic Charities to open up a homeless shelter in south side Chicago with a VA clinic attached to it. This is a wonderful, wonderful example of what we can do.

With regard to permanent housing, HUD, I think there have been some difficulties getting the section 8 vouchers to the VA. We continue to work with HUD on that issue.

Senator BOND. I think we understand some of the challenges you face in that area, trying to get those coordinations. We will work with you, Mr. Secretary.

COREFLS

My final question is a tough one, but I would like to have you discuss it. Developing an integrated information technology system for the Department is critical. The VA has tried to address this issue by developing an integrated financial management system called CoreFLS. I understand the system had serious implementation problems at Bay Pines VAMC resulting in some serious patient care problems. Have you responded to the problems? Do you believe the CoreFLS is salvageable or should the Department chuck it and start all over again?

Secretary PRINCIPI. Well, I certainly hope it is salvageable. I will not chase good money after bad. We have spent \$279 million since the program was launched back in 1998. It is a very, very important undertaking to build a new, integrated financial logistics system for the VA, overcome material weaknesses that the VA has had for many, many years in its financial management systems.

It does have problems. Part of it is the test site that was selected at Bay Pines for this project—it turns out that that was a bad decision because of the other systemic problems that Bay Pines VA Medical Center was having.

To attack this problem, Mr. Chairman, I have done the following. I have made some personnel changes recently. Secondly, I have asked the Inspector General to do a complete and thorough audit and investigation of everything related to this CoreFLS project from how the contract was implemented, right on down the line.

Additionally, I have asked our CIO, our chief information officer, to contract with an independent agency or organization to assess the validity of CoreFLS and whether we should go forward with it, and I expect a report from my CIO in 60 days. So I am watching it very, very carefully. This was designed to be a close to \$500 million project. We need to take appropriate steps.

Senator BOND. Thank you. I appreciate that summary. Obviously, there is a lot of money that I hope is not down a rat hole, but obviously we need a good system and I think it is time to step back and take a very careful review and see where we are going.

Secretary PRINCIPI. I will report to you, Mr. Chairman, Senator Mikulski, as soon as I get the final report from the IG and the report from the independent team that will be addressing it over the next 60 days and then discuss going forward at that time.

Senator BOND. Thank you, Mr. Secretary. That concludes my questions. I will turn now to Senator Mikulski.

Senator MIKULSKI. Thank you, Mr. Chairman.

For my final round I have one question about claims processing and then for our Afghan-Iraqi vets.

CLAIMS PROCESSING

On claims processing, I am back to my favorite topic: waiting lines and waiting times. As you know for some years, those who filed disability claims have had very long waiting times and very disappointing and frustrating experiences with claims processing. Now, as I understand it, you have been able to substantially reduce that waiting time. You said that in your testimony. But then I am puzzled by the fact that there is going to be a reduction of 540 staff from the VA Benefits Administration.

So here is my question. How are we doing on the claims time? Again, if you have a disability, you should not have to wait in line to get that for which you are both eligible and entitled. Then, second, presuming progress has been made, are we now about to trip ourselves up?

Secretary PRINCIPI. Sure. A very important issue, Senator Mikulski. As I indicated, we are making great progress. We are clearly not there yet. This is a moving target and no sooner do I feel that we have got everything under control and then something else happens. The court decision will come down and say a veteran had a claim. It had 15 conditions and you may have approved 14 and you denied 1, but you have got to hold the claim for a year to give the veteran a chance to submit additional evidence, or concurrent receipt. Veterans, in order to become eligible, may want to reopen their claim to get an increased disability rating to become eligible for CRSC. So it is constantly changing. The landscape is constantly changing.

The 500 people you mentioned—only 35 of those will come out of the disability compensation arena. VBA, the Benefits Administration, has as you know, education, housing, vocational rehabilitation and pension. We have done some consolidation in pension. Thereby we can reduce a little bit of our end strength.

Obviously, I am concerned. It is a very high priority of mine. I think we are okay. You gave us 1,800 people over the past couple years.

Senator MIKULSKI. Right and then I see you are letting off 500.

Secretary PRINCIPI. They are not actually coming from that. How many people do we have in Benefits Administration? About 11,000. So they will be coming from other areas.

But the point I feel is important to make is it takes a couple years to get those people up and trained. Now that they are trained, they should be much more productive.

Secondly, I think you have a right to demand that like the private sector that is showing productivity improvements because of

technology that you are investing with us, we need to demonstrate some productivity improvements too.

So I think the combination, Senator Mikulski, will allow us to do so. But obviously—

Senator MIKULSKI. Well, Mr. Principi, I am going to ask you and your management team to stand sentry. I think we have come a long way over the last several years in reducing the waiting line for disability claims and at the same time ensuring those eligible and therefore entitled to get their benefit and prevent abuse in the system. So we do not want to lose those gains and then in the anticipation of the Iraqi-Afghan vets coming home, many of whom do bear these permanent wounds of war that we do not want, as they then apply for benefits, to have to go through the frustration about applying.

IRAQI-AFGHAN VETERANS

But this then takes me to the Iraqi-Afghan vets. First of all, I think that VA is going to be hit by the three populations. No. 1, we have expanded the eligibility opportunities to come to VA. No. 2, the Vietnam vets are coming of age, and I believe that they are going to turn more and more to VA because of the failure of health care in other areas, with the loss of a job or not being eligible for Medicare. Essentially the people between 55 and 64. You will be the health care providers not of the last resort in a negative sense. And then now we have these men and women who will be returning from Iraq and Afghanistan.

My question is, No. 1, are we ready and do we need additional money for that?

No. 2, there seems to be, because of the nature of the war against us, an incredible amount of orthopedic injuries. My visit to Walter Reed and contacts with constituents talk about the prosthetic issues. So my question is, are we ready? Second, are we paying particular attention to this? And third, I am very troubled by the cut in VA medical research. The doctors over at Walter Reed are telling me that there is not a lot of work going on in the area of prosthetics either at Walter Reed or with themselves, at least with upper body.

Have you been over to Walter Reed?

Secretary PRINCIPI. Yes, many times.

Senator MIKULSKI. I do not have to describe to you what I met. But when you walk up to a young man and you want to shake his hand and the injury is there, you do not go home at night and just read memos. You really want to be on the edge of your chair to help them.

Secretary PRINCIPI. It is pretty tough. I go up as much as I can.

Senator MIKULSKI. Well, God bless you for that.

Secretary PRINCIPI. I think we are ready in the short term, Senator. I think because of what you have done and almost a \$3 billion increase in 2004 and I am sure we will have a very good increase in 2005, I think we are fine.

But I do not know about the long term in the sense of we have 25 million eligible today. As you indicated, my cohort of now 60's, approaching 60, medication and everything is increasing, visits, et cetera. So if you want us to focus on the service-disabled and the

poor and those in need of specialized services, I think we are going to be fine. But if there is going to be the need to expand the patient population to those who may have higher incomes and may have some other options—they may not be great options. They may be closing on them—then I think the long term is going to be problematic. The system is not built for anywhere near 25 million veterans, and we are almost growing too fast. The beauty of these outpatient clinics throughout Maryland, throughout Missouri is that veterans have access, but there is going to come a time when they are going to go in for an appointment, but then 6 months later they are going to have to go in for an inpatient open heart or a new hip. Once you get them in the system, then they are in the system for everything except long-term care and that is 70 percent or greater. But long term it could be difficult to balance all this out. And are we going to have to go the contract route?

Senator MIKULSKI. Mr. Secretary, I am going to ask you to give us a white paper on this because we have got to meet the needs immediately of those veterans coming home that are being discharged from the hospitals, many of whom return to rural communities. As you know, when I make those phone calls in Maryland to those who have lost a soldier or a sailor or a Marine, a lot of them are from our rural communities or they are from minority communities. They are going to come back, their brothers and their sisters and their cousins, and we just have to be there. So just know I think this is where we have to be in partnership.

[The information follows:]

WHITE PAPER ON VA SEAMLESS TRANSITION TASK FORCE

BACKGROUND

Secretary of Veterans Affairs, the Honorable Anthony J. Principi, created a VA Task Force for Seamless Transition for Returning Service Members on August 28, 2004. The Seamless Transition Task Force meets weekly and is co-chaired by Dr. Michael Kussman, Acting Deputy Under Secretary for Health and Chief of Patient Care Services in the Veterans Health Administration (VHA), and Carolyn Hunt, Deputy Director of the Compensation and Pension Office in the Veterans Benefits Administration (VBA). The task force was charged with:

- Improving collaboration between VHA, VBA and DOD on care of returning Operations Iraqi Freedom and Enduring Freedom (OIF/OEF) veterans;
- Improving communication and coordination among VHA, VBA and DOD staff in providing health care services and VA benefits applications to OIF/OEF veterans;
- Ensuring VA staff is educated about the needs of this new group of veterans; and
- Ensuring appropriate policies and procedures are in place to enhance seamless transition of health care and access to disability services.

MTF LIAISONS FOR SEAMLESS TRANSITION

The task force identified the five major Military Treatment Facilities (MTFs) where seriously injured and ill OIF/OEF active duty service members were being treated, and assigned VA staff to work side by side with MTF staff to assure seamless transition for OIF/OEF active duty service members and veterans. VA staff were later assigned to two additional MTFs, with another VHA staff member providing liaison to all other MTFs. The VHA social workers assigned to the MTFs serve as liaisons and arrange transfer of health care, inpatient and outpatient, from military hospitals to VHA health care facilities. They also arrange for TRICARE authorization so that VHA facilities can provide health care to active duty service members, and they enroll active duty service members in the VA health care system prior to transfer. VBA benefits counselors educate service members about VA benefits and help them apply prior to military separation.

VHA staff are assigned as follows:

- National Naval Medical Center (Bethesda)*.—Full time VHA social worker;
- Brooke Army Medical Center (San Antonio)*.—Full time VHA social worker;
- Darnall Army Medical Center (Fort Hood)*.—Full time VHA social worker;
- Eisenhower Army Medical Center (Fort Gordon)*.—Part time VHA social worker;
- Evans Army Hospital (Fort Carson)*.—Full time VHA nurse;
- Madigan Army Medical Center (Fort Lewis)*.—Two full time VHA social workers;
- Walter Reed Army Medical Center*.—Two full time VHA social workers;
- All other MTFs*.—A part time VHA social worker.

VHA FACILITY POINTS OF CONTACT AND CASE MANAGERS

Each VHA facility identified a Point of Contact (POC) to work with the VHA social workers serving as liaisons to the MTFs. The POCs arrange inpatient care, outpatient appointments, and all necessary equipment, supplies, orthotic devices and prosthetics for OIF/OEF active duty service members and veterans. Each facility also identified a nurse or social worker case manager who is assigned to all OIF/OEF active duty service members and veterans whose care is transferred to that facility. The case managers maintain contact with the MTF staff, particularly for those active duty service members who are still awaiting Physical Evaluation Board results regarding medical retirement or medical separation from active duty. Lists of the VHA and VBA liaisons, the VHA POCs and case managers, and the VBA case managers are updated weekly and are available on the VA Intranet web page.

VA GUIDANCE ON SEAMLESS TRANSITION

Secretary Principi sent a letter to each VA employee stressing the importance of seamless transition for returning OIF/OEF active duty service members and veterans. The VA Seamless Transition Task Force developed the following:

- Guidance to VHA health care facilities and VBA regional offices on the roles of the VHA liaisons, POCs and case managers and the VBA benefits counselors and case managers. The guidance includes a script for front-line staff to use when interacting with veterans.
- A video, "Our Turn to Serve", which was shown to all VA employees.
- A VA Intranet web page for OIF/OEF where all policy guidance, resource information, task force minutes, and lists of VHA and VBA liaisons, POCs and case managers is available to VA staff.
- A new OIF/OEF icon on the VA Internet web page with information about VA, DOD, Reserve and Guard Affairs, TRICARE and other resources are available.
- Pamphlets, brochures and other outreach materials for OIF/OEF regular active duty, members of the Reserves and National Guard, veterans, and family members. Soon-to-be completed products include laminated cards with VA and DOD phone numbers and web addresses as well as an in-flight video welcoming OIF/OEF active duty service members and veterans home and offering VA benefits and services.
- VBA staff continue to conduct briefings on VHA and VBA benefits at Transitional Assistance Program (TAP) meetings. VHA staff have been invited to attend. Briefings are also conducted at Reserve and Guard units during weekend drills.
- A proposal for a permanent Seamless Transition office at the Department level to carry on the activities of the task force in the future.

THE TRANSITION LINK

Having VHA social workers at the major MTFs assures that those active duty service members who are to be discharged from the MTF but who still need rehabilitation and other health care services are referred to VHA. The VHA social workers arrange for transfer of care, inpatient and outpatient, for all service members referred by MTF staff. The VHA social worker meets with each service member and discusses VHA health care services, developing a plan for transfer to the VHA facility that can provide the needed care and is closest to the service member's home.

For service members needing specialty services, such as treatment or rehabilitation for spinal cord injury, traumatic brain injury, visual impairment, amputations, and serious mental illness, the VHA social worker will arrange transfer to the VHA facility that can provide that level of care. The VHA POC and case manager at the receiving facility arrange for inpatient and outpatient services as well as for all necessary equipment, supplies, orthotic devices and prostheses. The VHA case manager makes contact with the active duty service member prior to transfer and with the service member's family. The case manager can assist the family member with

transportation and lodging needs if the VHA facility is not within commuting distance.

For service members who need less specialized care, transfers are made to all VHA facilities, including community-based outpatient clinics. Community-based outpatient clinics provide access in rural parts of the country.

Service members also have the option of utilizing TRICARE providers while they are still on active duty. The VHA social workers serving as liaisons at the MTFs assist service members in choosing treatment options that include TRICARE and VHA.

For those who are already separated or retired from active duty, post-MTF treatment can include VHA health care facilities, including community-based outpatient clinics and services received by community providers via fee basis or contracts.

Senator MIKULSKI. Senator Leahy followed one course of questions. See, I follow another course. I do not think we ought to talk about Republicans or Democrats. I think when we talk about veterans, we are the Red, White and Blue Party. I tell you, when those guys sign up, nobody asks them their political party. When they face these ghoulish and horrific circumstances, it is not about politics. It is about our country.

The other thing I do know is that you are looking at innovation, and I want to thank you for that. We contacted you because in the Cumberland outpatient clinic, they were losing their opportunity for visual care, not the sophisticated type care, Dr. Perlin, that might be available at the University of Maryland, VA or even a mandated visit at Wilmer Eye Clinic at Hopkins, but it was for the certain basic care which would be handled through an optometrist. And you contracted with a Wal-Mart.

Now, when I first heard it, I thought, "Holy hell. Are we going to Wal-Mart for the VA? I do not want Wal-Mart medicine for my vets." But when we looked at it, that was who was available in the community and we had a way where there would not be a waiting line for veterans.

ADDITIONAL COMMITTEE QUESTIONS

So we are looking for innovation, and I have some other ideas on some of this that I would like to then discuss with you. I know that our time is up, but we need to really look now for the immediate return and then we need to look ahead and to prepare ourselves. When everybody wants to stand up for their troops, I think we need to stand up for them right here and today, meet the budget needs and lay the groundwork for what could come in the future.

So, thank you.

Secretary PRINCIPI. Thank you very much.

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

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

PRIORITIES

Question. Given the likely funding constraints for our subcommittee, what are your top three funding priorities for the VA?

Answer. While VA believes all its programs are a high priority, we are well aware of the funding constraints the subcommittee faces and recognize that difficult budget decisions must be made. However, I have gone on record stating that my three highest priorities are:

- Provide timely, high quality health care to our core constituency—veterans with service connected disabilities, those with lower incomes, and veterans with special health needs;
- Improve the timeliness and accuracy of claims processing;
- Ensure the burial needs of veterans and their eligible family members are met, and maintain veterans' cemeteries as national shrines.

CARES—CLOSURES

Question. Mr. Secretary, you have heard many negative comments on CARES because of the potential hospital closings in the plan. Without going into specifics, I believe that closures or realignments are necessary in cases where the facility is underutilized and where these closures will be replaced with other services that will provide better care for more veterans.

There appear to be some misunderstanding about CARES because some people believe that the proposed closures will reduce services or access for veterans. My understanding is that by closing unneeded facilities, the VA will re-direct its cost savings to open more outpatient clinics or purchase contract care that is located closer to more veterans. Further, the VA will be able to use proceeds from enhanced use leases of closed facilities to pay for more medical care services for more veterans. Therefore, more veterans will benefit from improved access under CARES. Can you respond?

Answer. VA has been committed to developing a plan that addresses the future needs of enrolled veterans. Extensive data based plans were developed for each of VA's 77 market areas. All plans identified the capital investments and realignments that are required over the next 20 years to provide cost effective, accessible, quality health care in facilities that meet the physical requirements for the delivery of health care services.

On May 7, 2004, I released my decision, which will afford more opportunities for veterans to benefit from improved access. Under the guidelines of this decision, VA will develop a national plan for directing resources where they are most needed; preserving VA's mission and special services; and, at the same time, continuing to provide high-quality care to more veterans in more locations.

My decision includes the development of an additional 156 CBOCs and calls for taking advantage of all opportunities to purchase contract care more effectively. VA will also continue to work with DOD to improve sharing to enhance benefits and services to veterans, service members, and their dependents, while improving use of taxpayer resources.

Successful implementation of CARES will rest in large part in VA's ability to effectively manage its vacant and underutilized space. In the last 10 years VA has made numerous changes to the enhanced use lease process. It is critical that VA continue to improve its capabilities. A cross-organizational team has made recommendations to further improve the timeliness and effectiveness of the EUL process. Through CARES VA expects to reduce its current vacant and underused space by 42 percent by 2022.

Overall, the comprehensive restructuring of VA health care will improve the way VA delivers care. I wish to emphasize that health care services for veterans will not be reduced.

Question. Lastly, under the Veterans Health Care, Capital Asset, and Business Improvement Act of 2003, the VA is required to prioritize its CARES projects based on six criteria. The first and most important criterion is that the project replaces or enhances a project that is expected to close. I believe that this criterion helps ensure there is continuity in service for veterans. Do you agree?

Answer. I agree that the criterion will help assure continuity of service to veterans. It has always been a major tenet of the CARES process that no realignments, closures, or other changes be made to VA health care services in a particular locale without first ensuring the continuation of these services, whether through other VA facilities or through contracts with other health care providers in the community.

Moreover, to ensure compliance with the law while implementing my decision on CARES, VA will use its existing capital development process to revise the weights of its criteria so that patient and employee safety concerns are ranked as the second most important factor in consideration for construction funding. This process will be completed in time to be operative for submission of VA's 5-year capital plan, scheduled for this month.

TRANSITIONAL PHARMACY BENEFIT (TPB) PILOT

Question. Mr. Secretary, I commend you for implementing a pilot program that allows veterans to fill privately written prescriptions at the VA. Under the Transi-

tional Pharmacy Benefit (TPB) program, preliminary data indicates that 8,298 or 20 percent of the 41,167 eligible patients have participated in the program.

To what degree has the program help reduce the waiting list?

Answer. The TPB program was designed to provide prescription drug services to veterans on the waiting list to ease the burden of out-of-pocket prescription drug expenses for veterans whom we were not able to serve within 30 days of the appointment request. We have no data explicitly linking the TPB program with system-wide reductions in the waiting list.

Question. When the VA originally announced this program, it estimated that over 200,000 veterans would be eligible to participate but now only 41,000 are eligible. Why has this number changed so drastically?

Answer. Throughout the TPB program development period, various eligibility policy options were considered, each of which impacted the potential pool of eligible program participants. The number of 200,000 veterans represented the best estimate available at the time the program was initially being developed.

For example, as data refinements were made, some of the 200,000 patients originally included in the estimate were found to already have had medical care appointments and were excluded. Similarly, another portion of the original 200,000 projected patients were found to already have received prescriptions from VA and were excluded. More detailed explanations of the gradual reduction in eligibility numbers can be found in the VA Office of the Inspector General's (OIG) report on the program entitled Evaluation of VHA's Transitional Pharmacy Benefit.

Question. What was the original cost estimate of the program? What is your most current cost estimate of the program? How much money have you saved in administrative costs by streamlining the process in obtaining prescription drugs?

Answer. An early cost estimate for the TPB program (i.e., before final policy decisions reduced the pool of eligible participants from 200,000 to 41,000) was \$59 million. Program costs through the first 20 weeks have been calculated to be \$4,183,167 (\$915,126 in estimated administrative costs and \$3,268,041 in drug ingredient costs).

The TPB program has increased, rather than decreased, the administrative prescription processing costs due to the increased labor requirements associated with contacting private physicians to discuss conversion of prescriptions to formulary items and other formulary-related issues.

Question. Based on your preliminary findings, do you believe the program has been a success and do you think it should be expanded?

Answer. For those patients who chose to participate in the TPB program, it clearly met its original intent of easing the burden of out-of-pocket prescription drug expenses for veterans whom VA was unable to serve within 30 days of their appointment request, and is therefore considered a success. In this regard, VA is not opposed to continuing to offer the TPB program to other patients so long as they continue to meet the original three eligibility criteria, which were the following:

- they must have been enrolled in the VA health care system prior to July 25, 2003;
- they must have requested their initial primary care appointments prior to July 25, 2003; and,
- they must have been waiting more than 30 days for their initial primary care appointments as of September 22, 2003.

Question. I have heard that some VA medical personnel opposed the implementation of this program. Anecdotally, some medical facilities may have taken some extraordinary steps to bring their waiting lists down so they did not have to implement the pharmacy program. For example, my staff heard that one hospital forced personnel to work overtime to see the patients on the waiting list. Is there any truth to these rumors? What steps were taken to ensure that the program was implemented in a fair and objective manner?

Answer. As indicated in the Congressional hearing on the Transitional Pharmacy Benefit (TPB) on March 30, 2004, VHA has worked diligently and aggressively to reduce the list of patients on the wait list for their first clinic appointment and has demonstrated meaningful reductions in the wait lists. Many facilities extended clinic hours to nights and weekends, scheduled staff to work overtime, and/or hired additional staff to reduce appointment wait lists.

The time period from the TPB program approval to implementation was compressed and VHA staff worked diligently to achieve the best possible program implementation in the time available for rollout. In order to encourage consistent system-wide program implementation, VHA took the following actions:

- Prior to and during the TPB program rollout, VHA conducted a series of conference calls with pharmacy, eligibility, information technology, and other sup-

port staff to provide an overview of the TPB program and to provide detailed instructions for program implementation.

- TPB program overviews were also provided to senior VISN and Medical Center clinical and administrative managers on separate conference calls.
- Periodic program updates were provided to field staff via blanket e-mail messages from the pharmacy, information technology, and eligibility program offices. These messages also provided an electronic forum for field staff to discuss operational issues and or seek clarification on specific TPB implementation issues.
- VHA also monitored waiting lists and facility specific TPB participation to track program participation, cost and utilization trends.
- VHA established a website with TPB reference and educational information geared to VA staff, patients and private sector providers.

ACCESS STANDARDS

Question. Mr. Secretary, I commend you for reducing the waiting list of veterans waiting more than 6 months for a medical appointment. I also commend you for prioritizing care for veterans with service-connected disabilities. Nevertheless, I remain concerned about veterans' access to health care. Despite the establishment of access standards since 1995, the VA has not been required to meet them. In fact, the President's Task Force to Improve Health Care Delivery for Our Nation's Veterans found that "there is persistent concern about the inability of VA to provide care to enrolled veterans within its established access standards."

Do you believe that the VA should be required to meet its access standards? What steps have you taken to hold VA staff accountable for meeting the Department's access standards?

Answer. Yes, VA will continue to meet its access standards and use all necessary resources and private-sector initiatives to assure that our veterans receive needed care in a timely manner.

VA holds staff accountable for meeting the Department's access standards through performance contracts. The fiscal year 2004 performance contracts include a combination of standards for access. They are combinations of responses from veterans through surveys on how long they waited and percentages of appointments within 30 days of the Veteran's desired appointment date for veterans requesting the next available appointment.

WAITING TIMES

Question. The VA has established a goal of seeing 93 percent of all patients within 30 days and in fact, the VA is actually seeing almost 94.5 percent of all patients within this period. However, the VA's most recent data indicates that 48 percent of new patients are being seen within 30 days.

First, does the VA independently verify the accuracy of its wait time data? Is it possible for some medical centers to game the system?

Answer. The General Accounting Office (GAO) audited VA wait times in 1999–2000 and most recently in VISNs 6 and 9. Veterans receiving VA care are also surveyed about their experience accessing our system. We also track complaints on access. All three sources give an independent check on our internal wait time calculations. In addition, our wait time numbers are trended, and variances between what is reported and what is expected are singled out for review with leadership.

The Under Secretary for Health (USH) read a memo on March 26, 2003, to senior VHA leadership stressing his expectations of the highest managerial and ethical practices when reporting wait times. The Acting USH recently sent an e-mail to all employees regarding ethical conduct and the need to report unethical practices to include "gaming." The Acting USH asked staff to e-mail him directly if other channels of reporting fail. The VA IG also independently evaluates waiting times.

Question. Second, what is the reason for the poor access rate for new patients? Does this poor access rate include new Priority 1–6 patients?

Answer. New patients typically request the next available appointment date. Established patients typically request follow-up appointments. It is easier to balance supply and demand for established patients who need to be followed up at predictable dates in the future, than it is to balance supply and demand for new patients who request the first unscheduled appointment available.

The 48 percent of new patients seen within 30 days (referenced in your previous question) may include Priority 1–6 patients; however, facilities are reviewing their appointment logs to see service connected veterans within 30 days. VA is able to take care of its established patients in a reasonable time frame. Veterans waiting for an initial appointment have more extended waits. VA's continued growth, dif-

faculty recruiting, lack of a physician pay bill, and geographical variances all account for the access issues with new patients.

Question. Lastly, your data indicates a wide variance among the networks on access rates. What are the reasons for this performance variance? Do you believe VA's performance needs to be more consistent across networks?

Answer. Veterans' demand for services is increasing at different rates between networks. VA operates as a national health care system and is working on implementing its Advanced Clinic Access program to improve access and make office practice efficiencies. While some networks will lag behind others in implementing Advanced Clinic Access changes, it is ultimately the uneven growth in demand across VISNs that results in inconsistent performance.

CARES—GENERAL

Question. Mr. Secretary, the CARES Commission released their report to you on February 12, 2004 and you are now reviewing the report. The report includes a wide range of recommendation covering individual medical facilities and broad health care issues.

First, do you have any general concerns about the Commission's recommendations? For example, do you have any concerns that the Commission consistently applied its guiding principle of reasonableness to every location? Do you believe the Commission's recommendations were adequately supported by benefit and cost information?

Answer. It is my belief that the Commission did a magnificent job in providing a consistent level of reasonableness and fairness in all of its recommendations, given the enormity of the task I set before the Commission and the relatively short time it had to produce its report. I have every confidence that they had access to and made optimal use of the best data available, including cost and benefit information. I cannot commend them enough for their valuable contribution to this effort.

Question. Second, do you plan to accept or reject or modify the Commission's recommendations in their entirety or on an individual basis?

Answer. I released my decision on May 7, 2004, and have shared it with the Committee. I have formally accepted the CARES Commission Report although I will use the flexibility it provides to minimize the effect of any campus or service realignment on continuity of care to veterans.

Question. The Commission recommended the creation of a separate entity that would be charged with the disposition of VA's excess properties and land. What are your thoughts on this recommendation? Does the VA have the current capacity to carryout this disposition function in an efficient and cost-effective manner?

Answer. The CARES Commission recommended that the Department ensure that efficient processes are in place for property disposal and that sufficient expertise is available, including the use of private sector professionals. As indicated in the question, the Commission suggested that perhaps a separate organization might be created. We agree that processes and procedures need to be in place to support timely disposal. This area of expertise is within VHA's Office of Facilities Management and in the Office of the Assistant Secretary for Management, of which both utilize private sector services. Both of these elements are provided legal support by the Office of General Counsel. A cross organizational team has made recommendations to further improve the timeliness and effectiveness of the enhanced use lease process. These recommendations include delegating authority within appropriate thresholds to newly created Chief Asset Manager and Chief Logistics Officer at the regional area. VA will also increase real property management expertise at the VISN level, and ensure VA personnel have access to the financial, legal, and marketing expertise to manage complex real estate projects.

The Department does not presently have the authority to directly dispose of property except in very limited situations. Most disposals, if not legislatively directed, are through the General Services Administration, who handles the real estate aspects of the transaction. There have been few disposals historically. The extent to which organizational changes might be beneficial will depend on whether VA receives the authority to dispose of property and the volume of disposals

CLAIMS PROCESSING

Question. Mr. Secretary, I commend you for the substantial improvement in reducing the processing times for compensation and pension claims. I am, however, concerned about the proposed budget reductions in the administration's request when the VA expects a projected workload increase. I am especially concerned about the Department's ability to meet the workload resulting from the partial ban on "concurrent receipt" and returning veterans from the War in Iraq.

Are these legitimate concerns? Can the VA adequately handle its projected workload despite the proposed staffing reductions in the budget request?

Answer.

	2004 Estimate	2005 Estimate	Difference
Compensation Direct FTE	6,035	6,040	+ 5
Pension Direct FTE	1,451	1,230	- 221

VBA's primary compensation and pension (C&P) claims processing goals for fiscal year 2004 are to reduce the rating inventory to 250,000 claims, improve rating timeliness to 100 days, and increase the quality of rating claims processing to 90 percent. An inventory of 250,000 claims will represent a normal workload without an associated backlog. With its workload under control as we enter fiscal year 2005, VBA will be able to maintain optimal performance despite a decrease in personnel.

Over the past several years, we have implemented a number of initiatives that will help us sustain our improved performance into 2005 and beyond:

- Since 2001, VBA has added 1,800 decision makers in the C&P business lines. As these new employees have gained proficiency in their duties, VBA's performance has dramatically improved.
- Specific performance priorities, including station inventory, timeliness, and quality levels, have been incorporated into the Regional Office Directors' Performance Appraisal Plan since fiscal year 2002. Additionally, national performance plans were effected 2 years ago for the key technical positions of Veterans Service Representative, Rating Veterans Service Representative, and Decision Review Officer. Individual productivity and quality requirements are included in each of these plans.
- In its May 2002 report, the VA Claims Processing Task Force noted that the work management system then in place contributed to inefficiencies in claims processing. As a result, a new model was instituted nationwide at the end of fiscal year 2002. It reengineered work processes to reduce the number of tasks performed by decision-makers, and incorporated a triage approach to incoming claims. The efficiencies gained through this reorganization are evident in VA's continued performance improvements.
- Three Pension Maintenance Centers were established in fiscal year 2002 to consolidate this very complex, labor-intensive component of VBA's workload. This consolidation is now complete and has resulted in a streamlined pension maintenance process requiring fewer resources.
- The proposed pension staffing reductions also include employees adjudicating the remaining pension work. Public Law 107-103, the Veterans Education and Benefits Expansion Act, eliminated the need for rating decisions for certain categories of pension claimants, thereby reducing the amount of work and time required to process these claims.
- In 2003, responding to a court decision that invalidated a VA regulation to the extent that it permitted the Board of Veterans' Appeals to consider evidence not already considered by the agency of original jurisdiction (AOJ), without remanding the case to the AOJ for initial consideration or obtaining the claimant's waiver of the right to initial AOJ consideration, VBA established the Appeals Management Center (AMC). Rather than sending remanded claims back to regional offices, the AMC develops these cases and makes decisions based on the evidence received. This enables regional offices to use their resources in other areas of claims processing.
- New training tools and information technology (IT) applications have had a positive impact on worker productivity and quality. National training packages—particularly the Training and Performance Support System (TPSS)—facilitate consistent and thorough training nationwide, increasing employee proficiency more quickly and improving the quality of work.
- Programs such as Rating Board Automation (RBA) 2000, Modern Award Processing, and SHARE have automated processes previously performed manually, hence accelerating many aspects of claims adjudication and avoiding some of the errors inherent in manual processing.

VISN STRUCTURE

Question. The President's Task Force (PTF) found last May that the VA's veterans integrated systems network (VISN) structure "resulted in the growth of disparate business procedures and practices." Further, the PTF's report stated that the "VISN structure alters the ability to provide consistent, uniform national program guidance in the clinical arena, the loss of which affects opportunities for improved quality,

access, and cost effectiveness.” Due to these findings, the PTF recommended “the structure and processes of VHA should be reviewed.”

Do you agree with the PTF’s findings? If so, how have you responded to these findings? Do you believe the VISN structure needs to be altered?

Answer. Recommendation 4.1 in the PTF Final Report indicated that the Secretaries of Veterans Affairs and Defense should revise their health care organizational structures in order to provide more effective and coordinated management of their individual health care systems, enhance overall health care outcomes, and improve the structural congruence between the two Departments. We agree that more effective coordination between the two Departments is desirable, but we also recognize the difficulties in coordinating activities between two structurally different organizations. However, both VHA and DOD Health Affairs are working to improve coordination activities. Recently, VHA approved five new full-time equivalents to serve as liaisons with the three new TRICARE regions under T-Nex, with TMA headquarters in Aurora, CO, and with Health Affairs in Washington, DC.

Although we are not averse to altering the VISN structure as necessity dictates, at this time, we have no plans to change it.

RESEARCH

Question. The budget request proposes a \$21 million cut to the medical and prosthetic research account. Further, there has been some controversy on proposed changes to VA’s research programs.

What is the justification for this proposed reduction? Is the Office of Research still pursuing changes to its research agenda so that its programs will more directly benefit veterans?

Answer. VA’s medical and prosthetic research program contributes significantly to veterans’ health care, and the program enjoys the full support of the Department. Fiscal constraints for all non-Defense/Homeland Security programs forced careful evaluation of all facets of health care delivery to ensure that the Department proposed a fiscally responsible budget that addressed veterans’ needs. In addition, VA believed that it would be able to offset the reduction with reimbursements from pharmaceutical firms for the indirect costs associated with conducting research. Accordingly, VA determined that it could temporarily reduce appropriated research funding without directly harming its ability to recruit and retain physicians.

The Office of Research and Development continues to evaluate its programs to ensure that they best serve the Nation’s veterans. This on-going process began in the 1990’s and has resulted in important medical discoveries that have improved veterans health and reduced medical care costs. The most recent program revision has resulted in increased emphasis on prosthetics and rehabilitation that addresses the long-term needs of severely wounded veterans returning from Southwest Asia.

CARES—CAPITAL COSTS

Question. The Draft National CARES plan developed by the Under Secretary for Health included an estimate of the capital costs for implementing CARES. The CARES Commission, however, did not provide a capital cost estimate.

Will you provide us a capital cost estimate for CARES for those recommendations you accept?

Answer. As we build our fiscal year 2006 budget, we will assess what amount should be funded in fiscal year 2006 for CARES and estimate the outyear funding stream. Priority will be given to implementing the long-range plan identified in my May 7 CARES Decision Report; while recognizing that this plan must fit with the overall spending caps. Specific project information will be included in the forthcoming 5-year Capital Plan.

ACTIVITY-BASED COSTING

Question. Some Federal agencies and private healthcare providers are using activity-based costing to analyze and break down the cost of a medical procedure, test, or service into cost information that can be used to achieve financial and operational efficiencies. I am aware that the San Diego VA Medical Center is currently utilizing activity-based costing software in various lab departments.

How well is activity-based costing software working at the VA San Diego Medical Center?

Answer. The VA San Diego Healthcare System, Pathology and Laboratory Medicine Service (PALMS) is utilizing an activity based costing (ABC) software program as a supplement to DSS data as an aid in strategic and tactical management decisions. The laboratory began using this software as part of a beta-testing agreement about 3 years ago. There are several benefits to this type of cost analysis, including

improved identification of high-cost components to laboratory tests, data-driven decision-making, and more accurate budget projections. While utilization of this software is still in the development phase in this facility, we feel that full implementation would realize decreased costs for the laboratory services provided.

There are many benefits associated with activity based costing in general, however the following specific information will address the particular software that has been in use at the VA San Diego. The ABC software provides a very specific breakdown of costs associated with each product (test) performed. This allows management to identify outliers and implement improvements to reduce overall cost. Additionally, this functionality aids in ensuring the accuracy of costing information, such as labor, supply, and overhead allocations. This program has the ability to "simulate" increases in workload or changes in methodology and recalculates the projected costs. Based on this information, PALMS can make determinations regarding increasing or decreasing sharing agreements, new equipment purchases, or utilizing contract services or laboratories. The costing information is virtually real time, compared to the current method, which has a lag time of one quarter to demonstrate operational changes. Some additional benefits include the ability to benchmark against comparable laboratories and a budgeting module. The budgeting module utilizes current costs and expenditures, but also provides for projected changes in workload or methods.

The full implementation of activity based costing in the laboratory would aid in reducing costs, improving financial efficiency, and improving the accuracy of current costing methods. This facility currently performs laboratory testing for veteran patients, local area healthcare facilities, Department of Defense, and various research studies. The ABC software would insure external customers are charged appropriately for services rendered and decisions to expand external sharing are data-driven and justifiable.

VA-DOD COLLABORATION

Question. For several years, there have been numerous efforts to promote health care collaboration between the Department of Defense and the VA. Most recently, the Bob Stump National Defense Authorization Act for fiscal year 2003 directed DOD and VA to establish a joint program to identify and provide incentives to implement, fund, and evaluate creative health care coordination and sharing initiatives between the two departments.

Can you give us a status and any initial findings in implementing this new program?

Answer. The Treasury account required by the law has been established, and the \$15 million contributions that each Department is required to contribute annually have been made. The DOD-VA Health Care Sharing Incentive Fund Memorandum of Agreement is being finalized for approval. On November 7, 2003, the Financial Management Work Group of the Health Executive Council (HEC) issued the first call for proposals, which were due in early January 2004. A work group of VA and DOD staff has completed its review of the 57 proposals submitted. The Financial Management Work Group approved 28 projects to advance to the second round of evaluations. Second round applicants are being asked to submit a business plan and a business case analysis by May 21, 2004. Final selections are not expected until this summer.

The Incentive Fund has generated a lot of interest. Some of the lessons learned to date include:

- VA and DOD partners need to coordinate early on their submissions.
- Time frames for submission of proposals need to allow sufficient time to go through VA's and DOD's chains of command.
- Corporate information technology activities and initiatives need to be better communicated to avoid development of submissions that are not congruent or duplicative with National projects or solutions.
- Partners need to recognize that the Incentive Fund process does not supercede normal administrative requirements of either Department, which need to be factored into the time frames for submission of proposals. For example reviews by governing boards for purchases of major pieces of equipment still need to go through VA's and DOD's review boards.

QUESTIONS SUBMITTED BY SENATOR RICHARD C. SHELBY

COMPENSATION AND PENSION CLAIM PROCESS

Question. Discuss the tools these programs—Virtual VA project; Compensation and Pension Evaluation Project; the Training and Performance Support Systems Project; and the Veterans Service Network—will give to improve the claims process, and does this budget help VA to accomplish our goals there?

Virtual VA

Answer. Virtual VA is an ongoing initiative designed to replace the current paper-based claims folder with electronic images and data that can be accessed and transferred electronically. It will provide a long-term solution to improving the quality of claims processing for veterans and their dependents through enhanced file management, a reduced dependency on paper, and increased workload management across the business enterprise. Virtual VA is currently being used to support the pension workload at three Pension Maintenance Centers (Philadelphia, Milwaukee, and St. Paul). The majority of the pension maintenance work has now been centralized to these three locations and we expect continued improvement in performance. Virtual VA also provides simultaneous access to pension documentation by VBA users and Veterans Service Officers across the country, allowing for immediate response to veterans' inquiries and improved levels of service. Through the use of Virtual VA at the Pension Maintenance Centers, we are learning how to optimize this valuable tool and intend to continue our deployment to other programs after its effectiveness is validated through pension maintenance processing.

Compensation and Pension Evaluation Redesign (CAPER)

CAPER is an ongoing initiative designed to improve services by enhancing the disability exam request and return process, as well as the disability evaluations process, across the Veterans Benefits Administration, the Veterans Health Administration, the Board of Veterans Appeals, and contract examiner organizations by using redesigned business processes and leveraging information technology wherever possible. CAPER will help standardize the quality of disability examinations and enhance the level of consistency of disability evaluations. Improvements in these processes will contribute to the overall timely delivery of disability rating decisions and awards, and improve the quality of rating decisions.

Training and Performance Support Systems (TPSS)

The Training and Performance Support Systems (TPSS) developed by the Veterans Benefits Administration (VBA) have two categories of products. Each category directly supports claims processing, but in different ways, as described below:

Training.—Training modules (including performance tests and performance-based tests) train employees to perform critical claims processing tasks, such as "Rate an original claim for compensation." The specific benefit to claims processing is that the training produces, in a relatively short time frame, a highly trained employee who has passed performance tests and is known to be ready to perform the job.

Performance Support.—Job aids and Electronic Performance Support Systems (EPSS) are tools that are used by both newly trained employees and by experienced employees to perform critical claims processing tasks, such as "Process claims for helpless child benefits." These tools include work flows, medical information, and other key data. In general terms, the benefits are that the products increase employees' consistency and efficiency in doing their work by reducing the time required to research necessary information and prepare decisions and letters.

RESEARCH FUNDING

Question. VA anticipates very large increases in the amount of non-VA Federal and private funding for VA researchers, \$60 million and \$50 million, respectively, a 14 percent increase in non-VA sources. Why the sharp increase next year when you only anticipate a 4 percent increase this year? Is it really appropriate to put the VA in a position of depending on other agencies or the private sector to fund research important to veterans?

Answer. VA based the estimate on actual previous year growth rates, which have averaged approximately 16 percent. Earlier estimates had been somewhat conservative and underestimated actual increases.

In the months since VHA developed the estimates, two underlying assumptions have changed. VA will not receive NIH reimbursement for the indirect facility costs of conducting NIH-funded research, an amount estimated to be \$50 million. In addition, NIH budget growth will be lower than expected, resulting in less growth in direct dollars from that organization.

VA believes that funding for research should be a partnership between VA, other Federal research institutions, the medical and drug industry, and institutions of higher learning. Through this type of leveraged partnership of ideas and funding our veterans and society will best be able to reap the benefit of VA's direct investment in research. VA will continue to use its appropriated dollars to ensure that the research most vital to veterans is funded. The Medical and Prosthetics Research budget provides the resources for VA's multi-site clinical trials, centers of excellence, and other initiatives that have dramatically increased the quality of health care while reducing patient costs. Moreover, appropriated funds provide the research core that enables our investigators to receive so much non-VA funding.

Question. If VA research is funded at the requested level, what areas of research will be cut?

Answer. All currently funded projects will continue, but VA will have to reduce the number of new projects funded in fiscal year 2005 by approximately 120 or 35 percent. No specific areas of research will be cut. Under the proposed budget, VA will be forced to lower the priority cut-off score to 12 instead of a priority score of 18.5 used this year, causing VA to fund a smaller portion of the relevant and scientifically rigorous proposals.

Question. If provided with additional funding, what areas of research would VA add or expand?

Answer. An increase of \$65 million in direct research funding would allow VA to expand its research portfolio above the fiscal year 2004 level. In particular, VA would be able to expand research into innovative new approaches to limb loss, prosthetics and tissue replacement for severely wounded veterans returning from Iraq and Afghanistan.

VA/DOD CONCURRENT DISABILITY PAYMENT AND COMBAT-RELATED SPECIAL COMPENSATION

Question. To what extent is the Department of Veterans Affairs (VA) working with Department of Defense (DOD) to implement the concurrent disability payment and combat-related special compensation (CRSC) programs?

Answer. The coordination and support VA provides to DOD for Concurrent Retired and Disability Pay (CRDP), or "concurrent receipt", is primarily in the area of data sharing. The military service finance centers, DOD, Coast Guard, and Public Health Service provide VA with monthly recertification tapes of all retirees verified to be eligible to receive CRDP. VA updates the tapes by annotating any changes in the combined disability evaluation, individual unemployability indicator, rate of compensation, and effective date of change. VA and these payment centers are having ongoing discussions on ways to improve the process. One result of this exchange is that VA has clearly identified the data needs of the military payment centers in the development of the VETSNET application.

VA coordination and support provided to DOD for the combat-related special compensation (CRSC) program include the following major activities:

- VA has contracted with a vendor to image pertinent records from VA claims folders to assist CRSC boards in making their determinations. As of April 1, 2004, almost 6,700 requests for records have been centrally requested under the contract.
- Local regional offices have copied records for hundreds of individual retirees to assist them in completing their applications.
- Remote access to VA's benefits systems has been provided to DOD Boards and is being provided to the Coast Guard and Public Health Service.
- The VA Compensation and Pension Service has provided several training sessions, beginning with an initial 3-day session to Board members to assist them in understanding our data systems and the records being provided to them. VA has conducted additional training on issues such as special monthly compensation and individual unemployability. The staff also provides data on specific retiree claimants in emergency situations, and provides assistance to specific Boards when they have questions.
- VA provides on-going data exchanges on disability evaluations and effective dates of any changes for all disabilities.
- VA has identified the needs of DOD for administering CRSC. These needs will be addressed as VETSNET progresses to ensure that there is no disruption in the information flow when conversion to VETSNET is underway.

QUESTIONS SUBMITTED BY SENATOR PETE V. DOMENICI

TELEHEALTH

Question. Mr. Secretary, as you know, I have long been interested in providing enhanced access to medical care for our rural veterans.

Establishing more community based outpatient clinics is one way Congress and the VA have worked together to reach out to rural veterans. In fact, my home State of New Mexico now operates 11 such clinics for rural veterans.

I believe Congress and the VA should also work together to improve the use of technology for serving rural veterans. In particular, I believe we can do much more in the area of telehealth and telemedicine for disease management and enhanced care for veterans in remote areas.

What is the current state of VA's telehealth program?

Answer. VA is recognized as a leader in the field of telehealth. VHA previous Telemedicine Strategic Healthcare Group has been incorporated into a new Office of Care Coordination (OCC) and the term telehealth is increasingly being used in VHA rather than telemedicine. These changes recognize that implementing telehealth is more than a technology issue it involves embedding telehealth and other associated technologies directly into the health care delivery process and that it now involves many different professionals. VA is undertaking telehealth in 31 different areas. OCC is supporting all these areas but particularly focusing on those where there is particular need and is therefore designating lead clinicians in the areas of telemental health, telerehabilitation, and telesurgery. VA is formalizing guidance for the development of telehealth, with a particular emphasis on the community based outpatient clinic in relation to major areas of veteran patient need. This has commenced with:

- Tele-mental health
- Teledermatology
- Telesurgery (enabling remote pre-op and post-op assessments)
- Teleretinal Imaging for diabetic retinopathy
- Telerehabilitation

Teleradiology is a major associated area of need where VA is seeking to work to bring resources at a local level into an interoperable infrastructure and create a national system. Such a system, if developed, will enable sharing of resources and acquisition of services when local difficulties with recruitment and retention of radiologists create challenges to delivering this care. OCC is working to support VHA's Chief Consultant for Diagnostic Services in this endeavor and to make sure that the various areas of telehealth practice harmonize with respect to important processes e.g., credentialing and privileging. This will facilitate working with the Department of Defense.

Care coordination in VA involves the use of innovative technologies such as telehealth, disease management, and health informatics to enhance and extend care. VA is implementing a national care coordination program that heralds a marked expansion in telehealth across the system.

In recognition of the demographics of the veteran population and the rural and underserved areas in which veteran patients often live VA is placing a particular emphasis on developing care coordination that uses home telehealth technologies. The rationale for this program is to support the independent living of veterans with chronic diseases through monitoring of vital signs at home e.g., pulse, blood pressure, etc. at home. A piloting of this care coordination/home telehealth (CCHT) program demonstrated very high levels of patient satisfaction and reduced the need for unnecessary clinic admissions and hospitalizations. For example, by monitoring a heart failure patient at home it is possible to detect any worsening of the condition when there is breathlessness and weight gain. Early detection in this way means medication can be adjusted and the problem resolved rather than have the patient deteriorate unnoticed and require admission to hospital in extremis at risk of dying, and often necessitating an intensive care unit admission.

VA is creating a national infrastructure to support the safe, effective, and cost-effective use of home-telehealth technologies by veteran patients wherever they reside.

Because the support of a patient at home usually requires a caregiver in the home OCC is paying attention to caregiver issues and working on this collaboratively with other organizations and agencies, as appropriate.

Question. What legislative initiatives would you recommend to improve both telehealth and telemedicine programs?

Answer. At this time we have no specific legislative proposals to recommend.

Question. It is my understanding that VA is implementing a telehealth pilot project to provide medical services to veterans in remote parts of eastern New Mexico. Can you describe how the pilot will be implemented and how it will help our veterans receive better care?

Answer. VA is implementing a telehealth pilot to provide medical services to patients in remote parts of VISN 18. Telehealth is remote patient case management using devices located in the patient's home that connect to hospital staff via a normal phone line. The patient responds to short, disease-specific questions each day. The devices may also be used to transmit vital signs and medical information to hospital staff monitoring the daily reports. Hospital staff can send patients reminders, tips, and feedback on their progress. Telehealth enhances veteran health care because it allows for earlier intervention and enhanced veteran self-care and self-assurance. To begin, selected patients with congestive heart failure and chronic obstructive pulmonary disease will receive telehealth care in their homes. Now that VA Central Office has released equipment funding and equipment can be contracted for, implementation will begin with the Geriatric Clinic and the Spinal Cord Injury Clinic in Tucson, Arizona, followed by their Primary and Medical Care teams. Then the pilot will be expanded to Amarillo VA Health Care System patients. Amarillo will start enrolling medical center patients with congestive heart failure and chronic obstructive pulmonary disease for care coordination in Phase One. When this is operational, Phase Two will begin to enroll patients with these same diseases at the Clovis, New Mexico, and Lubbock, Texas, community based outpatient clinics. VA anticipates that Phase Two will occur in fiscal year 2005.

Question. Are telehealth and telemedicine programs being designed to allow for participation by joint venture partners such as the Department of Defense?

Answer. VA has explored, and will continue to explore, all opportunities to partner with the Department of Defense and other Federal agencies as it develops its telemedicine and telehealth programs. This is important to patients, maximizes the return on Federal investments in technology, and enables standards to be set in this emerging area of technology.

VHA's partnerships with DOD include:

- The AHFCAN program in Alaska (a congressionally mandated cross Federal program),
- The Telemedicine Hui in Hawaii (a congressionally mandated cross Federal program),
- Teleradiology with the Navy at Great Lakes Naval Recruiting Station in Chicago,
- Teleretinal imaging for diabetes care in Boston, Maine and Hawaii,
- Developing credentialing and privileging standards for telemedicine/telehealth that were used by the Joint Commission for Health Care Organizations in formulating their standards in this area.

To foster possible VA/DOD collaborations VA regularly engages with DOD telemedicine/telehealth colleagues at:

- An inter-service DOD working group on telehealth that VHA attends Telehealth Working Integrated Project Team (TH W-IPT),
- The Joint Working Group on Telehealth—a cross-Federal group that VA and DOD both participate in,
- VA and DOD participation at the American Telemedicine Association industry briefings each fall.

As a recent example of VA/DOD collaboration, on February 12, 2004, VA presented a satellite broadcast on telesurgery to VA clinicians nationwide in partnership with the U.S. Army's Telemedicine and Advanced Technologies Research Center (TATRC). VA's chief of surgery is currently working with TATRC on joint developments involving telesurgery.

MEDICAL RESEARCH

Question. Investments in research projects at VA have led to a number of promising advances in our understanding of diseases and medical conditions. These include breakthroughs in areas such as spinal cord and prosthetic research.

Can you describe some of the current trends in VA medical research and tell us where we might expect some new breakthroughs in the near future?

Answer. VA continues to maintain strong research portfolios in its core competencies. These include mental health, clinical trials, substance abuse, spinal cord injuries, and Post-Traumatic Stress Disorder (PTSD). In addition, VA is placing increased emphasis on prosthetics and rehabilitation for survivors of combat trauma wounds, Gulf War Illnesses and other deployment health issues, vaccine development, and responses to emerging pathogens.

While new breakthroughs are difficult to predict, VA is excited about several promising developments. An ongoing Cooperative Studies Program (CSP) clinical trial using deep brain stimulation offers great hope for those suffering from Parkinson's disease. The study is comparing best medical therapy to deep brain stimulation for improving motor symptoms as well as determining the optimum brain area to stimulate.

Another multi-site trial is examining whether intensified blood-sugar control and management reduces major vascular complications that lead to most deaths, illnesses, and treatment costs for type II diabetic patients. If successful, the study would lead to quality of life improvements to all type II diabetic patients as well as significant cost reductions to VA, Medicare, and other health care organizations.

An upcoming Amyotrophic Lateral Sclerosis (ALS) trial will test the effectiveness of two butyrate compounds in reducing and retarding the devastating affects of the disease. Research involving animal models has shown the ability of both compounds to slow the progression of ALS and improve quality of life. Currently, the most effective ALS medication prolongs life approximately 4 months without providing significant quality of life improvements.

Question. Please talk about how VA's collaboration in medical research with other government agencies and universities is improving the quality of life of our veterans.

Answer. Collaboration with other agencies and organizations has contributed greatly to the effectiveness of VA's research program. VA investigators annually receive research grants from non-VA sources totaling more than \$700 million, supplementing the Medical and Prosthetic Research and Medical Care appropriations. These funds permit VA to address better the many conditions affecting the veteran population.

Collaborative efforts permit VA to access the expertise and skills of non-VA researchers at other government agencies and universities. These collaborations benefit both VA and its partners by maximizing intellectual and budgetary economies of scale. In particular, VA is collaborating with the National Institutes of Health on a variety of clinical trials that address many conditions.

COMMUNITY BASED OUTPATIENT CLINICS

Question. Mr. Secretary, veterans from rural States continue to benefit from the use of community-based outpatient clinics.

Occasionally, however, we hear concern from rural veterans about a lack of adequate numbers of medical staff at these clinics.

Please describe what steps VA is taking to address staffing shortfalls that exist at rural clinics.

Answer. Given the variation in increased workload around the system, many sites are experiencing an increase in demand for services. This may result in increasing waiting times and veterans waiting for their first appointment to primary care. Efforts to address staffing shortfalls, as well as the increased wait times that they may engender, include the following initiatives:

- incorporating Advanced Clinic Access concepts;
- hiring new providers when available in the local community;
- recruiting additional providers;
- contracting/fee basis care;
- continued education of clerks to avoid scheduling errors;
- expanding CBOC contracts;
- improving consult management;
- establishing nurse-directed, pre-screening clinics for new patients;
- maximizing clinic scheduling efficiency;
- increasing access to specialists through telemedicine; and
- reviewing data and feedback of data to providers.

Question. What incentives does the VA provide or could it provide to recruit health professionals to rural areas?

Answer. VA is currently awaiting action on the Physician Pay Bill, which would allow VA to be more competitive in the market for recruiting physicians to work within VA. This is especially true for specialty physicians which VA has difficulty recruiting. VA also has before Congress a legislative proposal allowing enhanced flexibility in scheduling tours of duty for registered nurses. The ability to offer compensation, employment benefits, and working conditions comparable to those available in their community is critical to our ability to recruit and retain nurses, particularly in highly competitive labor markets and for hard-to-fill specialty assignments.

QUESTIONS SUBMITTED BY SENATOR ROBERT C. BYRD

CAPITAL ASSET REALIGNMENT FOR ENHANCED SERVICES (CARES) REPORT PROCESS

Question. Secretary Principi, according to the VA Congressional Liaison Office this past February, you were expected to make a decision on the CARES Commission's recommendations within 30 days of your receipt of the CARES report on February 13, 2004. Further, according to the Federal Register of August 20, 2003, you will either accept or reject the Commission's recommendations, without modification, although Chapter 1 of the CARES report indicates that you could also decide to ask for additional information. Obviously, your goal of making a decision within 30 days of your receipt of the CARES report has been not been met.

When will you be making a decision on the CARES Commission's report? Are you currently seeking additional information on specific recommendations contained in the report? If so, please identify the specific recommendations for which you are seeking more information.

Answer. My decision was released May 7, 2004. I sought no additional information on specific recommendations of the CARES Commission.

Question. Is it your intent to either accept or reject the Commission's recommendation, without modification, in accordance with the Federal Register?

Answer. I have formally accepted the CARES Commission Report although I will use the flexibility it provides to minimize the effect of any campus or service realignment on continuity of care to veterans.

Question. If you reject the CARES Commission's report, how will the vast data and information collected over a several year period for preparation of the CARES report be utilized?

Answer. These data will form the foundation for addition data collection and analysis as the Department proceeds to implement the decisions reached in my decision document.

Question. If you approve the CARES Commission's report, I understand that VISNs will prepare detailed implementation plans and submit them to the Secretary for approval, and then, later these will be refined and integrated into the annual VA strategic planning cycle. What is projected timeline for these activities based in fiscal years?

Answer. In general, the implementation plans will be incorporated into the 2005 Budget Cycle and the 2006 and beyond Strategic Planning Cycle.

CARES REPORT: WARS IN AFGHANISTAN AND IRAQ

Question. Secretary Principi, the CARES process began in October 2000. Since then, the United States has become involved in wars in Afghanistan and Iraq, with hundreds of thousands of troops deployed overseas to participate in combat operations. In Iraq alone, more than 3,000 Americans have been wounded. An unknown number of these troops will require long-term medical care from the Department of Veterans Affairs.

The conduct of these two wars, which could yet extend for years to come, is creating hundreds of thousands of new veterans, all of whom will have some claim to service through the VA health care system.

Secretary Principi, does the CARES process, which started before the United States became involved in an open-ended war on terrorism and a lengthy occupation of Iraq, anticipate providing services to these hundreds of thousands of new veterans? Could there be a need to revise the findings of the CARES Commission to accommodate these new veterans?

Answer. I do not believe that the findings of the CARES Commission need revision to accommodate these veterans needs. At this time we believe that we can accommodate the needs of returning OIF and OEF veterans with the current resources of the VA health care system. However, we will continually monitor our resources in this regard to ensure that we do not fall short in providing them needed health care.

CARES REPORT: OUTSOURCING OF INPATIENT SERVICES AT THE BECKLEY VAMC

Question. I, along with my colleagues, Senator Rockefeller and Congressman Rahall, sent you the attached February 26, 2004, letter asking you to reject the CARES Commission's recommendation to eliminate the 40 hospital beds at the Beckley VA Medical Center. The recommendation, if approved, would require the 15,000 veterans who are enrolled to receive care at the Beckley VA Medical Center to either have their medical care contracted to 1 of 11 hospitals within an hour of Beckley or to travel to the nearest VA hospitals in Salem, North Carolina, and Richmond, Virginia. I received your response on March 24, 2004, which did not address

any of the issues we raised. I continue to be very concerned about the CARES Commission's recommendation pertaining to inpatient services at the Beckley VA Medical Center, and I would appreciate your specific responses to the questions posed below.

Did the Commission contact each of the 11 accredited hospitals that the VA identified as alternatives to verify their ability to absorb the VA patients of the Beckley VAMC? If so, please provide the response of each hospital. If not, please contact them and provide their responses to me and to this subcommittee.

Answer. The CARES Commission did not contact the community alternatives within 60 minutes of the Beckley VA Medical Center, as listed in Appendix D of the Commission's Report. The Commission identified and reviewed available data for alternative community resources for every VA medical center identified in the DNCP as a small facility. As part of that review, data indicated the types of services offered by the community resource, the number of staffed beds for the services, and the average daily census for those beds.

The CARES Commission's charter expired on February 29, 2004. Should the Secretary accept the Commission's recommendation to discontinue services at a VA medical center, the Commission believes that the implementation and operational strategic planning processes would include collaborating and negotiating with community facilities to provide alternative medical care to veterans.

Question. What considerations were given to the long and many times treacherous travel that elderly veterans who would normally rely on the Beckley VAMC for inpatient services will have to travel to reach Salem, North Carolina, or Richmond, Virginia, which is at least a 4-hour drive from Beckley?

Answer. After due consideration, I have not found it reasonable to consider the closure of the inpatient medical beds at the Beckley VAMC for the foreseeable future.

Question. What specific cost savings does outsourcing outpatient care from the Beckley VAMC to local hospitals offer?

Answer. Outsourcing outpatient care was never a part of the small facility plan for Beckley, nor did the CARES Commission recommend it. In fact, the Commission recommended that Beckley retain its multi-specialty outpatient services. I concurred with this recommendation.

CATEGORY 8 VETERANS

Question. The administration suspended new enrollments of Category 8 veterans in January 2003. This means that veterans with higher incomes that do not have a service-connected disability may be denied service at VA hospitals, contrary to the intent of the Veterans Health Care Eligibility Reform Act of 1996.

Secretary Principi, how much of an increase in VA health care funds would be needed to resume enrollments of Category 8 veterans?

Answer. VA has determined that resumption of enrollment for Priority 8 veterans would require an additional \$519 million in fiscal year 2005, growing to an estimated \$2.3 billion in fiscal year 2012.

Question. For how long does the administration anticipate rejecting new enrollments of Category 8 veterans?

Answer. At this time, we are unable to project how long VA will continue the policy of not accepting the enrollment of new Priority 8 veterans.

The statute governing VA's enrollment system requires the Secretary to decide annually whether VA has adequate resources to provide timely health care of an acceptable quality for all enrolled veterans. Each year, VA reviews actuarial projections of the expected demand for VA health care in light of the expected budgetary resources and develops necessary policies to manage the system of annual patient enrollment. VA has not made a decision regarding reopening Priority 8 enrollment in fiscal year 2005, but will do so later this year. We must consider not only the impact of this policy in fiscal year 2005, but also the impact in future years.

Question. Does the CARES Commission report anticipate that the suspension of new Category 8 enrollees will continue?

Answer. The CARES Commission report assumed a continuation of the suspension of enrollment of new Priority 8 veterans.

SUBCOMMITTEE RECESS

Senator BOND. Thank you very much, Mr. Secretary.

Secretary PRINCIPI. Thank you, Mr. Chairman. It is always a pleasure.

Senator BOND. We appreciate the discussions. I think they were very constructive.

The hearing is recessed.

[Whereupon, at 3:47 p.m., Tuesday, April 6, the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

THURSDAY, APRIL 8, 2004

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

The subcommittee met at 10:10 a.m., in room SD-628, Dirksen Senate Office Building, Hon. Christopher S. Bond (chairman) presiding.

Present: Senators Bond and Mikulski.

CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

STATEMENT OF DAVID EISNER, CHIEF EXECUTIVE OFFICER

ACCOMPANIED BY MICHELLE GUILLERMIN, CHIEF FINANCIAL OFFICER

OPENING STATEMENT OF SENATOR CHRISTOPHER S. BOND

Senator BOND. The subcommittee will come to order. I apologize for the delay. I had to present to the Judiciary Committee the Missouri Supreme Court Judge who has been nominated by the President for confirmation to the Eighth Circuit Court of Appeals, and I apologize for delaying the start of this hearing. But this is a very important position, as I trust you understand.

This morning the committee completes its budget hearing schedule for the year by hearing from the Corporation for National and Community Service on its fiscal year 2005 budget.

It is a pleasure to welcome the Corporation's new Chief Executive Officer, Mr. David Eisner, who has been on the job for almost 4 months, a real veteran now. And we are also pleased to welcome back the Corporation's Chief Financial Officer and Acting Chief Operating Officer, Ms. Michelle Guillermin.

I congratulate both of you on taking on new responsibilities, especially given the longstanding challenges that face the Corporation.

For fiscal year 2005, the administration is requesting a total of over \$1 billion for CNCS, of which \$642.2 million is for programs under the VA-HUD subcommittee's jurisdiction. The request is \$61.2 million or 10½ percent over the fiscal year 2004 enacted level. Further, the administration proposes some \$452 million for

the AmeriCorps program to support 75,000 new members—the same level of participation supported under the 2004 enacted level.

This is quite a healthy budget recommendation compared to most other domestic programs, including, regrettably, the programs under the VA–HUD jurisdiction. I am pleased that the administration provided such a strong budget for the Corporation and the AmeriCorps program. This year's budget, however, will probably be the most difficult and challenging we have faced, especially with record shortfalls in the budget request for other compelling and important programs, such as VA medical care, Section 8 housing, and the EPA's Clean Water State Revolving Fund programs. In fact, to be quite honest, I am not sure that the subcommittee can afford to increase funding for any program or activity until we have adequately funded these and other compelling programs.

To say that the past year for the Corporation and its grantees was frustrating and stressful is, at best, an understatement. While I do not want to belabor the recent past or reopen old wounds, a lot can be learned from it and we must not forget these experiences so that we do not repeat them. The primary lesson is that management and fiscal accountability are important issues and have real consequences when neglected.

Since the inception of the Corporation and the AmeriCorps program, the Corporation's leadership largely ignored these issues. While the Corporation has made efforts to address management failings and its leaders have made promises that its problems would be resolved, many of these previous efforts were largely window dressing and the promises mostly rhetoric. The sad result was that thousands of well-performing organizations and the communities they served suffered from mismanagement.

Moreover, thousands of caring and compassionate individuals were denied the opportunity to participate in the program. I hope we do not repeat this lesson. I hope the Corporation and its supporters have learned from the history.

But let us be clear. Not all is negative. Some good did result from the painful experiences of the past year. The most notable result was the increased awareness and support for the program among members of Congress and the public, which led to a record budget for the AmeriCorps program. The numerous media reports raised the profile of AmeriCorps volunteers and their very positive impact on the local communities throughout the Nation. Prior to the well-publicized problems of AmeriCorps, only a handful of members expressed any serious concern or attention to the program. Now, the program has the attention of most, if not all, members of Congress.

Nevertheless, this is not the time to relax. Focus and hard work must continue on resolving the continuing management weaknesses of the Corporation. The Corporation must instill a culture of accountability and personal responsibility based on performance which is measured not in just program outcomes but also on sound management. For too long, the Corporation has been overly fixated on public relations and promoting its programs at the expense of management responsibility. To be blunt: the Corporation needs a serious paradigm shift.

Fostering an environment where management and fiscal responsibility is taken more seriously must begin at the top. Mr. Eisner,

your performance thus far has been impressive, and we commend you for the close attention and efforts you have made on management and accountability. I recognize that it helps to have an incredibly bright and hardworking CFO by your side, but I credit you for electing to be involved personally in these issues.

The Corporation's Board of Directors, led by Chairman Steve Goldsmith, has also become actively engaged in the Corporation's management and policies. I especially appreciate the Board's approval of Resolution 2003-05, which directs the CEO to consult with the Board in advance of any Corporation-wide pay adjustments or cash awards. Hopefully, this action will ensure that the Corporation ends the practice of rewarding bad behavior, as demonstrated last year when significant cash awards were provided to senior level staff right after the AmeriCorps over-enrollment problem was uncovered; a problem that was a serious violation of the Anti-Deficiency Act. Certainly, it was not an appropriate time to award staff bonuses.

In general, with Mr. Eisner and Ms. Guillermin's leadership, the Corporation appears to be headed in the right direction in terms of management and accountability and, with a robust budget recommendation for this year, the Corporation has an opportunity to expand significantly the AmeriCorps program. Nevertheless, I believe the Corporation is at a critical crossroads in terms of administering the AmeriCorps program. And I believe the direction the Corporation chooses will have long-term implications for the program.

You have recently begun a major effort to improve the performance of the AmeriCorps programs through a rulemaking process. I think that process is long overdue, since the rules governing the AmeriCorps program lack clarity which contributes to some of the questionable funding decisions. These rules should provide the necessary framework for better oversight, a responsibility the Corporation previously has ignored.

Further, the Corporation in the past has paid little attention to the long-standing concerns of the Congress about sustainability and reducing the costs per member. The Corporation's rulemaking goals are designed to bring a far greater degree of predictability and reliability for its grantees and to make the program more efficient, effective, and accountable. I support these goals and strongly urge the Corporation to complete rulemaking this year. I fear that if the Corporation does not complete it, the Congress may get involved, and that's bad news.

The issue of most interest to me is sustainability. The 2004 VA-HUD conference report directed the Corporation to undertake public notice and comment rulemaking to develop a definition of sustainability. I advocated the inclusion of this directive in the conference report because of my long-standing concern that the Corporation was not adequately compliant with the statutory goal of reducing AmeriCorps grantees' reliance on Federal funds. As noted by the Corporation's Office of Inspector General in 2001, the Corporation lacked a clear definition of sustainability. Accordingly, the OIG recommended that the Corporation establish a means of clearly measuring the grantee's reliance on Federal funding. Further,

the OIG recommended the Corporation consider developing a performance goal for reducing grantees' reliance on Federal funds.

Now, many AmeriCorps groups have expressed concerns about sustainability. And I agree with some of their concerns. For example, I do not believe in a "one size fits all" definition of sustainability. The Corporation should develop a flexible approach to sustainability so that it does not unfairly punish good performers or small, disadvantaged organizations—especially those in rural areas. The Corporation may need to consider a special set of rules for these types of organizations. Nevertheless, I am concerned about the "entitlement" mentality of some groups regarding AmeriCorps funding and believe that under certain circumstances, time limits on funding may be warranted. For example, time limits should be considered for some groups that receive significant funding support from other Federal sources.

The Corporation should consider time limiting some types of organizations so that more organizations can compete for AmeriCorps funds. There are clearly more volunteer groups requesting funds than there are funds available. I strongly believe that the Corporation must ensure that the playing field for AmeriCorps funding is fair and equitable. As Senator Mikulski and I have observed, there are numerous, well-performing organizations that have approached us for AmeriCorps funding. I oppose earmarking the AmeriCorps account.

I sympathize, however, with well-performing organizations that do not receive AmeriCorps funding. And that's why we created the Challenge Grants program. Not surprisingly, the Challenge Grants program has been popular, as demonstrated by the overwhelming demand for the Challenge Grants program. Last year, the Corporation received 52 applications requesting \$31 million out of an available pool of \$6 million. In addition, 31 of those organizations were first-time applicants to the Corporation. Further, the ability of the applicants to meet the program's 2 to 1 match requirement demonstrates that groups can successfully obtain private matching funds.

If we assume flat funding or minor funding increases in the future for AmeriCorps, it is obvious that new groups in the future will have extreme difficulty competing for funds unless the rules are changed. And flat funding may be the reality for the next several years as Congress seeks to balance the budget and control deficit spending.

In this case, funding problems may be especially troubling for up and coming organizations, such as those receiving Next Generation grants from the Corporation. The Next Gen program, as it is called, was created by Senator Mikulski to provide seed money to build the capacity of small volunteer organizations who have innovative ideas. This program has attracted a large number of applicants, as evidenced in the fiscal year 2003 cycle, where some 1,100 organizations applied for the program—more than any previous grant competition in the history of the Corporation. I fear that these groups may not be able to compete for AmeriCorps funds if the Corporation solely continues to fund the same organizations year after year.

The other rulemaking issue of interest to me is reducing the costs of the program on a per member basis. I appreciate the Corporation's attention to this issue since its record on reducing the cost per member has been mixed at best. In the Corporation's budget justifications, it notes that its projected average cost per FTE for its AmeriCorps program is the same level as planned for fiscal year 2004. The Corporation also notes that its 2004 cost per member was 10 percent below the 2002 baseline. It was disappointing, however, to read that this reduction was not attributed to any program reform, but due to an increase in professional corps members whose costs are lower than the typical AmeriCorps grant.

The last issue I raise is on performance measures. Despite millions of extra dollars that this committee has appropriated to address the Corporation's financial accounting and grants management system, the Corporation is still unable to provide data on the actual costs of the AmeriCorps program. Furthermore, the Corporation is unable to provide performance data on the impact of the AmeriCorps program.

According to the administration's own Program Assessment Rating Tool or PART, the AmeriCorps program received an overall weighted score of 36 percent and rating of "results not documented." The PART analysis found that the AmeriCorps program's current goals are neither specific nor measurable. The Corporation has begun a number of initiatives to address performance measures. And I cannot stress enough the importance of having this information for policy makers. And I would urge the Corporation to address this matter immediately.

In closing, I support the President's Call to Service and believe that the Corporation can play an important role in improving the lives of many Americans and the communities it serves. Everywhere I have traveled, people have expressed a strong desire to volunteer and serve their communities and country. I strongly believe that if harnessed in the right fashion, the AmeriCorps program can reach new heights in improving the security and spirit of our citizens and communities.

Mr. Eisner, Ms. Guillermin, I wish you the best and look forward to working with you in resolving the many challenges facing the Corporation.

It is now my pleasure to turn to my colleague and ranking member, a longtime champion and advocate of the AmeriCorps program and the Corporation, Senator Mikulski, for her statement and comments.

Thank you.

STATEMENT OF SENATOR BARBARA A. MIKULSKI

Senator MIKULSKI. Thank you very much, Mr. Chairman. I would like to welcome both Mr. Eisner, our new CEO, and Ms. Guillermin, the CFO of the Corporation.

Last year, there were many things that impacted us. And at this very hearing a year ago, I said it was time to get National Service back on track, restore the shattered confidence of communities, volunteers, the private sector, and the Congress, in AmeriCorps.

I wrote to President Bush and said out loud in the committee hearing that I wanted several things: First, I called for new leader-

ship. I wanted reform of the Board and referred to it as the Enron of Non-Profits. In addition, I called for new accounting rules and procedures, because National Service had over-enrolled almost 30,000 more volunteers than it had money for. And I called for new funding to bridge the gap and also to meet the need, the number of volunteers, both America could use and the President wanted to do.

I am pleased to say that we have made progress. And I wanted to welcome you, Mr. Eisner, and Ms. Guillermin, in a spirit of bipartisan partnership to exactly do that, to make sure that we have AmeriCorps on track and that it really fulfills the objectives of not like a program, but of a social movement.

We really want to express our appreciation to Mr. Goldsmith and the Board. We believe that he did absolutely engage the Board and re-energized the Board. And I know that we have new members who could not be here today, but we look forward to other conversations with them.

We want to alert you to the fact that five nominees for the Board continue to be at the White House. We believe many are ready to be returned to Congress. We would like you to work to expedite that, so Congress could approve the Board and you can have the full complement of the people that are legislatively required again to fulfill our mission, our mandate, and our desire to reform, renew, refresh our AmeriCorps effort.

In addition to that, Senator Bond and I, on the accounting rules and procedures—worked to pass the Strengthen AmeriCorps Program Act, which gave clarification and certainty to accounting rules for the National Service Trust, which pays those education awards that got so complicated and seemed to be so poorly managed.

Also, we called for new funding. And working with Senator Bond, we tried to get funding as part of the emergency supplemental, but we were not successful. We kept trying. And ultimately we did prevail.

The 2004 VA-HUD bill provided the highest funding level for AmeriCorps. We know it is not only about resources. It is about reform. But it is also about re-invigoration. And so we are asking then for the three R's. And we look forward to discussion with those.

We appreciate the fact that there has been more money provided, but as founder of National Service, I want to uphold the original principles that it was based on, of old-fashioned values, which was to recruit people to, No. 1, learn the habits of the heart, which was neighbor helping neighbor; that if they would learn the leadership skills to do that, they and the communities that they help would be forever changed; that we would be working directly hands-on in the community. And at the same time, when they finish their service, they would always have the commitment of service, whether they worked in public service or our private sector.

We now know that there are 300,000 AmeriCorps volunteers, and many are exactly doing that. And I hope to discuss with you how to harness their power for ongoing support, looking at our experience in the Peace Corps as a model; that once an AmeriCorps member or a Civil Conservation Corps member, you are there forever,

which could also provide much needed help out in local communities.

Now that we are back on track, we must need to make sure, though, that we stay the course and stay sentry over the original principles. My goal for this year is two-fold: One, I want to know how the Corporation and Board are moving in terms of management reform. I also want to make sure that the Corporation is doing everything possible to prevent mismanagement and uncertainty, which is what happened last year. And I want to know the progress that is being made and what needs to be done and how we can help.

Second, I want to know how the Corporation is planning to take the Corporation into the new century, meeting new challenges, with the new types of workforce we have, new opportunities for volunteerism. That is why I called for reform, renew, refresh, re-invigorate, and so on.

We will need to take a look at rules. Senator Bond and I mandated that any process to write new rules must be fair and open, with an opportunity for advocates and communities to comment, while goals that all AmeriCorps supporters share to ensure maximum impact in communities and get greatest value for taxpayers' dollars. The Corporation must also acknowledge that conclusions are not foregone and outcomes are not pre-determined.

We look forward to hearing about how you intend to proceed on the rulemaking process. I know that the House has sent a letter to you calling for what they say are reforms. And I will comment about them later on in my questions. I believe that there are some of the things contained their letter that I could be supportive of, but there are others that I think would authorize by proxy through a rulemaking process. But, again, we are in for a spirit of reform. And I know you share that.

Let us then go to the money. The request is for \$642 million for all National Service programs. This is a 10 percent increase, \$61 million over 2004. This is very good news. And we all want to make the wisest, most prudent, most leveraged use of these resources, and will look forward to hearing from you.

At the same time, what we do know, though, is the whole issue of Challenge Grants, the seed money, et cetera, and how you think we should proceed. We know that there are national programs. And when I had spoken to your predecessor, I said, "You know, when we look at National Service, if we use a mutual fund or a market valuation, you have large caps."

These are national programs that operate at the local level, but they have uniform recruiting. They have a way of screening volunteers to make sure they are appropriate in every single level, particularly their ability to be involved with children. They can duplicate and replicate leadership operations and so on.

Then there is mid-cap. That came from the governors and the governors need to be involved, because we believe that ultimately problems and solutions are local. We welcome the Boys and Girls Club. We know what Teach for America is doing, but the governors were mid-cap.

And then I always like to look ahead to what is the next generation of leadership. Where is the Teach for America of the next gen-

eration? Where is the possible concept of a version of a Community Development Corporation that really does transform urban communities or rescue kids that are heading for a dead-end, or a prisoner return program, which I also know the President is interested in. So it was to be in some ways not a reckless set of funding, but a prudent investment in terms of what are some of the ideas to see if they can work at a very small scale before either a governor moved them to a State level or so on.

So that is where we are. And we look forward to discussing it with you. But we do believe it is a new day in AmeriCorps, that it is a new day, it is new leadership, it is a new state of mind, and it is new money. And we look forward to looking for brand new progress. So, we look forward to our conversation with you this morning.

Senator BOND. Thank you very much, Senator Mikulski.

Mr. Eisner, we will accept, for the record, your full statement. We appreciate your giving us that extended discussion, and I would invite you to summarize your testimony for the committee.

Thank you.

STATEMENT OF DAVID EISNER

Mr. EISNER. Thank you, Mr. Chairman and Senator Mikulski. I have submitted the full statement for the record and will summarize in about 5 minutes.

First, let me thank you for the opportunity to discuss President Bush's fiscal year 2005 budget proposal for the Corporation for National——

Senator MIKULSKI. Pull up the microphone.

Mr. EISNER. I want to thank you for the opportunity to discuss the President's budget proposal for the Corporation for National and Community Service and also to talk about the financial and management improvements that the Corporation has made over the past year.

As you mentioned, Mr. Chairman, Steven Goldsmith, our Board Chair, regrets that he cannot join us this morning; however, I have submitted, with my written testimony, a letter from our Chairman, in which he provides information about recent steps taken by the Board to improve its oversight.

Senator BOND. That will be accepted for the record, as well.

Mr. EISNER. Thank you. And let me, finally, by way of thanks, thank this committee for the extra attention that you and your staffs have devoted to the Corporation over the past year. You have our deepest gratitude and appreciation for your leadership and helping us make things right at the Corporation, including your support of the President's 2004 budget request. This year's appropriation will enable us to reach the President's goal of a record 75,000 AmeriCorps members. And that it will also allow us to engage approximately 1.8 million students in service to their communities through service-learning programs supported by Learn and Serve America is greatly appreciated. Those opportunities are critical to foster a culture of citizenship, service, and responsibility in our Nation.

As you have mentioned, last year's budget hearing came in the midst of what could be called a tumultuous year for the Corpora-

tion. There were very serious questions raised by members of this committee and others about our financial management.

And a year later, I am pleased to report that a new level of fiscal and operational integrity today marks the way that the Corporation operates, thanks in part to your leadership, as well as to a number of other factors. We have financial and grants management policies that have been implemented by our CFO and Board of Directors. And I am so grateful to have Michelle Guillermin, our CFO, here beside me to help in this testimony and also grateful for her adoption of the role of Acting Chief Operating Officer.

Another factor was the Strengthen AmeriCorps Program Act, which for the first time set into law a fiscally prudent method for determining how we record obligations in the National Service Trust.

Another factor is the increased oversight role by our Board of Directors in the Corporation's grant-making.

And finally, we have made significant progress in implementing three management priorities that I have stressed since coming to the Corporation in mid-December. These three priorities that all members of the Corporation have invested in are: Restoring trust and credibility among our stakeholders, managing to accountability, and keeping the focus on our customers, which are our grantees in the field, as well as the participants, volunteers, and members in our programs.

Through attention to these priorities, we have been able to reform many elements of our operations. We have reformed our grant-making process, our operational management, our budgeting and forecasting capabilities. We have reformed the Alternative Personnel System. We have reformed our technology and data management systems. And through the rulemaking that you have mentioned, we are also well on our way to reforming the AmeriCorps program.

All of that results in a Corporation today that is in a far stronger position than we were a year ago. The GAO, our Inspector General, and the independent auditing firm, Cotton and Company, despite citing a few remaining management weaknesses, have all issued positive reports. And taken together, those reports reflect that we are in compliance with the requirements of the Strengthen AmeriCorps Program Act; that we are following fundamentally sound management accounting practices; and our ongoing management reforms are effectively addressing the identified weaknesses.

In addition, two recent developments: An Executive Order on National and Community Service, which President Bush signed in February, and the beginning of the AmeriCorps rulemaking process on such issues as sustainability of grantees and Federal share of costs, promise to accelerate the reform process.

The goals of both the Executive Order and rulemaking are to make our programs more efficient, effective, and accountable. And from what I have heard in public meetings on rulemaking in Columbus, Seattle, Boston, Dallas, here in Washington, and on many conference calls, I am confident that we can in fact arrive at fair and equitable solutions to these very difficult problems and that we will be able to make our program more consistent, stable, and predictable.

I should note that as we reform our programs the Corporation is striving to ensure that National Service works more intentionally to broaden, deepen, and strengthen the ability of our Nation's 63 million community volunteers to contribute to their communities and of America to capture that strength of community volunteerism.

As noted in the Executive Order, the Corporation should serve as an engine of volunteer mobilization. And we are finding ways for an increasing number of AmeriCorps members to devote more of their time to helping charities recruit, train, and supervise volunteers.

The President's 2005 budget includes several targeted investments in programs and initiatives that are designed to leverage volunteers and private dollars. It also includes an initiative to increase outreach to new groups and to ensure that the Corporation can provide our grantees with effective assistance and monitoring.

Some, like the Challenge Grants that I know both of you are champions of, accomplish more than one of these objectives and all are described in detail in my written testimony.

Finally, because of the challenges faced by the Corporation over the past year, it is necessary in these comments, and I am sure through a lot of today's testimony, to focus on the financial and management reforms that we have made over the past year. As we strive to strengthen our management, though, we at the Corporation are not losing sight of our main mission of our—and the mission of our programs, which is to engage people of all ages and backgrounds in meaningful service that meets critical local needs, to strengthen community organizations, and to change participants' lives, as well as to promote the ethic of good citizenship across our Nation.

PREPARED STATEMENT

Thank you, Mr. Chairman. This concludes my remarks. And Ms. Guillermin and I are happy to answer any questions you might have.

Senator BOND. Thank you, Mr. Eisner.

[The statement and letter follow:]

PREPARED STATEMENT OF DAVID EISNER

Mr. Chairman and Members of the committee, thank you for the opportunity to discuss President Bush's fiscal year 2005 budget proposal for the Corporation for National and Community Service, as well as the financial and management improvements that our agency has made during the past year.

To begin, I want to thank this committee for all the extra attention you and your staffs have devoted to the Corporation over the past year, and to express my deepest gratitude and appreciation for your leadership in helping to make things right, including your support of the President's 2004 budget request for the Corporation. That appropriation will enable us to support a record 75,000 AmeriCorps members and will allow us to engage approximately 1.8 million students in service to their communities through service-learning programs supported by Learn and Serve America. Those opportunities are critically important in helping to foster a culture of citizenship, service, and responsibility in our Nation.

As you all know, last year's budget hearing came in the midst of a tumultuous year for the Corporation, with serious questions raised by members of this committee and others about our financial and operational management. Twelve months later, I am pleased to report that the Corporation is in a far stronger position, thanks to your leadership and a number of other interrelated factors.

First, the agency's Chief Financial Officer, Michelle Guillermin, who joins me here today, and her expanded financial team have been extremely busy over the past year implementing a comprehensive new set of policies regarding both the awarding of grants and the enrollment of members. The aim is to ensure that last year's problems with the National Service Trust are never repeated, and to foster decision making that is based on timely and credible data. The team has also spent considerable time and effort applying its financial and budgetary expertise to the general finances and operations of the Corporation.

Second, in June, Congress passed the Strengthen AmeriCorps Program Act, which President Bush signed in early July. The legislation establishes for the first time a clear set of budgeting guidelines for the National Service Trust, including when to record an education award obligation and in what amount. It also establishes a reserve fund to protect members in the event that the estimates used to calculate the obligation are incorrect.

Third, our Board of Directors, under Chairman Steve Goldsmith, has taken on a more active role and increased its oversight responsibilities. Last year, the Board's Grants Management Task Force examined the procedures we use to solicit, review, award, and monitor grants and recommended that the Corporation set clearer priorities and eliminate barriers for faith-based and new applicants to receive Corporation funding. The recommendations led to the establishment of a new Office of Grants Policy and Operations to oversee the Corporation's grant-making activities. Last fall, the Board, along with Congress, directed that AmeriCorps undertake rule-making to resolve several key issues, such as sustainability of grantees and Federal share of member costs, that in the past have created inconsistency for grantees—a process that is now under way. Several new directors, including Cynthia Boich Burleson and Henry Lozano, have come on board, adding experience and fresh perspectives. And, to increase its oversight of Corporation operations, the Board has required the CEO to certify that approved grants are consistent with the Board-approved application guidelines.

Unfortunately, Chairman Goldsmith could not be here to testify in person. However, I have submitted with this testimony a letter from him, addressed to Senators Bond and Mikulski, in which he provides additional information about other recent actions taken by the Board.

Finally, since coming to the Corporation in December, I have worked closely with the Board to stress three management priorities to guide the way the Corporation conducts its business, both internally and externally. These management priorities are: (1) restore trust and credibility; (2) manage to accountability; and (3) keep the focus on the customer.

In my 4 months at the agency, we have made significant progress on each of these priorities, and I expect to continue to make significant progress in the months ahead. I never cease to be impressed by the dedication, professionalism, and resourcefulness of the employees at the Corporation, who strive on a daily basis to make our programs and our service opportunities as meaningful—and as accountable—as possible.

As a result of all of these efforts—the actions of the CFO, the Strengthen AmeriCorps Program Act, increased Board oversight, and the commitment of myself and Corporation staff to the management priorities I have just noted—I am proud to report that a new level of fiscal and operational integrity marks the way the Corporation operates. Indeed, a number of recent outside reviews of the Corporation's management—by the GAO, our Inspector General, and the independent auditing firm Cotton and Company—have found that: (1) we are in compliance with the requirements of the Strengthen AmeriCorps Program Act; (2) we are following generally sound business and accounting practices; and (3) management reforms are effectively addressing the identified weaknesses.

On March 12, as directed in the Omnibus Appropriations Act, the Corporation submitted to this committee a comprehensive report detailing implementation of corrective actions and future plans for achieving management reforms and increased accountability. Because these improvements are of considerable interest to the committee, I would like to highlight some of them:

Trust Management

After the problems with the National Service Trust were discovered in late 2002 and before the AmeriCorps enrollment pause was lifted in March 2003, the Corporation instituted a set of strict new procedures regarding the awarding of grants and the enrollment of members, many of which were explained to this committee last year. The Corporation also enhanced its management of the Trust by improving internal communication between departments and by clearly identifying those persons

responsible for Trust operations and oversight. That area was cited in several reports as having been a major weakness in the way the Trust had been managed.

The Strengthen AmeriCorps Program Act of 2003 determined that the National Service Trust obligation should be recorded at the time of approval of an AmeriCorps position. This change provides extensive safeguards against potential difficulties. In addition, as I mentioned earlier, the Act established a reserve fund to serve as a safety net in case actual education award usage varies from our estimates, and specified the accounting practices to be used for determining the liability for education awards. This marks the first time that a detailed procedure for recording Trust obligations has been set into law.

We are institutionalizing broad reforms to ensure that the budgeting, planning, recording, and reporting practices associated with the Trust comply with all legal requirements and meet the highest standards of management. This includes establishing fund control regulations as required by OMB Circular No. A-11. CFO Guillermin and her staff also have developed new certification procedures designed to systematically control the approval of education awards and to monitor enrollments and other indicators related to Trust liabilities.

In addition, under the leadership of a new Chief Information Officer, we have made good progress in upgrading and integrating our technological capabilities. In particular, we have begun to incorporate the capability of our Web-Based Record System (WBRs)—the system that tracks information associated with an enrolled AmeriCorps member—into eGrants, the system through which organizations apply for grants and issue compliance reports. These improvements allow the Corporation to get a much better snapshot of member enrollments at any given time, and prevent grantees from enrolling more members than have been allotted to them in their grant. We will continue to monitor these processes, improve our technological capabilities, and work with our Inspector General, the Office of Management and Budget, and the General Accounting Office to ensure responsible stewardship of the National Service Trust.

Grants Management

The new Office of Grants Policy and Operations is charged with overseeing the daily operations of the grant review process and with improving the Corporation's grant-making activities. A new, streamlined peer review process has been implemented, and the CIO has begun to make improvements to the eGrants system, through which all grant applications funded by this committee are submitted and reviewed.

The Internet-based eGrants system allows our grantees to go to one place to apply for grants, submit progress reports, and complete financial status reports. The applications are evaluated by Corporation staff using the system, and once a grant is awarded, the current status and any changes are also tracked through the system. Use of eGrants has significantly reduced the paperwork and time needed to process a grant. This and other IT enhancements allow the Corporation to make timelier grant awards, monitor grants more effectively (including enrollment and expenditures), and be more responsive to the needs of grantees.

Performance Measurement

Performance measurement is a key area of grantee and program accountability. By fiscal year 2005, the Corporation will have fully implemented an ambitious, multi-year performance measurement program in which we: (1) require each grantee to submit information on performance, documenting the actual impact of the program on the people and communities it serves; (2) provide ongoing training and technical assistance to grantees in establishing and collecting performance-based information; (3) develop national outcome-oriented performance measures and indicators for all our programs; and (4) collect annual performance data from participants, grantees, sub-grantees, and end beneficiaries in all Corporation programs.

Currently, all programs that apply for funding from the Corporation (except in the Challenge Grant category) must submit applications that propose at least three self-nominated performance measures—one output, one intermediate-outcome, and one end-outcome. Learn and Serve America applicants are required to submit performance measures in at least one of four program impact areas: promotion of civic responsibility; improved academic performance; reduction in risky behaviors; and institutionalization of service-learning and civic participation. In 2003 and 2004, AmeriCorps revised its program guidance to require grantees to develop a performance indicator on “volunteer leveraging” (grantees that are unable to incorporate volunteer leveraging activities into their program must provide an explanation.) The measures developed by the grantees must be approved by Corporation staff. All negotiated performance measures are included in grant awards, and grantees must

meet proposed performance measurement targets or explain and address any performance deficiencies. Through performance reporting, the Corporation is committed to rewarding successful programs with continued or increased funding, while holding poor-performing programs accountable for their results.

The Corporation also has worked closely with State service commissions to develop a set of administrative standards by which to assess their performance in overseeing national and community service programs. Commissions have been established in every State except South Dakota. In addition, the District of Columbia, Puerto Rico and American Samoa each have active commissions. Currently, 44 of the 52 commissions have met all administrative standards. Of those outstanding, two are new commissions and will be reviewed for the first time this year. In fiscal year 2005 we expect at least 50 commissions to meet the standards. Our program officers and State administrative standards project manager are providing technical assistance to assist in resolving outstanding issues.

Other Improvements

Our efforts to improve management of the Trust were designed to foster a management culture that relies on credible data in awarding grants and in setting program goals. Through a variety of new systems and procedures, we have also applied this mindset to other operations of the Corporation. For example, we have implemented a new budget process that links financial requests to performance measures, and an expanded staff of budget analysts is supporting our programs while striving to improve financial analysis and implement performance management. In addition, we have increased efficiency and thoroughness and have made great strides toward eliminating a significant backlog of outstanding audit matters and grant closeouts.

The challenges of last year spurred a number of other changes. We have reorganized and flattened the Corporation's management reporting structure and assembled a new executive management team that is responsible for overseeing a broad slate of management reforms in program and personnel management. In addition to the new Office of Grants Policy and Operations, we have added a Senior Advisor on Faith-Based Initiatives, housed in the CEO's office, to conduct outreach to faith-based organizations, especially those with no previous history of Corporation funding. And, after a thorough review and in close consultation with our employees and their union representatives, we are implementing significant changes to the Alternative Personnel System, through which the great majority of our employees serve. Of greatest importance, we are ending the term-appointment system, which worked as a disincentive to creating a stable, high-performing workforce.

To continue this progress, we are contracting with the National Academy of Public Administration to study and make recommendations about our leadership structure, operations, management, and grants programs. In addition, we will be conducting a Business Process Review of several key functions in the effort to become a more efficient and effective organization.

As an indication of the Corporation's commitment to the highest levels of management and financial accountability, the agency obtained an unqualified independent auditors' opinion on our financial statements for fiscal year 2003, with no material weaknesses and only one reportable condition. The development of measures for financial accountability for both internal Corporation operations and our grantees will continue to be a priority in the current and upcoming fiscal years.

EXECUTIVE ORDER AND RULEMAKING

Two recent developments—an Executive Order on National and Community Service Programs and the AmeriCorps rulemaking process, which is currently under way—will help accelerate our management improvements in fiscal years 2004 and 2005.

Executive Order 13331 on National and Community Service Programs, signed by the President on February 27, 2004, directs the Corporation to adhere to four fundamental principles in the administration of its programs: (1) support and encourage greater engagement of Americans in volunteering; (2) respond more effectively to State and local needs; (3) be more accountable and more effective; and (4) increase involvement with grassroots faith-based and community organizations. The Executive Order further directs us to review our policies and programs for consistency with the principles; to change inconsistent policies so that they maximize support from the private sector and leverage Federal resources to build the volunteer infrastructure of faith-based and other community groups; to institute management reforms that comply with all budgetary and fiscal restrictions and that tie employee performance to fiscal responsibility, attainment of management goals, and professional conduct; and to report back to the President within 180 days on the actions the Corporation proposes to undertake to accomplish these objectives.

Many of the above issues are being addressed as part of the rulemaking process, which we currently are undertaking to address a number of issues that have proven to be particularly difficult to resolve, including sustainability, Federal share of costs, match requirements of grants, and volunteer leveraging. Over the past 4 weeks, the Corporation has conducted public meetings on rulemaking in Columbus, Seattle, Boston, Dallas, and here in Washington, as well as having held a number of conference calls. At each of those sessions, we have heard the opinions of the Corporation's various stakeholders in advance of publishing proposed rules for public comment. We have taken this extra step because we understand the complexity of the issues involved and we are committed to building trust and credibility through an open and honest exchange with our stakeholders.

Our grantees, members, State commissions and other partners all have legitimate and varied points of view about the rules governing the future of the program. The issues at hand are complex and do not lend themselves to easy answers. However, these stakeholders also have a wealth of experience, knowledge, and new ideas that we can harness—that we must harness—to get rulemaking right.

The goals of both the Executive Order and rulemaking are: to make our programs more efficient, effective, and accountable; to ensure that national and community service programs add value to traditional volunteering and the nonprofit world; and to bring a far greater degree of consistency, predictability, and reliability for our grantees.

While the rulemaking process continues, the Corporation has taken a number of steps to move AmeriCorps in the direction indicated by the President, Congress, and the Board for the 2004 program year. As we strive to reach 75,000 members, the Corporation has issued grant guidelines for 2004 that call for a lower average cost per member (average cost per FTE includes the Corporation's share of member support, other than the education award and child care costs, and program operating costs). We also expect to increase the percentage of AmeriCorps members participating in the Education Award Program, in which the Corporation is responsible for the education award and a small administrative fee but is not responsible for paying members' stipends or other costs of the program, from 37 percent to 40 percent. And, we are working to increase the number of professional corps grantees within our portfolio.

As a result, we anticipate that the projected average cost per full-time equivalent (FTE) of AmeriCorps*State and National stipend programs for fiscal year 2004, not including EAP Grants, will be about \$9,450—or about 10 percent below the fiscal year 2002 baseline level of \$10,507. This reduction is consistent with the 2004 Omnibus Appropriations Act, which directs the Corporation to reduce the total Federal costs per participant in all programs.

WHAT WE DO

The Corporation's programs are an integral part of President Bush's effort to create a culture of citizenship, service, and responsibility in America.

AmeriCorps members help build the capacity of the nonprofit community and leverage thousands of volunteers to serve with nonprofit organizations, public agencies, and faith-based organizations in rural and urban communities throughout the Nation. AmeriCorps members and volunteers tutor and mentor youth, build affordable housing, help close the digital divide, clean parks and streams, run after-school programs, and help communities respond to disasters. In 2003, AmeriCorps members also focused their efforts on helping to meet the Nation's homeland security needs—a priority that will continue in 2004 and 2005. AmeriCorps*NCCC (National Civilian Community Corps) is a team-based, residential program designed specifically for those between the ages of 18 and 24. Through the program, about 1,250 young men and women serve with nonprofit groups to provide disaster relief, preserve the environment, build homes for low-income families, tutor children, and meet other challenges. In 2003, AmeriCorps*NCCC members responded to 36 requests for emergency relief, including Hurricane Isabel along the mid-Atlantic coast; fires in California, Colorado, Wyoming and Arizona; tornadoes in Kansas, Mississippi, Oklahoma and Missouri; floods in Texas, Kentucky, Alabama and Tennessee; and the recovery of debris from the Space Shuttle Columbia.

Learn and Serve America serves as an "on ramp" to a lifetime of civic engagement for approximately 1.8 million students who participate in service-learning projects supported by the program. Service-learning can bring together many youth development strategies—including character education, civic education, and career education—that schools and other youth-serving organizations use to help young people navigate childhood. It also helps meet local needs, creates community ties, increases academic achievement, and spurs civic awareness.

We have just announced and will soon be issuing Learn and Serve continuation grants for the second year of 3-year grants to schools, colleges, and community organizations in all 50 States. Many of these grants will be awarded to programs that link the teaching of history and civics with service. The grants support educators' efforts to help their students understand the meaning of civic participation in American democracy. This time next year, we will have a full year of progress reports on these programs, and I look forward to giving you a more comprehensive report then.

To a great degree, all our programs are about fostering the ethic of good citizenship and putting into practice the democratic ideals of self-government and service to others. Other initiatives under the Corporation's umbrella include the President's Council on Service and Civic Participation, which sponsors the President's Volunteer Service Award; the National Conference on Community Volunteering and National Service, the premier gathering of those who work in volunteer management and the voluntary sector; Presidential Freedom Scholarships, which provide matched scholarships of \$1,000 to high school students who have demonstrated exemplary leadership in community service; and the Martin Luther King, Jr. Day of Service, which seeks to transform the MLK holiday into a day of community service honoring Dr. King's memory, as exemplified by the United Way of Southeastern Pennsylvania's use of its \$6,500 grant to support a city-wide day of service in Philadelphia involving more than 40,000 volunteers. All these programs have the goal of increasing the numbers of Americans of all ages involved in their communities.

From a Bureau of Labor Statistics survey that the Corporation helped initiate, we know that in 2003, 63.8 million American adults volunteered through formal organizations—up 4 million from a year earlier and still strong some 2 years after September 11. As we reform our programs, the Corporation is striving to ensure that national service intentionally works to broaden, deepen, and strengthen the ability of these 63 million volunteers to contribute effectively to society—and of America to capture this strength.

As I noted earlier, one important role for national service is to serve as an engine of volunteer mobilization, and we are finding ways for more and more of our AmeriCorps members to devote more of their time to helping charities recruit, train, and manage volunteers. The President's Executive Order will facilitate this process.

The value of this volunteer-leveraging role to the nonprofit world is highlighted in a recent comprehensive study of volunteer management capacity at charities and congregational social service outreach programs across the United States commissioned by the Corporation, USA Freedom Corps, and the UPS Foundation. The study found that these groups valued their volunteers for these important reasons:

- they were instrumental in reducing costs;
- they improved the quality of services provided; and
- they raised awareness of the organization in the community.

Moreover, the study also found that the strongest predictor of achieving high value from volunteers was having a person on hand to manage volunteer activities.

Our members can provide an extremely valuable resource to charities, and we are going to continue to strengthen relationships with grantees that use members effectively to recruit and manage episodic volunteers. What is more, we are looking for other ways to use AmeriCorps members to help build the capacity of nonprofit groups, both faith-based and secular. Building capacity broadens charities' reach and helps them to become more efficient, effective, and, ultimately, self-sustaining.

This does not preclude national service participants from continuing to provide direct service. It stresses those areas where national service can add value to the millions upon millions of volunteers who serve their communities every day through traditional volunteer networks and nonprofit organizations.

2005 BUDGET PROPOSAL

In our 2005 budget proposal, the Corporation is asking for a total of \$642.2 million from this committee. This includes \$442 million to support reaching our target of 75,000 AmeriCorps members; \$27 million for the National Civilian Community Corps; and \$46 million for Learn and Serve America.

The President's 2005 budget request largely parallels the 2004 enacted budget, but with a few added investments in targeted programs and initiatives. These new investments are designed specifically to further our goals of leveraging the numbers of volunteers engaged in service activities, increasing outreach to new groups, and ensuring that the Corporation is accountable for results while providing adequate assistance to our grantees. They include:

- A \$3 million increase for Learn and Serve America, specifically to fund a program to educate teachers about service-learning techniques. The training pro-

gram is designed to increase both the quality and the quantity of educators, who will then engage thousands more students in meaningful service to their communities. If passed, this would be the first increase in funding for Learn and Serve America in a decade.

- A \$2 million increase for the AmeriCorps*NCCC program to provide much-needed capital improvements to the five regional campuses across the country, located in Charleston, South Carolina; Denver, Colorado; Perry Point, Maryland; Sacramento, California; and Washington, DC. The capital projects include vitally important roof repairs, accessibility upgrades, and fire safety enhancements.
- A \$7.6 million increase for Challenge Grants, an innovative grant program that requires a two-for-one private match for every Federal dollar offered. For the first Challenge Grant competition in 2003, we received 52 applications requesting a total of \$36.8 million and awarded a total of \$5.9 million in grants to eight nonprofit organizations. The Notice of Funds Available for 2004—for \$2.4 million in grants—is to go out shortly. In fiscal year 2005, the minimum Challenge Grant award will be reduced from \$500,000 to \$100,000, and the maximum will be reduced from \$1 million to \$500,000, enabling us to support many more grantees. We estimate that up to 30,000 citizen volunteers will be supported through this program, that many previously unfunded groups will apply, and that it will serve as a powerful catalyst to bring new private supporters of service to the table in many communities.
- A \$3 million increase for Next Generation Grants. Because prospective grantees in this competition cannot have received prior funding from the Corporation and must have organizational budgets of \$500,000 or less, this program is an important part of our outreach to faith-based and other community organizations. In the first of these competitions, for which a total of \$5 million (\$4 million from fiscal year 2003 and \$1 million from fiscal year 2004) had been appropriated, we received more than 1,150 proposals requesting more than \$280 million. From those, we have asked 23 “finalist” organizations to submit a full application, and we expect to select roughly half for funding by mid-June. We believe that both Challenge Grants and Next Generation Grants will decrease the pressure for earmarked appropriations.
- Twenty million dollars to fund a “Silver Scholarship” program to provide transferable scholarships of \$1,000 each to nearly 10,000 senior volunteers who, through a special grant program run by the Corporation, dedicate 500 or more hours tutoring or mentoring a child over the course of the year. The program will support organizations that help meet President Bush’s goal that every child be able to read by the third grade. Approximately half the request is for program grants, and the other half is for the National Service Trust to fund the scholarships in a model, pioneered through the AmeriCorps program, with tremendous potential to mobilize the aging baby boomer population.
- An increase of \$5 million for training and technical assistance to help grantees successfully manage their programs, including providing necessary assistance for grantees to attract and manage additional volunteers, and to raise funds from other sources. Grantees will receive training in how to build their organizational capacity and become more sustainable.
- An increase of \$3 million for evaluation to help ensure that our programs are efficient and effective, as well as to develop new and more effective tools to measure the impacts and outcomes of our programs. The Corporation currently is in the midst of implementing a leading-edge performance measurement system. These funds will support continued collection and analysis and support scientific evaluations of program impacts, cost-benefit studies, and other projects that inform our program design and management.
- A \$6.7 million increase for program administration to ensure that the Corporation and State service commissions have sufficient operating funds. At a time when the Corporation has been called on to increase effectiveness, performance, accountability, and performance measures and to expand outreach to small community and faith-based organizations—when the AmeriCorps program has grown by 50 percent—we must have resources to continue to maintain a sufficient level of support and oversight. Following a reduction of 18 employee positions in 2003, our request would restore key staff, provide for adjustments to current services, increase employee training, and fund badly needed updates to the material we use to promote national and community service.

CONCLUSION

Because of the challenges faced by the Corporation last year, it has been necessary to focus a good deal of this testimony on the financial and management improvements that we have made over the past year. It has also been necessary to work to rebuild the trust and credibility of the Corporation with many its stakeholders, from grantees and their private supporters to AmeriCorps members and Members of Congress.

In the past 4 months, we have seen significant progress in this area. I am committed to working with all our constituencies in an open, honest, and above-board manner. We are working to be more open and responsive to Congress, informing you in advance of significant developments concerning our agency, including grant awards and the decision to begin the rulemaking process, as well as meeting with your staffs on a regular basis to report on progress. And, embarking on the rule-making process has been very helpful in demonstrating to our grantees and to the field of potential grantees that we are committed to a new level of open and inclusive communication.

Of course, one of the best ways to build trust is to meet expectations—to do what we say we are going to do, and do it well. And that means managing to accountability, one of my management priorities. As noted earlier, we have made significant strides in that direction, and I look forward to working with you to continue to strengthen national and community service in America.

In sum, because of your leadership and our commitment to management excellence, the Corporation for National and Community Service is far stronger than it was last year. We have heard Congress' concerns about our management weaknesses and are committed to achieving the highest levels of accountability, efficiency, and effectiveness in all our operations. Furthermore, we share with Congress the common goals of developing strong, high-quality national service programs; of attracting a diverse set of grantees; and of leveraging taxpayer funds to the greatest extent possible.

Mr. Chairman, this concludes my remarks. I would be happy to answer any questions that you might have.

LETTER FROM STEPHEN GOLDSMITH, CHAIRMAN OF THE BOARD, CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

APRIL 8, 2004.

The Honorable CHRISTOPHER S. BOND,
Chairman,

The Honorable BARBARA A. MIKULSKI,
Ranking Minority Member,

Subcommittee on Veterans Affairs, HUD, and Independent Agencies, Committee on Appropriations, United States Senate, Washington, DC 20510.

DEAR SENATOR BOND AND SENATOR MIKULSKI: I regret that a teaching commitment prevents me from appearing at the Committee's hearing. However, I am pleased that the Corporation's Chief Executive Officer, David Eisner, and our Chief Financial Officer, Michelle Guillermin, will be on hand to answer your questions and to thank you on my behalf for your steadfast support during the 2004 budget process.

Management of the Corporation is far stronger today than it was a year ago. We have instituted a number of significant management reforms in the areas of grant making, grant review, data management, budgeting, organizational structure, and personnel policies. In addition, in a short period of time our new CEO has made great strides in rebuilding trust in the agency, in part by working tirelessly to oversee the first stage of the AmeriCorps rulemaking process, through which we are reforming the AmeriCorps program. Having witnessed his ability to engage Corporation stakeholders in discussion of difficult issues and balance competing points of view, I have complete confidence that he can lead national and community service to the next level.

Despite the progress of the past year, our efforts are far from over. Indeed, we are striving to create a deeply rooted and lasting commitment to accountability and performance-based management throughout the organization. To ensure that the information we use to make decisions is timely, accurate, and reliable and that the Corporation is accountable, we will need to modernize our technological systems, under the direction of our new Chief Information Officer.

Last year, this Committee expressed concern about the Board's oversight of Corporation operations. The Board has taken significant steps over the past year to in-

crease and strengthen our oversight responsibilities, as well as to ensure that we have a more active role in guiding Corporation policy.

The Board now requires that it approve guidelines issued by the Corporation for upcoming grant competitions and that the CEO certify to the Board that grants recommended for funding meet its priorities. The Board also requires that the CEO consult with the Board prior to issuance of cash awards and pay increases. In addition, the Board has developed and submitted to Congress a Comprehensive Management Reform Plan, and we have reorganized the Board's committee structure to more appropriately reflect and provide oversight to the various functions of the Corporation. In short, we have heard your concerns, taken steps to address our shortcomings, and remain committed to the highest levels of organizational accountability and responsible governance.

Please let me know if you require any further information, and I would be happy to provide it to you.

Sincerely,

STEPHEN GOLDSMITH,
Chairman of the Board.

ACCOUNTABILITY AND MANAGEMENT

Senator BOND. I appreciate your responding to some of the points that Senator Mikulski and I raised. I also appreciate your emphasis on leverage, using AmeriCorps volunteers on a wholesale basis. In other words, maximizing their impact by enabling them and directing them to assist in recruiting other retail volunteers, which I think gives a lot more impact to the AmeriCorps program.

Going back to our discussion of the need to change the culture at the Corporation to make management and accountability a top priority, which I think is your biggest challenge, what steps specifically do you intend to take to avoid the mistakes of the past, to hold personnel accountable, and to make the conscious decision not to reward with pay increases or cash awards the ineffective action of those who may not perform to standards in AmeriCorps administration?

Mr. EISNER. Thank you for that question. And let me answer it in a few parts. First, I would like, when I am completed with the rest of the answer, to ask Michelle to spend some time talking specifically about the reforms relating to the Trust that will prevent those kinds of challenges from happening again.

Secondly, I want to talk generally about the accountability measures that we are putting in place in the Corporation. And then specifically I want to talk about how we are changing our personnel management to enforce greater accountability at an individual level.

Across the Corporation, we have been focusing on accountability, which means that no major activity, or even minor activity that is happening in the Corporation, happens without a specific individual being responsible. Across the Corporation, my direct reports, their managers and individuals are now used to within every meeting, asking the question: Who is responsible for this specific outcome?

In a deeper way, we have also flattened the organization. We had many different levels of hierarchy. We have flattened the organization so that the people who are where the rubber meets the road, working with our grantees, working with our State commissions, working with the national direct, are not engaged in our policy-making and our executive-making decisions so that we are no longer making decisions at a high level that do not include the ap-

propriate input from the folks that are engaging in the actual behavior.

And then finally we are working as quickly as we can to begin to use data more effectively to inform our decision-making so that we are specifically looking at the data that we are getting back from our early focus on performance measures that our grantees are now being required to input as means for us to make decisions about how we implement our programs. Upon receiving grant applications now, before we move into the peer review process, we are using the information about the grants that have come in to determine that we are using the right process to compare apples to apples so that we can be accountable for the outcome.

As far as our personnel management system goes, our CHCO, Joyce Edwards, has really, in a few months, done an amazing job of dramatically changing our performance culture. First of all, we are moving from a pass-fail basis—all of the employees of the Corporation used to be measured on literally whether they passed or failed, without deep appreciation for what performance goals they have achieved. We have now moved into a more sophisticated measurement. Prior to each new year, performance measures are being expected from each employee. There are mid-year reviews for each employee. And then, at the end of the year, we are assessing performance against those measurements.

We have also reformed the Alternative Personnel System internally, so that we are moving from an indiscriminate use of term appointments to a more permanent use, which means that we are already seeing as we open positions we are having a higher level of candidate applying, because they are not limited by the terms. And we are seeing internally the beginnings of what we expect will be stronger retention of our key employees.

Let me ask Michelle to quickly talk about the solutions we have made in the area of the Trust.

Ms. GUILLERMIN. Thank you. I will very quickly sum up some of the major changes we have made. For every grant award that is made or any amendment to a grant that is made, a certification process takes place in my office, and I personally certify that funds are available before they are awarded to a new grantee.

We are in the process of implementing funds control regulations. We have modified our systems to better enforce some of the member enrollment controls that were lacking. One of the major changes we have made is we look at the way we plan and execute against plans differently than we have in the past. We have a plan that estimates how our grant cycle will roll out during the year. We not only execute against that plan, but as those estimates now become actual numbers, we re-forecast the full-year plan on a regular basis.

Senator BOND. Thank you very much, Mr. Eisner and Ms. Guillermin.

I will turn now to Senator Mikulski.

CHAIRMAN GOLDSMITH LETTER

Senator MIKULSKI. Thank you, Mr. Chairman.

I am going to pick up on the whole idea of reform. Mr. Eisner and Ms. Guillermin, I appreciate the remarks that you made. I

want to now go to the engagement of the Board and Mr. Goldsmith, which I think is heartening.

In his letter to Senator Bond and myself, Mr. Goldsmith explained he could not be here today, but he is, first of all, complimentary to you, Mr. Eisner, and of course then to your team, about engagement and reform. I think he outlines a roadmap that is part of my reform thinking. He talks about how he wants whatever reform is to be lasting, that this is not a one-shot deal where administrators come and go.

We really appreciate the fact that what you are instituting with your team is going to take root in the part of not only a rule book for an operating plan, but a culture of an agency. We believe there is momentum and really wind at our back.

He also talks about the need to modernize technological systems and having a new Chief Information Officer. I support that while you have a CFO and a COO, we believe in today's modern world you do particularly when you are also managing such a diverse set of grantees, the numbers, volunteers, and so on. So we want to work with you to ensure that we modernize that technological system and that you have the right brain power to do it so we do not have another boondoggle. And the world that you come from, Mr. Eisner, we believe that you will bring that.

In addition, he talks about other reforms that the Board does in terms of the Board insisting that the CEO certify to the Board that grants recommended for funding priorities requires the CEO to consult with the Board prior to the issuing of cash awards and pay increases. And he has a whole set of other issues.

One, that we have Mr. Goldsmith's viewpoint. And then second, I think he has a good roadmap of the Board and working with you, Mr. Eisner, and the leadership.

So we feel this is good news and there is momentum.

I would like to go to the rulemaking. And there were certain principles that I had. First of all, it had to be open, it had to be transparent, and it had to provide the opportunity for timely comment by advocates, grantees, as you would say, sir, the stakeholders and the customers.

Could you tell us, now, what are your mechanisms for rule-making? Then I want to go to the questions of sustainability. And then, third, I want to go to Mr. DeLay's recommendations, some of which I agree with and others I do not.

RULEMAKING

Mr. EISNER. Thank you. Rulemaking is one of the most important activities that we are undertaking this year. And we are just concluding the first public comment period. As you are aware, rule-making normally includes an agency issuing draft regulations, then a comment period on those regulations, and then issuing a final.

We have added a pre-rulemaking comment period so that our agency could capture the ideas and the concerns of folks that have been making this program strong for 10 years. And now upon concluding that, we have received 423 written comments, and they are still coming strong. We have had more than 700 people participate in our five public meetings and four conference calls, more than 140 individuals providing testimony, 23 hours of testimony that I

have personally participated in, not to mention, innumerable meetings.

So I believe that the process has been fair and open. And we—to your point in opening comments have made the point over and over again, that there is no pre-determined outcome here. We know that we are going to meet the requests that we have received from Congress, from our Board, and from the President to build greater efficiency and accountability, to address the issue of sustainability, to address the issue of Federal share and matching requirements, as well as a host of other issues. But how we are doing that has not been pre-determined. And we are only now focusing on which options we are going to pursue.

CRITERIA FOR SUSTAINABILITY

Senator MIKULSKI. Well, we appreciate that. And we want to be kept apprised.

I would like to ask one more question this round, if I could. But could you give me the criteria that you have or the direction that you think you have on the issue about sustainability?

When we created AmeriCorps or National Service, we wanted programs to be sustainable, but in our minds sustainability was both money—in other words, we could not deal with—when I say shaky, I do not mean morally shaky, but from a management or fiscal point, something that made a public investment for no outcome.

But in us it was that it would be—sustainability was that there was a quality of the program, that it could be financially maintained over time, and that it could be also—have the potential for replication, perhaps, in another State or whatever. Could you tell us what you see as sustainability?

Mr. EISNER. Let me start off by noting that one the important things that we are going to do in the context of rulemaking is define sustainability. Sustainability has been used extremely broadly to mean many different things.

Senator MIKULSKI. Yes.

Mr. EISNER. And we received dozens of comments with suggested definitions of sustainability.

Directly to your question, I think that there are many potential aspects to sustainability. There is the sustainability in leverage of our overall programs to ensure that we are not simply taking the same resources each year and plugging different holes. We want to say that over a period of years, as we invest, that investment expands. And so there has to be a sustainability every place that we go that carries these programs forward.

There is an issue of organizational sustainability, which in many ways can be characterized in the negative, that Federal funds should not harm the ability of a program to remain independent and strong, that we should not be fostering over-reliance on Federal funding.

I think there is also an issue of sustainability relating to our members. When an AmeriCorps member serves for a year or 2 years and then leaves the program and continues to be engaged in service—in public service or volunteerism—that is also potentially a strong element to sustainability.

And then finally, sustainability can be measured in leverage. When a program increasingly uses the same amount of Federal funds and becomes more and more productive, more and more impactful, engages more community members and volunteers, and deepens its partnerships with the community, that's another way of thinking of sustainability. And our job is to work through these different definitions and come up with a definition that is responsive to you and that also helps the field understand where they are trying to go in sustainability.

Senator MIKULSKI. Well, I appreciate that, Mr. Eisner. My time is up. I am going to come back to some of the other aspects in a second round.

What I want to be clear about is that sustainability is not only about money and not a desire to be a micro-manager. As you proceed in your rulemaking, which was to go to public comment and therefore it should not be like a conversation with just you and I. I am a public commenter, a heavy public hitter commenter, but nevertheless, that we look at sustainability in a broader sense.

And we look forward then to what you will be arriving at as the criteria.

Thank you, Mr. Chairman.

RULEMAKING TIMELINE

Senator BOND. Thank you, Senator Mikulski.

Mr. Eisner, you have had the same experience now that we in the Senate have, with 23 hours and hundreds of thousands of comments. And we can sympathize with you.

Very quickly, can we get your commitment to complete the rulemaking this year?

Mr. EISNER. You have my and my organization's commitment to do everything we can to do that. We will have draft comment—drafts moving forward. We need to submit it to OMB. And we need to, then, move that forward.

Senator BOND. We understand that things can happen at OMB that take time. I am from the Show-Me State. And I would like to see that rulemaking this year.

Mr. EISNER. We are very focused on it. And your earlier comment that if we do not have it, we are likely to see a challenge in the fall as we deal with our appropriations. We understand very clearly.

PROFESSIONAL CORPS

Senator BOND. Let me move to the Professional Corps. The President has directed the Corporation to develop separate guidelines and recognize the importance of a Professional Corps in the AmeriCorps program and proposed \$10 million for the Challenge Grant program.

Can you describe the types of organizations that would qualify as Professional Corps? For example, would Teach for America be considered a Professional Corps organization. Have any Professional Corps organizations received Challenge Grant funds or AmeriCorps grant funding?

Mr. EISNER. As far as a definition of Professional Corps, Professional Corps have been defined for us as organizations that re-

ceive—where the members receive their stipends or the member support from a third-party organization and where the Corporation provides the education award and a small amount of administrative or program support.

So with that definition, Teach for America certainly does count as a Professional Corps. There are many other organizations that focus on teaching, that focus on health care professionals, that focus on crisis professionals. We are currently considering whether organizations that train and certify volunteer managers might constitute Professional Corps. It will depend on the level of professionalism there.

One of our challenges that—some Professional Corps are actually quite expensive. And those are Professional Corps where the member cost is picked up by the third-party, but where the program expenses are huge. For example, if you have a corps of surgeons that provide service, the oversight and training would be enormous. And we are currently not including that within our internal understanding of Professional Corps.

So we look at Professional Corps as lowering the overall cost by having a small administrative and program cost, having a level of certification that means that these are professionals, and where the third-party is picking up the member cost.

Senator BOND. Given the facts that the Corporation is developing a set of guidelines for Professional Corps and that Professional Corps, such as Teach for America, have successfully competed for Challenge Grant AmeriCorps funding, the administration request for a \$4 million earmark for Teach for America is puzzling.

Further, given the huge earmark demands that the committee receives every year, funding this earmark would open the flood gates to other earmarks, which are opposed by the administration and OMB.

Do you see if we start going down this road, we invite all of those 23 hours of comments and hundreds of contacts to come into our offices? And we think that you are better equipped to handle those, perhaps, than we are.

Let me turn to the Learn and Serve activities. I am a big supporter of child literacy, mentoring and tutoring programs, and appreciate the Corporation's activities in these areas. I notice in your budget justifications that two of the primary activities are mentoring and literacy. I also noticed that conflict resolution and community gardening are two other primary activities.

As a senator, I get involved in conflict resolution almost every day. And I enjoy gardening. It is one of my hobbies but I am a bit puzzled by the Corporation's support for these activities.

Can you explain why the Corporation funds these types of activities? What are the benefits and impacts on a local community and students? Did you fund these activities because local communities identified them as high-priority needs? How did you choose them?

LEARN AND SERVE

Mr. EISNER. Yes. We fund those as local communities identify them as high-priority needs. In many ways, the activities of the Learn and Serve programs are geared to what is the most important set of activities to engage the students. In certain high poverty

areas, conflict resolution can be a lifesaving activity and can help students achieve an understanding of service that is different than what you might find in a suburban community. And it is very important.

As far as gardening goes, that is the—it is more likely to be a focus on environment and a focus on the importance of serving one's broader community. I visited a program in Seattle where Learn and Serve participants were doing gardening, but what they were in fact doing was refurbishing a community park that had lain fallow for two decades. And by engaging the students in revitalizing that park, the students were learning about biology. They were learning about botany at the same time that they were experiencing the importance of supporting their community and building something that was destroyed into something beautiful.

Senator BOND. I hope they have greener thumbs than I do. My efforts are not always successful.

Senator Mikulski.

PROFESSIONAL CORPS AND RULEMAKING LETTER

Senator MIKULSKI. Thank you. Mr. Chairman, I just want to make a comment about the Professional Corps. We encouraged the concept in the 2004 appropriations.

I would like to share with you what I had in mind as I again continue the bipartisan efforts with Senator Bond, that the Professional Corps wasn't for every profession. It was to be in those areas where there is a workforce shortage and where there are other, as you indicated, third-party groups that would be able to work on this.

One, of course, was in the area of education. The flagship one we are all familiar with is Teach for America. The other was where there were workforce shortages or where there would be a community crisis of some kind, almost like a reserve Professional Corps.

That is all a work in progress, but it was initially around where there was a workforce shortage. It was not to create a legal aid program. It was not in that category or a surgeon's program, as wonderful as that might be. We have physicians in this own institution who volunteer, and we salute their efforts. But that is not what the Professional Corps was all about.

And when we originally created AmeriCorps, one of the things we talked about was people had to do hands-on work in the community, that it was not to be an accountant sitting in doing accounting for a non-profit. It had to be hands-on or direct engagement with the community. AmeriCorps volunteers were not to be bureaucrats. They were to be community people.

So I just offer that as a comment and an insight as you are fleshing this out.

Let me come back, though, to the rulemaking. And I would like to go to Congressman DeLay's letter to you. First of all, in his letter, he encourages to preserve the right in faith-based organizations to retain their religious identity and their character while participating in national community service. I want to be on the record that I really support faith-based initiatives. I believe what they bring in our society is just unique to the American society.

Church and State should be separated, but should not be divided or adversarial.

I would encourage you, though, as you look at how to involve faith-based organizations, that we make sure we are constitutionally compliant. We have precedents in other areas where faith-based groups have been used so that we stay in the community volunteer business and we do not end up in the lawsuit business. We do not want to see you or our grantees all tied up in lawsuits.

So as you look at this, let us really see how we can involve faith-based organizations, but let us stay constitutionally compliant. That is No. 1.

No. 2, the aspect of controlling Federal costs. Of course we need to be stewards of the taxpayers' dollar, maintain fiscal controls, but I am concerned that our colleague, in his zeal for cost, is talking about reducing grants to volunteers, cutting daycare, and pursuing those kinds of things that I think are really authorizing by proxy.

When we talk about what should be the level of funding for what a volunteer gets in a stipend, what should be the appropriate level for daycare, I believe is part of an authorizing process and not rule-making. So I am ready to do authorizing, and I know you are ready to do rulemaking. And I do not want to see them confused.

I wish we were being as hard as corporate potentates as we are being on our volunteers. I did not like the attitude there. This whole idea of limiting the living stipend, limiting the child care costs, limiting the number of volunteers, years a grantee may receive funds for full-time, we believe, is a function of authorizing.

Sustainability, we have already talked about. Where we do agree with our House colleagues, though, is strengthening the financial management to ensure the effectiveness. We have gone over this. And establish accounting measures. And our colleague, Senator Bond, has really been the father of the Strengthen AmeriCorps accounting, and we fully support him 100 percent.

So know where our flashing yellow lights would be one criteria for sustainability. Second, involving faith-based organizations but be constitutionally compliant. But when we get into how much you should get for daycare and how long you can get a stipend and what that should be, we think that is a function of authorizing.

So do you have any comments?

Mr. EISNER. Thank you for laying those out. I do not disagree with any of the guidelines you are asking us to use as we make decisions.

I would also note that you are correct that the Professional Corps should be about where there are workforce shortages that impact the communities. And that is where we are focusing Professional Corps.

Senator MIKULSKI. Two other things. And perhaps we can talk about it when we do authorizing. Not to break new ground today. Today the ground is the momentum of reform and renewal. And then the other, how do we harvest the ability of these 300,000 alumni?

Well, we look forward to your creative and fiscally prudent ideas on that.

Mr. Chairman.

AMERICORPS EDUCATION AWARD PROGRAM

Senator BOND. Thank you very much, Senator Mikulski. I appreciate being able to share parentage with part of the AmeriCorps program with you, because you are recognized as the godmother of the AmeriCorps program.

Mr. Eisner, the Education Award program has many advantages over regular AmeriCorps because of lower costs, broad reach, broad network of program sponsors, and its simplified application process, and perhaps greater program flexibility. Obviously, there is a huge demand for it.

What is your opinion of this program? Is it accurate to say that you could find more members than originally estimated? And do you believe that the program should be expanded?

Mr. EISNER. The Education Award program is a very strong and innovative element of the overall AmeriCorps program. We were delighted to see that in our first tranche of 2004 funding, that we had very, very high numbers of requests for Education Awards. We have set the target for Ed Awards at 40 percent of our members this year. And we believe that not only are we not going to have a problem reaching that, but it is going to be a very competitive process.

So we anticipate that we could—we could go even higher. I think what we need to stay cognizant of is what that will do to the nature of the volunteers. We have seen that a higher percentage of the Ed Award programs tend to be more part-time than full-time members. So one question is: Are they getting the same amounts of things done as the full-time members?

Another aspect that we need to look at is what happens to the demographics of memberships. It seems that with the stipended programs we seem to be having greater success at having economic diversity and racial and ethnic diversity than with the Education Award program. Although we are going to be watching that very closely.

And so I think it is a very useful question, because it is such a cost-effective program, about whether it can be extended. But I think we need to—before I would say that I am in favor of that, I would really want to look to see what that is doing to the make up of the participants.

ALTERNATIVE PERSONNEL SYSTEM

Senator BOND. Well, thank you. That is what we ask you to do. And I appreciate that.

I have a concern. This is going to be my last question. I will submit the rest for the record. But I want to focus on the recent changes you have made to the Corporation's Alternative Personnel System by converting most term-appointed employees to a general or permanent appointment system. It does seem like the decision came out of left field. We received a document on March 12 that laid out some general goals. I would be interested in knowing how you came to your decision. What options did you review? And whom did you consult? Did the Board review and approve this decision? I will ask the second part of that question. Let me let you address that first one.

Mr. EISNER. As you are aware, there have been several studies that have pointed out the deficiencies of the current—of the recent past Alternative Personnel System, with one of the most glaring deficiencies was the use of the term appointments. And both the Office of Personnel Management and our IG asked us specifically to study what our options and alternatives were, and specifically to consider whether that program had outlived its usefulness.

Our CHCO, who is one of the—

Senator BOND. CHCO being—just for the record—

Mr. EISNER. Chief Human Capital Officer.

Senator BOND. Thank you. That might be helpful for the record.

Mr. EISNER. And we—and we hired the CHCO as—in response to a direct recommendation from our Inspector General, who believed that we needed it. And we were very fortunate to be able to retain the services of Joyce Edwards, who is one of the Nation's experts in government personnel systems and with a deep and close relationship with the Office of Personnel Management.

She reviewed the challenges and options—and frankly, upon my arriving at the Corporation, looking at the challenges that she had outlined and speaking to many of our employees, I realized that this was an absolutely urgent and essential first step in rebuilding—rebuilding our employee performance. And employees were from—everything from morale to the general sense of equity and fairness. These were Federal employees that were not considered by other Federal agencies to be non-competitive applicants. What it meant was that as we set out to recruit additional employees, because we were term-limiting them, we were not getting the highest quality of applicants.

And as—you know, I am constantly impressed with the creativity and professionalism of our employees, even under the terribly adverse circumstances of the last couple of years. But the most oppressive thing that we were doing to them was this term system. And so I accelerated the process of removing it.

However, in accelerating that, we did—we looked at probably seven different alternatives of ways that we could parse the term system, the time frame for changing the term system, and we picked the one that we thought would be most effective and the least costly to implement.

Senator BOND. But we would like to see those options, if you will submit those for the record. Is it correct to assume that the Board approved this change?

Mr. EISNER. Yes.

[The information follows:]

REASSESSING THE CORPORATION'S USE OF APS TERM APPOINTMENTS

Issue.—In order to build a diverse, high-performing workforce, how should the Corporation change its current policies and practices on the use of APS appointments?

BACKGROUND

The APS Handbook (the primary Corporation guidance on personnel issues) authorizes 5 types of appointments: Temporary, Discretionary, Term, Indefinite, and General. Although no policy directive has been issued, it has generally been the Corporation's practice to use the term appointment authority to hire new employees.

Type of Appointment	Supervisors/Managers	Non-Supervisory Employees
APS Discretionary	15	10
APS Temporary	0	2
APS General	13	64
APS Term	57	299
General Schedule	25	73
TOTAL	110	448

Many Corporation employees and several independent studies have urged the Corporation to rethink its current practices on the use of term appointment.

—The 2003 OIG/Deloitte & Touche report recommended that the Corporation reexamine and reconsider its use of term appointments. The report found: “Term appointments, even though nearly 90 percent are renewed, promote a short-term mentality among employees and managers. Many employees begin thinking about leaving 12–24 months before their appointments expire. Term appointments also deter some candidates from joining the Corporation, particularly those with competitive Federal status.”

—The 2003 OPM report recommended that the Corporation reexamine its current use of term appointments. OPM’s report noted that use of term appointments has a negative impact on employee morale, contributes to a high turnover rate and loss of institutional knowledge, and appears to be used as a tool for dealing with poor performers. OPM also states that unless we change our current practice on term appointments, the Corporation does not meet a fundamental criteria for approval of an Interchange Agreement—a Union and MIT priority.

—NAPA’s 1999 report recommended continued use of term appointments, but with exceptions for career candidates from within the Federal sector, and in lieu of recruitment bonuses to non-Federal candidates.

—The MIT Human Resources Committee has identified reassessment of our use of term appointments as a priority.

—At the January 6th “Talk to Your CHCO” session, employees again expressed their frustration and disappointment with the current practice. Among the problems highlighted were: misrepresentation of the features of the APS system, job insecurity, inability to transfer to other Federal positions, the absence of policies on how appointment decisions are made, and inconsistency and lack of transparency in the management decision making process.

The preliminary Strategic Human Capital Plan provides that, by the end of February, the Corporation will reassess our current practices on the use of term appointments and issue policies.

Options.—These options are presented in an effort to stimulate discussion and facilitate decision making. They are not intended as a summary of all the possible alternatives. In fact, the Executive Team, employees, and their Union representatives are encouraged to suggest other options.

—(1) Continue current practice, but clarify policy. (Specifically, continue to use term appointments for all new hires, but clarify policy so that there is consistency and transparency in the length of terms and on the conditions under which the term appointments will be extended or terminated.)

—(2) Continue to use term appointments for most new hires, but permit the use of general appointments for career Federal employees and to attract high-quality people from the private and non-profit sectors.

—(3) Use a 2-year term appointment for all new employees (paralleling the probationary period). At the end of that period, convert high-performing employees to general appointments. Phase in the conversion of current term appointees to general appointments.

—(4) Discontinue the use of term appointments for on-going positions and phase in the conversion of current term appointees to general appointments. (NOTE: Term appointments would continue to be used to appoint individuals to positions of a project nature or in other circumstances where it is expected that the employee would leave the position after a specified period of time.)

—(5) Discontinue the use of term appointments for on-going positions and seek OPM approval to convert all term appointees who occupy on-going positions to general appointments.

Senator BOND. And will the employees under the new general appointment system be treated the same as under the GS system, or

will you still have the ability to hold them accountable, as you did under the term—

Mr. EISNER. The term—these employees will continue to be under the Alternative Personnel System. And moreover, we believe that as a result of removing the term system, more of our employees will be willing to leave the GS system and move to the Alternative Personnel System.

The fact that in order to move they had to embrace a term was one of the biggest impediments to converting our employees from the GS system to the Alternative Personnel System.

Senator BOND. Thank you very much, Mr. Eisner.
Senator Mikulski.

CHALLENGE GRANTS

Senator MIKULSKI. Thank you. This, too, will go to my last round of questions. I know we will have ongoing conversation.

I would like to go to page 9 and 10 of your written testimony, in which you talk about the 2005 budget proposals. First of all, I am so pleased that you are going to allow \$2 million to upgrade some of the facilities at the NCCC Training programs. We did it a long time ago. And now they are worn.

I would like to go to the discussion, though, that you had with both the Challenge Grants, as well as the Next Generation Grants. With Challenge Grants, you talk about the tremendous number that you have gotten for requests, but it is your intent to reduce them. The minimum Challenge Grant would be reduced from \$500,000 to \$100,000, and the maximum reduced from \$1 million to \$500,000. Your rationale, as I understand it, is to serve more grantees.

Here then is my question: In doing that, could we end up with more grantees, but giving them money that really did not do anything to help them out. Are we spreading the money so thin that it does not have the traction with the groups, where the Federal resources are also in the partnership for leveraging and getting greater productivity from them? Do you see where I am going?

Mr. EISNER. I do see where you are going. And I understand the concern. I think that a greater challenge for us is—particularly, as we are more focused on building sustainability—identifying the operational and business models that are capable of attracting the kind of 2 for 1 match that we are achieving in the Challenge Grant models.

We would hope that the Challenge Grants spawn innovation. And we are concerned that if we simply are able to do eight grants, as we were able to do in the 2003 cycle, that we are not accelerating the innovation of those models sufficiently. And we think that we can achieve many—we can have many more grantees and explore more models with the lower minimum and maximum.

Senator MIKULSKI. We understand, in the Challenge Grants—then I want to get to the Next Generation Grants—that you received about \$36 million worth of requests. From your initial purview or looking at them, if you had the money, would these be the people desperate for money at the local level. There has been a cut-back because of the economy; this is why we are being deluged

with earmarks. I mean, it is an unprecedented year of requests for money.

My question to you is: Is the \$36 million you have gotten in requests, are these real organizations that could use real help for which we have modest resources and we are going to try to do our best by them? Or do you think, “Boy, if we could do this, this would really help these programs that do such phenomenal work across the Nation?”

Mr. EISNER. Certainly, a lot more of them are real and powerful than we were able to fund in 2003. I would not want to say that the right number is \$36 million. But in 2005, we are looking at going to \$10 million and think that that would be a really strong and powerful number, especially as we look at that \$10 million would generate \$20 million in private investment.

Senator MIKULSKI. Actually, \$30 million, isn't it, 2 to 1?

Mr. EISNER. Yes. It would be \$10 million Federal, \$20 million private, for a total of \$30 million.

Senator MIKULSKI. Well, that would be pretty phenomenal. Well, we want to watch this and see how you go as you then deal with this, because this is only the second or third year of the Challenge Grant?

Mr. EISNER. That is right.

NEXT GENERATION GRANTS

Senator MIKULSKI. Well, let us go to Next Generation Grants. And I understand that you got over 1,000 requests. And it came to \$280 million. Bingo. Or it is MegaBall. I mean, this is bigger than those West Virginia lottery winners there. Now if I were one, you could see where I would be spending my money.

Are we on to something, or are these just desperate little organizations that have practically no viability, or are there all of these wonderful organizations out there just really out of oxygen—they have a lot of oxygen, but not a lot of resources?

Mr. EISNER. I think it is a combination of all of the above. We have in this country more than 1.5 million 501(c)(3) organizations, and about 300,000 of them are fairly strong operationally. And we are in an economic environment where their foundation funding, their corporate support, and their community funding is in a low ebb.

So clearly——

Senator MIKULSKI. Because that is why we are worried about some of the matching funds.

Mr. EISNER. I think that is right. At the same time, I am extremely heartened to see so many organizations coming up with new models that can drive our AmeriCorps——

Senator MIKULSKI. Were you surprised by this number?

Mr. EISNER. I was surprised.

Senator MIKULSKI. Well, first of all, we know that you are only going to get down to about 23, because this was not meant to be a new pot of gold at the end of somebody's rainbow, as desirable as that is.

We hope that as you distribute these first rounds that you are looking also on how to leverage the Challenge Grants, recognize what we will call the large caps. Really, the lessons that will be

learned as you go through this to see how we can then do this in other budget cycles and whether we are really onto something to do that.

In addition, and I will close by this: I was really pleased to see that you want to spend an additional \$5 million on training and technical assistance to recruit the volunteers and money. In other words, capacity-building at the local level. This is something really to be encouraged, and I think will pay long-term dividends.

In addition, your increase to help with personnel, particularly for the State Commissions. We have a former governor here. We believe in the State programs. We believe that ultimately while we look at these wonderful new programs, the large ones, that ultimately the heart and soul of AmeriCorps is what goes on at the local level and goes on through the State Commissions, where the Utah programs are different than the Maryland programs, but the habits of the heart are the same.

So we look forward to making sure that our State Commissions and the resources to be able to do what we ask them to do are really out there, because we are very enthusiastic about the creativity and applicability at a more State or regional level.

So thank you.

TRAINING AND TECHNICAL ASSISTANCE TO STATE COMMISSIONS

Mr. EISNER. I will quickly respond to that. I agree. And one of my biggest enjoyments over the past 3 months has been getting to know the State Commissions, which are the heart and soul and which are the brilliance of this system and how it devolves responsibility into the States to meet local and community needs, but underscores, for me, the absolutely imperative nature of our ability to train those State Commissions.

I think 23 of those State Commissions are new. Because of the changes in the governor's office, those Commissions come in new. If we do not have the capacity to train them, we are missing—the whole program does not work right. And I would note also that our training needs for next year are going to be extremely urgent, because we are now putting out 75,000 AmeriCorps members this year, which means that there are going to be a whole lot of new programs operating next year. If we are not able to train these new programs—we know that training is synonymous with their ability to succeed. If we cannot get the funding to train these new programs, then I am worried we will have a very high rate of failure among those programs.

Senator BOND. Thank you very much, Mr. Eisner. I associate myself with the comments of Senator Mikulski. As one who has done a lot of work with volunteer organizations, I can tell you that volunteers are great, providing they have the right kind of direction, support, and coordination. Without very thoughtful leadership, volunteers can spend a lot of time and not accomplish much.

I would just note for the record, when we are talking about the NCCC program, you have got regional campuses—three on the East Coast, one on the West Coast, and one in Denver—to serve what we in the heartland call the Fly-Over Country. People will go to California and come to the East Coast. We do do volunteer work

and other good work in the heartland, as well. So we hope this does not reflect any bias towards the coasts.

ADDITIONAL COMMITTEE QUESTIONS

I thank you very much, Mr. Eisner and Ms. Guillermin. We wish you the very best. To say that you have a challenging job is an understatement, but that is what makes it interesting. And we look forward to your leadership and working with you, and assure you that we will be available when you have comments. We will have questions for the record. And we have already made some requests and look forward to hearing your response.

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

QUESTIONS SUBMITTED TO THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

FUNDING PRIORITIES

Question. Given the funding constraints and competing needs under the VA-HUD Subcommittee, what are your top three funding priorities for the Corporation?

Answer. My first priority is to effectively manage the growth of the AmeriCorps program. AmeriCorps grants for 2004, which are under review in preparation for an early summer announcement, represent a major increase over 2003. In 2004, we project that we will award grants for 67,000 State and National members, compared to about 22,000 in the 2003 grant cycle. The majority of 2004's grantees will be new or re-competing. When added to our VISTA and NCCC awards, we project that we will award grants for a total of 75,000 AmeriCorps members. With so many new grantees, oversight, training and technical assistance, and evaluation are critical.

Our budget request includes a \$7 million (18 percent) increase over fiscal year 2004 for Program Administration, including support for State Commissions. With 50 percent growth in the AmeriCorps program, we have increasing staffing needs in order to meet customer service standards and accountability requirements.

Our budget also includes restoration of the training and technical assistance funds cut from the Subtitle H appropriation in fiscal year 2004. Our experience tells us that without this assistance from the Corporation, new grantees, particularly small, community based organizations, are at risk of failing to meet program requirements and performance goals.

One of the Corporation's strengths is its evaluation program, but the funding cuts of the past 2 years to this part of our program are beginning to take a toll. Our fiscal year 2005 request of \$6 million for evaluations would allow us to support grantee performance measurement, collect national-level performance information, and rigorously study the impact of our programs on participants, communities, and beneficiaries.

My second priority is to strengthen the national service pipeline by expanding Learn and Serve America. Despite a growing body of research showing the value of service-learning both to academic achievement and to strengthening America's culture of service and volunteering, LSA remains funded at \$43 million, the same level since fiscal year 1996. We have proposed a \$3 million initiative to teach educators how to incorporate service-learning in their classrooms. Each teacher could encourage hundreds of young people to participate in community service and contribute to renewing the service ethic in America.

My third priority is to make badly needed repairs and upgrades to NCCC campuses. We have requested \$27 million for NCCC, \$2 million above fiscal year 2004, to fix roofs, enhance fire safety, improve accessibility for persons with disabilities, install more reliable computer networks, and perform other major maintenance (e.g., heating and air conditioning, repaving and plumbing). These projects have been deferred for too long.

MANAGEMENT—ACCOUNTABILITY

Question. Mr. Eisner, I appreciate your attention to changing the culture at the Corporation so that management and accountability are taken more seriously. I am especially concerned about “rewarding bad behavior” as evidenced by the last year’s cash bonuses and salary increases given to employees.

How will you hold Corporation personnel accountable for their actions? For poor performers, are you willing to prohibit pay increases or cash awards or take serious administrative actions such as firing or suspending personnel? What specific performance measures will be used in determining cash awards, bonuses, and salary increases?

Answer. We are committed to building a performance culture within the Corporation—a culture where managers and employees know what is expected and are evaluated on their accomplishments. In a performance culture, only employees who significantly contribute to organizational success will be rewarded. Employees who do not deliver would receive appropriate training, be moved to a more appropriate position, or separated.

To build this performance culture, we must revamp the Corporation’s current “Pass/Fail” performance appraisal system. Under new leadership, our Human Capital Office has already designed a new performance appraisal system for managers and supervisors. The proposed new policy strengthens the link between organizational results and individual employee performance, and reinforces our commitment to customer service and employee involvement.

Our plan is to implement the new system by June 30 and use it to evaluate all managers and supervisors when the appraisal period ends at the end of September. We are also working with our Union to design a new appraisal system that will increase accountability among non-managerial employees.

Even as we work to improve our performance appraisal systems, we are working within our current system to make sure that exceptional employees (and only exceptional employees) receive cash awards and pay increases. We are also working hard to deal assertively with “poor performers.”

In accordance with guidance developed by our Compensation Committee, 2003 cash awards and pay increases will be reserved for employees whose performance had a significant impact on accomplishment of the organization’s goals and objectives: These exceptional employees must demonstrate performance that regularly goes “above and beyond” expectations, and is recognized outside their operating sphere. Award winners must always be willing to take the initiative to seek ways to improve themselves and organizational operations.

COST PER FTE/MEMBER

Question. I remain very concerned that the Corporation continues to pay too much for the volunteer members in the AmeriCorps programs. I know the average cost per FTE is \$9,450 and does not include education award or the cost of child care. It may not include health care costs; I do not know. The payments seem to exceed minimum wage.

I would like a breakdown of the maximum Federal benefits a typical member is eligible to receive. How much does a member receive on a per hour basis and what is the annual payment to a member who is in the program full-time? In addition, how is healthcare provided—what is the cost to the government and what is the cost to the person? What does the government pay for childcare and is this cost shared? How are these costs determined since costs differ from community to community? What other expenses are covered by the Federal Government?

Answer. Here is a breakdown of the maximum member benefits funded by the Corporation:

Living Allowance.—\$8,415 (85 percent of the minimum living allowance of \$9,900 for 2003 grants). The grantee must provide at least 15 percent (\$1,485) with non-Federal cash match. The grantee may pay a higher living allowance than \$9,900, but the Corporation will not pay any more than \$8,415 of the cost.

The AmeriCorps minimum living allowance is tied to the AmeriCorps*VISTA stipend, which is defined by statute as 95 percent of the poverty line for an individual (as determined by the Census Bureau). The allowance is not paid on a per hour basis; it is paid in equal increments over the course of the term of service, a minimum of 1,700 hours for full-time members (some programs require more). If the living allowance were paid on an hourly basis, the minimum would be \$5.82 per hour (Federal share \$4.95 per hour). The Federal minimum wage is currently \$5.15 per hour.

The living allowance is treated as income to the member and is therefore taxable (both Federal and State). The member is responsible for reporting the amount re-

ceived on his or her taxes for the year in which it is received. Grantees are also required to deduct appropriate Social Security contributions from a member's living allowance.

Health Care Coverage.—Grantees secure health insurance locally and are only required to provide it for members who serve full-time. The maximum Federal share is 85 percent of the cost of a policy if the policy provides minimum benefits as stated in guidelines. The maximum cost per member per month is \$150 per month unless there are unusual circumstances. The average cost is \$95 per month. The Corporation requires justification for any amount over the maximum.

Grantees are required to provide health insurance only if the member is not already covered by a policy that provides the minimum benefits. The Corporation does not pay any of the cost of a policy that does not include these minimum benefits. Federal payments cover only the member, no other person. Minimum benefits are:

—*Covered Services.*—Physician services for illness or injury, hospital room and board, emergency room, x-ray and laboratory, prescription drugs.

—*Limited Coverage.*—Mental/nervous disorders and substance abuse.

—*Annual Limits.*—Deductible: not more than \$250 per individual; Out-of-pocket: not more than \$1,000 per individual; Maximum Benefit: At least \$50,000.

—*Coinurance.*—May require a co-pay from member, not to exceed 20 percent or alternatively, a comparable fixed fee. An exception: mental illness and substance abuse coverage may require a 50 percent co-payment.

Health care costs are included in the Corporation's cost per FTE projection.

FICA and Worker's Comp, or other State requirements, may be matched by the Corporation if requested in the grant, and are included in the cost per FTE calculation.

Child Care (2002 figures).—The typical AmeriCorps member does not use the childcare benefit. Childcare is only provided to members who meet specific income limits and serve full-time. In 2002, 1,834 members (3 percent of the total) qualified for the childcare benefit. If qualified, the Corporation pays 100 percent of the authorized cost. The Corporation manages the childcare benefit through a contractor, who pays the childcare provider directly.

In 2002, the average annual child care payment per qualifying member was \$3,420 (\$2,047 per child). The payments are determined using the Child Care and Development Block Grant (CCDBG) authorized rates, which vary by State. Where the actual cost exceeds the authorized amount, the member pays the difference.

Education Award.—Full time members, upon completion of 1,700 hours, become eligible to receive a \$4,725 award; part time members are eligible to receive a prorated award. The award is payable only to qualified educational institutions or lenders and is taxable to the member upon redemption.

BENEFITS FOR FULL-TIME AMERICORPS*STATE AND NATIONAL MEMBER WITH CHILDCARE

Benefit	Total	Federal Share	Notes
Living Allowance	\$9,900	\$8,415	Fed. share limited to 85 percent of minimum allowance
FICA, Workers Comp., Other	757	644	FICA employer share @ 7.65 percent
Health Care	830	706	Based on 2002 State Competitive grants
Child Care	3,420	3,420	Authorized costs vary by State
Education Award	4,725	4,725	Full value of full-time award
TOTAL	19,632	17,909	

APS

Question. Mr. Eisner, you recently made some major changes to the Corporation's Alternative Personnel System by converting most term-appointed employees to a General or permanent appointment system.

Will employees under the new General appointment system be treated the same as employees under the GS system or will you still have the same ability as you did under the term appointment system to hold employees accountable?

Answer. We strongly believe in maintaining and strengthening the APS system, which gives us more flexibility than the GS system to promote accountability and deal with poor performers. Whether term or general appointments, the APS system gives the Corporation the same increased flexibility and streamlined procedures for separating poor performers. Under our new system, managers will have a revamped performance appraisal system and will be expected to deal with problem employees as soon as performance problems are identified.

The revision of our appraisal systems and our appointment policies are both part of a strategic reassessment of our human capital policies. These policy changes are designed to promote employee accountability. In addition, we have observed or anticipate that the change in our appointment policies will produce several other important benefits:

- We have already noted an increase in the caliber of applicants for several key vacancies.
- We will be able to invest in long-term employee development—an impracticality when employees were hired for 2-, 3-, or 5-year terms.
- Employee productivity and morale has already improved, and we expect this to have a positive impact on our ability to keep our best employees.
- We expect the change in the appointments policies to result in a greater percentage of the workforce participating in the APS system.

As you requested in the hearing, I am submitting for the record the discussion document on Options in the use of APS term appointments, dated January 17, 2004, that was widely shared in the Corporation. On page 2 of the document are the five options I referenced during the hearing in response to your questions.

I want to take this opportunity to thank the architect of our new human capital strategy, Joyce Edwards, whose detail to the Corporation from OPM ends in August. Joyce is truly one of the best human capital professionals I have ever worked with, and clearly deserves her stellar reputation at OPM and in the field more broadly.

Question. Your new policy maintains term appointments for senior-level managers to provide a “periodic infusion of fresh leadership.” Why aren’t mid-level positions subject to term appointments?

Answer. We will continue to use term appointments in a smart, strategic way at every level. Our goal is to have a workforce that combines fresh, energetic leadership with strong institutional knowledge and continuity.

Question. The Peace Corps also utilizes a term appointment system for its employees. Did you look at the Peace Corps system prior to your decision in changing the Corporation’s personnel system? What did you learn from the Peace Corps? Did you talk with former Corporation personnel that currently work at the Peace Corps to obtain information on the differences between the two agencies? Do they have the same or similar morale problems as the Corporation?

Answer. We did look at the Peace Corps system prior to changing Corporation policy on the use of term appointments. We discussed the change with the Peace Corps’ Human Resources Director and many Corporation employees who were formerly at the Peace Corps.

Term appointments are valuable if their use can be aligned with an agency’s strategic management priorities. What we learned from the Peace Corps reinforced our own experience that while term appointments are a valuable management tool, their mandatory or indiscriminate use limits management’s ability to align its workforce with its strategic objectives as well as creating structural barriers to effective workforce training, succession strategies, quality improvement and performance management.

PUBLIC AFFAIRS

Question. The Corporation’s budget includes \$3.4 million for public affairs—a \$2.25 million or 197 percent increase over the fiscal year 2004 enacted level. The Corporation justifies this increase to help grantees achieve rising recruitment goals and to support them in their efforts to attract more private support. The Corporation plans to use these funds to produce and distribute bilingual public service messages for television, radio, newspapers, magazines, and the web to more than 40,000 media outlets. The Corporation also plans to spend these funds to build up the inventory of service gear and identity items used by members and volunteers.

First, I did not think attracting members was a problem given the over-enrollment of AmeriCorps volunteers during the past 2 years. What am I missing?

Answer. The 2004 appropriation supports 75,000 AmeriCorps positions, a 50 percent increase over last year. Achieving this target will require a significantly higher number of qualified applicants. Challenges include overcoming lingering hesitation among potential applicants resulting from the events of the 2003 program year and assisting the many new organizations—especially small, faith-based and community groups—that will need additional recruitment help because of their inexperience with the program. The volume of online applications for the first two quarters of fiscal year 2004 was 23 percent lower than the same time period in fiscal year 2003. While online applications represent a small part of overall applications, and many positions are not yet advertised online, we are closely monitoring this indicator. In addition to increasing volume, we are at the same time always seeking high-quality

applicants. Increasing awareness of available opportunities drives competition which leads to better matching between applicants and programs. Finally, we want AmeriCorps to reflect the vast diversity of America's population, and this requires targeted outreach to under-represented populations, including producing bilingual materials.

Attracting a large, diverse, and high-quality applicant pool requires investing in promotional materials to assist our programs and grantees in their recruitment efforts, including public service advertising that can be adapted with local taglines. State service commissions and small community and faith-based programs cannot afford broadcast-quality campaigns and rely on the Corporation for these products. The last AmeriCorps PSA campaign, which leveraged more than \$35 million in donated media support, expired more than 2 years ago, and funds are needed for a new effort. In years past, the costs have often been spread over 2 fiscal years, but given recent operational budget cuts, the 2005 budget seeks funds for both creative development and distribution. This investment will leverage many times its cost in donated airtime and will assist local programs in reaching their recruitment goals. Such materials have an added benefit of helping grantees build partnerships, raise private sector support, and become more sustainable in their operations.

Question. In terms of funding level, how does the fiscal year 2005 request level for public affairs compare to the last 5 year's funding levels?

Answer. Following is the budget history including payroll and operations for the past 5 fiscal years. Note that the Office of Public Affairs and the Office of Public Liaison, which had independent directors, staffs and budget were merged in fiscal year 2004 (that process began in fiscal year 2002). More importantly, the Office of Public Affairs has taken on significant new responsibilities in light of the many levels of program and management reform the Corporation is undertaking. If we are to succeed in driving greater accountability for performance measurement and management through our personnel management, grantmaking procedures, grantee oversight, member recruitment and development, training activities and overall operations, we must build a far greater alignment in communications on priorities and expectations to all of our employees, partners, grantees, vendors and program participants. This responsibility for communications agenda-setting and consistency falls to the Office of Public Affairs, which will manage the communications priority-setting and consistency for all of our program divisions and manage the production of materials and online information for all of our constituencies so that they are aligned with Corporation priorities and consistent with each other. These functions are particularly important in light of programmatic reforms that are being implemented. These functions underlie the increase in budget for the Office of Public Affairs in 2005.

FIVE YEAR BUDGET (INCLUDES SALARY, OPERATIONS, AND PROGRAM SUPPORT)

	Public Liaison	Public Affairs	Total
2000	\$866,800	\$628,000	\$1,494,800
2001	720,500	395,100	1,115,600
2002	667,522	407,000	1,074,522
2003	678,500	127,400	805,900
2004 .....	.....	1,090,600	1,090,600
2005 .....	.....	3,400,000	3,400,000

Question. Second, while the main catalyst for last year's media attention was the over-enrollment fiasco, it also provided a major outlet for publicizing the benefits of the AmeriCorps program. Further, the AmeriCorps community facilitated a lot of the PR by mobilizing letters to the media and through an active outreach effort through the web and other means. I also understand that some of these organizations continue to advertise such as television ads by City Year. Given those facts, why does the Corporation feel the need to fund such a massive public relations effort? Who is paying for City Year's advertisements? Can grantees use Corporation funds for advertisements?

Answer. Please see the prior two responses as to the need for this increase in funding. It should be noted, however, that the vast bulk of the Corporation's Public Affairs funding does not go to public relations, but to production of documents and publications, to recruitment, training, grantee materials, and to managing multiple online and offline information streams.

No Corporation funds are being used to pay for placement of City Year's public service advertisements as they are being donated by a cable television station. Likewise, the 2005 Public Affairs budget, like previous budgets, does not contemplate

nor request funds for paid placement of recruitment ads. Unlike some Federal agencies, the Corporation only places its television and radio ads through donated airtime, and we have had considerable success in doing so.

With regards to grantees, development of brochures and other materials to support recruitment is an allowable grant cost. Very few local programs, however, have the capacity to produce a television or radio campaign, which is why the Corporation produces spots that can be adapted for local programs.

Question. Third, since grant applicants are required by program rules to bring private matching funds to the table in order to compete for Corporation funds, why should the Corporation assist organizations in meeting the program requirements?

Answer. The Corporation has a long history of providing training and technical assistance to support grantees in their efforts to be compliant with Corporation rules. The reason for matching requirements is to ensure that programs maximize their leverage of Federal dollars and to help achieve and maintain grantee independence and sustainability in spite of receiving Federal funds. These objectives are well worth the relatively small investment we must make to help programs succeed at achieving the match.

Helping local programs increase their match furthers several Corporation goals—improving quality, reducing reliance on Federal funding, and allowing more organizations to have access to Corporation funds. The match requirements are minimums. Most grantees provide higher levels than what is required because they find it beneficial and often necessary to raise more than the minimum match to support training, insurance, transportation, and other costs related to operating a high-quality program. As the Corporation moves to reduce the Federal cost per member, programs will have to raise an increasing share of costs if they are to maintain the characteristics of their programs. By helping grantees not only meet and exceed their minimum requirements but also raise as much as possible from private sources, we are helping them to create effective programs that satisfy the many and varied purposes of national and community service programs.

Question. Lastly, can you explain the need for the Corporation to expand service gear and identity items? What are these items—hats, t-shirts, uniforms? Do AmeriCorps volunteers pay to acquire these items?

Answer. In October 2002, the Corporation revised its logos to highlight the agency's mission of service to community and Nation, show the connections between its three programs, demonstrate that service is a patriotic duty and an obligation of citizenship, and allow States and programs to localize the national logo. Since this change, the Corporation has not had dollars sufficient to update items that carry the logo.

The Corporation purchases an initial quantity of items and makes them available for purchase by programs and members through the Mississippi Industries for the Blind and Disabled. After initial inventory purchases, dollars from sales of these items are utilized to replenish the stock of available items. Expected increases in AmeriCorps enrollment point to the need for a larger investment in initial stocks, particularly of service gear.

AmeriCorps members are encouraged but not required to wear official AmeriCorps service gear. AmeriCorps members can purchase these service gear items, or programs are allowed to allocate from \$35 to \$70 per member for official gear. A standard gear package would include a \$7 t-shirt, a \$7 baseball cap and a \$20 sweatshirt.

LEARN AND SERVE ACTIVITIES

Question. I am a big supporter of child literacy mentoring and tutoring programs and appreciate the Corporation's efforts in these areas. I noticed in your budget justifications that two of the primary service activities for the Learn and Serve program are mentoring and literacy.

Given that AmeriCorps members also participate in mentoring and tutoring activities, how are you coordinating those activities with the Learn and Serve mentoring and tutoring activities? How do you know if these two programs are overlapping or duplicating each other's efforts? What steps do you take to verify independently whether duplication is occurring?

Answer. Most Learn and Serve America (LSA) mentoring and tutoring activities engage older students in service to younger ones. In these programs, high school students, for example, after receiving training, read with elementary school students on a regular basis. The older students may provide support in phonics, letter or word recognition, and provide encouragement for reading through their own example. These mentoring and tutoring programs, therefore, are supplementary to services offered by AmeriCorps or other adult tutoring programs if such programs operate at the same sites.

LSA Higher Education programs provide college-age tutors, who provide primary tutoring support. During the application process, programs are asked about their organizational capacity to leverage resources. In this section they note any efforts to work with other CNCS programs. All LSA programs are asked to inform State Service Commissions about their programs in order to avoid duplication of effort. In addition, both AmeriCorps and LSA programs are coordinated with the schools and afterschool programs they serve. The service-learning or volunteer coordinators at the sites served by both programs work to ensure that the greatest number of children in need is reached. The need for literacy and mentoring services is widespread; the demand for these services is far greater than AmeriCorps and LSA programs can meet; few local sites are served by both programs.

The Corporation is currently developing web-based local performance measurement systems that will give us the ability at the national level to determine local sites where both AmeriCorps and LSA programs are serving.

PROFESSIONAL CORPS

Question. Both this Committee and the President in his Executive Order directed the Corporation to develop separate guidelines that recognize the importance of professional corps under the AmeriCorps program.

How much money have professional corps organizations received from the Corporation's programs (AmeriCorps, challenge grants, etc.)?

Answer. I have provided lists of the fiscal year 2003 and fiscal year 2004 grants for Professional Corps programs, including announcements from October 1, 2002 through May 7, 2004.

Professional Corps models are eligible to apply in all of our competitions. Therefore, there may be additional Professional Corps programs announced as we announce the results of competitions throughout the spring and summer. We will soon issue a Notice of Funds Availability (NOFA) for a 2004 Professional Corps competition, with the goal of awarding grants for at nearly 3,000 members.

Professional Corps Fiscal Year 2003 Competitions	Funds Awarded/ Approved	FTE Awarded	Positions Awarded
Teach for America—National Challenge Grant	\$2,000,000	(¹)	(¹)
Teach for America Maryland—AmeriCorps State	\$311,383	175	175
Teach for America North Carolina—AmeriCorps State/EAP	\$40,000	100	100
Teach for America Rio Grande Valley TX—AmeriCorps State	\$155,901	71	71
Teach for America New York—AmeriCorps State/EAP	\$120,000	300	300
Teach for America Atlanta—AmeriCorps State/EAP	\$92,000	230	230
Milwaukee Teacher Education Center—AmeriCorps State/EAP	\$50,000	125	125
Marquette University Compton Fellows Program Wisconsin—AmeriCorps Direct EAP	\$16,000	40	40
Mount Mary College Urban Education Fellows Program Milwaukee—AmeriCorps Direct EAP	\$16,000	40	40
University of San Francisco TEAMS Program—AmeriCorps Direct EAP	\$210,000	525	525
University of Notre Dame—ACE AmeriCorps Direct EAP	\$61,600	154	154
TOTAL	\$3,072,844	1,760	1,760

¹ Not applicable.

Professional Corps Fiscal Year 2004 Competitions	Funds Awarded/ Approved	FTE Awarded	Positions Awarded
Teach For America—AmeriCorps Direct EAP	\$264,300	660.75	2,060
City University of New York NYC Teaching Fellows (balance of 2003–2004 school year)—AmeriCorps Direct EAP	\$703,000	1757.5	3,215
City University of New York NYC Teaching Fellows (for 2004–2005 school year)—AmeriCorps Direct EAP	\$500,000	2,000	2,000
Mount Mary College Urban Education Fellows Program Milwaukee—AmeriCorps Direct EAP	\$16,000	40	40
Teacher's College Columbia University, NY—AmeriCorps Direct EAP	\$37,200	93	93
Milwaukee Teacher Education Center (MTEC)—AmeriCorps State EAP	\$70,000	175	175
Teach For America Atlanta—AmeriCorps State EAP	\$78,000	195	195
Teach for America North Carolina—AmeriCorps State EAP	\$40,000	100	100
University of Notre Dame ACE—AmeriCorps Direct EAP	\$65,600	164	164
University of San Francisco School TEAMS Program—AmeriCorps Direct EAP	\$250,000	625	625
TOTAL	\$2,024,100	5,810.25	8,667

RULEMAKING—SUSTAINABILITY

Question. I commend the Corporation for its rulemaking efforts and especially appreciate its efforts to define sustainability as instructed by the Congress. My overriding concern about sustainability is that we need to ensure that the playing field for AmeriCorps funding is level and fair. It appears that year after year, the same organizations receive the lion's share of AmeriCorps funding, leaving few opportunities for new organizations. This problem is exacerbated by the Corporation's mixed record on reducing the Federal share of the costs of the program.

On average, how many new organizations receive AmeriCorps funding every year? In terms of percentage and dollars of AmeriCorps funding, how much money does this represent?

Answer. Within the AmeriCorps*National Direct Program, about 40 grants are awarded every year, and a little over 10 percent of these grants are awarded to organizations that have never served as a National Direct grantee. Within the Education Award Program, about 22 grants are directly awarded to organizations through AmeriCorps each year; about 31 percent of these grants go to new organizations.

Among organizations that receive subgrants indirectly from the Corporation through grantees, the percentage of new organizations is higher. Here are the average percentages of new subgrantee organizations by program:

- AmeriCorps*State (1995–2003): 24 percent.
- AmeriCorps*National (1995–2003): 38 percent.
- Education Award Program (1998–2003): 44 percent.

The attached tables give year-by-year breakdowns for all AmeriCorps grantees (except for State Commissions) and subgrantees. Table 6 gives averages for the major years in the Corporation's recent grantmaking cycles. Every third year after 1994–1997, 2000, and 2003—marks the beginning of a new grant period for many grantees. In the off-years, much of the awarded money goes to existing grantees who apply for continuations, which reduces the number of new organizations that receive money. (The first year of each program's existence—1994 for State and National, 1997 for EAP—is left out of all calculated averages, since virtually every grantee was "new.")

The Corporation is currently engaged in the process of validating the organizational records in its historical grantmaking database. Until then, aggregate data on awarded dollars to "new" organizations will not be available for all grantees and subgrantees over the period 1994–2004.

TABLE 1.—AMERICORPS*STATE SUBGRANTEES

Year	Total Number of Subgrantees	Number of New Subgrantees	Percent New
1994	378	378	100.00
1995	392	163	41.58
1996	431	86	19.95
1997	518	185	35.71
1998	530	65	12.26
1999	501	63	12.57
2000	588	211	35.88
2001	625	96	15.36
2002	612	59	9.64
2003	442	163	36.88
2004 .....	.....	.....	.....
Average, 1995–2003	515.4	121.2	23.52

TABLE 2.—AMERICORPS*NATIONAL SUBGRANTEES

Year	Total Number of Subgrantees	Number of New Subgrantees	Percent New
1994	717	716	99.86
1995	754	492	65.25
1996	308	65	21.10
1997	234	51	21.79
1998	246	31	12.60
1999	251	51	20.32
2000	279	132	47.31

TABLE 2.—AMERICORPS*NATIONAL SUBGRANTEES—Continued

Year	Total Number of Subgrantees	Number of New Subgrantees	Percent New
2001	296	74	25.00
2002	298	61	20.47
2003	211	125	59.24
2004			
Average, 1995–2003	319.7	120.2	37.61

TABLE 3.—EDUCATION AWARD PROGRAM: DIRECT GRANTEEES

Year	Total Number of Subgrantees	Number of New Subgrantees	Percent New
1994			
1995			
1996			
1997	22	22	100.00
1998	22	16	72.73
1999	23	5	21.74
2000	24	10	41.67
2001	25	5	20.00
2002	38	7	18.42
2003	19	3	15.79
2004			
Average, 1998–2003	25.2	7.7	30.46

TABLE 4.—EDUCATION AWARD PROGRAM: COMMISSION SUBGRANTEES

Year	Total Number of Subgrantees	Number of New Subgrantees	Percent New
1994			
1995			
1996	1	1	100.00
1997	54	54	100.00
1998	55	35	63.64
1999	56	22	39.29
2000	55	33	60.00
2001	44	15	34.09
2002	36	5	13.89
2003	10	3	30.00
2004			
Average, 1998–2003	42.7	18.8	44.14

TABLE 5.—AMERICORPS*NATIONAL GRANTEEES

Year	Total Number of Subgrantees	Number of New Subgrantees	Percent New
1994	42	42	100.00
1995	44	7	15.91
1996	45	7	15.56
1997	42	4	9.52
1998	39	1	2.56
1999	37		
2000	40	8	20.00
2001	41	4	9.76
2002	41	4	9.76
2003	27	2	7.41
2004			
Average, 1995–2003	39.6	4.1	10.39

TABLE 6.—AVERAGES BY PROGRAM, MAJOR GRANT AWARD YEARS (1997, 2000, 2003, EXCEPT FOR EAP)

Program	Percent New Grantees
AC*State	36.11
AC*National: Grantees	12.84
AC*National: Subgrantees	42.54
EAP—Direct (2000 and 2003)	30.23
EAP—Commission (2000 and 2003)	55.38

Notes

(1) Some organizations receive more than one grant or subgrant per year within an AmeriCorps funding source. These organizations are listed once for each year within each table, regardless of how many programs they are operating.

(2) Organizations can be new in more than 1 year, if they receive grants or subgrants from more than one AmeriCorps funding source. For instance, an organization got a subgrant to operate a National Direct site in 1996, and got a State formula subgrant in 1997. The organization will be listed as a “new” subgrantee for AC*National in 1996, and a “new” State subgrantee in 1997.

(3) Organizations that changed their names may have multiple entries in the Corporation database.

Question. I am also concerned about future AmeriCorps applicants such as those supported under Senator Mikulski’s Next Generation program. This program has obviously been a huge success in terms of the number of applications applying for funding under the program.

At some point in the future, do you expect these organizations to compete for AmeriCorps funding?

Answer. We certainly hope so.

As you know, the Next Generation Grants competition is geared toward providing seed money for a small number of organizations that propose innovative service programs and have the potential to become part of one of the Corporation’s regular grant programs (i.e. AmeriCorps*National and Learn and Serve Community-Based). Since Next Generation organizations are new to the Corporation (many have not managed a Federal grant before) and they are generally proposing start-up activities, they represent high-risk grantees. We are working to provide them with technical assistance that should help them be more competitive in the future.

Question. Assuming relative flat-funding for the AmeriCorps program into the future and the continued practice of funding most of the same organizations year after year, are new organizations going to have difficulty competing for funds? If you do not ensure opportunities for these new organizations to compete for AmeriCorps funding, then will you be setting them up for disappointment?

Answer. We are contemplating several options to address the issue you highlight. One option is a portfolio approach where certain grant money would be set aside for new programs.

With our current funds for the Next Generation competition, we will likely award a small number of grants (approximately 10–20 grants). We feel confident that our current program budgets would allow all grantees to be absorbed into one of our regular grant programs if each demonstrated a great degree of success operating their proposed program. Moreover, we are careful about the types of expectations we convey to Next Generation grantees by noting that it is likely that some grantees will gradually join our regular portfolio and others may not.

PERFORMANCE MEASURES

Question. One of my long-standing concerns with the Corporation is its inability to measure the performance of its programs—primarily the AmeriCorps program. I appreciate the Corporation’s recent efforts to address this matter but I would like the Corporation to respond to three questions.

One, when will the Corporation be able to provide us with performance measure data on the AmeriCorps program?

Answer. Data for our new, outcome-oriented performance measures will be collected this summer, depending upon the timing of OMB approval. We are hopeful that we will then be able to report results in the fiscal year 2004 performance report to Congress, and include them in the fiscal year 2006 budget submission. We also plan to conduct these performance surveys every year, which will provide year to year comparison.

In 2002, the Urban Institute conducted a review of our existing performance measurement systems and made recommendations to correct performance measurement systems weaknesses, including a recommendation to modify indicators to measure more intermediate and end outcomes, rather than outputs. As part of a multi-year intensive effort to measure the impact of its community service programs upon the individuals and communities they serve, in fiscal year 2003 the Corporation awarded three performance measurement contracts, which will strengthen outcome reporting for AmeriCorps, Senior Corps, and Learn and Serve America. This action marks the second phase of the Corporation's performance measurement initiative and will allow the Corporation to shift its annual performance reporting from process-oriented accomplishments to results-oriented outcome reporting.

A key component of this performance measurement initiative is surveys of members, organizations and institutions receiving Corporation funding, and individuals who receive services from national and community service programs. This initiative will: (1) provide an ongoing assessment of the short- and long-term effects of community service on volunteers, host organizations, individual beneficiaries and communities; and (2) use data on program performance and results to inform the Corporation's budgeting process. More specifically, the surveys will help measure the following (Note: specific indicators will be in the next draft):

Members

- The change in members' level of volunteer service and community involvement during and following their service experience; and
- The change in members' life skills—such as leadership, teamwork, communications, time management, and decision-making, and thus their ability to achieve their personal goals.

Organizations

- Organizations' contribution to helping improve individuals, communities, and organizations;
- Organizations' ability to achieve their goals; and
- The change in organizations' ability to provide and sustain needed services to communities.

End Beneficiaries

- AmeriCorps' impact on improving communities' ability to respond to disaster;
- Volunteers' perception that their personal and the programs' efforts contributed to helping individuals, communities, and organizations;
- AmeriCorps' impact on improving the life of youth; and
- AmeriCorps' impact on improving students' academic performance.

The performance measurement survey initiative is complemented by a cross-program requirement that applicants for Corporation funding nominate at least three performance measures for their program. As part of its continuous improvement, the Corporation will continue to assist programs in adopting performance measures that help ensure accountability for performance and results while helping to effectively address community needs.

Presently, applicants seeking competitive funds must negotiate their final measures with Corporation staff who then monitor grantees' progress toward achieving those proposed results. Program accomplishments and proposed measures are both taken into consideration when making funding decisions. In addition, the Corporation requires grantees to submit in their funding proposal at least one performance measure on volunteer leveraging and to track their progress toward meeting their targets. (Grantees must provide an explanation if they are unable to incorporate volunteer leveraging activities into their program).

Question. Two, how will the Corporation verify the accuracy and reliability of the performance data it collects?

Answer. For the AmeriCorps performance measurement surveys, the Corporation and the Urban Institute have taken various measures to ensure we receive reliable and accurate data. Surveys of members and organizations will involve random samples and will be appropriately weighted. The Urban Institute will directly collect data from respondents about their experiences with AmeriCorps and ensure respondents that their responses to a survey will be kept confidential. To ensure candor and protect privacy, Urban Institute will not provide to the Corporation the name of respondents, nor the organization they serve with, received services from or represent. Urban Institute's subcontractor, Princeton Survey Research Associates, utilizes the latest methodological and technical developments for conducting surveys. Princeton's Computer Assisted Telephone Interviewing (CATI) system is designed to ensure total flexibility in questionnaire administration as well as to pro-

vide data quality and accuracy checks. By collecting performance data through telephone, we will ensure a high response rate and a low likelihood of data fraud.

For the Learn and Serve performance surveys, the Corporation and Abt Associates expect to receive reliable and accurate data because it will be a census: all institutions receiving LSA funds, including grantees, subgrantees, and sub-subgrantees, will complete a survey of their activities, experiences, and outcomes. In accordance with the Learn and Serve program reporting requirements, these surveys are now required to be submitted at the end of each program year. Data collection will take place through an on-line, web-based system that will include a data entry interface, reporting management tools for use by the Corporation and grantees in tracking data collection, and the capacity to generate on-line reports that provide aggregated results to all users of the system.

The Corporation also receives self-reported data and reports from grantees and programs about their performance and volunteer leveraging accomplishments. The data reported by the Corporation is compiled from data and reports submitted by non-Corporation entities (grantees, sponsoring organizations, and service sites) in response to the Corporation's reporting requirements. The focus of the Corporation's data quality efforts has been on assessing the internal data system controls and their effect on the accuracy of the performance information. The Corporation's programs do not independently verify or validate data they receive from outside sources. As a result, the Corporation may have reservations about the accuracy of some data that are self-reported.

For each accomplishment (or code), there is considerable variation in the units that subgrantees use to report their outcomes. For example, for any given activity, some programs count volunteer hours, some count items produced, some count people involved, and some do not indicate what units their numerical reports reflect. Additionally, several programs used "miles" as their way of measuring river cleanup, but many others may have used other measurement units such as hours of cleanup, acres of cleanup, or number of people involved in the cleanup, etc. Since only similar measurement units can be aggregated, the results of an analysis would likely represent just a fraction of all programs actually reporting outputs in that accomplishment field and would understate the true output and accomplishments of AmeriCorps programs.

To address future data accuracy concerns, the Corporation, with the input of its grantees and other stakeholders, is renewing its attempt to develop uniform volunteer leveraging measures and develop stronger and more consistent performance measurement criteria. The Corporation, at a minimum, would like to provide advisory standards for calculating volunteers and their impact.

To assist grantees in fulfilling requirements for performance measurement, the Corporation, through the Office of Leadership Development and Training, has also shifted the focus of its training and technical assistance from the identification of objectives to identifying and measuring program outputs and outcomes. Written materials, such as performance measurement tool kits, have been developed and made available to programs to assist them in this transition. Technical assistance is provided through one-on-one or small group consultations.

Each of the steps will lead to an outcome-based performance measurement system, allow the Corporation to report on and aggregate verifiable program outcomes and outputs, and will provide information to foster a culture of continuous program improvement.

Question. Three, will performance-based budgeting be used in future budget submissions? Does this mean that if the AmeriCorps program is not performing adequately, we can expect to see budget decreases in future requests?

Answer. For the fiscal year 2006 budget submission, the Corporation plans to use logic models as a planning tool. Logic models show how resource requests support Corporation outcome goals through program activities, outputs, and intermediate outcomes. We will continue to organize our budget presentation around the existing account structure, but we will be able to demonstrate more clearly than before how resources (or inputs) are turned into measurable results.

If any program consistently fails to achieve its performance targets, our logic models should help us to determine if the failure is related to management, program design, resources, or some other cause. Once we understand the causes of the problem, we can take appropriate action, which could include budget reductions.

NATIONAL SERVICE TRUST

Question. It appears that the Corporation has made some significant strides in addressing the problems associated with the National Service Trust so that we do not repeat last year's fiasco with the over-enrollment of AmeriCorps members. Never-

theless, I remain troubled because of the GAO's recent findings in its January 2004 report—especially GAO's finding on the 170 AmeriCorps participants who were listed as deceased in the Social Security death master file. GAO also found that 4,400 data entries had discrepancies that could affect estimates of future expenditures of the Trust.

What steps has the Corporation taken in response to GAO's findings? For example, have you developed a plan that would perform data verification? When will you conduct the next data verification process? Will these steps prevent the types of discrepancies found by the GAO?

Answer. The Corporation is taking action to address each of the recommendations made by GAO. As noted in its report, the majority of the discrepancies found by GAO involved members who had exited a program without an award (and thus have no impact on trust balances) but their status had not been updated in electronic System for Programs, Agreements, and National Service Participants (eSPAN), the Corporation's database and system of record for all national Service Participants. In the short term, the Corporation is reviewing these records and will update eSPAN to reflect the proper status. In the longer term, the Corporation plans to integrate the functionality of its Web Based Reporting System (WBRs) into eSPAN, eliminating the need to reconcile between the two systems and enable the Corporation to produce more timely information.

The Corporation is also revising the compliance testing requirements for the AmeriCorps programs contained in OMB Circular A-133 to include testing of data submitted by grantees to the National Service Trust database and will submit the changes for inclusion in the next update to the Circular later this year.

The Corporation transmitted all member enrollment records covering fiscal years 2001, 2002, and 2003 to the Social Security Administration (SSA) for comparison and certification. SSA completed its review and provided the results to the Corporation on April 26, 2004. The Corporation has begun its analysis and research of the discrepancies to determine the required corrections to eSPAN data. The Corporation has also incorporated the SSA verification into its Quality Assurance Review process, which will be conducted annually and cover all new enrollees. In addition, the Corporation is building an automated edit check into eSPAN system to compare Trust data to the SSA's valid number list at the time data is input into the system by grantees and State offices. This process is being performed on an ad hoc basis until the automated check can be placed into service. While it is not possible to eliminate all errors, these controls should significantly reduce the number of data entry errors being made.

Out of approximately 158,000 member records reviewed, GAO identified 169 member records (147 AmeriCorps*State and National and 22 AmeriCorps*VISTA), or .11 percent, as having Social Security Numbers (SSNs) for persons listed in SSA's death master file, the Corporation's research shows that for the 147 exceptions related to AmeriCorps*State and National records:

- 21 were a sample error, that is, the record had been counted twice in the sample, the SSN was not in the eSPAN database, or the death date used by GAO was not valid (00010000). No follow up action is needed for these records.
- 11 related to members whose name and SSN in SPAN matched the GAO sample but the member had exited the program prior to the date of death in SSA's records (no follow up action needed; database record to be flagged noting status);
- 7 related to members whose name and SSN in eSPAN matched the GAO sample and who are in a still serving/not exited status (the Corporation is following up with program on status; database record to be flagged noting discrepancy);
- 4 related to members whose name and SSN in eSPAN matched the GAO sample and the date of death listed in the SSA death master file was prior to the exit date recorded in SPAN (3 earned an award and 1 did not, the Corporation froze the Trust accounts for the members earning an award and forwarded the discrepancies to OIG for review);
- 104 related to members whose name and SSN do not match the GAO sample indicating that there was an input error. Thirteen of these members are in a still serving/not exited status, 43 have earned an award, and 48 exited without earning an award (the Corporation is following up to verify SSN, database record to be flagged with status).

For the 22 VISTA exceptions:

- 16 were related to members who had left the program prior to the date of death indicated in SSA's records (no follow up action needed; database record to be flagged noting status).
- 3 were input errors which have been corrected.

- 2 related to members whose name and SSN do not match the GAO sample indicating that there was a input error (the Corporation is following up to verify SSN, database record to be flagged with status).
- 1 related to a member whose name and SSN match the GAO sample and the date of death was prior to the exit date recorded in eSPAN (the member did not earn an award, the Corporation has flagged the file and forwarded this discrepancy to OIG for review).
- The Corporation has uncovered no instances where either the member or the grantee organization substituted other SSN's to generate inappropriate revenues.

REAUTHORIZATION

Question. Does the Corporation support reauthorization of its programs? If so, will the administration submit a reauthorization bill to the Congress this year?

Answer. The President continues to support reauthorization of the Corporation and has mentioned it publicly several times. The document entitled Principles and Reforms for a Citizen Service Act, introduced by the President on April 9, 2002, continues to serve as a guide for reauthorization. Additionally, on February 27, 2004, the President signed an Executive Order implementing many of the key reforms proposed in the Citizen Service Act through administrative action.

GRANTEE OVERSIGHT

Question. To the Corporation's credit, it has done a better job of reducing its backlog of overdue grantee audit resolutions. Nevertheless, the independent auditors continue to cite the Corporation's monitoring of grantee activities as a reportable condition. As recommended in previous years, the auditors recommended the creation of a risk-based monitoring system to address its grantee monitoring problems.

What is the status of developing a risk-based monitoring system? Have you identified any grantees that were in noncompliance with Corporation rules? What kind of actions have you taken to discipline grantees that were noncompliant? For example, have you ever suspended, debarred, or recovered funds?

Answer. The Corporation is implementing risk-based systems for all three of its program streams: AmeriCorps, Learn and Serve America, and Senior Corps. The new policies will be reflected in the Corporation's Grants Management Handbook, which is currently under revision.

We identify grantees that are not in compliance with Corporation rules both through audits and monitoring activities. In program year 2003, we disallowed a total of \$508,951 through the audit resolution process.

When we find grantees are not in compliance, we either suspend their access to grant funds or withhold issuing new funds until we receive the delinquent reports. In 2003, we suspended two accounts until we received overdue financial reports. Currently, one grantee's account is suspended. No grantee has had to be debarred. We have terminated three grants for failure to comply with grant requirements or for poor performance.

PEER REVIEW PROCESS

Question. Last year, many applicants to AmeriCorps complained about the arbitrariness of the peer review process. It appears that the process may need to be fixed.

Do you agree with the complaints that the peer review process is not working properly? If so, can you tell us what you are doing to repair the process and whether you see fixing peer review as a part of rulemaking?

Answer. The peer review process needed major changes. Specifics on the needed improvements were gathered from public complaints, findings of the Inspector General Audit of June 28, 2001, the board of directors' grants management task force report issued May 12, 2003, and the Management Improvement Team (MIT).

The recommendations of the MIT resulted in the development of the new Office of Grants Policy and Operations (March 2004) and the elevation of this office to a senior management status. This signaled to the Corporation staff, as well as the service community, the importance of the work of grantmaking and the need to invest resources in the operations that manage up to 20 grant review processes annually.

Specific changes I have approved in the process include: securing a more selective and higher quality group of reviewers; instituting quality controls in the peer review process; greater emphasis on peer review scores; enhanced training of peer review and staff in preparation for the grant reviews; and streamlined internal processes that enabled us to meet tighter deadlines this year (earlier notification of grantees

and shorter time between announcements and funds distribution). Last month we provided your staff with an approximate timetable for all of our 2004 grants. I am pleased to report that these changes have already been effectively implemented in the 2004 peer reviews that took place last month, and that the results exceeded expectations. I remain committed to further improving our customer service as well as the transparency of this process.

SILVER SCHOLARSHIPS

Question. The administration is proposing again the Silver Scholarships program. This program was originally proposed in the fiscal year 2002 budget but rejected by the Congress.

I have no objections to assisting senior volunteers but this program seems duplicative of the Senior Corps program funded out of the Labor-HHS Subcommittee. Can you explain the differences?

Answer. The service requirements for the Silver Scholarship Program are more rigorous than RSVP. The minimum 500 annual hours to be served will require volunteers to serve an average of 10 hours a week. While many RSVP volunteer serve this intensively, the current average is 4 hours per week.

Foster Grandparents also tutor and mentor children and serve 15–20 hours per week. However, the FGP is a means tested program with an average Federal cost per volunteer service year of \$4,500.

The President is very committed to both expanding service opportunities and to providing caring mentors and tutors for children and youth. He has stated “Today’s elderly are the healthiest, most energetic, best-educated generation . . . They have more free time and want to use it. They have the wisdom of years, and they want to share it.”

Well run tutoring and mentoring programs have proven to be very effective in changing youth’s life trajectories, reducing drug and alcohol use, and improving academic behaviors. Estimates of the current number of mentors in the country are less than 500,000. There are several million youth who would accept and benefit from adult mentoring.

Findings and results of a number of senior service demonstrations over the past several years provide strong evidence that seniors in retirement will commit to serving 10 hours per week if:

- There is a structure through which individuals can participate;
- Projects are well run and are providing many services in communities;
- There is some modest incentive to recognize that the activity has value and to cover out-of-pocket costs; and
- There is flexibility so that seniors can participate in a variety of activities and in different amounts and blocks of time.

We believe that the structure and focus of the Silver Scholarship Program will be appealing to Baby Boomers and is an important part of our strategy to involve large numbers of this group in service during the third stage of life.

Question. Under what existing legal authority does the Corporation have in implementing this program? Is this program authorized or permissible under the existing authorizing statute?

Answer. This program, as proposed, is not authorized in the current statute; however, we have proposed appropriations language in the budget justification that would provide the authority necessary to fund the program grants under Subtitle C and pay the scholarships from the National Service Trust.

Silver Scholarships will work just like the AmeriCorps education awards. Upon completion of the required 500 hours, the Silver Scholarship grantee will submit a Silver Scholarship Beneficiary Designation Form to the Corporation on behalf of the volunteer. The beneficiary will then be entitled to \$1,000 to be paid from the National Service Trust directly to a lender or an education institution for eligible higher education expenses, including loan repayment. There will be no direct payment from the trust to an individual.

Question. In its original proposal in fiscal year 2002, the administration proposed splitting the funding for the Silver Scholarships program between the VA–HUD and Labor–HHS Subcommittees. However, for fiscal year 2005, the budget request only includes funding out of VA–HUD. Please explain.

Answer. We proposed the grant and Trust funding to one appropriations subcommittee because both are necessary for the program to work; we were concerned that working through two subcommittees created the possibility of only one piece being funded. We chose the VA–HUD subcommittee because it oversees the National Service Trust.

Question. Given the Corporation's ongoing management challenges with its current program responsibilities, does the Corporation have the resources to administer a new program?

Answer. Existing staff in Senior Corps will administer the program. We are confident that they are up to the challenge. Enrollment in the National Service Trust will follow the strict guidelines and procedures for the Trust that are overseen by our Chief Financial Officer.

COST ACCOUNTING

Question. Past GAO reports have indicated that the Corporation lacks reliable cost information for some of its programs, which hampers analysis of the true cost of its programs. Further, a PriceWaterhouseCoopers (PWC) assessment of the Corporation's implementation of a cost accounting system indicated that the Corporation's cost accounting model should be able to calculate actual costs per program, but that the model needs to be refined to calculate cost per grant or cost per grant dollar.

Can the Corporation now provide information on a cost per grant or cost per grant dollar basis as recommended by PWC? What steps is the Corporation taking to ensure that the cost data is reliable?

Answer. During fiscal 2001 the Corporation contracted with PriceWaterhouseCoopers to assess its cost model. PriceWaterhouseCoopers concluded that the methodology was in conformance with the applicable Federal accounting standards and provided several recommendations to enhance the methodology. Specifically, PriceWaterhouseCoopers recommended that we add functionality to calculate "administrative cost per grant" or "administrative cost per grant dollar" that can be monitored over time to measure improvements in administrative cost management. To implement this recommendation the Corporation added a performance measure reporting the administrative cost per grant dollar awarded to its fiscal 2003 Performance and Accountability Report to Congress as follows:

- AmeriCorps—15.5 cents and 15.9 cents per dollar, for fiscal 2002 and 2003, respectively.
- National Senior Service Corps—5.5 cents and 6.6 cents per dollar, for fiscal 2002 and 2003, respectively.
- Learn and Serve America—9.0 cents and 8.1 cents per dollar, for fiscal 2002 and 2003, respectively.

We are currently developing an administrative cost per grant measure that will give a more meaningful indication of our efficiency.

Beginning with the fiscal 2004 Performance and Accountability Report to Congress, the Corporation will break down costs at the subprogram level. For example, rather than reporting costs associated with the AmeriCorps responsibility segment, the schedule will have individual amounts for the National Direct, State, VISTA, and NCCC programs. The Corporation also reviews the cost accounting methodology and makes adjustments (such as further isolating costs by program) when necessary to ensure that the information is reliable and reflects the results of its operations. The cost accounting information used in developing the performance metric is derived from footnote 12 in the Corporation financial statements. The Office of Inspector General audits this information as part of annual financial statement audit which provides additional assurance to the Corporation and Congress on its reliability.

QUESTIONS SUBMITTED TO THE BOARD OF THE CORPORATION FOR NATIONAL AND COMMUNITY SERVICE

QUESTIONS SUBMITTED BY SENATOR CHRISTOPHER S. BOND

ED AWARD ONLY PROGRAM

Question. The "education award only" program has many advantages over the regular AmeriCorps program because of its lower costs, its broad reach to more communities, its broad network of program sponsors and strategies, its simplified application process, and its greater program flexibility. Based on your most recent data, there is obviously a huge demand for the program.

What is your opinion about this program? Do you believe this program should be expanded?

Answer. The Education Award Program (EAP) has an enormous number of strengths and offers several flexibilities over the AmeriCorps State and National program. Clearly the program is highly cost effective, limited to \$400 in administra-

tive dollars and the cost of the education award. The simplified application process offers successful programs greater flexibility and makes these funds available to a broader pool of program sponsors. It is overall a more flexible program for the Corporation. EAP has expanded dramatically over a short period of time and I am excited about the opportunities it offers for the State commissions and for the National Direct grantees. It is one of many innovative, low-cost models that may make it possible to expand national service without a large increase in Federal spending. We need to continue to explore this option. However, we also must ensure the proper mix of low cost and traditional awards, to strengthen national service programs and maximize participation and results. There may be differing views on the optimum mix of traditional and lower cost program options, but we are striving to develop a broader continuum of options that includes EAP and low cost stipends for a better blend that produces more volunteers per Federal dollar spent.

APS

Question. The Corporation recently made some major changes to the Corporation's Alternative Personnel System by converting most term-appointed employees to a General or permanent appointment system.

In my opinion, this decision came out of left field. Prior to the announcement of the decision, we had only received a draft document on March 12 titled the "Preliminary Strategic Human Capital Plan" that laid out some general goals but not much analysis or discussion on term appointments.

Did the Board review and formally approve this decision? What was the vote? What kind of analysis was provided to the Board? Did the Corporation provide options for the Board's review? What was the Board's opinion(s) of this decision?

Answer. The Alternative Personnel System (APS) authority provides a well-managed organization with the ability to perform at exceptionally high levels on behalf of the public and to the advantage of its employees. APS allows good managers to do better. Unfortunately, in my short tenure it seemed to me generally that APS was used badly; it neither rewarded the right conduct nor properly reassured employees. I was sufficiently concerned that I requested a study of the APS by the Corporation's Inspector General in 2003. The results of the IG study and a report prepared by OPM specifically identified many shortcomings with the then-current APS appointment system. And both OPM and the IG recommended that the Corporation reevaluate APS and ensure its alignment with the Corporation's strategic objectives. The statute governing the Corporation clearly authorizes the CEO to:

- establish an APS;
- appoint and determine compensation in the APS; and
- determine whether to utilize term appointments in the APS.

The identified problems needed to be corrected by executive management promptly. The Board of Directors encouraged the Corporation to select a Chief Human Capital Officer (CHCO), a position which the Corporation filled with an individual who is highly regarded by OPM. The CHCO was tasked with, among other things, going about the detailed business of making the enterprise work better. The Board was generally informed that changes were occurring, though it took no vote since the issues fell under the statutory authority of the CEO. I believe that the CEO and his executive team are well on the way to building an effective, performance management culture at the Corporation and that their change to the term appointments policy is consistent with that progress.

The board is pleased that the CEO is taking action so quickly to address these urgent and widely-discussed issues.

QUESTION SUBMITTED TO THE OFFICE OF INSPECTOR GENERAL

QUESTION SUBMITTED BY SENATOR CHRISTOPHER S. BOND

ILLEGAL LOBBYING

Question. The enacted fiscal year 2004 appropriations bill contained a provision that required the IG to conduct random audits of AmeriCorps grantees to determine if there have been any substantial violations of the program rules, including any illegal lobbying efforts.

Mr. George, what is the status of your review and when do you expect to complete it? Have you found any improprieties thus far?

Answer. In response to the Consolidated Appropriations Act of 2004, we expanded our audit plan for fiscal year 2004. The fiscal year 2004 audit plan includes audits of nine State commissions and audits of 10–15 AmeriCorps National Direct grant-

ees. We are also auditing a cooperative agreement awarded under Subtitle H of the National and Community Service Trust Act of 1993, an area of prior Congressional interest, with regard to program advocacy.

Each of these audits focuses on examining whether AmeriCorps grantees are complying with applicable laws, program rules, and grant provisions, including whether grantees have engaged in prohibited political advocacy or lobbying efforts. Each audit also focuses on whether costs charged to the Corporation's grant are allowable. If an audit identifies prohibited lobbying costs charged to a grant, these costs are referred for investigation to determine whether a violation of law has occurred. In addition, the OIG continues to analyze the results of all of our audits to identify systemic or programmatic issues regarding grantee compliance.

Our work in this area is ongoing. We continually update our audit plan, replacing examinations of recently audited grantees with audits of other grantees.

As for improprieties found thus far, an ongoing review of a cooperative agreement awarded under Subtitle H has raised concerns about the use of Corporation funding for the organization's advocacy initiatives. This review is currently underway and involves both audit and investigative staff. We will keep you apprised of this review as the facts warrant.

CONCLUSION OF HEARINGS

Mr. EISNER. Thank you very much, Mr. Chairman.

Senator BOND. No further business to come before the subcommittee today. The subcommittee is recessed.

[Whereupon, at 11:28 a.m., Thursday, April 8, the hearings were concluded, and the subcommittee was recessed, to reconvene subject to the call of the Chair.]

**DEPARTMENTS OF VETERANS AFFAIRS AND
HOUSING AND URBAN DEVELOPMENT, AND
INDEPENDENT AGENCIES APPROPRIATIONS
FOR FISCAL YEAR 2005**

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

**MATERIAL SUBMITTED BY AGENCIES NOT APPEARING FOR
FORMAL HEARINGS**

[CLERK'S NOTE.—The following agencies of the Subcommittee on VA, HUD and Independent Agencies did not appear before the subcommittee this year. Chairman Bond requested these agencies to submit testimony in support of their fiscal year 2005 budget request. Those statements submitted by the chairman follow:]

DEPARTMENT OF THE ARMY—CIVIL

PREPARED STATEMENT OF THE HONORABLE JOHN PAUL WOODLEY, JR., ASSISTANT
SECRETARY OF THE ARMY (CIVIL WORKS)

THE CEMETERIAL EXPENSES BUDGET FISCAL YEAR 2005

Mr. Chairman and distinguished members of the subcommittee, thank you for the opportunity to provide testimony before this subcommittee in support of the President's budget for the Department of the Army's Cemeterial Expenses program for fiscal year 2005.

The Secretary of the Army, is responsible for operating and maintaining Arlington and Soldiers' and Airmen's Home National Cemeteries, as well as making necessary capital improvements to ensure their long-term viability.

Arlington National Cemetery is the Nation's premier military cemetery. It is an honor to represent this cemetery and the Soldiers' and Airmen's Home National Cemetery. On behalf of these two cemeteries and the Department of the Army, I would like to express our appreciation for the support this subcommittee has provided over the years.

FISCAL YEAR 2005 BUDGET OVERVIEW

The fiscal year 2005 budget is \$29,600,000, which is \$600,000 more than the fiscal year 2004 appropriation of \$29,000,000. The fiscal year 2005 budget will support Arlington National Cemetery's efforts to improve its infrastructure and continue working toward implementation of its Ten-year Capital Investment Plan. The funds requested are sufficient to support the work force, assure adequate maintenance of buildings and grounds, acquire necessary supplies and equipment, and provide the high standards of service expected at Arlington and Soldiers' and Airmen's Home National Cemeteries.

The budget also includes funds to pursue expansion efforts needed to ensure that Arlington National Cemetery remains an active burial place for service men and women into the next century. The following table displays how long gravesites will remain available in both developed and undeveloped areas that are currently part of the Cemetery. It is presented to illustrate the importance of proceeding with ex-

pansion projects in a timely manner so that there will be no disruption in services for deceased veterans and to relieve significant crowding of funeral services.

Note that the gravesite capacity shown in the table for the undeveloped area is for currently owned land (i.e., Project 90 and utility relocations), but does not include the Millennium Project, which requires both land within the Cemetery's boundaries (i.e., the old warehouse area and Section 29 land) and land to be transferred to the Cemetery (i.e., Fort Myer picnic area). Nor does the table reflect future land expansion projects programmed in the Ten-year Capital Investment Plan beyond the Millennium Project, such as the Navy Annex and Fort Myer parking lot, all of which are currently authorized and are addressed in the Concept Land Utilization Plan.

ARLINGTON NATIONAL CEMETERY GRAVESITE CAPACITY AS OF SEPTEMBER 30, 2003

Gravesite Capacity—Developed Areas	242,850
Total Gravesites Used	215,181
Gravesites Currently Available	27,669
Year Available Capacity Exhausted	2012
Gravesite Capacity—Undeveloped Area	36,000
Total Gravesite Capacity	278,850
Year Total Capacity Exhausted	2025

I will elaborate further on the significance of the declining gravesite capacity later on in this statement.

BUDGET DETAILS

The budget is made up of three programs—Operation and Maintenance, Administration, and Construction. The principal items contained in each program are described below.

Operation and Maintenance Program

The budget for the Operation and Maintenance program is \$17,846,000. It provides for the cost of operations necessary to conduct an average of 25 funeral services per day, accommodate approximately 4 million visitors each year, and maintain 652 acres of land and associated infrastructure. This program supports 94 of the cemeteries' total of 100 full time equivalent (FTE) work-years. Contractual services comprise \$10,411,000, or 58 percent, of the Operation and Maintenance program, as follows:

- \$3,079,000 for tree and shrub maintenance.
- \$2,485,000 for grounds maintenance.
- \$1,400,000 for information/guard services.
- \$1,500,000 to develop an automated system for burial records, gravesite locations, financial management, supplies and equipment.
- \$485,000 for custodial services.
- \$1,462,000 for recurring maintenance of equipment, buildings, headstones, and other facility maintenance contracts.

The remaining funds in the Operation and Maintenance program support the Government workforce, which is primarily responsible for all activities associated with preparing gravesites and conducting burial services, as well as the cost of utilities, supplies and equipment. The cost for utilities includes a credit for previous overpayments for water that were made based on estimated usage resulting in no charge for water in fiscal year 2005.

One important aspect of the Operation and Maintenance Program is the continuing initiative to automate the administrative functions of the cemetery. Since the spring of 2000, the cemetery has contracted for a number of business reviews to determine the cost and feasibility of undertaking this initiative. These analyses resulted in an Information Management Strategy that was presented to the Office of Management and Budget (OMB) in May 2003. This strategy set forth the development of the Total Cemetery Management System, which is designed to improve performance as follows:

- Transform the cemetery into a more customer service-oriented organization that improves coordination among its stakeholders and partners.
- Increase information and services available to its customers (family members and visitors).
- Improve customer satisfaction.
- Increase the efficiency and effectiveness of cemeterial processes while reducing costs.

—Reduce the risks associated with the manual data access and maintenance process.

The cost to implement the next phase of an automation initiative is estimated to be \$5,000,000, and is an ongoing project. The \$1.5 million included in the fiscal year 2005 budget will be used to complete the required OMB reports, plan and start the next phase of a multi-year automation effort.

Administration Program

The budget includes \$1,472,000 for the Administration program, which provides for essential management and administrative functions, including staff supervision of Arlington and Soldiers' and Airmen's Home National Cemeteries. Budgeted funds will provide for personnel compensation, benefits, and reimbursable administrative support services provided by other government agencies. This program supports the balance of the cemeteries' workforce of six FTE work-years.

Construction Program

The Construction program's budget is \$10,282,000, consisting of the following projects:

- \$5,000,000 to complete Project 90 land development.
- \$75,000 to update and refine the Ten-year Capital Investment Plan.
- \$200,000 to continue developing property in and adjacent to Arlington National Cemetery, in accordance with the Concept Land Utilization Plan.
- \$1,640,000 to complete repairs at the equipment and vehicle service complex.
- \$500,000 to repair roads and walkways.
- \$450,000 to repair flagstone and sidewalks.
- \$420,000 to continue the grave liner program.
- \$300,000 to repair storm and sanitary sewer lines.
- \$610,000 to design and build a stone boundary wall at the Facility Maintenance Complex parking facility.
- \$400,000 to conduct utility surveys.
- \$500,000 to study upgrades for the visitor center and administration building.
- \$187,000 to perform minor projects such as painting and cleaning facilities.

Three of the above projects are particularly important to increase the capacity of Arlington National Cemetery, so that space is available for burials into the next century. They are described further in the following paragraphs.

Project 90 Land Development.—As the table displayed earlier in this statement illustrates, capacity in the currently developed area of Arlington National Cemetery will be exhausted by 2012. In order to extend the Cemetery's useful life to 2025, it is necessary to develop the remaining 40 acres of open land within its current boundaries. This involves the development of gravesite areas, roads, utilities and a boundary wall with niches for the placement of cremated remains. Approximately 26,000 additional gravesites and 5,000 niches will be provided when the development is complete.

Significant crowding is already occurring due to the ever-shrinking land available in the Cemetery. This is compromising the dignity of funerals by distracting families at ongoing nearby services, as well as disruptions caused by daily maintenance required to be performed at new gravesites.

The Project 90 land development is fully designed and \$9.4 million in construction funds for Phase I were appropriated in fiscal year 2003. Phase I consists of grading the site, relocating utilities, constructing roads and landscaping gravesite areas. Construction of Phase I is scheduled to begin this spring and be finished within 2 years.

The fiscal year 2005 budget includes \$5 million for Phase II of Project 90. Phase II primarily entails construction of a new boundary niche wall that will hold the ashes of cremated remains on the inside of the wall. The niches and covers will be the same size and resemble those currently used at the existing Columbarium Complex.

Ten-year Capital Investment Plan.—By our letter of February 5, 2002, we provided this subcommittee with a 10-year plan that identifies the Cemetery's new construction, major rehabilitation, major maintenance and study proposals for the next 10 years. It addresses projects identified in the 1998 Master Plan and other projects needed to ensure that the cemetery remains open for burials into the twenty-second century. It also serves as a guide for annually recurring maintenance needs of the Cemetery.

The fiscal year 2005 budget includes \$75,000 to continue developing and refining this multi-year plan for funding projects in a technically sound and financially efficient manner. This is a living document that will be periodically updated to reflect the latest information, identify new requirements and improve the quality of cost

estimates. It is an essential tool in developing a credible long-term investment strategy and the budget recommendations that emanate from it.

Concept Land Utilization Plan.—By our letter of October 27, 2000, we provided this subcommittee with a plan that identifies the requirements for developing adjacent land for future expansion. The first site to be developed is the Millennium Project, which consists of the development of 36 acres of land into gravesite areas, roads, utilities, columbarium walls, and a boundary wall with niches for the placement of cremated remains. Approximately 26,000 additional gravesites and 15,000 niches will be provided when development is complete. Actual yields could change significantly, depending upon final design. The Millennium Project would extend the useful life of the Cemetery beyond 2025 to somewhere between 2038 and 2047, depending upon final implementation.

The Millennium Project consists of three parcels of land. The first parcel (7 acres) is land already within the boundaries of Arlington National Cemetery made available by demolition of the old warehouse buildings. The second parcel (12 acres) was transferred to the Cemetery from the National Park Service on January 28, 2002, pursuant to the authority contained in Section 2863 of Public Law 107–107, the National Defense Authorization Act for fiscal year 2002. The final piece of the Millennium Project is a 17-acre parcel of adjacent land currently owned by Fort Myer (picnic area), which is to be transferred to the Cemetery in accordance with Section 2882 of the fiscal year 2000 Defense Authorization Act (Public Law 106–65). We are working with Fort Myer to implement this land transfer in the near future. With this land transfer complete \$3,300,000 of design will begin this year and the first year of construction is anticipated for 2007.

The Concept Land Utilization Plan also includes the Navy Annex and Fort Myer parking lot, which would extend the Cemetery's life to somewhere between 2054 and 2068, again depending upon how these sites are ultimately developed. Increasing capacity beyond this time frame will require additional land expansion for gravesites or more columbarium niches.

The other items listed in the Construction program are needed to address aging and deteriorating infrastructure. These are primarily repairs and replacements that should be accomplished to avoid further cost increases and potentially disruptive emergency repairs.

FUNERALS

In fiscal year 2003, there were 3,903 interments and 2,342 inurnments. In fiscal year 2004, we estimate there will be 3,925 interments and 2,775 inurnments. Looking ahead to fiscal year 2005, we estimate there will be 3,975 interments and 2,825 inurnments.

CEREMONIES AND VISITATION

Millions of visitors, both foreign and American, come to Arlington to view the Cemetery and participate in ceremonial events. During fiscal year 2003, about 3,100 ceremonies were conducted, with the President of the United States attending the ceremonies on Veterans Day and Memorial Day.

During fiscal year 2003, Arlington National Cemetery accommodated approximately 4 million visitors, making it one of the most visited historic sites in the National Capital Region. A study conducted in the 1998–1999 time frame confirmed this estimate. A customer survey system will be designed and implemented in conjunction with the Cemetery's overall automation plan and will be used to collect, enter and analyze the survey data.

FISCAL YEAR 2004 APPROPRIATION

The additional \$2,868,000 provided in the fiscal year 2004 appropriation will be used to accelerate the Cemetery's automation project (\$2,668,000), and address distressed headstones (\$200,000). The 0.59 percent rescission included in the fiscal year 2004 appropriation act (Public Law 108–199), amounts to \$171,000 for Arlington National Cemetery, which has been applied to those additional funds provided.

CONCLUSION

The funds included in the fiscal year 2005 budget are necessary to maintain the existing infrastructure at Arlington National Cemetery, provide quality services for its many visitors, make the capital investments needed to accommodate burials, and preserve the dignity, serenity and traditions of the cemetery. I respectfully ask the subcommittee's favorable consideration of our budget.

Mr. Chairman, this concludes my testimony. We will be pleased to respond to questions from the subcommittee.

NATIONAL CREDIT UNION ADMINISTRATION

PREPARED STATEMENT OF THE HONORABLE DENNIS DOLLAR, CHAIRMAN

Mr. Chairman, Ranking Member Mikulski, and members of the subcommittee. As Chairman of the National Credit Union Administration (NCUA), I am pleased to submit testimony that presents NCUA's request for fiscal year 2005 funding of the Community Development Revolving Loan Fund (CDRLF) and to request \$1.5 billion in fiscal year 2005 borrowing authority for our Central Liquidity Facility (CLF), and slightly increased CLF operational expenses for the year.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING
LOAN FUND

The National Credit Union Administration (NCUA) would like to thank the subcommittee for continuing its strong support of NCUA's Community Development Revolving Loan Fund (CDRLF).

NCUA remains committed in our efforts to promote and facilitate the extension of affordable financial services to individuals and communities throughout America as demonstrated by the implementation of the agency's successful Access Across America initiative. The CDRLF plays a vital role in the success of Access Across America, which is designed to reach out to underserved communities and create economic empowerment for people from all walks of life. Low-income designated credit unions use the loans to further community development by providing funding for member loan demand, additional member services, and increased credit union capacity to serve members that has resulted in the overall improvement of the financial condition of low-income credit union members. The grants are used for verifiable and need-based technical assistance purposes by low-income designated credit unions.

Congress established the CDRLF in 1979 to provide low-interest loans to credit unions that have been designated low-income by NCUA. NCUA has administered the CDRLF for 14 years. By year-end 2003, the CDRLF had provided to 224 loans totaling \$33.9 million to low-income designated credit unions. In 1992, NCUA initiated a technical assistance grant (TAG) program in conjunction with the CDRLF which funded grants from the interest generated from outstanding CDRLF loans. To date, NCUA has provided 1,206 TAGs totaling \$2.8 million.

NCUA views the CDRLF as a resource for incubation monies for low-income designated credit unions to initiate or develop services for members, thereby providing further opportunities to self-fund or obtain more substantial funding. Low-income designated credit unions use CDRLF loans to further community development efforts by funding member loan demand, provide additional member services, increase capacity to service members and improve the financial condition of low-income credit union members. TAGs support many of the services low-income designated credit unions provide to their members, including member financial literacy programs and electronic delivery systems.

Background

The CDRLF was established by Congress (Public Law 96-124, Nov. 20, 1979) through an initial \$6 million appropriation to stimulate economic development in low-income communities. In 1990 the sole administration of the CDRLF was transferred to NCUA after having been administered by various Federal agencies.

Congress did not provide additional appropriations for the CDRLF from 1979 to 1996. For fiscal year 1997, Congress appropriated an additional \$1 million for the loan program with subsequent appropriations as follows:

Fiscal Year 1997	\$1,000,000	Loans.
Fiscal Year 1998	1,000,000	Loans.
Fiscal Year 1999	2,000,000	Loans.
Fiscal Year 2000	1,000,000	Loans.
Fiscal Year 2001	350,000	TAG.
	650,000	Loans.
Fiscal Year 2002	350,000	TAG.
	650,000	Loans.
Fiscal Year 2003	300,000	TAG.
	700,000	Loans.

Fiscal Year 2004	1,000,000 200,000	TAG. Loans.
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Administrative expenses related to the CDRLF are fully absorbed by NCUA. All appropriations, as well as any earnings generated from the CDRLF's assets, are provided to the intended low-income designated credit unions after any necessary adjustments to recognize potential losses in the loan portfolio.

Qualifying Applicants

In order to qualify for participation in the CDRLF, credit union applicants must have a low-income designation and must serve predominantly low-income members. NCUA regulations define low-income members as those persons either earning less than 80 percent of the average for all wage earners as established by the Bureau of Labor Statistics or those whose annual income falls at or below 80 percent of the median household income for the Nation. The NCUA standard for 2003 income for a household was \$35,913 and \$21,360 for an individual.

Revolving Loan Component

The revolving loan component of the CDRLF is designed to assist as many qualifying credit unions as possible. Therefore, loans are limited to \$300,000 and no credit union may have more than two separate loans at any one time. Loans must be repaid within 5 years, although a shorter repayment period may be considered.

Generally, loans are required to be paid in semiannual installments with no principal balance repayment due during the first year. To combat the potential misuse of funds, NCUA regulations require that recipient credit unions must match the loan with funding from member share deposits or non-member deposits within the first year.

Interest rates are set annually by the NCUA Board at a rate between 1 and 3 percent. Due to the current interest rate environment, the NCUA Board has set a 1 percent interest rate for 2004.

NCUA has authorized an open application period for participation in the loan program. This unrestricted application period enables low-income credit unions—most of which have very few employees and limited resources—to develop and present a viable plan for better serving their fields of membership. The open application period also allows credit unions to implement projects and services on a more timely basis.

During 2002, NCUA revised the loan program in an effort to achieve greater flexibility and mitigate risk. Although loan repayments accelerated during this period of time, the revised program offset the anticipated loss of loans with increased interest and applications for the loan program. During 2003, 11 credit union loan applications were received.

Credit unions most likely to utilize the loan program are generally small in size with the median asset size of participating credit unions since 1990 being \$3.4 million.

To help ensure equality in loan approvals, a scoring system judges the purpose of the proposed use of funds, the financial condition of the credit union and management's capability of achieving the stated objective and operating the credit union in a safe and sound manner. As a regulator, NCUA has the added advantage of using credit union examinations to ensure the financial stability of loan grantees.

Technical Assistance Grants (TAGs)

TAGs are generally awarded in amounts less than \$5,000 and are made directly to low-income designated credit unions requiring assistance to further their outreach into the communities they serve. The grants assist these credit unions, generally less than \$3 million in assets, in their efforts to improve service to their members by providing training opportunities to credit union staff, supplying funds for operational upgrades in recordkeeping, offering stipends to credit unions for summer student intern programs, promoting credit union services, developing training and consulting services for members and other worthwhile programs. With assistance provided through the TAG program, credit unions have also realized improved service in the delivery of financial products and services through enhanced technology. In 2003, 114 credit unions received more than \$259,000 specifically designated for technology improvements which includes upgrades in hardware and software, debit card programs and automated response systems.

To ensure the funds are used solely for the purpose approved, grants are issued as reimbursements for goods or services previously approved by NCUA and much like the loan component of the CDRLF, TAGs are available to low-income designated credit unions throughout the year.

Beginning in 2001, Congress specifically designated a portion of its annual appropriations for TAGs. Prior to 2001, the grant program was funded solely through earnings from outstanding CDRLF loans and never exceeded \$250,000.

Grant requests continue to exceed all available resources. In 2003, NCUA received requests for more than \$1.2 million. Due to limited resources, NCUA was forced to decline requests for more than \$750,000 that could have been used to provide much needed services in low-income areas. Earlier this year, Congress, recognizing the high demand for technical assistance, specifically designated \$1 million of the total appropriation for the grant component of the CDRLF for fiscal year 2004. The additional funding will assist in expanding two existing programs available to participating credit unions—the student intern program and the Volunteer Income Tax Assistance program, as well as establish a number of new community development initiatives.

From its inception in 1992, the CDRLF has provided 1,206 technical assistance grants totaling \$2.8 million to low-income designated credit unions. In 2003, NCUA disbursed grants totaling \$460,000.

Student Intern Program

In 1996, NCUA established a student intern program funded entirely by the grant component of the CDRLF. The program is designed to provide low-income designated credit unions the opportunity for college students to contribute to the operations of the credit union while learning about the credit union community. The program makes grants totaling an average of \$69,000 annually, with 28 low-income designated credit unions and their 28 credit union partners participating. Student interns participating in the program work at both the low-income designated credit unions and their partnering credit unions, affording them with the opportunity to share best practices between the institutions. Response from student and credit union participants has been extremely positive. The program is reevaluated annually to assess its ongoing impact and feasibility.

VITA Program

In 2003, NCUA designated \$50,000 for low-income designated credit unions establishing VITA (Volunteer Income Tax Assistance) sites. The VITA program is administered by the Internal Revenue Service to assist low-income and elderly taxpayers with income tax preparation, and to encourage low-wage earners to file for the Earned Income Tax Credit (EITC). Last year, NCUA granted 13 credit unions a total of \$50,000 dollars to offset some of the administrative burden associated with setting up these taxpayer clinics. With the increase in appropriated funds for fiscal year 2004 and expectations for increased participation, NCUA designated \$75,000 for credit unions to set up VITA programs for 2005.

Other TAG Programs

With the increased funding for fiscal year 2004, NCUA has designated funds for new targeted initiatives. NCUA recently announced three new TAG programs. This year, \$350,000 has been made available to low-income designated credit unions for developing financial education programs, homeownership initiatives and training assistance.

The specialized TAG programs emphasize initiatives that help communities develop self-sufficiency. The Financial Education Assistance Program is intended to provide members and potential members with practical money management skills, as well as an introduction to financial planning. Credit unions receiving funds through the Homeownership Assistance Program will utilize the funds to enhance their partnerships with affiliates of the Neighborhood Reinvestment Corporation, referred to as Neighbor Works® Organizations, in establishing and improving mortgage lending/homeownership programs. The training program TAGs will cover tuition and travel costs associated with attending recognized training courses for credit union staff and leaders. Educated and informed credit union staff and volunteers are essential to providing safe and sound services to credit union members.

NCUA is in the process of developing other TAG initiatives to assist credit unions in the enhancement of technology systems, expansion of financial services to underserved areas, the creation of individual development accounts (IDAs), the establishment of remittance programs and credit union mentoring opportunities. These programs will be announced in the second quarter.

The CDRLF continues to provide low-income designated credit unions—particularly those of smaller asset size—the opportunity to obtain loans and technical assistance grants to improve and enhance services to their members. Though a small program, it provides valuable aid and assistance for those credit unions benefiting from this support while striving for self-sufficiency. Credit unions, through their cooperative structure, are funded through the share deposits of their members. The

CDRLF provides needed assistance to further growth and viability of participating credit unions serving low-income fields of membership. Access to affordable financial services can provide underserved communities with a much needed alternative to high-cost lenders, allowing the residents to keep more of their money in their communities. NCUA firmly believes that, based upon the amount of loan and technical assistance grant applications where the needs were unable to be met last year, an increase of an additional \$800,000 over last year's funding level could provide the CDRLF program even greater ability to further growth and long-term viability of credit unions in low-income and underserved areas.

NATIONAL CREDIT UNION ADMINISTRATION CENTRAL LIQUIDITY FACILITY

The National Credit Union Administration Central Liquidity Facility (CLF) was created by the National Credit Union Administration Central Liquidity Facility Act (Public Law 95-630, Title XVIII, 12 U.S.C. 1795, et seq.). The CLF is a mixed ownership government corporation managed by the National Credit Union Administration Board. It is owned by its member credit unions who contribute all of the capital by the purchase of stock. The CLF became operational on October 1, 1979.

The purpose of the CLF is to improve general financial stability by meeting the liquidity needs of credit unions and thereby encourage savings, support consumer and mortgage lending and provide basic financial resources to all segments of the economy. To accomplish this purpose, member credit unions invest in the CLF through the purchase of stock, which is used for investment purposes and the funding of some lending activity. The proceeds of borrowed funds from the Federal Financing Bank are used to match fund significant loan requests from member credit unions.

In addition to serving its direct members, the CLF complements the organizational structure of the U.S. credit union financial system by working with its agent members, which are corporate credit unions acting as agents of the CLF on behalf of their natural person credit union membership. This agent framework consists of a private financial network of 29 State and federally chartered corporate credit unions with approximately \$74.5 billion in assets. The corporate credit union network provides operational and correspondent services, investment products and advice and short-term loans to its approximately 9,751 natural person credit unions. The CLF provides this network with assurance that if temporary liquidity shortages or public confidence issues arise due to external events or internal problems, funds are available to meet abnormal savings outflow. By being a specialized lender housed within NCUA, the CLF has the ability to draw upon the supervisory and insurance resources of the agency. However, CLF assistance is generally a secondary source of funds after the corporate system or other sources of credit have been utilized. Often the CLF is used when other credit sources have been unable to provide the appropriate terms and conditions required in a specific situation.

The borrowings of the CLF have the "full faith and credit" of the United States Government. The Federal Financing Bank of the U.S. Treasury is available as a source for the CLF to fund its lending programs. The CLF is financially self-supporting and does not use government funds to support any of its administrative and operational expenses.

Lending Activities

Loans are available to credit unions directly from the CLF or through its agent credit members. Credit unions rely on market sources to meet their demands for funds. The CLF normally is not an active participant in the on-going daily operations of this system. Rather, its role is to be available when unexpected, unusual or extreme events cause temporary shortages of funds. If not handled immediately, these shortages could lead to a larger crisis in individual credit unions or even the system as a whole. Because of its knowledge of credit unions and its immediate access to the supervisory information of NCUA, the CLF exercises a vital role in maintaining member and public confidence in the health of the U.S. credit union financial system.

Factors Influencing Credit Union Borrowing Demand

Under the Federal Credit Union Act, the CLF is intended to address unusual or unpredictable events that may impact the liquidity needs of credit unions. Since these events are not generally foreseen, it is extremely difficult to forecast potential loan demand. Throughout the history of the CLF, loan demand has widely fluctuated in both volume and dollar amount.

The CLF is authorized by statute to borrow from any source up to 12 times its subscribed capital stock and surplus. Since fiscal year 2001, a borrowing limit of \$1.5 billion has been approved by Congress. The continuation of the \$1.5 billion cap

for fiscal year 2005 will further assure that the CLF continues as a reliable, efficient backup liquidity source in times of need.

It is important to note that CLF loans are not used to increase loan or investment volumes because by statute the proceeds from CLF loans cannot be used to expand credit union portfolios. Rather, the funds are advanced strictly to support the purpose stated in the Federal Credit Union Act—credit union liquidity needs—and in response to circumstances dictated by market events.

Administrative Expenses

Total operating expenses for fiscal year 2003 were \$208,000, below the budget limitation of \$309,000. Expenses were under budget due to lower travel expenses than anticipated due to a reorganization of CLF officers and low group agent fee expense.

Total operating expenses for fiscal year 2004 are projected to be within our budget limitation of \$310,000. In fiscal year 2004, pay and related benefits are higher than 2003 due to salary increases and higher agent fee expenses.

For fiscal year 2005, the CLF is requesting an administrative expense limitation of \$309,000. This figure is slightly lower than the previous year, a result of reduced expenses associated with projected operations for 2005.

Additional Background

Credit unions manage liquidity through a dynamic asset and liability management process. When on-hand liquidity is low, credit unions must increasingly utilize borrowed funds from third-party providers to maintain an appropriate balance between liquidity and sound asset/liability positions. The CLF provides a measure of stability in times of limited liquidity by ensuring a back-up source of funds for institutions that experience a sudden or unexpected shortage that cannot adequately be met by advances from primary funding sources. Two ratios that provide information about relative liquidity are the loan-to-share ratio and the liquid asset ratio. Liquid assets are defined as all investments less than 1 year plus all cash on hand. Managing liquidity risk is a major priority for credit unions and has become an increasingly important risk issue in the past decade as the charts below indicate.

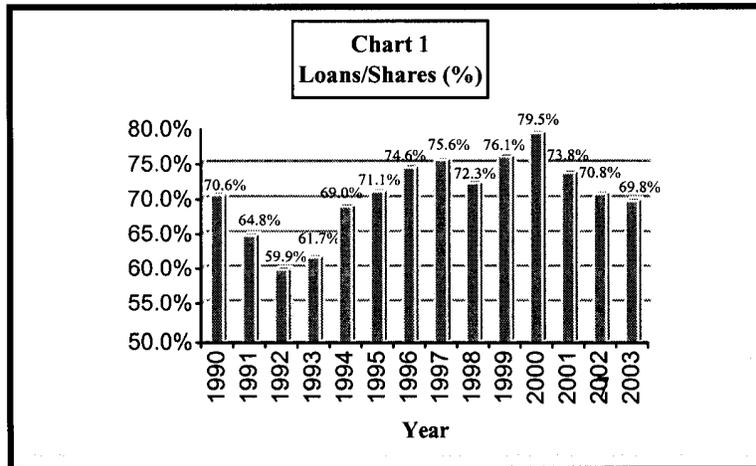


Chart 1 shows the ratio of loans to shares in all federally insured credit unions. As the ratio of loans to shares increases, the amount of funds maintained in short-term liquid investments declines. Liquidity risk has increased on average in the past decade as on-hand liquidity in federally insured credit unions gradually declined due to increased lending. A substantial inflow of shares during 2003 reduced the ratio from the year-end 2002 high of 70.8 percent down to a year-end 2003 level of 69.8 percent. Liquidity risk management remains a significant obligation for credit unions.

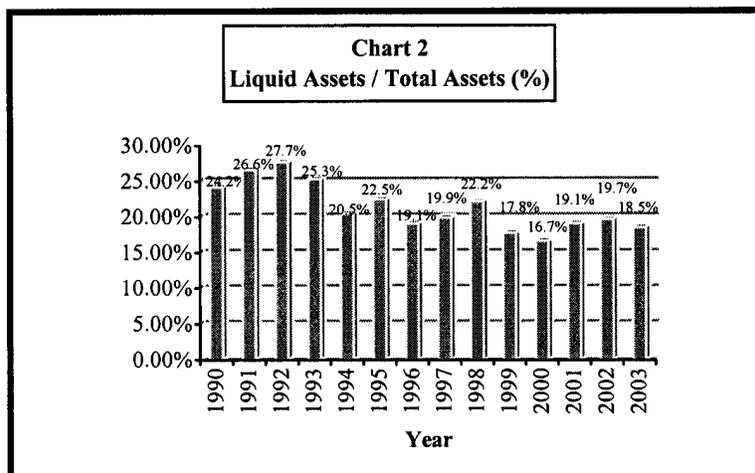


Chart 2 shows the ratio of liquid assets to total assets in all federally insured credit unions. As this ratio decreases, liquidity risk and the potential need for borrowed funds conversely increases. Credit unions utilize various market sources for funding needs including the repurchase market, correspondent relationships with corporate credit unions and other financial institutions, and, to a growing extent, membership in the Federal Home Loan Bank system. CLF serves as a back-up source of liquidity when an unexpected need for funds arises and primary sources are not available.

The CLF continues to experience infrequent demand for liquidity loans from its member credit unions. This is due in no small part to the strong financial position of credit unions and the ample levels of on-hand liquidity maintained during the 1990's. This is not to say, however, that credit unions are not in need of a special purpose liquidity lender. The CLF is a very important resource for credit unions that experience an unexpected need for liquidity, especially when primary funding sources are inadequate or unavailable.

NCUA cannot foresee the exact circumstances that might necessitate a broad-based need for CLF lending but is dedicated to the principle that it must be ready and able to fulfill that purpose; a purpose established by Congress when it created the CLF. Liquidity remains an important priority. Like all depository institutions, credit unions are forced to borrow if their on-hand supply of liquidity is depleted beyond the level of current funding obligations. Credit unions do plan for such borrowing but there are times when contingency funding arrangements are potentially inadequate. Such times call for a responsive CLF.

Whether it lends on an isolated basis or whether it is called upon to address a more widespread or even systemic demand for loans, the CLF is an efficient, effective and low-cost facility well adapted to meet the unique needs of its member credit unions.

Summary

During 2003, credit union assets and shares grew to \$610 billion and \$528 billion respectively, with net worth remaining a strong 10.72 percent. The number of federally insured credit union members grew to over 82 million. These numbers demonstrate the continued safety and soundness of the credit union system.

NCUA greatly appreciates the subcommittee's continued support of its efforts to keep credit unions safe and sound, enhance credit union liquidity and provide needed assistance through loans and grants to low-income credit unions.

SELECTIVE SERVICE SYSTEM

PREPARED STATEMENT OF LEWIS C. BRODSKY, ACTING DIRECTOR

PREFACE

It is an honor to appear before you today again as Acting Director of the Selective Service System. I consider it a privilege to be here, but I bring with me the added understanding that events both national and international will require fresh perspectives and a clear recognition of changing realities in this new century. I welcome this opportunity to support the President's fiscal year 2005 appropriations request of \$26,300,000 for the Selective Service System. I also welcome the challenge of meeting Agency goals that are all the more ambitious for their setting in today's necessary budgetary constraints. Naturally, Selective Service will continue pursuing its traditional goal of raising nationwide registration compliance among eligible young men. But even as the Agency honors its traditional mandate, it is securely focused on the future. Our agenda will be dominated by further implementation of our Process Improvement Program 2003, so-called PIP, in compliance with the President's Management Agenda. Using this self-diagnostic tool, the Selective Service will continue to adjust its operational priorities, eliminate all remaining full-time military staffing, reduce part-time military officers and full-time civilians, and employ more state-of-the-art information technologies to accomplish its statutory missions while preserving maximum customer service. All personnel decrements will be a result of planned attrition and will not involve a Reduction-in-Force. Satisfying both goals would assure a Selective Service System that is fair beyond reproach while meeting the likely needs of the Department of Defense.

No one awaits more eagerly than I the arrival of a new Director. Mr. William A. Chatfield's nomination by President Bush was sent to the Senate last September. And his confirmation hearing before the Senate Armed Services Committee took place at the end of January. We are awaiting further Senate action.

CAPABILITIES

Selective Service stands ready to perform its mission. Should the President and the Congress authorize a return to a draft, the Agency can conduct a draft that is efficient, fair, and accepted by the public. It is also ready to administer a program of alternative community service for men who are classified as conscientiously opposed to military service. With its routine communication with all men in the United States, 18 through 25 years old, and its ability to mobilize national manpower on a large scale, the Agency is also capable of performing additional human resource support missions related to national and homeland security or service, if Congress and the White House so desire.

Selective Service continues its close partnership with the Department of Defense by providing direct support to Armed Forces recruiting and accessions processing. Specifically, Selective Service provides names of registrants to the Secretary of Defense for recruiting purposes, in accordance with a provision in the Military Selective Service Act. As we reported previously to this committee, information about Armed Forces opportunities and a business reply card are now enclosed with the registration acknowledgment that the Selective Service sends to each new registrant. Thus, the Defense Department benefits by "piggy-backing" on our routine mailings and it reimburses us for the additional costs.

Beyond its compliance with the Military Selective Service Act and providing these tangible services, the Agency also promotes an intangible national benefit. For present and future generations of America's young men, Selective Service is a very critical link between society-at-large and today's volunteer military. It is a reminder that, as Americans, every young man is personally responsible for "providing for the common defense" in the time-honored tradition of preceding generations.

PRIORITY AREAS

Since becoming Acting Director 14 months ago, I have made sure Agency activities conformed to President Bush's Management Agenda. Since I last appeared before you, we have completed a reexamination of our processes and begun implementation of a restructuring of the Agency to meet the most likely manpower needs of the Department of Defense (DOD) while finding improved ways of serving the public. I would point to three initiatives that we believe satisfy administration and Congressional charges to Federal agencies to evolve into performance-based organizations.

1. Process Improvement Project 2003 (PIP).—Expanding upon our fiscal year 2002 Agency's Workforce Restructuring Plan, a comprehensive "bottom-up review" is com-

pleted with contractor assistance. After consulting with senior Defense manpower officials, it became apparent to me that the Agency's current organizational structure hasn't been as responsive or relevant to the contemporary needs of the DOD as it might be. Consequently, we shifted our programmatic vision from readiness to conscript large numbers of untrained men within 193 days of activation to a draft of smaller numbers of critical skills personnel within the same time frames. This necessary realignment reflects recognition of current realities and the latest DOD thinking. It is being accomplished within current resources and will result in less management overhead, a merging of offices and programs, and an increased potential for outsourcing some Agency functions. We are convinced the benefits accrued from strategic management of human capital, competitive sourcing, improved financial performance, expanded e-Government, and better integration between budget and performance will substantially increase Agency efficiency in its core and support processes. PIP recognizes no "sacred cows." As I promised in my last appearance before you, Selective Service has placed all functions and programs on the table. Each structural change and staffing decision is being driven by practical, cost-conscious considerations.

2. *Registration Compliance.*—The SSS registration compliance rate for men 18 through 25 years old declined steadily from a high of over 98 percent in 1991 to a low point of 87.7 percent in 2000. This decrease was cause for serious concern because we believe a compliance rate of less than 90 percent would contribute to a lack of public confidence. The resulting draft would not be considered fair or equitable. The public would believe, rightly so, that not everyone who should be in the manpower pool is accounted for; and therefore those who are registered have an increased chance of being called for involuntary service. This is why Agency Directors since 1992 have placed a consistent priority on raising the registration rate. By the end of 2001, we had turned the corner and started an upward trend, achieving 89.1 percent compliance by 18- to 25-year-old men. In 2002 we achieved a level of 90.9 percent. Our final accounting for 2003 is not yet complete, but initial indications are that nearly 93 percent of men 18 to 25 years old were registered at the end of the past calendar year. The other good news is that the statistics for calendar year 2003 are indicating a 77 percent compliance rate for "on-time" registration of men turning 18—a 4 percent increase over the previous year. Our recent high compliance rates represent a return to the high rates of the early 1990's. Since public trust in the Selective Service System is at stake, we will use every resource to continue these upward trends in compliance. In pursuit of that goal, we:

- Continue to develop and distribute public service broadcast messages to low compliance markets, together with printed materials. To support this effort, we have distributed new radio public service announcements in English and Spanish. These high-quality products have been praised by listeners around the country, and cost us only development, replication and distribution—commercial air time valued at \$1.8 million is provided as free public service time.
- Have continued revamping the interactive Selective Service pages on the World Wide Web (www.sss.gov) where online registration, database verification, the ability to file changes of information, and a wealth of other Agency information are now available to anyone with access to the Internet. For calendar year 2003, 76 percent of registrations reached the SSS through electronic means, or about 152,000 registrations per month. We are also placing links to our site with other Federal, State and local agencies and schools to enhance public education and facilitate customer responsiveness.
- Are benefitting from an increasing number of States which link obtaining a driver's license or State I.D. card to the Selective Service registration requirement. These State laws currently provide Selective Service with an average of 61,166 registrations per month. As of this month, 32 States, two territories, and the District of Columbia have laws enacted. These jurisdictions represent over 62 percent of the national 18-year-old male registrant population. We continue to work closely with additional States where such legislation is pending.

3. *Information Technology (IT).*—The PIP resulted in new initiatives and significant changes to the current way the Agency does business. The resulting business cases will indicate what avenues SSS can take to modernize its core and support processes. These changes will require that the inventory of automated systems be modernized. The Agency is in the process of examining its IT architecture, both hardware and software, to identify new technology and to determine how best to implement the support structure for the new and revised business processes. We remain committed to investing in IT, as today's constrained resources permit, because we know that it enhances customer service, increases productivity, and compensates for limited human and fiscal resources.

ADAPTABLE TO CHANGE

We are also ready to aid the Congress with any initiatives that might capitalize upon Selective Service's unique capabilities. There has been much dialogue among the public, private groups, and academia concerning a draft, volunteerism, homeland security, and national service. Selective Service has a wealth of experience in managing volunteers, and administering programs of alternative community-based service for men classified as Conscientious Objectors throughout its nearly 64 years of existence. The Agency also has experience in conducting a fair and equitable classification procedure to determine who should serve when not all can serve. To ensure fairness and equity, each Selective Service Board is a melting pot of civic-minded men and women reflecting the racial, cultural and ethnic diversity of the young men within the communities it serves. Through these volunteers, a unique bond has been formed at the grass roots with young American men, society-at-large, and the U.S. Armed Forces. Through the Selective Service structure, every American community plays a positive role in providing for the common defense. In short, this Agency has extensive practical experience in identifying, contacting and classifying people to participate in a national security or service program. Selective Service can lend its expertise and ample experience to any appropriate task.

CLOSING

Today, Mr. Chairman, thanks in very large measure to your personal interest in this Agency and the continuing support of the subcommittee and its staff members, the Selective Service System stands prepared to perform its time-tested responsibilities, if so directed. The fiscal year 2005 appropriation request of \$26,300,000 will be invested prudently in one of the Nation's important security assets in an increasingly dangerous world. Its rationale for existence and its credentials have never changed: to provide a compact, cost efficient civilian structure capable of rapid expansion in a crisis; to provide manpower to our Armed Forces as required; and to do it fairly, equitably, and within the necessary time frames. The Selective Service System remains resolute in its organizational realignment and operational streamlining. It has improved service to its customers, reinforced its commitment to America, and remains an active partner in the national preparedness community.

Thank you, Mr. Chairman.

FEDERAL DEPOSIT INSURANCE CORPORATION

OFFICE OF INSPECTOR GENERAL

PREPARED STATEMENT OF GASTON L. GIANNI, JR., INSPECTOR GENERAL

Mr. Chairman and members of the subcommittee, I am pleased to present the fiscal year 2005 budget request totaling \$29.9 million for the Office of Inspector General (OIG) at the Federal Deposit Insurance Corporation (FDIC). This OIG budget has a rather unusual distinction in the Federal Government in that it reflects a decrease for the ninth consecutive year, after adjusting for inflation. This budget has been possible because of the improved health of the banking industry since the early 1990's, the major staff downsizing at the FDIC and within the OIG, and our internal efforts to improve our performance and productivity even with reduced budgets.

As you know, the FDIC was established by the Congress in 1933, during the Great Depression, to maintain stability and public confidence in the Nation's banking system. Our Nation has weathered several economic downturns since that era without the severe panic and loss of life savings unfortunately experienced in those times. The Federal deposit insurance offered by the FDIC is designed to protect depositors from losses due to failures of insured commercial banks and thrifts. The FDIC insures individual deposits of up to \$100,000. According to the Corporation's Letter to Shareholders, issued for the 4th Quarter 2003, the FDIC insured \$3.451 trillion in deposits for 9,196 institutions, of which the FDIC supervised 5,313. The FDIC also promotes the safety and soundness of these institutions by identifying, monitoring, and addressing risks to which they are exposed.

The Corporation reports that financial institutions have recently had record earnings. The rate of bank and thrift failures has remained at a relatively low level over the past 10 years, and the Corporation has substantially reduced its estimates of future losses from failures. Assets held in receiverships following bank failures are at comparatively low levels, and significant progress has been made at closing older receiverships. The insurance funds are now comfortably above the designated reserve ratio that could otherwise trigger increases in premiums assessed on insured

depository institutions. These are important indicators of a healthy banking system, and the Corporation can take pride in its positive contributions in each of these areas.

The FDIC OIG was established in 1989 in accordance with amendments added to the Inspector General (IG) Act. The OIG's program of independent audits, investigations, and other reviews assists and augments the FDIC's mission. Our efforts promote economy, efficiency, and effectiveness of FDIC programs and operations and protect against fraud, waste, and abuse.

I am completing my eighth year as the first FDIC Inspector General appointed by the President and confirmed by the Senate and can see the fruits of our strategic planning through the results we have achieved during fiscal year 2003. I look forward to supporting the Congress, the FDIC Chairman, and other corporate management in meeting current and future challenges facing the FDIC and the banking industry.

This statement discusses OIG accomplishments during fiscal year 2003, our contributions to assist FDIC management, internal initiatives to improve the OIG, and management and performance challenges facing the FDIC. I am also providing additional details about our fiscal year 2005 budget and how it will be spent.

A REVIEW OF THE FDIC OIG'S FISCAL YEAR 2003 ACCOMPLISHMENTS

The OIG's fiscal year 2003 achievements are impressive, and the results include:

- \$96.8 million in actual and potential monetary benefits;
- 193 non-monetary recommendations to FDIC management;
- 35 referrals to the Department of Justice;
- 43 indictments;
- 22 convictions; and
- 5 employee/disciplinary actions.

More specifically, our accomplishments included 43 completed investigations that led to the above indictments and convictions as well as fines, court-ordered restitution, and recoveries that constitute the bulk of the monetary benefits from our work. Also, we issued a total of 47 audit and evaluation reports, which included about \$431,000 in questioned costs and \$2.1 million in recommendations that funds be put to better use. The recommendations in these reports aim to improve the internal controls and operational effectiveness in diverse aspects of the Corporation's operations, including automated systems, contracting, bank supervision, financial management, and asset disposition.

Further, the OIG accomplished many of its organizational goals during the fiscal year as outlined in our annual performance plan. Our 2003 Performance Report shows that we met or substantially met 27 of our 34 goals, or 79 percent. In a measurable way, this achievement shows the progress we continue to make to add value to the Corporation with our audits, investigations, and evaluations in terms of impact, quality, productivity, timeliness, and client satisfaction. We also met or substantially met goals for providing professional advice to the Corporation and for communicating with clients and the public.

Audits, Investigations, and Evaluations

Examples of the OIG's audit, investigation, and evaluation work that contributed to these accomplishments follow.

Material Loss Review of the Failure of Southern Pacific Bank, Torrance, California.—The OIG issued the results of its material loss review of Southern Pacific Bank and determined that the failure occurred because of ineffective corporate governance at the institution, leading to a potential loss of about \$91 million. The report contained recommendations designed to improve the bank supervision process and promote the safety and soundness of FDIC-supervised institutions. The report also raised an issue related to oversight of parent holding companies of industrial loan companies—one that we are pursuing in ongoing work.

Investigation into the Failure of Oakwood Deposit Bank Company.—Following the failure of Oakwood Deposit Bank Company on February 1, 2002, the OIG, Internal Revenue Service Criminal Investigation, and the Federal Bureau of Investigation initiated a joint investigation. The ongoing investigation has thus far led to the conviction of the bank's former president and Chief Executive Officer. After pleading guilty in May 2003 to bank embezzlement and money laundering, the former bank president was sentenced in September 2003 for his role in the fraud scheme that caused the failure of the 99-year-old bank. The defendant was sentenced to 14 years' imprisonment to be followed by 5 years' supervised release and was ordered to pay \$48,718,405 in restitution.

The investigation leading to the defendant's plea found that he began embezzling funds from the bank in 1993 with a loan to a family member. He admitted to alter-

ing bank records and creating paperwork in order to conceal the embezzlement, which resulted in losses to the bank of approximately \$48.7 million and led to the bank's insolvency. As part of his plea, the defendant forfeited any and all of his interest in property controlled by Stardancer Casinos Inc. and its subsidiaries, as he was an investor and part owner of Stardancer. In late 1998, the defendant began investing embezzled bank funds into Stardancer Casinos Inc., a casino gambling operation originally headquartered near Myrtle Beach, South Carolina. Over the course of the next 3 years, the defendant embezzled over \$43 million to purchase casino vessels and fund the operations of the casino business. The defendant forfeited bank accounts relating to Stardancer and two other companies identified in the investigation. He also forfeited real estate and investments in Florida, Ohio, Texas, and South Carolina; his interest in any of the Stardancer vessels and equipment; \$520,450 in currency seized by the government; and any substitute properties owned by him but not identified in the investigation as the proceeds of criminal activities.

Investigation of Scheme to Defraud Community Bank of Blountsville, Alabama.—In October 2003, an ongoing investigation by the OIG and FBI into an alleged fraud scheme at Community Bank of Blountsville, Alabama, led to a 25-count indictment against the bank's former chairman and chief executive officer (CEO), the bank's former vice-president for construction and maintenance, and the owner of a construction services company. The indictment charges the three defendants with bank fraud, misapplication of bank funds, false statements to a financial institution, and false entries in the books and records of a financial institution. The indictment also charges the former CEO with money laundering and filing false tax returns, and seeks from him forfeiture of \$3.45 million. The three defendants allegedly conspired to use \$2.15 million in bank funds for construction work on the CEO's personal projects, including a 17,000-square-foot home. While the CEO obtained more than \$5 million in bank loans to build his house, he allegedly used more than \$1.34 million of those funds for other purposes.

Previously in the investigation, a couple who owned a construction company were found guilty on charges of bank fraud and conspiracy to commit bank fraud and were sentenced to 18 months' incarceration and ordered to pay restitution totaling \$178,000. Our investigation found that the couple submitted invoices for construction work purportedly performed for Community Bank. Some of the invoices were for work never performed, and other invoices were for personal construction work performed for the bank's CEO, his relatives, and the bank's vice president of construction and maintenance. Evidence was presented at trial to show that the records of the bank were falsified to reflect that the work was completed at the bank's facilities.

Investigation of Fraud by Securities Dealer Misrepresenting FDIC Affiliation.—Following an FDIC OIG investigation, a securities dealer was sentenced in the Riverside County District Court, Riverside, California, to serve 6 years' imprisonment and ordered to pay \$20,000 in fines. The sentencing was based on his plea of guilty in October 2002 to an amended complaint charging him with selling unregistered securities, fraud, and theft. The subject, doing business as Jeffco Financial Services, was licensed to sell securities through San Clemente Services, Inc., another company involved in the sale of brokered certificates of deposit (CDs). Relying on information they were provided regarding FDIC insurance coverage, investment yields, fees, and commissions, investors purchased approximately 1,241 CDs totaling \$67,390,735 from Jeffco Financial Services. The felony complaint to which the subject pleaded guilty lists the names of 59 individuals or entities to whom he offered or sold unregistered securities which are described in the complaint as "investment contracts in the form of interests in custodialized CDs." He also pleaded guilty to making misrepresentations regarding "annual average yield," theft of property exceeding \$2.5 million in value, and participating in a pattern of felony conduct involving the taking of more than \$500,000. The FDIC OIG investigation was initiated based on a referral by the FDIC's Division of Supervision and Consumer Protection of information obtained during the examination of a bank indicating irregularities in deposits the bank had placed with San Clemente Services.

Evaluation of the FDIC's Information Technology Security Program.—In our 2003 independent evaluation of the FDIC's Information Security Program, required by the Federal Information Security Management Act, we concluded that the Corporation had established and implemented management controls that provided limited assurance of adequate security over its information resources. However, we reported that continued management attention was needed in several key management control areas, including contractor security, enterprise-wide IT architecture management, certification accreditation of major IT systems, and IT capital planning and

investment control. The report highlights 10 key areas where the Corporation needed to focus attention to address information security weaknesses.

Our semiannual reports to the Congress provide many other examples of OIG accomplishments. These reports can be found on our Web page at www.fdicig.gov/semi-reports/oig.pdf or by contacting our office.

Assistance to FDIC Management

In addition to 2003 audits, investigations, and evaluations, the OIG made valuable contributions to the FDIC in several other ways. We strive to work in partnership with Corporation management to share our expertise and perspective in certain areas where management is seeking to make improvements. Among these contributions were the following activities:

- Reviewed 86 proposed corporate policies and 4 draft regulations and offered comments and suggestions when appropriate.
- Commented on the FDIC's strategic and annual performance plans, and annual performance report.
- Provided advisory comments on the FDIC's 2003 Annual Performance Plan and 2002 Annual Report.
- Provided the Corporation with an updated risk analysis document on the Quality of Bank Financial Reporting and Auditing and Corporate Governance.
- Participated in division-level conferences and meetings to communicate about our audit and investigation work and processes.
- Assisted an FDIC team in developing a paper on the "Root Causes of Bank Failures from 1997 to the Present."
- Provided technical assistance and advice to several FDIC groups working on information technology issues, including participating at the FDIC's information technology security meetings. We also participated in an advisory capacity on the Information Technology Subcommittee of the Audit Committee.
- Conducted an annual review of the Corporation's internal control and risk management program.
- Provided oversight to several major system development efforts.

OIG Management and Operational Initiatives

An important part of our stewardship over the funding we receive includes our continuous efforts to improve OIG operations. During the past couple of years, we took several initiatives that continue to have great significance on our work and operations.

The OIG participated in a significant downsizing and restructuring initiative with the Corporation. The new organization, though smaller, is now more closely aligned with key FDIC mission areas. For example, our Office of Audits underwent a major reorganization and is now organized around four operational directorates: Resolution, Receivership, and Legal Services; Supervision and Insurance; Information Assurance; and Resources Management. A fifth directorate, Corporate Evaluations, performs corporate-wide and other evaluations.

During this past year we have continued to invest in our people and the performance capacity of the OIG. During fiscal year 2002, we issued a Human Capital Strategic Plan, which outlines four objectives to maximize the return on our human capital investments. The objectives relate to workforce analysis; competency investments; leadership development; and a results-oriented, high-performance culture. Two objectives of the plan were substantially met during this past year and each will serve as the basis for future important human capital projects. The OIG Business Knowledge Inventory System and the OIG Key Competencies Project together provide valuable information to the OIG on its skills and knowledge and will help identify where we need to make investments in training, professional development, and recruitment.

Six competencies were developed that we believe all OIG staff need to contribute successfully to the OIG mission and goals. These competencies form the basis for performance expectations of every OIG employee, including executives. The competencies are: achieves results, communicates effectively, demonstrates teamwork, exhibits technical competency, demonstrates responsibility and self-development, and leads effectively. Each of these competencies has been further defined with subsidiary criteria describing the types of performance behaviors included under the competency. We believe full integration of these core competencies into the OIG's human capital system will help foster a greater results-oriented, high-performance culture and enhance accomplishment of OIG strategic goals and objectives.

Our strategic goals are interrelated, as follows:

Value and Impact.—OIG products will add value by achieving significant impact related to addressing issues of importance to the Chairman, the Congress, and the public.

Communication and Outreach.—Communication between the OIG and the Chairman, the Congress, employees, and other stakeholders will be effective.

Human Capital.—The OIG will align its human resources to support the OIG mission.

Productivity.—The OIG will effectively manage its resources.

Other internal initiatives include our hosting an interagency symposium on the Federal Information Security Management Act of 2002. Representatives from 44 Federal agencies attended the symposium to share information, ideas, and best practices related to the implementation of FISMA. We also co-sponsored a second Emerging Issues Symposium with the Offices of Inspector General of the Department of the Treasury and the Board of Governors of the Federal Reserve System, bringing together distinguished speakers who shared their perspectives on the banking and financial services community with Inspector General staff in the interest of enhancing the value that OIGs can add to their agencies by successfully addressing risk areas. We also conducted our fifth external customer survey regarding satisfaction with OIG operations and processes. In keeping with the spirit of the 25th anniversary of the IG Act, all OIG staff had an opportunity to recommit to the mission of the OIG during an office-wide conference held in October 2003. Our conference focused on the FDIC OIG's mission, vision, and core values. In pursuit of our mission, vision, and values, we designed several sessions at the conference so that our staff could discuss how their service contributes to accomplishing our strategic goals.

Other Activities

I continued my role as Vice Chair of the President's Council on Integrity and Efficiency (PCIE) and have held this position since April 1999. The Council maintains six standing committees to initiate and manage audit, investigation, evaluation, legislation, professional development, and integrity issues and projects in the Inspector General community. The PCIE has been very active in helping the government achieve better results and has concentrated many of its activities on areas that would facilitate agency efforts related to the President's Management Agenda. To enhance the community's ability to continue fulfilling its mission, the PCIE co-hosted its annual conference to highlight challenges and explore ways to address them. Further, the PCIE issued its annual report to the President. In addition, my office led the PCIE initiative to update and revise the Quality Standards for Federal Offices of Inspector General (Silver Book). I also represented the OIG community within government before the Congress, delegations of foreign visitors, and professional organizations.

Also, I played an active role in many of the community's activities celebrating the 25th anniversary of the IG Act, including meeting with President Bush, participating in IG interviews on C-Span's Washington Journal, and awarding 134 individuals and teams at the community's annual awards program. On December 1, 2003, the President signed a joint congressional resolution recognizing the IG community on its 25th anniversary and its accomplishments fostering good government.

Finally, the FDIC OIG completed a peer review of the nationwide audit operations of the Department of Commerce.

MANAGEMENT AND PERFORMANCE CHALLENGES FACING THE FDIC

In the spirit of the Reports Consolidation Act of 2000, the OIG annually identifies the top management and performance challenges facing the FDIC. We have worked with the FDIC to prepare our annual assessment. Our update of the challenges as of December 19, 2003, was included in the FDIC's performance and accountability report dated February 13, 2004. The challenges capture the risks and opportunities we see before the Corporation in the coming year or more. In addition, these challenges serve as a guide for our work. Notwithstanding the current strength of the banking industry, the Corporation must continue to be vigilant because challenges are ever-present and can threaten the Corporation's success. I will briefly discuss each of the challenges and, where appropriate, describe OIG initiatives that address the challenge.

1. Adequacy of Corporate Governance in Insured Depository Institutions.—Corporate governance is generally defined as the fulfillment of the broad stewardship responsibilities entrusted to the Board of Directors, Officers, and external and internal auditors of a corporation. A number of well-publicized announcements of business failures, including financial institution failures, have raised questions about the credibility of accounting practices and oversight in the United States. These re-

cent events have increased public concern regarding the adequacy of corporate governance and, in part, prompted passage of the Sarbanes-Oxley Act of 2002. The public's confidence in the Nation's financial system can be shaken by deficiencies in the adequacy of corporate governance in insured depository institutions.

To assist the Corporation in meeting this challenge, we conducted two audits this past year that relate to material losses caused by the failures of the Connecticut Bank of Commerce, Stamford, Connecticut and the Southern Pacific Bank, Torrance, California. The audits concluded that these banks failed because of ineffective corporate governance, including the external auditors' issuance of unqualified opinions on the banks' financial statements, and led to an estimated loss of almost \$200 million to the insurance funds. Our work on eight other material loss reviews we have conducted since 1993 also identified inadequate corporate governance as the primary cause of each failure.

We also conducted two audits related to the FDIC's examination of institutions for compliance with anti-money laundering requirements. The first audit focused on the FDIC's implementation of the United and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Patriot Act). We found that the FDIC had not issued guidance to its examiners for those provisions of the Patriot Act requiring new or revised examination procedures, because the FDIC was either coordinating the issuance of uniform procedures with an interagency committee or waiting for the Treasury Department to issue final rules. As a result of our audit, the FDIC promptly issued interim guidance to its examiners and the uniform rules were issued 2 months later. The second audit focused on the FDIC's supervisory actions taken to address violations of the Bank Secrecy Act of 1970 (BSA). We concluded that the FDIC needs to strengthen its follow-up process for BSA violations and has initiatives underway to reassess and update its BSA policies and procedures. We recommended actions intended to strengthen the FDIC's monitoring and follow-up efforts for BSA violations, update guidance for referring institution violations to the Treasury Department, and provide alternative coverage when State examinations do not cover BSA compliance. FDIC management concurred with the recommendations and is taking corrective action.

2. Protection of Consumer Interests.—The availability of deposit insurance to protect consumer interests is a very visible way in which the FDIC maintains public confidence in the financial system. Additionally, as a regulator, the FDIC oversees a variety of statutory and regulatory requirements aimed at protecting consumers from unfair and unscrupulous banking practices. The FDIC, together with other primary Federal regulators, has responsibility to help ensure bank compliance with statutory and regulatory requirements related to consumer protection, civil rights, and community reinvestment.

The OIG's recent coverage in this area includes reviews of compliance with the Gramm-Leach-Bliley Act, Community Reinvestment Act, and the Fair Lending Act. We plan to review new FDIC compliance examination procedures in 2004.

3. Management and Analysis of Risks to the Insurance Funds.—The FDIC seeks to ensure that failed financial institutions are and continue to be resolved within the amounts available in the insurance funds and without recourse to the U.S. Treasury for additional funds. Achieving this goal is a significant challenge because the insurance funds generally average just over 1.25 percent of insured deposits and the FDIC supervises only a portion of the insured institutions. In fact, the preponderance of insured assets are in institutions supervised by other Federal regulators. Therefore, the FDIC has established strategic relationships with other regulators surrounding their shared responsibility of helping to ensure the safety and soundness of the Nation's financial system. Economic factors also can pose a considerable risk to the insurance funds. The FDIC actively monitors such factors as interest rate margins and earnings in the financial sector in an effort to anticipate and respond to emerging risks.

To assist the FDIC in meeting this challenge, we conducted audits that focused on FDIC examiners' assessments of commercial real estate loans and high-loan growth, implementation of statutory prompt corrective action provisions and a number of other audits related to supervision and insurance issues. We also issued a follow-up report to an earlier report entitled "The Effectiveness of Prompt Corrective Action Provisions in Preventing or Reducing Losses to the Deposit Insurance Funds", dated March 26, 2002. Our ongoing work relating to safety and soundness examinations is assessing the effectiveness of the Corporation's examination assessment of bank management. In addition, we plan to review examination assessment of capital and supervision of industrial loan companies.

4. Effectiveness of Resolution and Receivership Activities.—One of the FDIC's primary corporate responsibilities includes planning and efficiently handling the resolutions of failing FDIC-insured institutions and providing prompt, responsive, and

efficient resolution of failed financial institutions. In this regard, the depositors of insured banks and savings associations are a unique responsibility for the FDIC. These activities maintain confidence and stability in our financial system. Notably, since the FDIC's inception over 70 years ago, no depositor has ever experienced a loss of insured deposits at an FDIC-insured institution due to a failure.

To address this area we reviewed the FDIC's efforts to ensure that bank customers have timely access to their insured deposits at failed institutions. Also, we conducted an audit to assess the FDIC's Readiness Program to respond to a series of failures exceeding the FDIC's capacity to handle with its own resources. A focus of our future work will be the Asset Servicing Technology Enhancement Project, which is designed to provide an integrated solution that supports the FDIC's current and future asset servicing functions based on adaptable computing technology and data sharing that is compatible with industry standards.

5. Management of Human Capital.—Human capital issues pose significant elements of risk that interweave all the management and performance challenges facing the FDIC. The FDIC has been in a downsizing mode for the past 10 years as the workload from the banking and thrift crisis has been accomplished. As a result, FDIC executives and managers must be diligent and continually assess the goals and objectives, workload, and staffing of their organizations and take appropriate steps to ensure that the workforce has the right experience and skills to fulfill its mission. The Corporation has created the Corporate University to address skill levels and preserve institutional knowledge in its five main lines of business. The Corporation is also in the process of revamping its compensation program to place greater emphasis on performance-based initiatives.

The OIG recently completed an evaluation of the Corporation's human capital framework and we have a series of reviews planned to address the various components of the human capital program, with the next being strategic workforce planning.

6. Management and Security of Information Technology Resources.—Management and security of information technology resources remains one of the Corporation's most expensive and daunting challenges. Information technology (IT) continues to play an increasingly greater role in every aspect of the FDIC mission. Our work required under the Federal Information Security Management Act of 2002 has shown that the Corporation has worked hard to implement many sound information system controls to help ensure adequate security. However, daunting challenges remain due to the ever-increasing threat posed by hackers and other illegal activity. We have urged the FDIC to stay the course in developing an enterprise-wide IT architecture that maps current and "to be" states of business processes and the supporting information systems and data architecture. Additionally, we have emphasized completing system certification and accreditation processes to test the security of deployed IT assets.

We have addressed this area through our previously mentioned annual evaluation of FDIC's Information Security Program. In addition, we have completed and ongoing assignments covering the IT capital planning and investment control process to assist the Corporation in this area. We also plan to routinely test the controls of selected major business systems supporting critical functions such as premium assessment, resolution and marketing, and human resource management.

7. Security of Critical Infrastructure.—To effectively protect critical infrastructure, the FDIC's challenge in this area is to implement measures to mitigate risks, plan for and manage emergencies through effective contingency and continuity planning, coordinate protective measures with other agencies, determine resource and organization requirements, and engage in education and awareness activities.

To assist the FDIC in this area, we reviewed the progress the Corporation has made in implementing its Information Security Strategic Plan. Also, we conducted a review of the adequacy of the FDIC's approach to assessing business continuity planning at FDIC-supervised institutions. In addition, our ongoing work includes coverage of physical security and business continuity planning for the FDIC.

8. Management of Major Projects.—The FDIC has engaged in several multi-million dollar projects, such as the New Financial Environment, Central Data Repository, and Virginia Square Phase II Construction. Without effective project management, the FDIC runs the risk that corporate requirements and user needs may not be met in a timely, cost-effective manner.

The OIG has performed several reviews of these projects, and our results pointed to the need for improved defining, planning, scheduling, and control of resources and tasks to reach goals and milestones. The Corporation has included a project management initiative in its 2004 performance goals and established a program management office to address the risks and challenges that these kinds of projects pose. We will continue to focus on the major corporate initiatives discussed above.

9. *Cost Containment and Procurement Integrity.*—As steward for the Bank Insurance Fund and Savings Association Insurance Fund, the FDIC seeks ways to limit the use of those funds. Therefore, the Corporation must continue to identify and implement measures to contain and reduce costs, either through more careful spending or assessing and making changes in business processes to increase efficiency.

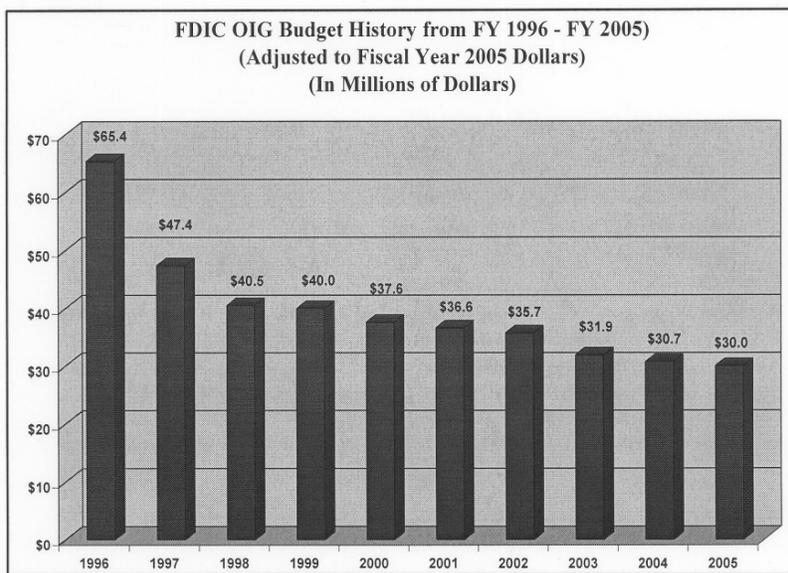
The Corporation has taken a number of steps to strengthen internal control and effective oversight. However, our work in this area continues to show that further improvements are necessary to reduce risks, such as requirements definition, the consideration of contractor security in acquisition planning, incorporation of information security requirements in FDIC contracts, oversight of contractor security practices, and compliance with billing guidelines. Our audits continue to assist the Corporation in this area.

10. *Assessment of Corporate Performance.*—The Corporation has made significant progress in implementing the Government Performance and Results Act of 1993 and needs to continue to address the challenges of developing more outcome-oriented performance measures, linking performance goals and budgetary resources, implementing processes to verify and validate reported performance data, and addressing crosscutting issues and programs that affect other Federal financial institution regulatory agencies.

The OIG has played an active role in the evaluation of the Corporation's efforts in this area and we have additional reviews planned that will look at the Corporation's budgeting and planning process and its strategic and annual planning process under the Results Act.

THE OIG'S FISCAL YEAR 2005 BUDGET REQUEST

The proposed fiscal year 2005 OIG budget includes funding in the amount of \$29,965,000 or \$160,000 less than fiscal year 2004. This budget will support an authorized staffing level of 160, a further reduction of 8 authorized staff (5 percent) from fiscal year 2004. The budget must also absorb higher projected expenses for salaries, employee benefits, and other costs that will increase due to inflation. This will become the ninth consecutive year OIG budgets have decreased after adjusting for inflation. The graph below shows the OIG's budget history since I became the Inspector General in 1996.



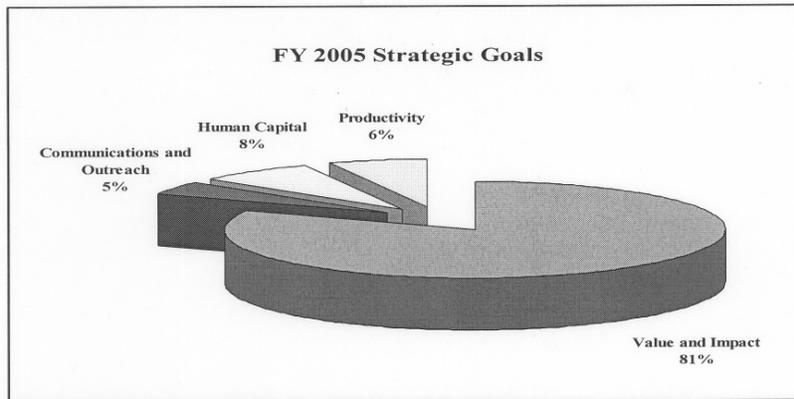
Note: Budgets for 1996-1997 are by calendar year and budgets for 1998-2005 are by fiscal year.

The FDIC has been operating under an appropriated budget since fiscal year 1998 in accordance with Section 1105(a) of Title 31, United States Code, which provides

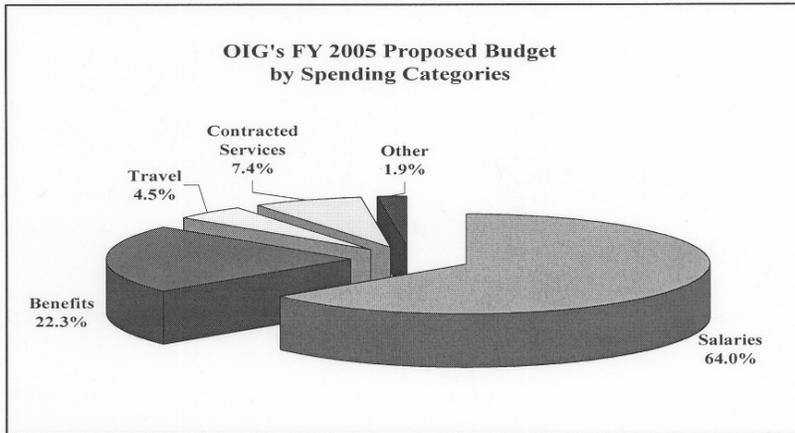
for “a separate appropriation account for appropriations for each Office of Inspector General of an establishment defined under Section 11(2) of the Inspector General Act of 1978.” This funding approach is part of the statutory protection of the OIG’s independence. The FDIC OIG is the only appropriated entity in the FDIC. The OIG’s appropriation would be derived from the Bank Insurance Fund, the Savings Association Insurance Fund, and the FSLIC Resolution Fund. These funds are the ones used to pay for other FDIC operating expenses.

Budget by Strategic Goals and Major Spending Categories

For fiscal year 2005, the OIG developed the budget based on the four strategic goals outlined in its Strategic Plan and discussed earlier in this statement. The four strategic goals, along with their associated budget dollars, are listed as follows:



The following chart shows the distribution of the OIG’s budget by major spending categories. Mostly, the OIG budget is comprised of salaries and benefits for its employees and the necessary funding for travel and training expenses.



As I discussed earlier, the OIG has significantly downsized not only in the last few years, but also since 1996. The OIG has decreased its authorized level of 215 staff for fiscal 2002 to 160 for fiscal 2005—about a 26-percent reduction. Since I became the FDIC Inspector General in 1996, our staff has decreased from 370 to the current level, or a total decrease of about 57 percent. Overall, FDIC staffing declined from 9,151 to 5,300 from 1996 to 2003. The graph below shows the authorized OIG staffing since the merger of RTC in 1996.



CONCLUDING REMARKS

Mr. Chairman and members of the subcommittee, I appreciate the support and resources we have received through the collaboration of the President, the Congress, this subcommittee, and the FDIC over the past several years. As a result, the OIG has been able to make a real difference in FDIC operations in terms of financial benefits and improvements, and by strengthening our own operations and efficiency. Our budget request for fiscal year 2005 is modest in view of the value we add. Like many governmental organizations, we are faced with succession planning challenges, which are of particular concern in a downsizing environment. We have begun to address this issue through a modest recruitment program; however, any further downsizing could have a serious impact on this effort. We seek your continued support so that we will be able to effectively and efficiently conduct our work on behalf of the Congress, FDIC Chairman, and the American public.

Having just celebrated the 25th year since passage of the Inspector General Act and the 15th anniversary of the FDIC OIG, I take pride in my organization and the entire Federal Inspector General community and its collective achievements. Building on this legacy, we in the FDIC OIG look forward to new challenges and assisting the Congress and corporate officials in meeting them.

AMERICAN BATTLE MONUMENTS COMMISSION

PREPARED STATEMENT OF MAJOR GENERAL JOHN P. HERRLING, USA (RET),
SECRETARY

Mr. Chairman and members of the committee, thank you for the opportunity to provide a written statement on the American Battle Monuments Commission's fiscal year 2005 Appropriation Request. The special nature of the American Battle Monuments Commission (ABMC) places it in a unique and highly responsible position with the American people. The manner in which we care for our country's Honored War Dead is, and should remain, a reflection of the high regard in which we, as a Nation, respect their service and sacrifice.

ABMC FOCUS

The American Battle Monuments Commission is responsible for commemorating the services of American Armed Forces where they have served since April 6, 1917 (the date of U.S. entry into World War I) through the establishment of suitable memorial shrines; and for designing, constructing, operating, and maintaining permanent American burial grounds in foreign countries. In performing these functions, we administer, operate, and maintain 24 permanent memorial cemeteries and 25 monuments, memorials, and markers in the United States and 15 countries around the world.

We have eight World War I and 14 World War II cemeteries located in Europe, the Mediterranean, North Africa and the Philippines. All of these cemeteries are closed to burials except for the remains of the War Dead who may occasionally be discovered in World War I or World War II battlefield areas. In addition, we are responsible for the American cemeteries in Mexico City, established after the Mexican War, and in Panama.

Presently, 124,917 U.S. War Dead are interred in these cemeteries—30,922 of World War I, 93,245 of World War II and 750 of the Mexican War. Additionally, 6,010 American veterans and others are interred in the Mexico City and Corozal (Panama) American Cemeteries. Commemorated individually by name on stone tablets at the World War I and II cemeteries and three memorials on U.S. soil are the 94,135 U.S. servicemen and women who were Missing in Action, or lost or buried at sea during the World Wars and the Korean and Vietnam Wars.

ABMC SERVICES

We provide services and information to the public, friends, and relatives who visit our cemeteries and memorials. This includes information about grave and memorialization sites as well as location, suggested routes and modes of travel to the cemeteries or memorials. Immediate family members receive from us letters authorizing fee-free passports for overseas travel to visit a loved one's grave or memorial site. During fiscal year 2003, over 8 million people visited our cemeteries and monuments worldwide; more than half of these visitors were American citizens. Photographs of individual headstones and sections of the Tablets of the Missing on which the service person's name is engraved are also available. We mount these photographs on large color lithographs of the cemeteries or memorials. In addition, we assist those who wish to purchase floral decorations for placement at a grave or memorial site in our cemeteries. A photograph of the in-place floral arrangement is provided to the donor.

The care of these shrines to our Armed Forces requires a sizeable annual program of maintenance and repair of facilities, equipment, and grounds. This care includes upkeep of 131,000 graves and headstones; 73 memorial structures; 41 quarters and maintenance facilities; 67 miles of roadways and walkways; 911 acres of flowering plants, fine lawns and meadows; nearly 69 acres of shrubs and hedges and over 11,000 ornamental trees. Care and maintenance of these resources are exceptionally labor intensive, therefore, personnel costs account for over 53 percent of our budget for fiscal year 2004. Some of this maintenance is performed by casual labor, in peak seasons, since permanent cemetery staffs are not sized to provide all the required maintenance during the peak-growing season. The remaining 47 percent of our budget funds our engineering, maintenance, utilities, equipment, and administrative costs.

ABMC CHALLENGES

The most significant challenge facing ABMC for the next several years will be the relatively weak position of the U.S. dollar against the Euro. This challenge affects our ability to move forward in completing our core operating programs.

From fiscal year 1998 through fiscal year 2001, the dollar was strong against foreign currencies with which we dealt. Due to this strength, we were able to transfer foreign currency gains to our Foreign Currency Fluctuation Account (FCFA) with the U.S. Treasury to accommodate future losses. However, since fiscal year 2002, we have been faced with significant losses with respect to the Euro, and have transferred most of our prior year gains from our FCFA to offset our operating accounts.

At the time preparations of the fiscal year 2005 budget began, we anticipated that the dollar was gaining strength against the Euro. At the time we submitted our budget to the Office of Management and Budget (OMB), we did not believe we would require additional funding to offset foreign currency losses because we expected the dollar to strengthen. Among other indicators, the European Bank had given indications that it would lower interest rates which would have weakened the Euro against the dollar. That never happened and based on the current trend, we anticipate that our FCFA balance will be depleted by the end of fiscal year 2004. Unless we are able to replenish our FCFA, we will have to reduce our spending in core operating programs to accommodate foreign currency losses, thus slowing the rate that we modernize our infrastructure and pushing out our timeline for achieving productivity goals. It is most difficult to predict what the strength of the dollar versus the Euro will be as we execute fiscal year 2005. However, if the dollar ranges from where it is today to as much as 5 percent stronger, we can anticipate losses of between \$6 and \$8 million in fiscal year 2005 that would have to be offset by realigning funding in all areas including the infrastructure modernization and pro-

ductivity programs. Such actions could have a dramatic negative impact on our operations in fiscal year 2005.

As an organization responsible for operating and maintaining permanent burial facilities for our country's Honored War Dead, we do not have the option of closing or consolidating cemeteries.

ABMC'S CONTRIBUTIONS TO THE PRESIDENT'S MANAGEMENT AGENDA

Within the context of the President's Management Agenda, we have continued our efforts to achieve greater efficiency and effectiveness in the areas where we do have alternatives.

Strategic Management of Human Capital

Such efforts demand the strategic management of human capital. We analyze our work force to maximize the efforts of employees who deliver our services.

In fiscal year 2000, ABMC and OMB conducted a joint productivity study to determine if equipment modernization, leasing, outsourcing, and automation improvements could increase the efficiency of our cemetery workers. Industry experts from two major turf and grounds-keeping equipment manufacturers participated in the study. They concluded that opportunities existed to reduce work-hours associated with labor-intensive operations, potentially offsetting the requirement for additional personnel. During fiscal year 2001, we continued our study and began procurement of modern, labor-efficient and safety-related equipment identified in fiscal year 2000. During fiscal year 2002, 2003, and 2004 we continued to replace outdated equipment, enhance our automation systems, and make improvements in our operations. In order to continue productivity program enhancements, we are requesting \$1.0 million for fiscal year 2005.

Managing our human capital demands that we place the right person with the right skills in every position. In fiscal years 1998 and 1999, we undertook the first comprehensive survey of our overseas personnel, their position descriptions, and workloads since the early 1980's. This survey identified a variety of discrepancies in how we staffed our cemeteries. We took corrective action, and with the concurrence of OMB, ensured consistency in staffing. In fiscal year 2002, we began a worldwide manpower study which will further identify and comprehensively outline our manpower requirements, position descriptions, workloads and manpower distribution to ensure our work force is properly deployed. We expect this project to be completed during fiscal year 2004.

A key element of recruiting and retaining a talented work force is fair compensation. To ensure equal pay for equal work we converted the European Region from our legacy Cemetery System for classifying and paying most of our foreign employees to the standard Foreign Service National (FSN) pay system. This FSN system is used by State Department and other Federal departments employing foreign nationals overseas. This will ensure that we have a pool of well qualified personnel to fill our critical positions, now and in the future.

Competitive Sourcing

We have continued efforts to avoid using our work force to perform tasks that are not inherently governmental and are readily available in the commercial market place. In this area we are well advanced. When Congress directed us to establish a World War II Memorial, we outsourced the design, construction, data management, fulfillment processing, customer servicing, and public relations.

The success of this effort has been astonishing. It will soon result in the first national memorial dedicated to the 16 million who served in uniform during the war, the more than 400,000 who gave their lives, and the millions who supported the war effort from the home front.

Our competitive sourcing initiatives did not stop there. Contributing to our efforts to improve financial management, in April 2000, we contracted with a software implementation consultant to assist in the selection and development of an automated, integrated accounting system that conforms to regulatory requirements. Our new commercial-off-the-shelf system became operational in October 2001. The use of a competitive source contractor allowed our government employees to focus on our daily mission while the contractor ironed out the normal wrinkles associated with implementing a new system. We are pleased with the overall results and will continue to upgrade our capabilities so that we will be among the leaders in financial management in the Federal Government.

In addition, our Infrastructure Modernization Program (IMP) has made extensive use of outsourcing to ensure that highly qualified firms and individuals were contracted to perform engineering analysis and reviews. Most construction and engi-

neering projects at ABMC facilities are contracted out, since these projects are usually unique and beyond the capability of our limited staff.

Our cemeteries and their infrastructure range from 45 to 80 years old. We began an IMP in fiscal year 2001 to examine in detail the infrastructure of our facilities and bring them up to today's standards. Through this program we can avoid future uncertainty, work in a programmed and efficient manner, and protect our investments in facilities. The first phase of the IMP consisted of studies to identify deficiencies in the various aspects of our infrastructure. In the second phase, corrective actions are performed. During fiscal year 2004, we are dedicating \$2 million to IMP, and are requesting \$2 million for fiscal year 2005 to continue these essential projects in addition to the \$1.8 million needed to continue normal engineering and maintenance operations.

Improved Financial Performance

Since 1998, the ABMC has been required to produce full financial statements. In addition, these CFO Act financial statements are independently audited by the Comptroller General. Each year, ABMC has earned an unqualified opinion from GAO on our annual financial audits.

We recognize that improved financial performance is more than achieving an unqualified audit opinion. It is about putting useful and timely information in the hands of leaders with which they can make informed decisions. Our new accounting system moves us toward that goal. Looking to the future, we have included funding in our fiscal year 2005 budget to continue our transition to a web-based system that will enhance our ability to make such information more readily available to our decision-makers.

Closely related to efforts to expand e-government, in partnership with the Department of the Treasury, we converted to full electronic funds transfer banking for all foreign currency disbursements except Tunisian Dinars. Prior to this, we maintained U.S. funds in separate overseas foreign currency bank accounts under delegated disbursing authority from the Treasury. Now disbursements flow electronically from our accounting system through the Treasury's Kansas City Financial Center to the overseas bank account of our vendors and employees. The initial conversion to this electronic capability was not as seamless as expected. However, the process is now stabilized and is allowing quicker payments for customers, eliminating funds held outside the Treasury in foreign bank accounts, and implementing real-time automation to worldwide funds transfers.

Our new integrated accounting system and our successes on international electronic funds payment and full financial audits are moving the ABMC toward new levels of financial excellence. We look forward to the challenges of fiscal year 2005.

Expanded E-Government

Our efforts to expand e-government go beyond the use of electronic funds transfers overseas. They include how we deliver our services to our customers—the very heart of what we do.

Over the last several years, ABMC has expanded access to valuable information through the use of on-line tools. Our Internet Web site allows visitors to gather information on our organization, cemeteries, memorials, and their locations. To aid in our internal operations, our European Region maintains our intranet web site which provides details on our ongoing operations. In addition, we made the WWII Registry developed in conjunction with the World War II Memorial project a web-based system to make it accessible to a broader audience than those who visit the memorial itself. We eventually plan to convert the dated video system at the Korean War Veteran's Memorial with a similar web-based database of Korean War Dead.

We are also supporting the administration's efforts to reduce the number of payroll providers within the Federal Government. In December 2003, we converted our internal, manual payroll operations for U.S. General Service personnel to a web-based system provided by the General Services Administration (GSA). We are currently in the process of converting the Foreign Service National (FSN) payroll operations with an expected completion date later this calendar year.

Budget and Performance Integration

We are pressing forward in the budget process to ensure that our funding requests support the objectives of the agency and the President's Management Agenda. Our budget clearly ties to our Strategic and Annual Performance Plans. In addition, these plans directly link to the Commission's Management Discussion and Analysis (MD&A) statements which are required as an integral part of the annual audit conducted by the Comptroller General.

To further improve the link between budget and performance we are studying the implementation of a Cemetery Evaluation Review System. Once fully implemented

we expect to use this to measure the impact of applied resources to our cemeteries in order to better focus our efforts.

OTHER IMPORTANT PROJECTS

Normandy Interpretive Center

Congress, through Public Law 107-73, provided \$5.0 million to ABMC for fiscal year 2002, specifically for the partial cost of design and construction of a new interpretive and visitor center at the Normandy American Cemetery in France. In fiscal year 2003 and fiscal year 2004, Congress provided an additional \$4.0 million and \$9.0 million respectively to continue this project. We developed a contract proposal and have begun the initial pre-design phase. The President's Budget includes \$9.1 million in our fiscal year 2005 request, as suggested by Congress in our fiscal year 2004 appropriation, to complete funding for this important project. Our objective is to achieve an appropriate and comprehensive design and begin construction during fiscal year 2005.

Vietnam Veterans Memorial Plaque

Public Law 106-214 directed ABMC to oversee the placement of a plaque "within the Vietnam Veterans Memorial containing an inscription intended to honor those Vietnam veterans who died after their service in the Vietnam War, but as a direct result of that service, and whose names are not otherwise eligible for placement on the Memorial Wall." The law clearly stated that Federal funds may not be used to design, procure, or install the plaque. Sufficient private funding was received to begin installation of the plaque in March 2004. Work should be completed by summer 2004.

World War II Memorial

For the past 11 years much of the Commission's attention has been focused on designing and constructing a World War II Memorial on the National Mall in Washington, DC. After 8 years of planning, 6 years of public debate, and 4 years of fund-raising, construction of the memorial began in September 2001. The memorial will be dedicated on May 29, 2004.

In completing this project we ensured that the memorial and its components were designed for the maximum service life and for effective maintainability. We also contracted for repair work on the adjacent Reflecting Pool as an added protection against, and prevention of water seepage into the memorial.

The total estimated cost of the memorial project is \$178.3 million, which includes site selection and design, construction, a National Park Service maintenance fee required by the Commemorative Works Act, groundbreaking and dedication ceremonies, fund-raising and administration of the project from its inception in 1993 through completion in 2004. We have received \$195 million in cash and pledges from all sources. Congress directed that any funds remaining after all project costs have been paid will remain in the World War II Memorial Trust Fund to be administered by ABMC. The funds may be used solely to benefit the World War II Memorial.

ABMC'S COMMITMENT

Since 1923 the American Battle Monuments Commission's memorials and cemeteries have been held to a high standard in order to reflect America's continuing commitment to its Honored War Dead, their families, and the U.S. national image. The Commission intends to continue to fulfill this sacred trust while ensuring the prudent expenditure of appropriated funds.

The American Battle Monuments Commission appropriation request for fiscal year 2005 is \$41,100,000.

DEPARTMENT OF HEALTH AND HUMAN SERVICES

AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY

PREPARED STATEMENT OF HENRY FALK, M.D., M.P.H., DIRECTOR, AGENCY FOR TOXIC SUBSTANCES AND DISEASE REGISTRY AND NATIONAL CENTER FOR ENVIRONMENTAL HEALTH, CENTERS FOR DISEASE CONTROL AND PREVENTION, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. Chairman, Senator Mikulski, other distinguished members of the subcommittee, thank you for the opportunity to provide this testimony on behalf of the Agency for Toxic Substances and Disease Registry (ATSDR).

The President's budget for fiscal year 2005 includes \$76,654,000 for ATSDR. This funding will support the Agency's ongoing activities and provide additional support for two critical programs.

This testimony will address: (1) ATSDR's achievements over the past year in carrying out its mission under Superfund to evaluate and prevent adverse health impacts from exposure to hazardous substances; (2) ATSDR's plans for fiscal year 2005, emphasizing programs to enhance understanding of the health impacts from exposures to asbestos-contaminated vermiculite ore originating in Libby, Montana, distributed to more than 200 facilities across the United States; and (3) steps taken to maximize the ATSDR's public health impact and efficiency through a partial administrative and management consolidation with the National Center for Environmental Health of the Centers for Disease Control and Prevention (CDC).

ATSDR'S ACHIEVEMENTS IN FISCAL YEAR 2003

Last year was busy and productive for ATSDR. The services ATSDR provides to communities help to identify and address possible associations between exposures to hazardous substances in the environment and health problems. These services are available and accessible to the full spectrum of communities, from remote rural areas to heavily populated urban neighborhoods, that have been scarred by industrial hazardous waste sites, the legacy of mining, or contaminated drinking water.

Leveraging ATSDR's Resources Through Partnerships

In 2003 ATSDR continued to leverage its resources through a strong emphasis on partnerships with a variety of entities including other Federal agencies, State, and local health departments, universities, and the industrial sector. Partnerships with State health departments enhance the Agency's ability to respond in a timely manner to the hundreds of community requests and releases of hazardous substances that threaten public health each year. Partnerships also serve as a mechanism for building Federal, State, tribal, and local public health capacity to respond to public health concerns related to environmental contamination.

In fiscal year 2003, ATSDR provided over \$10 million to fund cooperative agreements with 30 State health departments, one commonwealth, and one tribe. ATSDR worked closely with these partners to complete 120 public health assessments of potential health threats from environmental exposures, including over 50 public health assessments related to sites on the United States Environmental Protection Agency's (EPA) National Priorities List. ATSDR and its partners also issued more than 230 health consultations and numerous responses to requests for technical assistance from State or Federal agencies, members of Congress, and the public. In addition, ATSDR and partners worked on more than 50 health studies in various phases of development and implementation. Health studies are peer-reviewed public health research activities that serve the dual functions of providing important information to communities, and advancing scientific understanding of the relationship between exposures to hazardous substances and particular health outcomes. Each of these categories of activities draws on the unique mixture of expertise at ATSDR that bridges the health and environmental fields.

In all aspects of its work, ATSDR pays particular attention to the unique needs of vulnerable subpopulations such as children, pregnant women, and economically disadvantaged people that may be exposed to contaminants from multiple sources. For example, ATSDR and EPA currently fund 11 Pediatric Environmental Health Specialty Units, located at academic medical centers throughout the United States. Through these units, pediatricians with expertise in environmental health are available to consult with physicians and families concerning children who may have been exposed to mercury, lead, pesticides, or other hazardous substances. The pediatric units also offer referrals, and training for health care professionals related to pediatric environmental medicine.

ATSDR also has a longstanding cooperative agreement with the Minority Health Professions Foundation (MHPF) to conduct research to fill gaps in our knowledge about the effects of hazardous substances on human health. The program provides students at MHPF institutions the opportunity to conduct groundbreaking research in toxicology, epidemiology, and environmental assessment. For example, one recent study found that newborns may be at risk for effects from exposure to maternal blood lead levels of less than 10 micrograms per deciliter, CDC's level of health concern.

Terrorism Preparedness and Response

Through more than 20 years experience in addressing public health aspects of responding to chemical releases at Superfund sites, ATSDR has developed consider-

able expertise in toxicology and other areas directly applicable to chemical terrorism preparedness and response.

In recognition of its emergency preparedness and response capabilities, ATSDR often is looked to by other Federal agencies for assistance related to training, environmental sampling, medical toxicology and enhancing collaboration between the emergency response and the public health and medical communities. For example, in April of 2004 the Chemical Safety and Hazard Investigation Board requested assistance from ATSDR in coordinating with the medical community in connection with a large release of allyl alcohol (used in the manufacture of polymers, pharmaceuticals, and pesticides) from a manufacturing plant in Dalton, Georgia, which resulted in the evacuation of several hundred citizens. In particular, the Board had concerns about inconsistencies in the number of people reporting to the local hospital for treatment. In response, ATSDR emergency response and other personnel traveled to the location of the chemical release, and were able to determine the number of people accessing medical care as a result of this event, and the severity of their health complaints. The preparedness and response capabilities that enabled ATSDR to contribute in responding to this chemical release are the same as would be needed in responding to a terrorism-related or other intentional chemical release.

In addition, ATSDR regional staff, located in each of the 10 EPA regional offices, work with EPA staff and State partners on a daily basis to prepare for emergencies and to conduct response exercises. The capacity of ATSDR regional staff to assist in an emergency is enhanced through ATSDR's cooperative agreement with the American College of Medical Toxicology (ACMT), under which local medical toxicologists are available to consult with ATSDR on short notice in planning for and responding to chemical emergencies. In addition, in coordination with ATSDR, ACMT has provided several informative educational sessions on "Chemical Agents of Opportunity" and on responding to chemical emergencies, for State and local partners, as well as ATSDR, CDC, EPA, the Department of Justice, other Federal agencies, and congressional staff.

ATSDR also provides leadership and subject-matter expertise for CDC in response to weapons of mass destruction, chemical, radiological and bio-environmental contamination events. For example, an ATSDR medical toxicologist consulted with the State of South Carolina, U.S. Postal Service and EPA following the mailing of the toxin ricin last year. Teams are always on call for deployment in the event of a terrorist incident or other chemical emergency.

Building on ATSDR's Experience and Expertise at Superfund Sites

Libby, Montana

ATSDR has testified in past years regarding its extensive health screening program and related studies documenting the severe health impacts resulting from exposure to asbestos-contaminated vermiculite ore mined at the W.R. Grace mine in Libby, Montana. On August 26, 2003, the Federal District Court in Missoula, Montana ruled that the United States is entitled to recover the entire \$11.3 million in costs incurred by ATSDR through December 31, 2001, as well as future costs incurred by ATSDR after that date, in responding to asbestos contamination and evaluating and addressing the public health impacts of exposure to asbestos from this mine.

ATSDR is continuing activities related to Libby, including: (1) funding the State of Montana to conduct screening and surveillance of the at-risk population of the Libby community; (2) the Libby Tremolite Asbestos Registry; (3) health education for communities and health care providers about vermiculite and asbestos exposure; (4) grants to university-based researchers to study disease progression in former vermiculite workers so that timely interventions can be developed; and (5) a pilot mesothelioma surveillance program in New York, New Jersey, and Wisconsin.

As discussed later in this testimony, ATSDR's work in Libby laid the foundation for ATSDR's fiscal year 2005 proposal related to evaluating the health threats to former workers and to their family members at facilities across the country that processed asbestos-contaminated ore from Libby.

Reducing Childhood Lead Exposure

The adverse impacts of lead exposure on the developing child are well established. ATSDR, in conjunction with State and local public health officials, is working to reduce childhood exposure to lead at a number of Superfund sites. For example, last year ATSDR expanded the scope of its longstanding involvement at the Tar Creek Superfund site in Ottawa County, Oklahoma. ATSDR continues to provide support to the Oklahoma State Department of Health and the Ottawa County Health Department for blood lead screening in children and community education on measures to prevent exposure to lead. In addition, ATSDR is reviewing available environ-

mental data to determine significant pathways of exposure to lead, and assessing the relationship of blood lead data to potential environmental lead sources such as residential soil and waste piles of mine tailings.

In Herculaneum, Missouri, ATSDR and the Missouri Department of Health Services are providing public health education and conducting other activities to address a public health threat posed by contamination from a lead smelter. Initial blood-lead screenings revealed high levels of lead in the blood of young children. However, data from follow-up testing of those children in 2002, analyzed by ATSDR in 2003, revealed dramatic declines in the percentage of children with blood lead levels equal to or above 10 micrograms per deciliter, the CDC recommended level of action. For example, in 2001, 28 percent of children younger than 6 years of age who were tested had blood lead levels equal to or above 10 micrograms per deciliter. By 2002, that percentage had been cut in half, to 14 percent. Moreover, in 2001, 45 percent of children younger than 6 years of age and living closest to the lead smelter had blood lead levels at or above the 10 micrograms per deciliter level of action. By 2002, the percentage had been reduced to 17 percent.

In May of 2003, ATSDR and the Missouri Department of Health and Senior Services collaborated in convening a workgroup to consider options for future health studies in Herculaneum, Missouri. The workgroup recommended a two-phase approach, first to reevaluate existing environmental and blood lead data, and second to study the health effects of lead in the community. Protocol development and study details are expected to be complete by the end of fiscal year 2004, with data collection slated to begin in the first quarter of fiscal year 2005.

ATSDR also contributed to reducing childhood lead levels in children near the Bunker Hill Superfund site in Kellogg, Idaho, where blood lead levels were among the highest of children tested near any Superfund site. Beginning in 1986, ATSDR funded a lead-intervention program of health education, health care provider training and blood lead screening, carried out by the local health department. Long-term monitoring shows that the blood lead levels in children 6 years of age or younger living near the Bunker Hill site decreased to levels found in the United States general population. The Panhandle Health District reported to ATSDR that its 2003 screenings of children continue to reveal blood lead levels within the program goals.

Studying Health Impacts of Exposure to Volatile Organic Compounds (VOCs)

ATSDR is undertaking activities at several Superfund sites to more fully explain the relationship between exposures to VOCs in drinking water, and adverse health outcomes.

For example, in North Carolina ATSDR is engaged in an extensive study of certain birth defects and childhood leukemia among families who lived on the base at Camp Lejeune. The study is focused on potential in utero exposures of children born to women who lived at the base while pregnant between 1968 and 1985. The study was initiated because during this time period trichloroethylene (TCE, a degreaser) and tetrachloroethylene (PCE, a dry-cleaning solvent) were found in the drinking water supply for some of the family base housing. Earlier studies involving Superfund sites in Woburn, Massachusetts and Dover Township, New Jersey, suggested an elevated risk of childhood leukemia in children with prenatal exposure to VOCs.

The first phase of the study at Camp Lejeune included a survey to identify children with specific birth defects and childhood cancers. During the first phase, 12,598 surveys were completed. The birth defects and cancers reported in those surveys are being verified, with permission from the families, through searches of medical records.

In July 2003, ATSDR issued an interim report on Camp Lejeune recommending that a case-control study be conducted to examine the relationship between exposure to the contaminated drinking water in women who lived on the base while pregnant, and selected birth defects and childhood cancers in their children. ATSDR developed the study protocol and is acquiring data necessary for historic reconstruction of the base drinking water system through computer modeling. This modeling will enable ATSDR to identify which base housing units received the contaminated water and is necessary for determining whether there is an association between the contaminants in drinking water and certain birth defects and childhood cancers.

ATSDR's experience with evaluating exposure to VOCs in Dover Township, New Jersey, and more recently at Camp Lejeune, has contributed to efforts over the past year in the Village of Endicott, in Broome County, New York. ATSDR is assisting the New York State Department of Health (NYS DOH) in an effort to address health concerns of residents related to potential exposure to VOCs emanating from a groundwater plume at the IBM site in Endicott. As first steps, the NYS DOH is evaluating the incidence of certain conditions in newborns whose parents lived in the study area at the time of the infants' births, and estimating the incidence of

all types of cancer, including childhood cancer, for the areas in Endicott potentially impacted by VOC vapors in indoor air.

Studying Health Impacts of Exposure to Polychlorinated Biphenyls (PCBs) and Dioxins

ATSDR funds research by State universities and health departments under the Great Lakes Human Health Effects Research Program (GLHHERP). GLHHERP grantees conduct epidemiologic research and educational programs to inform residents about exposure to persistent toxic substances, including polychlorinated biphenyls (PCBs). This program has helped inform residents about fish-consumption practices to avoid unsafe exposures, especially for children, the elderly, and women of childbearing age. ATSDR also is supporting the development and implementation of a 3-year pilot program in the Upper Peninsula of Michigan, to educate vulnerable populations about fish advisories and to assess the effectiveness of advisories. Under this pilot program, a State university and intertribal council in Michigan will take measures to increase awareness about exposures to toxic substances from eating contaminated fish, and to evaluate observance of fish consumption advisories among American Indian communities, anglers and their families, and others who rely on Great Lakes fish as a subsistence food.

Building on its foundation from research regarding exposure to PCBs in the Great Lakes, ATSDR is supporting research on health impacts of PCB exposure at a Superfund site in Anniston, Alabama. On the basis of blood data reviewed by ATSDR, Anniston residents have some of the highest levels of exposure to PCBs found in a non-occupational setting in the United States. In 2003, ATSDR awarded \$1.5 million to Jacksonville State University to conduct, with a consortium of researchers and community members, a multiyear study of the potential health effects of PCB exposure among residents of Anniston. Study protocols and initial data collection are scheduled to be completed during fiscal year 2004, with data analysis beginning in fiscal year 2005.

Health Registries

One of ATSDR's responsibilities under Superfund is to establish and maintain registries of diseases and of people exposed to toxic substances. In recent years ATSDR has seen an increase in recognition of the important function served by registries and a rise in the demand for its expertise in developing and managing registries. ATSDR embarked on three new and significant registries in the past year: (1) the Tremolite Asbestos Registry; (2) the World Trade Center Health Registry; and (3) the Rapid Response Registry.

In 2003, ATSDR initiated the Tremolite Asbestos Registry, a registry of people exposed to tremolite asbestos from Libby, Montana. The registry is expected to enroll 10,000 to 15,000 people, including former Libby vermiculite mining and mill workers, family members and others who shared a residence with a vermiculite worker, and community members who meet eligibility criteria. The Tremolite Asbestos Registry will provide a means to locate and provide information to participants to ensure that they and their health care providers receive the latest medical recommendations and research findings pertaining to asbestos-related diseases. The registry will also be an invaluable resource for future research related to the health impacts of asbestos exposure.

In September of 2003, the New York City Department of Health and Mental Hygiene (NYC DOHMH), in partnership with ATSDR, began data collection for the World Trade Center Health Registry. Data collection for the Registry will continue for 1 year. The purpose of the Registry is to provide a central database for research to assess injuries and other physical and mental health effects among people exposed to the World Trade Center disaster. Information obtained will provide a more complete picture of health effects among a broad spectrum of the impacted population, including residents, office workers, school children, and emergency responders. Approximately 79,810 potential registrants have been identified through employee lists and telephone and website registrations. As of April 20, 2004, interviews of 31,921 people had been completed.

ATSDR developed the Rapid Response Registry to provide the capacity to timely identify and obtain information in a timely fashion from persons potentially exposed to environmental chemicals in an emergency event. Having obtained prior approval of the registry and associated questionnaires, and by training staff in its rapid use and deployment, we will be able to significantly reduce the time needed to collect potentially time-sensitive information in an emergency. Teams, in collaboration with State and local government agencies and private response organizations, will identify and enroll exposed and potentially exposed individuals within hours of an incident, to help document their presence at or near an emergency event. This informa-

tion, maintained in a central registry, will provide health officials with essential information necessary for both short-term and long-term follow-up with exposed or injured individuals, or their survivors. Contact information will enable officials to provide information to affected individuals about possible exposures, potential health impacts, updates, and available educational information, and will allow for follow-up contacts by health officials to assess current and future medical needs.

PRIORITY PROJECTS FOR FISCAL YEAR 2005

The President's fiscal year 2005 budget request includes an increase of approximately \$3 million to support two critical initiatives.

Evaluating and Tracking the Health Consequences of Exposure to Asbestos

Results of ATSDR's medical screening program and studies of residents in Libby, Montana highlight the seriousness of the health threat from exposure to the asbestos-contaminated vermiculite ore mined in Libby. ATSDR's medical screening program in Libby revealed that nearly 18 percent of the approximately 7,300 people evaluated have abnormalities of the lining of the lung consistent with exposure to asbestos. Among workers and household contacts evaluated, the prevalence of these abnormalities was 51 percent and 26 percent, respectively. ATSDR's review of 20 years of death certificates showed that mortality in the Libby area due to asbestosis was 40 to 80 times higher than expected, and lung cancer mortality was 20 percent to 30 percent higher than expected. Mortality due to mesothelioma was also elevated.

The vermiculite ore mined in Libby, Montana was shipped to more than 200 sites around the United States for processing. ATSDR and its State partners are conducting detailed exposure pathway evaluations and health statistics reviews at 28 of the highest priority sites. These 28 priority sites were selected either because EPA determined further action was necessary to address current contamination, or because a site processed 100,000 tons or more of vermiculite from the Libby mine. The findings from these priority sites will be used to inform future decisions related to evaluation of the remainder of the more than 200 sites.

To date, ATSDR and State partners have completed evaluations for 7 of the 28 priority sites, including sites in Beltsville, Maryland, Denver, Colorado, Santa Ana, California, West Chicago, Illinois, and Minot, North Dakota. Each of the 7 completed health consultations concludes that former workers were exposed to significantly elevated levels of asbestos from vermiculite exfoliation ("popping") operations: historical data indicate airborne fiber levels within these facilities at concentrations as high as 700 times the Occupational Safety and Health Administration's current permissible exposure limit for asbestos. ATSDR expects health consultations for the remainder of the 28 sites to be completed this year.

Each of the 7 health consultations includes a recommendation to identify and locate former workers and their household contacts for the purpose of evaluating potential health effects and providing health education. Many workers and household contacts may be unaware of their exposure, and many have moved away from the location where the processing occurred. Knowledge of past exposure may be beneficial for implementation of proactive public health interventions, such as smoking cessation, which are known to be effective to some extent in limiting adverse health impacts of asbestos exposure.

Fiscal Year 2005 Initiative

Of the approximately \$3 million increase for ATSDR in the President's budget request, \$2.5 million is requested for pilot medical screening related to a subset of the 28 priority sites. ATSDR will identify and locate former workers and their household contacts at each pilot site. Eligible workers and household contacts will be offered baseline medical screening (such as pulmonary function testing and chest X-rays) to evaluate the presence of asbestos-related pleural abnormalities. In addition, ATSDR will expand the Tremolite Asbestos Registry to enroll eligible persons from sites outside of Libby, Montana, and will offer health education on managing risks associated with asbestos exposure. Further evaluation and follow-up of former workers from other priority sites may be conducted in the future, if indicated, on the basis of pilot site results.

Supporting the World Trade Center Health Registry

Another ATSDR priority for fiscal year 2005 is to continue support of the World Trade Center Health Registry. The Registry is at this point the second largest of its kind in United States history, behind the Three-Mile Island Registry. Ultimately, data from the health registry on the health of registrants exposed to smoke, fumes, and other hazardous substances released by the World Trade Center collapse, will

enable researchers to observe exposure and health patterns that may not be apparent to individual physicians. The Registry will enable the NYC DOHMH to contact members of the exposed population with educational and other information.

With the additional funds, ATSDR and the NYC DOHMH can continue the core functions of the Registry, including maintaining a Registry office in New York City; retaining trained staff to maintain the database, conducting follow up interviews and community outreach activities; performing basic data analyses; developing quarterly reports; responding to public inquiries; and disseminating findings and health alerts as necessary.

ATSDR will use \$500,000 of the approximately \$3 million increase in the President's fiscal year 2005 budget, along with \$1 million of base funds, for a total spending level of \$1.5 million to cover the entire expected cost of this project for fiscal year 2005. This will continue the maintenance work of the World Trade Center Health Registry, supported in fiscal year 2004 by \$500,000 from ATSDR and a commitment of \$1.5 million under a Memorandum of Understanding with EPA.

MAXIMIZING ATSDR'S IMPACT AND EFFICIENCY THROUGH CONSOLIDATION

In January of 2003, Dr. Julie L. Gerberding, Director of the CDC and Administrator of ATSDR, issued a Statement of Intent committing to the administrative and management consolidation of ATSDR and the CDC's National Center for Environmental Health (NCEH) to achieve a coordinated structure and common leadership. The consolidation is based on major concepts in the December 2000 Report Shared Vision for Environmental Public Health at CDC and ATSDR. The purpose of the consolidation is to enhance the environmental public health programs and activities at CDC and ATSDR, by building on the complementary expertise of NCEH and ATSDR.

ATSDR continues to be a separate Agency and implements its authorities under Section 104 of CERCLA through its existing Divisions, which have not been changed by the consolidation. The ATSDR Office of the Assistant Administrator and the NCEH Office of the Director were merged to join like functions while maintaining the existing organizational construct of the Divisions and Program Offices within each respective organization.

I am pleased to report that the Department of Health and Human Services approved our proposed organizational structure, and implementation of the consolidation is going very well. Key positions in the consolidated Office of the Director have been filled. Personnel who performed similar administrative duties in the separate organizations are now working together in consolidated offices.

ATSDR's funding continues to be maintained separately from NCEH and tracked in accordance with appropriations, budget, and accounting requirements. ATSDR has hired an outside accounting expert to provide recommendation on how best to allocate the costs of the joint Office of the Director.

We have also created a joint terrorism preparedness and response coordinating office to oversee terrorism and emergency activities across NCEH and ATSDR. This has led to improvements in our preparedness and ability to respond to events promptly. For example, NCEH and ATSDR physicians and other staff members receive joint training on emergency health care methods and techniques. Joint training is underway on the care and treatment of people exposed in radiation emergencies. Our response to the recent ricin incident in the Senate Office Building benefited from a team that included ATSDR regional and headquarters staff, as well as NCEH medical toxicologists.

ATSDR has also made a number of structural changes, including creation of a new division, the Division of Regional Operations, which previously operated within the Office of the Director. This change will result in additional support of front-line staff and more efficient and effective services for State and local health departments.

We expect that the administrative and management consolidation of ATSDR and NCEH will enhance environmental health programs and services in this country. Through improved coordination and increased efficiencies, the consolidation will allow us to redirect resources to front-line public health service.

Thank you for the opportunity to provide this testimony.

NEIGHBORHOOD REINVESTMENT CORPORATION

PREPARED STATEMENT OF KENNETH D. WADE, EXECUTIVE DIRECTOR

Neighborhood Reinvestment Corporation is pleased to submit its testimony for the record. This testimony is based on the experience and considerable successes of 228

community development organizations serving nearly 2,500 urban, suburban, and rural communities. These nonprofit partnerships are collectively known as the NeighborWorks network and operate in 49 States, the District of Columbia, and Puerto Rico.

In January, Neighborhood Reinvestment Corporation's Board of Directors appointed Kenneth D. Wade as its fourth executive director. While he is new to the position of Executive Director of Neighborhood Reinvestment, Ken Wade has been actively engaged in the senior management of the Corporation for over 13 years. Most recently, he held the position of Director of National Initiatives, Programs and Research, and previously the position of New England District Director. Under the leadership of our former executive director, Ellen Lazar, Ken was closely involved in developing the Corporation's strategic plan that will continue to guide the work of Neighborhood Reinvestment. Thanks to his career experiences with youth programs and neighborhood revitalization in Boston's communities, Ken understands the unique challenges facing America's communities. Also, having served at the neighborhood level, he has a personal understanding and appreciation of the support provided by Neighborhood Reinvestment Corporation, with its commitment to providing timely and flexible assistance to its national network of locally-controlled NeighborWorks organizations.

The Neighborhood Reinvestment Corporation was created by Congress in 1978. Since then, Neighborhood Reinvestment and its affiliated NeighborWorks network have worked to expand housing opportunities for low- and moderate-income Americans, to revitalize distressed communities, and create a network of excellence in the community development field. In fiscal year 2003, the NeighborWorks system leveraged its \$104 million appropriation to generate nearly \$2 billion of direct investment in communities. These funds helped more than 83,000 families obtain and maintain safe and affordable rental and homeownership units and provided over 75,000 families with high-quality pre- or post-purchase homebuyer educational services. This could not have been accomplished without this subcommittee's support. For fiscal year 2004, Neighborhood Reinvestment Corporation received an appropriation of over \$114 million, and Neighborhood Reinvestment looks forward to reporting our outcomes to you next year.

OVERVIEW OF THE NEIGHBORWORKS SYSTEM

Over its 25-year history, the NeighborWorks System has proven to be an increasingly effective and efficient vehicle for leveraging significant private-sector resources in support of community revitalization and affordable-housing efforts. Comprised of Neighborhood Reinvestment Corporation, local nonprofit organizations in our NeighborWorks network, and the specialized secondary market Neighborhood Housing Services of America, the NeighborWorks System relies on public-private partnerships and uses modest Federal funds to leverage significant private investment. Innovations that are generated in response to locally identified needs are a hallmark of the NeighborWorks System.

Neighborhood Reinvestment Corporation

Neighborhood Reinvestment Corporation's partnerships with local housing and community development organizations support residents, businesses, and local governments in their efforts to revitalize their communities and provide affordable housing opportunities for low- and moderate-income families. Neighborhood Reinvestment engages in four core activities:

- Build and Sustain a Network of Excellence.*—The Corporation provides competitive grant funding, training, technical assistance and access to specialized secondary market services to NeighborWorks organizations. These organizations are closely monitored and thoroughly reviewed to maximize both the efficiency and effectiveness of the system and steward Federal dollars.
- Foster Innovation.*—The Corporation nurtures new ideas from within the NeighborWorks network and the affordable housing and community development field. By strategically allocating resources, the Corporation has developed innovative programs such as the NeighborWorks Campaign for Homeownership and the Multifamily and Rural Initiatives.
- Build Skills and Performance in the Housing and Community Development Field.*—The Corporation operates national NeighborWorks Training Institutes in major cities throughout the United States open to anyone involved in affordable housing and community revitalization, particularly private- and public-sector practitioners and community leaders.
- Leverage Strategic Partners and Resources.*—Founded on a three-component partnership model of government, private corporations and residents, Neighbor-

hood Reinvestment accomplishes its mission by using its Federal appropriation to leverage private investment and involvement.

These activities individually and collectively build the productivity and strength of the NeighborWorks network and the broader community development field.

NeighborWorks Network

NeighborWorks organizations are located in our Nation's largest cities, as well as suburban neighborhoods, small towns and rural areas. Regardless of their target communities, each of the 228 NeighborWorks organization operates under the direction of a local board of directors comprised of local residents, lenders and other business leaders, and representatives from local government. This three-pronged, public-private partnership approach to community development is crucial to the NeighborWorks system's successes. To achieve their locally-identified goals, members of the NeighborWorks network utilize the laboratory environment that Congress intended to achieve creative strategies, collaborate on best practices, and develop flexible financing mechanisms.

Each NeighborWorks organization is responsible for setting its own strategies, raising its own funds, and delivering its own services. Most NeighborWorks organizations also operate a revolving loan fund to meet community credit needs such as gap financing for home purchase loans, second mortgages for home rehabilitation or repair, small-business loans, and loans for the acquisition and development of residential and commercial real estate. The NeighborWorks network is the leading national community development nonprofit network with extensive expertise in designing, originating, and servicing small non-conventional loans to lower-income families. However, clients often require more than a loan. NeighborWorks organizations also provide extensive training, counseling and personalized assistance. This concentrated effort pays dividends by creating comprehensive opportunities for families to build assets, which on a large scale also help to revitalize distressed communities.

Neighborhood Housing Services of America

Neighborhood Housing Services of America (NHTSA) works in partnership with Neighborhood Reinvestment Corporation to meet the special secondary market needs of NeighborWorks organizations and their clients. NHTSA is governed by an independent board of directors, composed of representatives from these private sector investors, NeighborWorks organizations, and local civil servants. The primary mission of NHTSA is to operate a specialized secondary market created to replenish the revolving loan funds and capital pools of local NeighborWorks organizations.

With administrative and capital support provided by Neighborhood Reinvestment, NHTSA purchases loans from NeighborWorks organizations, thereby allowing organizations to originate loans with flexible rates and terms based on the borrowers' needs. NHTSA's loan purchases provide an ongoing stream of capital into NeighborWorks organizations' revolving loan funds, allowing them to meet additional needs within their communities.

NHTSA leverages Neighborhood Reinvestment's financial support by securing private-sector capital from a pool of socially-responsible national institutional investors, including insurance companies, financial institutions, foundations and pension funds. Proceeds from these investments are used to purchase NeighborWorks loans.

SELECTED OUTCOMES FOR FISCAL YEAR 2003

Thanks to your continued support, Neighborhood Reinvestment's 25th anniversary year produced new levels of achievement. Congress provided Neighborhood Reinvestment Corporation with an appropriation of \$104.3 million. The NeighborWorks network leveraged these resources to:

- Generate nearly \$2 billion of direct investment in targeted communities;
- Leverage \$18 in direct investments in communities for each dollar Congress appropriated to Neighborhood Reinvestment;
- Provided affordable housing opportunities to more than 83,000 families; and
- Provided pre- and post-purchase homebuyer education and counseling services to over 75,000 families.

PROJECTED OUTCOMES FOR FISCAL YEAR 2005

For fiscal year 2005, the Corporation requests an appropriation of \$115 million. At this funding level, Neighborhood Reinvestment will be able to maintain its current level of services to the NeighborWorks network, including continued support of increasing homeownership, with a particular focus on increased and improved housing counseling efforts.

A \$115 million appropriation will allow the NeighborWorks system to:

- Leverage nearly \$2.3 billion in direct total investment in distressed rural, suburban and urban communities;
- Use each dollar Congress appropriates to leverage nearly \$20 from other sources;
- Assist more than 83,000 families obtain and maintain safe and affordable rental and homeownership housing;
- Provide pre- and post-purchase homeownership counseling and financial literacy training to nearly 86,000 families; and
- Own and/or manage 41,000 units of affordable rental housing.

To support these accomplishments, the Neighborhood Reinvestment Corporation and NHTSA will:

- Conduct 240 organizational assessments of member organizations;
- Provided almost 11,000 individuals with training, amounting to more than 210,000 contact hours;
- Disburse 71 percent of Neighborhood Reinvestment's congressional funding in the form of grants; and
- Purchase \$66 million in loans from NeighborWorks organizations.

PRIORITIES FOR FISCAL YEAR 2005

In developing the Corporation's fiscal year 2005 budget, Neighborhood Reinvestment sought to continue its work from prior years, while defining more aggressive expectations for the NeighborWorks system. Neighborhood Reinvestment has always worked to be good stewards of the funds that Congress has entrusted to us, and the Corporation continues to diligently work to maximize our efficiency and effectiveness. In order to meet these expectations, Neighborhood Reinvestment and the NeighborWorks system will continue to:

- Build and sustain a network of excellence;
- Foster innovation;
- Build skills and performance in the housing and community development field; and
- Leverage strategic partners and resources.

Build and Sustain a Network of Excellence

Although the larger environment in which the NeighborWorks system operates has changed dramatically over the years, the Corporation's role as a bridge between mainstream financial institutions and lower-income communities and families remains relevant and critical. Neighborhood Reinvestment and the NeighborWorks network continue to operate in underserved communities that are home to a variety of citizens who lack access to decent, affordable housing, financial products, services, and the kind of investments that sustain communities.

NeighborWorks organizations function as partnerships of local residents, lenders and other business leaders, and local government representatives. They produce creative strategies, share innovative best practices, and develop flexible financing mechanisms. When these organizations are supported and work together, they create a nimble network of high performing nonprofits, where the whole is greater than the sum of its parts. In order to facilitate, encourage and promote this network of excellence, the Neighborhood Reinvestment Corporation provides guidance, assistance and oversight of the NeighborWorks network in the following ways.

Financial Support

Equity capital grants are a critically important financing vehicle that Neighborhood Reinvestment provides on a competitive basis to NeighborWorks organizations for capital and revolving loan funds that support real estate development and lending. NeighborWorks organizations use these grants to provide the equity and gap financing necessary to originate loans for home purchases, property rehabilitation and small businesses, and provide equity and financing for real estate development. Eligible activities also include capital costs associated with the acquisition and development of residential and commercial real estate for long-term ownership by a NeighborWorks organization.

Neighborhood Reinvestment also provides expendable grants to NeighborWorks organizations to strengthen and increase their ability to develop and administer responsive products and services. These competitive grants are awarded for activities that address the full range of organizational, administrative and financial management and development issues faced by nonprofit housing and community development organizations. Particular emphasis is placed on activities crucial to increasing production and efficiency, thereby generating sustained community impact and ensuring the long-term success of the organization and its initiatives.

Technical Assistance

In tandem with financial assistance, Neighborhood Reinvestment provides a wide range of technical assistance. NeighborWorks organizations request practical, systems-based assistance in programmatic, organizational, administrative, financial or management areas of strategic importance to their organization. Neighborhood Reinvestment responds with a team of professionals familiar with each organization's local market, environmental challenges, structure and mission. These professionals provide technical assistance in six key programmatic areas: organizational development; resource development and marketing; community revitalization, economic development and business planning; technology and financial management systems; single-family housing and lending; and real estate development and management. The guiding principles observed by Neighborhood Reinvestment include a mandate to design and deliver our services in a manner that consistently builds the capability of network organizations to fulfill their vitally important missions and increases their capacity to sustain their efforts over time. Our goal is to increase self-reliance and programmatic expansion among network members.

Organizational Assessment

As part of our responsibility to act as a good steward of Federal funding, and to protect the investment of other partners as well as the high standards and the reputation of the NeighborWorks network as a whole, Neighborhood Reinvestment Corporation is committed to promoting and maintaining a network of high-performing, well-managed, nonprofit housing and community development corporations that deliver high quality services responsive to local needs and have a measurable impact on their communities. One of the tools employed in doing this is a uniform program review and assessment system.

Organizational assessment enhances the performance and productivity of NeighborWorks organizations, while assisting in building the capacity of our affiliates to function in a highly effective manner. Assessments also offer the opportunity to evaluate the use of Congressionally appropriated funds from Neighborhood Reinvestment, and evaluate the capacity of affiliate organizations to meet NeighborWorks network membership standards and performance objectives.

Through a system of continuous monitoring, each NeighborWorks organization is subject to an annual organizational assessment through either off-site or on-site program reviews. Off-site reviews involve the collection and analysis of data about the organization. These data are analyzed in eight risk areas on a quarterly basis. If a risk alert is identified, the degree to which the organization has the capacity to manage the risk is determined, and appropriate action is taken.

Expansions, Organizational Mergers and New Affiliates

In today's community development industry, employing an effective and efficient growth strategy does not necessarily mean creating or adding new organizations. In many underserved areas, the most sensible and cost-effective approach is to expand the reach or programmatic services of an existing network member, or to facilitate a merger of two organizations to create a more powerful organization with greater impact and efficiency. Neither of these approaches results in the addition of new organizations, yet both can result in productive outcomes, more efficient use of resources, responsive service delivery, and expanded coverage. Mergers of local housing and community development organizations are becoming an increasingly common practice. The combined efforts resulting from mergers can result in achieving greater impact at equal or less cost.

Neighborhood Reinvestment receives a far greater number of requests for new affiliations than it can hope to satisfy responsibly. To prioritize requests from new applicants, the Corporation seeks those environments where its resources and assistance are likely to add the greatest value to local efforts and produce the most pronounced impact. Through a careful affiliation process, Neighborhood Reinvestment works with interested existing community-based organizations to ensure that before any organization is chartered as a NeighborWorks entity, it is: sound and productive; led by a responsible board of directors reflective of the community it serves; and, committed to a mission with goals, values, programs and accomplishments compatible with the focus and priorities of the NeighborWorks network. In a given year, Neighborhood Reinvestment extends an invitation to join the NeighborWorks network to up to 10 organizations.

Through the affiliation process, Neighborhood Reinvestment enables an organization to increase its productivity and realize a greater return on the investment of time and money. Chartering a new NeighborWorks organization requires extensive educational and partnership-building efforts, usually over a period of about 12 to 18 months.

*Foster Innovation**Providing Affordable Rental Opportunities*

Understanding the importance of multifamily rental housing in a comprehensive neighborhood revitalization strategy, a group of NeighborWorks organizations formed the NeighborWorks Multifamily Initiative in 1999. Together, these organizations own and/or manage more than 44,000 units of affordable and well-maintained rental housing. The members of the NeighborWorks Multifamily Initiative make it their mission to provide sustainable multifamily homes, which are characterized over the long-term by:

- Affordability, as defined by local market conditions;
- Ongoing economic viability;
- High quality maintenance and management; and
- Access to on-site learning centers designed to advance the personal assets of residents—academic success of youth, employability of adults, financial savings, and homeownership.

With \$5 million appropriated by Congress in fiscal year 2002, the Corporation embarked on an ambitious effort to create mixed-income multifamily properties serving families and individuals below 30 percent of area median income. With that funding, Neighborhood Reinvestment provided 14 grants, which funded the development of 121 units affordable to families with extremely low-incomes. In fiscal years 2003 and 2004, Congress appropriated an additional \$10 million set-aside for multi-family housing. These investments will enable NeighborWorks organizations to expand these precious affordable rental opportunities to new communities, thus enhancing the impact of federally-appropriated funds. The rental housing has been, and will continue to be, developed in diverse settings—urban, suburban, rural, large and small developments as well as scattered site. Most importantly, many of these units will be affordable to extremely low-income families without need for a Section 8 voucher or certificate or other form of on-going subsidy.

Championing Homeownership for Lower-Income Americans

For years, the NeighborWorks system has led the nonprofit homeownership industry, bringing homeownership opportunities to all Americans. Research confirms what common sense suggests: responsible homeownership is good for families, neighborhoods, the economy and the Nation. Homeownership is the largest source of wealth for the majority of American families, and therefore, their key toward improving their lives and the opportunities for their children. Lack of access to homeownership adversely affects minority citizens, female-headed households and immigrant families.

From its inception in 1993, the NeighborWorks Campaign for Home Ownership has brought lower-income families into the economic mainstream by helping them achieve one of their primary life goals: owning a home. Neighborhood Reinvestment achieved this by partnering with lenders, insurance companies, secondary markets, government, and the real estate community.

Over the last 10 years, the NeighborWorks Campaign for Home Ownership has created more than 71,000 new homeowners and provided counseling to over 413,000 individuals. As a result, \$6.6 billion is invested in America's communities, serving to help families build wealth and to revitalize neighborhoods.

The Campaign for Home Ownership has established high standards for service delivery, training, and technical assistance, and encouraged local NeighborWorks leaders to engage in peer-mentoring. Key to the Campaign's success, NeighborWorks organizations establish clear, aggressive goals, while maintaining high quality standards. Innovative tools, such as Full Cycle LendingSM, NeighborWorks HomeOwnership CentersSM, Financial Fitness, and Housing Choice Voucher-Section 8 homeownership, have also been developed.

In June 2002, President Bush announced a national goal of increasing the number of minority homeowners by at least 5.5 million by the end of this decade. The NeighborWorks system has been an active partner in the development of the White House's initiative on increasing minority homeownership. The Corporation has held a national symposium, conducted targeted case studies with leading housing researchers, and set national goals for serving minority first-time homebuyers. Since the President announced the goal, the NeighborWorks network has helped 10,000 minority families achieve the American dream of home ownership.

Building on a strong record of success, the Campaign for Home Ownership has set the following goals from 2003–2007:

- Create 50,000 new homeowners, including 30,000 minority homebuyers.

- Assist 50,000 families to preserve homeownership and improve their homes through home maintenance and repairs, delinquency counseling and foreclosure prevention, and mortgage refinancing.
- Establish a coordinated outreach, public information and counseling effort to reach 500,000 families through educational programs, such as Financial Fitness classes, anti-predatory lending efforts, and homeowner counseling.

Financial Fitness

More recently, Neighborhood Reinvestment and members of the NeighborWorks network have developed a new financial education program called Financial FitnessSM. Neighborhood Reinvestment has developed a partnership with the Federal Deposit Insurance Corporation for use of the FDIC's "Money Smart" financial literacy program to teach money management skills. The Corporation has developed standards, training materials, and developed 420 trainers through the NeighborWorks Training Institute. Since 2001, more than 8,100 consumers have graduated from the program, 58 percent of whom are minorities and 67 percent are women. This program intends to give participants an increased understanding of basic finances and healthy financial relationships that benefit both the individual and the community.

While 91 percent of participants are current renters hoping to bolster their credit and savings in preparation to purchase a home in the future, Financial Fitness has also proven a successful strategy to preserve homeownership for existing owners facing income instability or high debt. Since 2002, the Campaign for Home Ownership has enhanced its emphasis on not just promoting, but also sustaining homeownership. In addition to Financial Fitness, the NeighborWorks Campaign for Home Ownership is working with the Fannie Mae Foundation to develop new post-purchase standards and best practices. This effort will help NeighborWorks organizations better provide home maintenance services, delinquency and foreclosure prevention counseling, and mortgage refinance loans. This expanded effort serves the interests of not only the homeowner, but also the community as a whole.

Housing Choice Voucher Homeownership

The NeighborWorks system is dedicated to expanding homeownership opportunities across the country, particularly for families and individuals with low and moderate incomes. One of the most innovative programs used towards this effort is the Section 8 homeownership option. Strong technical and financial support from the Neighborhood Reinvestment Corporation has enabled NeighborWorks organizations to serve a critical role as a bridge between private lenders and public housing authorities to make homeownership a reality for qualified Section 8 voucher holders. Congress has propelled the NeighborWorks network's efforts by providing funding specifically targeted to NeighborWorks organizations who partner with Public Housing Authorities (PHAs).

In recognition of the early success of this effort, the Corporation's fiscal years 2001, 2002 and 2003 appropriation included a total of \$20 million set-aside to develop capacity and effective partnerships in support of the U.S. Department of Housing and Urban Development's Section 8 homeownership option. Most of the set-aside funds were used to capitalize NeighborWorks organizations' revolving loan funds serving as a source for second mortgages, with a smaller portion of the set-asides being used for capacity-building grants. These grants helped some NeighborWorks organizations tailor their pre- and post-purchase services to the specific needs of their Section 8 population, develop unique systems to work with a Section 8 voucher and the PHA, or defray a portion of the costs associated with hiring additional staff to implement the program. The appropriated set-asides also supported a performance-monitoring component with assistance from a third-party consulting and research firm. Additionally, Neighborhood Reinvestment's local, regional and national training efforts on the Housing Choice Voucher Homeownership Program have served an important role in influencing the Public Housing Authorities across America to develop and implement homeownership programs.

As of September 2003, the set-asides helped fund more than 60 NeighborWorks organizations develop partnerships with 73 PHAs, which provided 2,204 families with pre-purchase homebuyer education, and resulted in over 378 new homeowners. The income of these families was between 60 and 80 percent of their area's median income. These entrepreneurial partnerships are built upon the NeighborWorks network's solid homeownership experience in pre- and post-purchase counseling, innovative mortgage financing and in leveraging public resources and private investment. The results of this program offer evidence of that this powerful local public-private partnership can assist those Americans who are often locked out of homeownership.

Supporting Rural Development

In 1990, three NeighborWorks affiliates identified their primary service areas as rural communities. By the end of fiscal year 2003, that number had grown to 73 organizations, which is approximately one-third of the NeighborWorks network and comprises the fastest growing segment of the network. Moreover, as our existing NeighborWorks organizations expand their target areas, they begin to capture rural areas with their services.

In fiscal year 2003, NeighborWorks organizations serving rural areas assisted more than 5,000 families in buying or rehabilitating their homes, and leveraged more than \$500 million in direct investment. The network has also enhanced its ability to address the unique needs in rural communities by creating a capital fund for rural development. With seed funding from Neighborhood Reinvestment and the Northwest Area Foundation, rural NeighborWorks organizations have grown a shared revolving loan fund that provides bridge financing for local housing or economic development projects at below-market rates. With current loan assets of \$2.5 million, 45 loans have been closed since 1994, totaling more than \$4.4 million. These loans have supported the production of 432 units of affordable housing and 22 units of commercial space and community facilities, and leveraged more than \$35.8 million in total project financing.

Build Skills and Performance in the Housing and Community Development Field

A comprehensive, systematic program of training and informing powerfully augments on-site technical assistance. The Neighborhood Reinvestment Corporation is nationally recognized as the premier provider of training in the housing and community development field, having founded its Training Institute 15 years ago. Today, the NeighborWorks Training Institute offers more than 150 courses and reaches more than 5,000 people a year from more than 4,000 communities across America. Participants at the Training Institutes come from all 50 States, Puerto Rico and the District of Columbia.

The NeighborWorks Training Institutes are typically scheduled four to five times each year at various locations around the country. Courses are offered in eight tracks: homeownership and community lending, affordable housing, community building, community economic development, construction and production management, management and leadership, and neighborhood revitalization and rural development. The Institutes also host symposia on cutting-edge topics involving nationally recognized experts, special-issue workshops, and peer-to-peer networking opportunities. Approximately half of the attendees of the Institutes come from organizations external to the NeighborWorks network. This is one of the many ways that the support Congress provides Neighborhood Reinvestment Corporation reaches not only the 2,500 NeighborWorks-assisted communities, but also the broader community development field.

Neighborhood Reinvestment has recognized that experienced housing and community development practitioners have few options for continuing education and skill development. Neighborhood Reinvestment's own Training Institutes, like others in the field, focus primarily on meeting the critical needs of less seasoned professionals.

Beginning in 2002, Neighborhood Reinvestment introduced a unique program for Executive Directors of community development organizations practitioners, in partnership with Harvard University. The Advanced Practitioner Program requires participants to shape and focus their efforts on challenges that can make a tangible difference for their organizations, and for the housing and community development field. Participants establish ambitious goals and hold themselves and each other accountable for achieving them. This self-motivated and disciplined approach is fully focused on ensuring the success of participants as they advance their own work in building strong community-based organizations.

Leverage Strategic Partners and Resources

Partnerships

Neighborhood Reinvestment Corporation embodies the principle of cross-sector partnership in all major projects and programs. Nationally, the Corporation is engaged in partnership with many major financial institutions such as Bank of America and Citibank, both government-sponsored enterprises, and large retailers such as Sears. The benefits of these partnerships accrue to local NeighborWorks organizations, receiving financial assistance, in-kind support, and business opportunities.

Financial Resource Leverage

In fiscal year 2005, the NeighborWorks System will use the \$115 million appropriation to leverage more than \$2.3 billion in other sources. The Federal appropria-

tion provides unique flexibility to be the “first in” on large-scale development projects, which then stimulates private sector interest to support the majority of development costs. The strong partnership base of the NeighborWorks system has built a solid national reputation for quality and stability. In 2005, Neighborhood Reinvestment will nurture and grow these partnerships locally and nationally, in order to meet the aggressive goal of leveraging almost \$20 for each \$1 of Federal appropriation.

Revolving Loan Funds

Because of their flexibility and local control, revolving loan funds are central to the impact of the NeighborWorks system. These loans are local pools of money administered by NeighborWorks organizations to meet the lending needs of borrowers who do not qualify under conventional loan underwriting criteria—and to serve as equity capital in support of major capital projects. Money for the revolving loan funds comes from private- and public-sector investors as well as from Neighborhood Reinvestment’s equity capital grants. Most revolving loan fund capital comes from local sources—loans and grants made by banks, insurance companies, foundations, local governments and other local investors. In fiscal year 2003, more than \$113 million from local NeighborWorks organization’s revolving loan funds was invested in communities.

Loans are made at flexible rates and terms that fit the lower-income borrower’s ability to repay, and are typically secured by a lien on the property, often a second or third lien to allow for investment by other public and private sector entities. Sixty-eight percent of loans made through NeighborWorks revolving loan funds are made to very low- or low-income households, 51 percent to minority-headed households, and 46 percent to female-headed households. The liquidity of many local revolving loan funds is supported by selling loans to NHSA.

Conclusion

Neighborhood Reinvestment Corporation thanks the committee for the opportunity to brief you on our work, and the outcomes that were generated as a result of Neighborhood Reinvestment’s congressional appropriation. The NeighborWorks System and Neighborhood Reinvestment’s congressional appropriation represents a precious asset for 228 community development organizations and more than 2,500 communities across America. With our leveraging of dollars, NeighborWorks has been efficient and effective in ensuring the maximum impact of our Federal appropriation. Congress has allowed Neighborhood Reinvestment to be flexible and responsive to local needs; as a result, families and communities are stronger and more self-reliant.

Neighborhood Reinvestment Corporation is committed to continuing to build healthy, strong and safe communities all across America. Your continued support is vital to us in accomplishing this goal.

U.S. COURT OF APPEALS FOR VETERANS CLAIMS

PREPARED STATEMENT OF HONORABLE KENNETH B. KRAMER, CHIEF JUDGE

Mr. Chairman and distinguished members of the committee, on behalf of the Court, I appreciate the opportunity to present for your consideration the fiscal year 2005 budget request of \$17,623,000 for the United States Court of Appeals for Veterans Claims.

The Court’s fiscal year 2005 budget request includes \$1,100,000 requested by the Veterans Consortium Pro Bono Program (Representation Program). In accordance with practice since fiscal year 1997, the Representation Program has provided its own budget request, which the Court has forwarded (without comment) along with the Court’s budget request.

The fiscal year 2004 appropriation to the Court in Public Law No. 108–199 was \$15,938,000, of which \$1,175,000 was the amount requested by the Representation Program. Our fiscal year 2005 budget request reflects an increase over the budget authority for Court operations for fiscal year 2004. Three factors account for the increase. The first reflects a budgeted pay adjustment for all Court personnel consistent with that generally anticipated for all Washington, DC, area government employees and also taking into consideration the differential between the amount budgeted in this category for fiscal year 2004 and the actual pay adjustment mandated during fiscal year 2004. The second factor is the statutory authorization for a temporary increase in the number of judges. The third is a request for funding for feasibility studies preparatory to the design and construction of a Veterans

Courthouse and Justice Center (Veterans Courthouse). I will discuss each of these matters further.

The first significant increase in the Court's budget request for fiscal year 2005 is in personnel compensation and benefits. The increase in pay and benefits (\$590,000 over the Court's fiscal year 2004 appropriation) is caused by three major factors: (1) The budgeted pay increase in fiscal year 2004 was 2.2 percent while the actual increase used as a base is 4.1 percent (pursuant to the Omnibus Appropriations Act, Public Law No. 108-199), an increase of almost 90 percent—1.9 percentage points—over the fiscal year 2004 appropriation; (2) the budgeted fiscal year 2005 pay adjustment of 1.5 percent for all personnel (based on OMB recommendations); and (3) the amount, based on valuation by an outside actuary, that must be contributed to the Court's retirement system (JRS). As in the past, the budgeted fiscal year 2005 pay-adjustment assumption for all nonjudicial Court personnel is in conformance with OMB assumptions, with no differentiation between the Economic Cost Indicator and locality pay, including necessary funding for benefits. We have used the 1.5-percent pay adjustment requested in the President's budget. If the Congress decides, as it did for fiscal year 2004, that the civilian pay adjustment should be the same as that for the uniformed services, the additional cost to the Court would be \$162,000. The Court's contribution to the JRS assumes, based on prior practice, that all judges will participate and that once participation is effectuated it will include opting into the survivor annuity program. The fund is invested solely in government securities.

The second important factor is the result of the enactment of Public Law No. 107-103 (Dec. 27, 2001), calling for the temporary addition of two judges. Since its inception, the Court has been composed of seven judges, one of whom serves as chief judge; however, Public Law No. 107-103, temporarily increased the number of judicial positions from seven to nine. This law was designed to smooth the transition period when the then five, now four, remaining original judges would be eligible to retire in a very short span of time; at the end of that period, in August 2005, the size of the Court will return to seven judges (because one or both of the last two of the original judges to retire will not be replaced). We have attempted to budget as prudently as possible for this temporary judicial increase. As with our fiscal year 2004 budget request and appropriation, we have included, as part of the fiscal year 2005 budget request, funding for two additional chambers for use during fiscal year 2005 (personnel and benefits, office buildout, furnishings, equipment, and supplies).

The Court requests funding for 98 full-time equivalent (FTE) positions. As with our fiscal year 2004 budget request and appropriation, the increase in staffing over the fiscal year 2003 level results solely from the new judgeships. The Court, as always, will monitor staffing to ensure that it is kept at the minimum level necessary to review in a timely fashion the cases brought before the Court. To provide further background on the workload before the Court, the Court's caseload history (of appeals and petitions) over the past 12 years is summarized in the following table, which also appears on page 4 of the Court's fiscal year 2005 Budget Request:

	BVA Total Denials	New Cases to USCAVC	New Cases as Percent of BVA Denials
Fiscal year 1992	10,946	1,742	15.9
Fiscal year 1993	9,734	1,265	13.0
Fiscal year 1994	6,194	1,142	18.4
Fiscal year 1995	6,407	1,279	20.0
Fiscal year 1996	10,444	1,620	15.0
Fiscal year 1997	15,865	2,229	14.0
Fiscal year 1998	15,360	2,371	15.4
Fiscal year 1999	14,881	2,397	16.1
Fiscal year 2000	14,080	2,442	17.3
Fiscal year 2001	8,514	2,296	27.0
Fiscal year 2002	8,606	2,150	25.0
Fiscal year 2003	10,228	2,532	24.7

Appeals to the Court come from the pool of cases in which the Board of Veterans' Appeals (BVA or Board) has denied some or all benefits sought by claimants. The Court is also empowered to entertain petitions for extraordinary relief where the Court action sought would be in aid of its jurisdiction. Over the last 3 fiscal years, the number of new cases as a percentage of BVA denials has risen substantially over the level in fiscal year 2000 and earlier years.

Furthermore, since Congress extended the Equal Access to Justice Act (EAJA) to the Court in 1992, there has been a substantial number of EAJA applications. The case-filing figures provided in the table, above, however, do not reflect the number

of EAJA applications filed and EAJA cases pending, even though these applications initiate a separate proceeding requiring Court action. In fiscal year 2003, the Court acted on 1,559 applications, up from 1,104 applications in fiscal year 2002 (a 41 percent increase), more than double the 776 applications in fiscal year 2000 (the first year for which EAJA-application figures are available). The potential availability of EAJA fees has encouraged a greater number of attorneys to develop expertise in veterans benefits law, and the professional assistance of the growing appellants' (benefits claimants) bar has proven very valuable in litigation before the Court. However, there is a tradeoff: Some EAJA applications can demand considerable time because they present very complex issues, and resolving these issues continues to require substantial judicial and staff resources. Consequently, processing and disposing of EAJA applications has become an important workload factor.

In addition to the factors addressed above, a third matter has contributed to the amount of the Court's fiscal year 2005 budget request. The budget for all other objects reflects a net increase of \$1,170,000. Of this increase, \$915,000 would be used for feasibility studies preparatory to design and construction of a Veterans Courthouse. The Court has requested the Department of Defense (DOD) to consider using for this purpose a site on presently available Pentagon Reservation land (either the Hayes, Eads, or Fern Street parking lot, located south of Interstate 395, just north of Army Navy Drive). It is my understanding that the DOD has initiated a feasibility study to determine the "highest and best possible use" of these three sites in Arlington, Virginia. On March 11, 2004, the Chairman and ranking minority member of the House Committee on Veterans' Affairs introduced a bill (H.R. 3936) to require DOD to report on the feasibility of locating a new courthouse for the Court on or proximate to the Pentagon reservation; this would include, of course, the feasibility of the Court's participation in any DOD development project involving these parking-lot sites. That committee held a hearing on this bill on April 29, 2004, at which I presented testimony in support of this bill.

In addition to the Court, occupants of the Courthouse would be members of those constituencies that regularly practice before the Court—VA General Counsel Group VII, the Representation Program, and the appellate litigation staff of the Disabled American Veterans (DAV), the Paralyzed Veterans of America (PVA), and the National Veterans Legal Services Program (NVLSP). The Court has been working with the General Services Administration (GSA) and exploring various courthouse alternatives; the GSA has preliminarily estimated that the Veterans Courthouse would require 121,000 gross square feet or 112,000 rentable square feet of interior space. (It is not anticipated that, if additional veterans organizations were to occupy space, there would be any significant impact on square-footage requirements.) The GSA could work with the DOD to coordinate pre-design and pre-construction studies to determine the feasibility of use of one of the sites for the Veterans Courthouse and would provide input during design and construction based on guidelines for Federal courthouses and act as the Federal leasing agent once construction was completed. The Court and its constituencies that have expressed an intent to relocate to the Veterans Courthouse pay (or expressed a willingness to pay, based upon present rental costs) over \$3.7 million per year for rent. The GSA anticipates that, at least for the Court and VA, rental costs at our present location will increase substantially in the not-too-distant future. Arlington County government officials have indicated that they support the location of the Veterans Courthouse on one of these sites and have offered to assist in this project.

As H.R. 3936 recites, the Courthouse "would express the gratitude and respect of the Nation for the sacrifices of those serving and those who have served in the Armed Forces, and their families." Given these past, present, and future sacrifices, I cannot imagine a higher or better use for one of these present parking-lot sites than a stand-alone, dedicated Veterans Courthouse and Justice Center, which would express our Nation's strong commitment to ensuring justice for every veteran who—in Abraham Lincoln's words—"shall have borne the battle and for his widow and his orphan." The Pentagon Reservation site would be the ideal setting, given its proximity to the Pentagon, Arlington Cemetery, and the soon-to-be-constructed Air Force Memorial and would be a timely and tangible means of demonstrating to the Nation's veterans and their families how much their sacrifices are valued.

The request for funding also anticipates essentially uncontrollable increased costs for rent and for other services. These services include cross-servicing for payroll and finance and accounting support and for GSA property and disposal services; also included are increases in the cost of the contract with the U.S. Marshals Service for court security officers and in the Court's share of the cost of paying for guards in the building and garage pursuant to a GSA contract with the Federal Protective Service. In addition, a \$15,000 increase for travel reflects an increase in the cost of travel, the temporary addition of judges, plans to conduct oral arguments at law

schools and thereby promote education in veterans' law (as discussed further in the next paragraph), and training and possible relocation costs associated with the new judicial appointments. Finally, there is a net decrease of \$10,000 realized in the supplies and materials and equipment categories.

Last year, in my statement in support of the Court's budget request for fiscal year 2004, I updated you on two continuing Court initiatives: To promote study of veterans benefits law in the Nation's law schools and to support practitioners in their effort to organize a voluntary bar association. During the past 2 years, the Court held oral argument at five area law schools (Catholic University, Georgetown University, the University of Baltimore, American University, and Howard University), and one of the schools (Catholic University) offered an evening course in veterans benefits law during the Fall 2002 semester (the course is scheduled to be repeated in Fall 2004). The voluntary bar association continues to operate successfully, drawing its dues-paying members (currently over 240) from the appellants' bar, VA, veterans service organizations, and the Court. As one of its activities, the bar association has established a law school education committee, with membership from among the Court's practitioners, including members outside the Washington, DC, geographic area, to support the Court's initiative to promote education in veterans benefits law. These practitioners are working with law professors and law schools throughout the country in exploring various means to expose future attorneys to this practice area.

In conclusion, I appreciate this opportunity to submit this testimony on the Court's budget request for fiscal year 2005. On behalf of the judges and staff, I thank you for your past support and continued assistance. I will be happy to answer any questions that you might have.

CONSUMER PRODUCT SAFETY COMMISSION

PREPARED STATEMENT OF HAL STRATTON, CHAIRMAN

Thank you for this opportunity to present to the subcommittee the appropriation request for the Consumer Product Safety Commission (CPSC) for fiscal year 2005. The Consumer Product Safety Commission is an independent agency charged with protecting the public from unreasonable risks of serious injury or death from more than 15,000 types of consumer products under the agency's jurisdiction. Deaths, injuries and property damage from consumer product incidents cost the Nation more than \$700 billion annually.

Since its inception, the Consumer Product Safety Commission has delivered critical safety benefits to America's families and has made a significant contribution to the 30 percent decline in the rate of deaths and injuries related to hazardous consumer products. We are proud of our mission, and we appreciate the subcommittee's strong support of the Commission and its goals over the years.

The CPSC budget request for fiscal year 2005 is \$62,650,000. This year's requested level of funding is an increase of \$3 million over our fiscal year 2004 budget and is almost exclusively to be used for mandated staff salary and benefit increases and General Services Administration office space rent increases.

Mandated Federal pay increases are the largest part of this request at \$1.8 million. This figure is based on the estimated 1.5 percent increase proposed by the President for 2005. Additional mandated salary costs also include staff within-grade increases, staff retirement benefit increases, and staff health insurance benefits increases. Taken together, these increases total over \$2.3 million.

Additionally, the General Services Administration's proposed annual increase for space occupied by CPSC in our headquarters, laboratory and field locations is \$339,000. We are not increasing our space; in fact, in the past 5 years, CPSC avoided space rent increases of over \$1 million annually because our field telecommuting initiative allowed us to reduce space requirements.

Finally, we are requesting \$80,000 for operation of a new fire data system. Reduction of fire deaths and injuries is a major effort by the agency and accurate data on consumer product involvement is critical. This initiative builds on a successful pilot conducted in 2002 designed in response to a General Accounting Office criticism of the statistical deficiencies of the National Fire Incident Reporting System (NFIRS) operated by the U.S. Fire Administration and used by CPSC for our fire death and injury estimates.

I would also like to call to your attention the planned modernization of CPSC's aging laboratory facility. While we are not seeking funding in our current budget request for this project, I want to take this opportunity to update the subcommittee on our progress. GSA studies have shown that simply maintaining the existing

structures is not cost effective. We have been working with GSA since 1999 to develop a modernization plan for the former military installation built in the 1950's that serves as our laboratory facility. An architectural firm under contract to GSA is now developing the full costs for implementing the master plan approved last year by the local planning commission. As these cost estimates become available, we will keep you further advised.

A number of Senators have expressed interest in our largest hazard reduction activity, and that is reducing fire injuries and deaths. Under our previous Strategic Plans, we had a target to reduce the rate of fire deaths by 10 percent from 1995 to 2005. I am pleased to report that from 1995 to 1998, the fire death rate was reduced by nearly 15 percent. Because of this success, we decided to retain this as a strategic goal with a new target of an additional 20 percent reduction from 1998 to 2013. Past standard-setting and compliance activities have contributed to the general decline in fires and fire deaths and show that the agency is effective in reducing fire hazards. For this reason, we are accelerating our efforts.

I would also like to update the subcommittee on our efforts with regard to enhancing our ability to measure the number of clothing-related burn injuries, including sleepwear related injuries, to children. In July of last year, CPSC launched the Burn Center Reporting System. This system is capturing information on clothing-related burn injuries to children directly from burn centers throughout the country. All burn centers that treat children have been asked to report to CPSC.

The system went into operation on July 1, 2003. As of this date, participating centers have reported over 100 cases. CPSC staff are investigating every one of these cases to determine the hazard mechanisms and the role of the clothing in the incident. This additional reporting tool supplements data collected by CPSC's other systems and enhances our ability to measure the number of clothing related burn injuries to children. For the record, I would like to thank publicly the American Burn Association and the Shriners Hospitals for Children for their substantial support in making this effort a success. We will be submitting a full written report to the subcommittee later this year.

CPSC has added a new strategic safety goal this year, and that is to reduce the rate of pool and in-home drowning of children under 5 years of age. Annually, an average of 248 children younger than 5 drowned in swimming pools. In addition, an average of 167 children of that age group drown each year from other hazards in and around the house including such common household products as large buckets. It is the second leading cause of death in the home for children under the age of 5.

CPSC is currently developing an action plan to foster greater consumer awareness and learn more about the circumstances and trends relating to childhood drownings. In addition, the staff is developing new guidelines that will be helpful to communities, code developers, and industry in further addressing this drowning hazard in pools and spas. We will be launching a safety campaign and public education initiative this summer, as well as looking at potential new standards and engaging in rigorous compliance enforcement to reduce the number of childhood drownings.

Our proposed budget seeks to build on recent accomplishments and allow the flexibility to initiate new efforts when hazards emerge. Last year, CPSC completed 280 cooperative recalls involving about 40 million product units. In 2003 we completed four civil penalty cases that resulted in almost \$2 million in fines. In addition, we secured five criminal convictions for violations of the Federal Hazardous Substances Act.

CPSC sampled and tested shipments containing over 32 million fireworks in 2003. We prevented over 1 million illegal firework devices from entering the United States in 2003. In addition, CPSC in conjunction with the Department of Justice and the Bureau of Alcohol, Tobacco and Firearms and Explosives seized tens of thousands of illegal devices. In addition, other port surveillance activities prevented nearly 400,000 lighters that failed to have child-resistance safety devices from entry.

In 2003 our public information initiatives were supported by 232 press releases, our consumer hotline, radio and TV interviews, almost 2 million distributed publications, e-mail alerts and our National Injury Information Clearinghouse. In just the first 4 months of 2004, our award winning website, www.cpsc.gov has seen more than 12.6 million hits. Each of these visits to our website has the potential to save a life.

Also in 2003 CPSC was pleased to join forces with Amazon.com and eBay to call their customers attention to products offered for sale on their auction sites that might have been recalled and to direct them to CPSC's web site for recall information. Another innovative outreach program is our national campaign, in partnership with the National Association of Resale and Thrift Shops, Goodwill Industries International and the National Safekids organization, to alert the public to the sale by

thrift stores and other resale stores of hazardous products that have been recalled or banned or do not meet current safety standards. Our goal is to eliminate thousands of hazardous and recalled products from the secondary market. Our video news release for this new initiative on thrift and retail stores reached over 24 million viewers.

The creation of Recalls.gov is another significant CPSC safety effort. This is a partnership that CPSC initiated with six other Federal agencies to develop a one-stop-shop for all Federal product recalls. This new website is an easy to use portal for your constituents to access and find out all recall actions on one single website.

We will continue to work hard at the Consumer Product Safety Commission to reduce the deaths, injuries and property loss associated with hazardous products. They cost the Nation hundreds of billions of dollars every year. Our budget request will help us to reduce these costs and the tragic injuries and loss of life they represent. Thank you.

GENERAL SERVICES ADMINISTRATION

FEDERAL CITIZEN INFORMATION CENTER

PREPARED STATEMENT OF TERESA NASIF, DIRECTOR

Mr. Chairman and members of the subcommittee, thank you for the opportunity to present the fiscal year 2005 budget request for the Federal Citizen Information Center (FCIC).

For millions of people, FCIC embodies the best of government—practical, down-to-earth, and dedicated to meeting their needs. In dramatically increasing numbers, citizens are visiting FirstGov.gov, the official portal of the U.S. government, for instant, free access to a great variety of government information and services—from Federal, State, and local agencies. They are also e-mailing or calling FCIC's toll-free National Contact Center with questions about how to check social security benefits, find specialized tax forms, learn about the latest product recalls, or apply for a student loan. And, as they have for more than 30 years, they continue to send for publications from the distribution center in Pueblo, Colorado. As technology provides new ways for citizens to access information and interact with their government, FCIC has responded by developing simple, user-friendly services that millions of citizens rely on each year.

In fiscal year 2003, citizens placed 1.76 million calls, requested 5.92 million print publications, received 990,000 e-letter subscription mailings, made 60,000 e-mail inquiries, and completed 202 million web page views, for a program total of 210.73 million contacts, as compared to a fiscal year 2002 total of 123.57 million contacts. A significant reason for the large increase from fiscal year 2002 to fiscal year 2003 is that FirstGov.gov, the official portal to the U.S. Government, became part of FCIC on June 30, 2002, and fiscal year 2003 shows the first full year impact of having FirstGov.gov page views included in FCIC public contacts.

The Federal Citizen Information Center program mission and goals are also interwoven with the administration's E-Gov initiative, USA Services. The aims of USA Services are to present a single government face to citizens who need timely and consistent responses about government programs, and in so doing, enable the Federal Government to become more citizen-centric. An important component of USA Services is its "front door," a well publicized, easy-to-access point of contact for all citizens.

In fiscal year 2004, FCIC entered its first full year of operations as the infrastructure provider for USA Services, the "front-door" to the government. As such, FCIC operates the service delivery channels by which citizen questions are answered via the web, phone, e-mail, or print publications.

In a move that will save Federal dollars as well as streamline citizen access to government services, FCIC will also receive and respond to telephone calls, and e-mails that are misdirected within the Federal Government. As of March 2004, USA Services has 20 Federal partners who have formally agreed to forward misdirected citizen inquiries to the National Contact Center (NCC), and who are working with USA Services to streamline citizen access to Federal information. FCIC uses its well-established agency liaison program to offer these services to Federal agencies, as well as to offer to set up a system for handling basic, frequently asked questions that can be answered directly by FCIC without a referral to another agency. Just as agencies save money and time by participating in FCIC's publication distribution program, they can also benefit by taking advantage of FCIC's telephone and e-mail answering services.

FCIC uses a variety of methods to measure the quality of its service to citizens. Among these are the volume of contacts; the results of the American Customer Satisfaction Index (ACSI) survey; direct feedback from users via e-mail, telephone, and usability testing; the amount and nature of press coverage and awards received. In fiscal year 2003, FirstGov.gov received the coveted Innovations in American Government Award from Harvard University and the Ford Foundation. FirstGov.gov's January 2004 ACSI scores averaged 74.5. This puts it within reach of top-ranked Google at an ACSI average of 80. It far exceeds the current average for all of the government websites using the ACSI, which is 69.

The pueblo.gsa.gov website, the Pueblo, Colorado publications center, and the National Contact Center also continue to receive highly favorable recognition and press coverage throughout the United States. Citizens have given FCIC high marks on the accessibility and usefulness of information, as FCIC scored a 79 on the 2003 American Customer Satisfaction Index for citizens who ordered print publications. The toll-free National Contact Center received the 2003 Government Customer Support Excellence Award for Overall Customer Support Excellence. Also, FCIC received free advertising space and airtime worth \$9.6 million during fiscal year 2003.

Taken all together, these performance measures provide a clear picture of how FCIC is using new technology and innovation, combined with proven practical programs, to provide the highest quality service and the best value to increasing numbers of American citizens.

In fiscal year 2004, FCIC will award a new contact center contract to provide an expanded range of services in support of its ongoing mission, the mission of USA Services, and the missions of other Federal agencies. During fiscal year 2005, FCIC will conduct pilot studies of web chat and co-browsing to assess the public's demand for these services and determine the best ways of offering them in the future. As NCC capabilities expand, the amount of information it provides to the public will grow, both through normal day-to-day operations and through services provided to a variety of customer agencies and E-Government initiatives.

The requested appropriation for fiscal year 2005 totals \$14.907 million, an increase of \$990,000 from fiscal year 2004. This amount covers 6 additional FTE that will enable FCIC to enhance web content and security and to provide account services to customer agencies.

In fiscal year 2005, FCIC will be responding not only to the ever-changing needs of citizens, but will also be assisting other government agencies in meeting those needs. In keeping with the goals of the E-Gov initiative USA Services, FCIC will provide an expanded array of services to a growing number of Federal agencies. From publication development and distribution, to educational media promotion, to Web site posting, to handling of toll-free telephone calls, to responding to citizen e-mail inquiries, FCIC will enable Federal agency clients to deliver their information and services to citizens through programs that have been proven to be responsive, efficient and cost effective. The end result of all FCIC activities in fiscal year 2005 will be a higher standard of government service that builds public confidence and trust in all citizens.

Mr. Chairman, again I thank you for the privilege of presenting the Federal Citizen Information Center's budget request for fiscal year 2005. I hope the committee will agree that FCIC is a valuable program and that it will look favorably upon our request.

U.S. CHEMICAL SAFETY AND HAZARD INVESTIGATION BOARD

PREPARED STATEMENT OF CAROLYN W. MERRITT, CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Senator Bond, Senator Mikulski, and distinguished members of the committee, in the last 12 months, the U.S. Chemical Safety Board has continued to advance its life-saving mission of preventing serious accidents at facilities that produce and use chemicals. We thank the committee for having provided the Board with increased resources for the current fiscal year. Our current budget of \$8.2 million with a \$447,000 emergency fund allows the Board to take on an unprecedented number of significant accident investigations and studies.

The Committee's growing investments in this agency are paying off. Earlier this year, we achieved probably the most noteworthy success in our 6½-year history. On September 30 of last year, the Board voted to recommend that New York City modernize the control of hazardous materials under its existing 86-year-old municipal fire code. The recommendation followed an 18-month Board investigation of a chemical accident in downtown Manhattan, where at least 36 people were injured when

hazardous chemicals—improperly mixed in the basement of a commercial building—exploded and caused the building to partially collapse. The Board's investigation showed how weaknesses in the antiquated fire code were handicapping New York City fire inspectors, preventing effective oversight and enforcement of good hazardous material safety practices in the city.

The Board's September meeting in New York City received extensive public attention, and within weeks legislation was introduced in the city council to begin the process of modernizing the fire code. The Board testified twice before the city council in support of our recommendations, and in March 2004 the city announced that it will be hiring a new staff to spend the next couple of years overhauling the entire city fire code. This process is expected to lead to city's adopting an accepted model code, like the International Fire Code, as other cities have done. At the end of this process, 8 million New Yorkers will be considerably safer.

What is happening right now in New York City is a striking proof of the value of independent, non-regulatory, root-cause investigations of accidents. While society has a strong impulse to find fault and punish wrongdoing when accidents like this occur, our own small agency is dedicated to discovering the true root causes of these events and promoting real safety in the future.

The Board's budget is modest in comparison with the cost of even a single large chemical accident. As you know, we are now engaged in two of the most complex and difficult investigations the CSB has ever undertaken. These are the investigations of last year's catastrophic dust explosions at West Pharmaceutical Services in Kinston, North Carolina, and CTA Acoustics in Corbin, Kentucky. These accidents took 13 lives and injured scores of workers. Two large industrial plants were idled, disrupting hundreds of jobs and undermining the fragile economies of two small towns. The overall cost from these two accidents alone will run to hundreds of millions of dollars.

The Board's independent investigations and recommendations help prevent costly disasters like those in North Carolina, Kentucky, and New York City. We seek additional funds for the Board's work in fiscal year 2005 to further advance this mission. One of our main strategic challenges over the next several years is to gain greater awareness and acceptance of the safety improvements we have recommended, based on our accident investigations. Many of our specific safety recommendations are directed to individual companies that have experienced major accidents.

It is vitally important, however, that we transmit our lessons and recommendations to other audiences beyond the specific recommendation recipients. To make progress nationally, we need thousands of other companies to learn about the causes of accidents, study our findings, and make changes in their operations—before more accidents occur. Promoting those actions will fulfill an important part of our mission. That is why we have requested additional funding of \$450,000 for fiscal year 2005—to disseminate our safety information in ways that lead to new prevention initiatives. These funds will allow us to hire three new staff and establish a working program.

I offer several examples where the Board's safety findings—put into the right hands—can help prevent future accidents and save lives. First, there may be hundreds of other plants around the country today that have hidden hazards from combustible dust—chemical dust that can explode as it recently did in North Carolina and Kentucky. Many engineers and managers remain unaware of this danger. Getting them the right information promptly is critically important. Despite the notoriety surrounding the major dust explosions early in 2003, dust explosions continue to occur with great frequency. We receive reports of smaller dust fires and explosions on virtually a weekly basis. On October 29, 2003, 8 months after the explosion in Kentucky, the Board began investigating yet another fatal dust explosion, this time at an automotive parts factory near Fort Wayne, Indiana. Two men were burned severely; one of them later died. Clearly more needs to be done.

There are many other examples where the Board has potentially life-saving information that needs wider understanding, especially among small businesses that have limited resources and limited expertise in process safety, engineering, and risk assessment. In March 2004 we held a public meeting in Louisville, Kentucky, to approve our final report on a fatal explosion at a food additive plant there. People in the community were distressed to learn that straightforward, inexpensive safety equipment could have prevented the blast. As one plant neighbor lamented, "For the want of a safety valve, a man was killed." It sounds simple enough: providing a pressure relief system for any vessel exposed to dangerous internal pressure. Yet in 7 of the 19 major accidents the Board has investigated since 1998, inadequate pressure relief was either a primary cause or a contributing factor. Once again, more needs to be done to get the word out.

As a former industrial manager, let me tell you that nothing motivates you to act—to make any investments, arrange any training, install any safety equipment—like the knowledge of what terrible disaster may happen if you fail to act. That is where the CSB, with its almost 7 years of experience investigating the worst accident sites in the country, has unique credibility and value.

Investigations will continue to be the mainstay of our work, and you can see from the number of investigations begun and completed since 2002 that I have put the main emphasis in that area, consistent with the direction from this committee. Our request seeks additional funding to continue to bolster the Board's investigative work. First, we ask your support to hire a new accident investigator with expertise in the area of human factors. As many of you know who follow aviation safety, the interface between fallible human beings and complex technological equipment is the source of many accidents. Adding a new specialist investigator will allow the CSB to investigate the "human factors" that contribute to deadly chemical accidents in complex manufacturing plants.

Next, we also request funds to hire a new technical writer-editor. The CSB's main products are lengthy written reports. To date, all these reports have been funneled through a single technical writer, creating a bottleneck to report production. Additional funds will support hiring a second individual to accelerate report production and maintain report quality. We also plan to further expand work to put our reports and findings into plain language, useful to workers, members of the public, and other non-technical users.

Over the past year, we have begun by publishing two-page plain-language Investigation Digests of our investigative reports. Seven digests have already been published and we are now planning to issue digests of each of our investigation reports, in both English and Spanish. These digests are receiving extremely positive feedback from trade associations, labor leaders, educators, and safety trainers. Recently, the PACE International Union requested 12,000 copies of one of our digests for training workers on how to maintain safety during process changes. I believe that we have just begun to tap the demand for this kind of plain-language product.

In keeping with our primary focus on investigations, I am also seeking an increase of \$400,000 to our new investigative emergency fund. As the committee recognizes, major accident investigations—like our investigation in North Carolina where an entire plant was leveled—have significant and unforeseeable costs. Physical evidence and the recollections of eyewitnesses are short-lived, and when a major accident occurs the Board cannot realistically await a supplemental appropriation from Congress before beginning its work.

In this year's budget, the committee has created a \$447,000 emergency fund of "no-year money"—available until it is expended. The use of the money is restricted to extraordinary investigative expenses, and we have not as yet tapped any of the funds. In seeking an increase to this fund, we recognize that extraordinary expenses for testing and contractual support of a major investigation can easily run over the \$447,000 ceiling currently in place. For example, extraordinary expenses from our North Carolina and Kentucky dust explosion cases last year exceeded \$450,000. Therefore we are requesting an additional \$400,000 in no-year money for fiscal year 2005, to bring the total emergency fund to \$847,000. The Board is confident that this sum will be sufficient to initiate investigations of any major disasters that may occur.

Additional increases, detailed in our agency's Budget Justification, will fund an expected January 2005 civilian pay increase and modestly increased contract costs associated with the Board's investigations, public affairs, and information technology programs. Increased costs for the latter items are a direct result of the Board's increased investigative workload.

The past year has been one of significant achievement by the Chemical Safety Board. I believe that, with the committee's strong support, the agency has become a powerful voice for the protection of workers, plants, and communities from deadly chemical hazards. I ask for your continued support so that the CSB may fulfill the full breadth of responsibilities that Congress has envisioned. The remainder of my statement provides additional details on the accomplishments of the past year and the work that lies ahead.

HIGH LEVEL OF MISSION ACCOMPLISHMENT

In fiscal year 2003, the Board initiated a total of twelve accident investigations, completed five accident investigations, a case study, and a safety bulletin. The investigation reports included a total of 90 new safety recommendations to government, industry, labor, and other organizations. A summary of the current and recently completed investigations follows.

Recently Completed Investigations

D.D. Williamson & Co. (Louisville, Kentucky).—On the morning of April 11, 2003, one worker was killed at a food additive plant when a process vessel became overpressurized and failed catastrophically. The explosion caused extensive damage to the plant and triggered a secondary release of 26,000 pounds of aqueous ammonia, requiring a community evacuation. The Board approved the final investigation report on March 12, 2004, at a public meeting in Louisville. Recommendations were issued to the company and also to the Commonwealth of Kentucky to increase awareness about existing regulations on the importation and inspection of used pressure vessels.

Catalyst Systems (Gnadenhutten, Ohio).—On January 2, 2003, a vacuum dryer containing nearly 200 pounds of benzoyl peroxide exploded, injuring one worker and damaging a production facility. The Board approved a case study report in October 2003 describing good practices for handling of explosive peroxides, which are widely used in industry.

First Chemical Corp. (Pascagoula, Mississippi).—On October 13, 2002, a violent explosion occurred in a nitrotoluene distillation tower sending heavy debris over a wide area. Debris damaged the control room and narrowly missed a large storage tank that contained highly toxic anhydrous ammonia. The final CSB report on this investigation was approved at a Board public meeting in Pascagoula on October 15, 2003. In addition to recommendations to the facility and its new owner, Dupont, the CSB recommended that Jackson County improve its emergency notification system to better protect and inform residents about chemical accidents. CSB also recommended that the American Chemistry Council improve its Responsible Care voluntary safety program to ensure that companies like First Chemical are fully analyzing process hazards.

Kaltech Industries (New York City).—On April 25, 2002, an explosion occurred at a sign manufacturer in the Chelsea neighborhood of downtown Manhattan, injuring 36 people, including 14 members of the public. The sign company occupied the basement of a mixed-use commercial building. The CSB found that the accident resulted from mixing two incompatible waste chemicals, lacquer thinner and nitric acid, without following basic safety procedures.

In the course of the investigation, the Board held a public hearing on April 16, 2003, in New York City, where city officials and fire code experts discussed the adequacy of hazardous materials controls under New York City's 1918-era municipal fire code. On September 30, 2003, the full Board met again in New York City, approving its final report and citing the city's fire code as a contributing factor in the explosion. The Board called on the Mayor and City Council of New York to adopt a modern set of control measures for hazardous materials, such as those contained in the International Fire Code. On March 5, 2004, the city announced its decision to move forward with a complete revision of the code.

BLSR Operating Ltd. (Rosharon, Texas).—On January 13, 2003, a vapor cloud deflagration and fire erupted at a small petroleum waste disposal facility in rural Texas south of Houston, killing three workers and injuring four. The CSB concluded that the fire could have been prevented if the companies involved had recognized the hazards of the wastes being handled and transported; had safer procedures for handling flammable wastes; and if the companies and regulators had better oversight of the operations. On September 17, 2003, the Board made a series of safety recommendations to prevent a recurrence, calling on the Texas Railroad Commission to require all permitted drillers and producers in the State to furnish workers with appropriate hazard information.

DPC Enterprises (Festus, Missouri).—On August 14, 2002, a chlorine transfer hose ruptured during a rail car unloading operation at a chlorine repackaging facility near St. Louis. Automatic emergency shutdown valves malfunctioned and the leak continued. Several hours elapsed before outside emergency responders in full protective gear were able to reach the rail car and contain the leak. By that time, 48,000 pounds of potentially deadly chlorine had been released to the atmosphere. Three workers and 63 residents sought medical treatment.

Investigators determined that the ruptured hose had the wrong materials of construction. On December 4, 2002, the CSB issued a safety advisory to all users of chlorine transfer hoses, urging them to verify their hoses are correctly constructed. On May 1, 2003, the Board approved its final report on the DPC Enterprises investigation at a public meeting in Festus. The CSB found that better equipment maintenance and quality assurance procedures would have prevented the release. In addition to recommending changes at DPC Enterprises, the Board called on Jefferson County to improve its community notification systems for chemical emergencies. The CSB also called on the chlorine industry and hose distributors to collaborate in making chlorine hoses more readily identifiable throughout the supply chain.

Current Investigations

Formosa Plastics (Illioopolis, Illinois).—On April 23, 2004, five workers were fatally killed and three others were seriously injured when an explosion occurred in a polyvinyl chloride (PVC) production unit at a Formosa Plastics plant located east of Springfield, Illinois. The explosion forced a community evacuation and lighted fires that burned for several days at the plant. The CSB is conducting a full investigation of this accident.

MFG Chemical Inc. (Dalton, Georgia).—On the evening of April 12, 2004, a chemical reactor overheated at the MFG Chemical manufacturing plant, releasing hydrochloric acid and allyl alcohol. The resulting gas cloud sent 184 people to a local hospital and forced the evacuation of nearby residents. The CSB is conducting a full investigation of this accident.

Giant Industries (Gallup, New Mexico).—On April 8, 2004, four workers were seriously injured when highly flammable gasoline components were released and ignited at the Giant Industries Ciniza refinery in northwestern New Mexico. Unknown to personnel, a shut-off valve connecting to a distillation column was apparently in the open position, leading to the release and subsequent explosions. The CSB is conducting a full investigation of this accident.

DPC Enterprises (Glendale, Arizona).—On November 17, 2003, there was a release of chlorine gas from a DPC Enterprises chlorine repackaging facility near Phoenix. Fourteen people, including ten police officers, required medical evaluation for possible chlorine exposure. More than 4,000 households and businesses were ordered to evacuate. The release occurred when excess chlorine vapors from a rail car unloading operation were diverted to a recapture system known as a scrubber. The scrubber malfunctioned, releasing the gas.

Hayes Lemmerz (Huntington, Indiana).—On the evening of October 29, 2003, a series of aluminum dust explosions severely burned two workers, injured a third, and caused property damage to an automotive parts manufacturing plant in Huntington, Indiana, near Fort Wayne. One of the severely burned men subsequently died. CSB plans to issue its final investigation report on this accident in fall 2004.

Isotec (Miamisburg, Ohio).—On September 21, 2003, a violent explosion destroyed an underground distillation tower at the Isotec chemical manufacturing plant in Miamisburg, Ohio, injuring one worker. The explosion ruptured a carbon monoxide gas pipe and led to a precautionary overnight evacuation of about 2000 residents. CSB expects to issue a case study report on this accident in summer 2004.

Honeywell (Baton Rouge, Louisiana).—On July 20, 2003, there was a release of chlorine gas from the Honeywell chemical plant in Baton Rouge, Louisiana. The accident resulted in the hospitalization of four plant workers and required residents within a half-mile radius to shelter in their homes. On July 29, 2003, a worker was fatally injured by exposure to antimony pentachloride when a gas cylinder released its contents to the atmosphere. On August 13, 2003, two plant workers were hospitalized for exposure to hydrofluoric acid. CSB is investigating all three incidents; on March 30, 2004, the Board convened a community meeting in Baton Rouge to present its preliminary findings and receive comments from residents.

CTA Acoustics (Corbin, Kentucky).—On February 20, 2003, an explosion and fire seriously damaged the CTA Acoustics manufacturing plant, fatally injuring seven workers. The facility produced fiberglass insulation for the automotive industry and used a combustible phenolic resin powder as a binder for the fiberglass. CSB investigators have found that the initial explosion and fire occurred on a production line that was partially shut down and being cleaned at the time of the incident. During the cleaning, a thick cloud of dust dispersed around the line. The dust was likely ignited by a fire that spread from the production line's oven, which had malfunctioned earlier and was being operated with its door open.

On July 8, 2003, the Board held a community meeting in Corbin attended by several hundred people. Board investigators presented their preliminary findings and fielded questions and comments from concerned residents and workers. The Board's investigation is now continuing with a detailed examination of components of the malfunctioning oven. Investigators are also examining why many CTA personnel were unaware of the catastrophic potential of resin dust that had accumulated on surfaces around the plant. The Board expects to issue its final report on this investigation in late 2004.

Technic Inc. (Cranston, Rhode Island).—On February 7, 2003, a worker was seriously injured in an explosion at a plant that manufactures precious metal processing chemicals. The explosion occurred during maintenance on a ventilation system connected to multiple chemical reactors, evidently due to an accumulation of reactive material inside. CSB plans to issue its final report on this investigation in summer 2004.

West Pharmaceutical Services (Kinston, North Carolina).—On January 29, 2003, an explosion and fire destroyed the West Pharmaceutical Services plant causing six deaths, dozens of injuries, and hundreds of job losses. CSB investigators have found that the fuel for the explosion was a fine plastic powder used in producing rubber goods. This polyethylene dust accumulated above a suspended ceiling over a manufacturing area at the plant and provided the major energy for the blast.

On June 18, 2003, the Board held a community meeting in Kinston, attended by several hundred people. Board investigators presented their preliminary findings and took questions and comments from the audience. The Board's final report is expected in late 2004.

Hazard Studies and Bulletins

Dust Hazards.—Prompted by the fatal dust explosions at West Pharmaceutical Services, CTA Acoustics, and Hayes Lemmerz in 2003, the CSB has launched a systematic investigation of dust explosion incidents over the last several decades. Preliminary reviews point to a number of other tragic events in recent years, including major fires and explosions at the Malden Mills factory in Lawrence, Massachusetts (December 1995); the Ford Motor River Rouge plant in Dearborn, Michigan (February 1999); the Jahn Foundry in Springfield, Massachusetts (February 1999); and Rouse Polymers International in Vicksburg, Mississippi (May 2002). These accidents caused numerous deaths and injuries as well as extensive property damage and economic losses.

A main purpose of the hazard study will be to assess the overall effectiveness of current codes and standards for preventing dust explosions. At present, the U.S. Occupational Safety and Health Administration (OSHA) does not have specific standards for controlling combustible dust hazards in many industrial facilities. National standards are in place for dust hazards in coal mines and grain handling facilities. The Board plans to examine whether current regulations are adequate and also how to improve awareness of dust hazards among industrial managers nationwide.

Sodium Hydrosulfide Handling.—As an outgrowth of the Board's November 2002 Georgia Pacific investigation, CSB staff are conducting a review of other incidents involving sodium hydrosulfide, the chemical which reacted at a Georgia Pacific paper mill to release toxic hydrogen sulfide gas from a process sewer, killing two contract workers and injuring eight others. CSB expects to issue a safety bulletin highlighting good practices for handling sodium hydrosulfide in summer 2004.

Nitrogen Asphyxiation Hazards.—In June 2003 the CSB completed a nationwide review of incidents similar to the March 1998 nitrogen asphyxiation incident at Union Carbide in Hahnville, Louisiana, which the CSB investigated. The new CSB study identified a total of 85 incidents that occurred in the United States between 1992 and 2002 and involved exposure to dangerous nitrogen-enriched, oxygen-poor atmospheres. Together these incidents caused 80 deaths and 50 injuries. The CSB developed a safety bulletin on nitrogen asphyxiation hazards, highlighting a variety of good practices to avoid such incidents. The CSB also developed a short safety pamphlet and training slide presentation on nitrogen hazards.

Safety Recommendations Program

Recommendations are the CSB's principal tool for promoting chemical safety. Each recommendation has one or more specific recipients, who are the parties best able to carry out the recommended action to improve safety. Once the Board has issued a recommendation, CSB recommendations staff encourage adoption and track implementation activities. The Board aims for a cumulative 80 percent acceptance rate for our recommendations.

We have continued to receive excellent cooperation from recommendation recipients over the past year and have received numerous responses indicating positive actions underway or planned. In fiscal year 2003, the CSB successfully closed 10 outstanding safety recommendations. While these safety actions represent important progress that will help prevent accidents, the Board will continue to work for faster progress in this area. As we have increased our output of investigation reports and safety recommendations, our ability to track adoption of those recommendations has not kept pace. As a result, the CSB will this year be doubling the amount of staff time allocated for closing recommendations. The Board has just completed hiring a senior-level recommendations staff supervisor, who will oversee the program and will report directly to the CEO.

The recommendations program continues to deliver important safety improvements around the country. Earlier, I mentioned how the Board's recommendations have motivated New York City to modernize its 86-year-old fire code. Earlier, in March 2003, the Board completed an investigation of a catastrophic chemical fire in Brazoria County, Texas, south of Houston. The Board found that the county had

no fire code for unincorporated areas, and as a result a facility that stored more than a million gallons of combustible petrochemicals lacked basic fire protection—such as smoke alarms, sprinklers, and fire walls. A small fire that started overnight spread to engulf and destroy the entire multi-acre facility, which had employed about 100 workers. Less than a week after receiving a safety recommendation from the CSB, Brazoria County supervisors voted to adopt the International Fire Code.

The Board continues to press for effective actions on the control of reactive hazards—the dangers associated with uncontrolled chemical reactions at industrial sites. The Board's 2002 hazard study, *Improving Reactive Hazard Management*, documented 167 serious reactive chemical accidents over the past two decades. Those accidents caused more than 100 fatalities as well as numerous injuries and huge property losses. The CSB found that more than half the chemicals involved in these accidents are currently exempt from Federal process safety regulations. In September 2002 the Board called on OSHA and EPA to revise those rules to broaden coverage of reactive hazards.

In June 2003, the Board organized and co-sponsored (with OSHA and EPA) a day-long stakeholder roundtable meeting in Washington, DC, to discuss possibilities for reforming the process safety rules. The Board was highly encouraged by statements from both industry and labor representatives at the meeting in favor of broader regulatory coverage for reactive chemicals. All parties recognized the seriousness of the problem and the need for more actions to prevent catastrophic accidents. In August 2003, 2 months after the meeting and less than a year after the Board's hazard study, New Jersey acted to add reactive chemicals to the State's list of regulated "extraordinarily hazardous substances"—an action that will result in additional safety controls among New Jersey chemical plants. The Board continues to hope that similar action will be forthcoming at the Federal level and is working toward that end.

CSB Expands Community and Web-Based Outreach

The CSB has found great value in conducting its public business in the communities that are directly impacted by chemical accidents. CSB public and community meetings have garnered hundreds of audience participants and received widespread news coverage among local and regional news media, reaching audiences that number in the millions. The CSB's objective, scientific investigations are proving to be one of the most important ways that community members can learn about the causes of chemical accidents and ways they can participate with companies to help prevent future occurrences.

Over the past year, the Board has held public meetings, community meetings, and hearings in Louisville, Kentucky; Pascagoula, Mississippi; Festus, Missouri; Kinston, North Carolina; Corbin, Kentucky; Baton Rouge, Louisiana; and twice in New York City. The Board has continued to offer free webcasts of significant public meetings, which reach hundreds of additional viewers who are unable to attend the meetings in person.

In August 2003, the Board launched a completely revised version of its popular website, CSB.gov, with streamlined access to CSB accident reports, video webcasts, safety recommendations, and other information. Selected information is now being made available in the Spanish language as well as English, and we plan to increase this service in coming months. In December 2003 the Board launched a new live incident news service from CSB.gov, with updates from around the world every 15 minutes, a popular feature among safety professionals who track chemical accidents.

INSPECTOR GENERAL OVERSIGHT

During fiscal year 2004, the CSB will be transitioning to a new Inspector General (IG) shared with the Environmental Protection Agency. In January 2004, the CSB received its last program audit report from its outgoing Inspector General, the IG of the Department of Homeland Security (formerly the IG of the Federal Emergency Management Agency). That report included 11 new recommendations for improving agency operations. The CSB responded to all 11 recommendations and will be moving forward with implementation over the coming year.

While the report highlights some important areas for improvement, particularly in the tracking of chemical incidents and open safety recommendations, I was pleased by the generally positive conclusions of this final audit report. The Inspector General found, for example, that ". . . the CSB increased its productivity and stability under new management during the past year. The CSB is progressing toward meeting its statutory responsibilities and has increased the number of investigations it performs." (IG Report, p. 1) Of note to the committee will be the outgoing Inspector General's assessment that "the CSB lacks the resources to investigate all accidents within its purview."

HOMELAND SECURITY

In accordance with new committee report language this year, the CSB has sought discussions with the Department of Homeland Security (DHS) on a new Memorandum of Understanding (MOU). The MOU will describe terms of cooperation between the two agencies. The Board will report back to the committee by June 2004 on its progress, and we look forward to further support and encouragement from the committee to promote the swift negotiation and completion of this agreement.

I also draw the committee's attention to recent Board findings that have important ramifications for homeland protection. CSB's investigations typically include an examination of the adequacy of local emergency response to chemical accidents. Three of our recent investigations revealed a lack of sufficient local preparation for a major chemical event. I refer to Board investigations at First Chemical Corporation in Pascagoula, Mississippi; Isotec in Miamisburg, Ohio; and DPC Enterprises in Festus, Missouri.

These investigations found that local authorities have difficulty notifying residents of a chemical release and informing them of the appropriate safety actions, such as evacuation or sheltering. In Missouri, lack of adequate planning beforehand prevented emergency responders from containing a serious chlorine release for several hours. If the wind had been blowing in a slightly different direction that day, the plume would have drifted over a residential area, with potentially grave consequences. While I believe all these communities are working aggressively to address the gaps that were uncovered, it is likely that other communities around the country may have similar shortcomings in their preparations to survive a terrorist attack on a chemical plant.

We communicated the Board's concerns in this area to Homeland Security oversight committee members in correspondence last year. We also anticipate discussing these concerns with DHS officials as we proceed with an interagency agreement. I thank the committee for seeking the Board's assistance and cooperation on these vital homeland security issues. As the foregoing examples show, I believe this is an area where the Board can make a positive contribution.

CONCLUSION

The last 18 months mark a major turnaround for the Chemical Safety Board. Following several years of organizational challenges, the CSB is now producing considerable value for the taxpayers—issuing reports, studies, and recommendations that safeguard workers, plants, and the public from chemical accident hazards. The Board is back on track as a strong, nimble Federal agency that works closely with industries and communities that suffer deadly chemical disasters. The CSB's work helps to save lives and make plants and communities safer. I urge the committee's support for modest budget increases that will allow the Board to be even more effective in the future.

NONDEPARTMENTAL WITNESSES

[CLERK'S NOTE.—The following testimonies were received by the Subcommittee on VA, HUD and Independent Agencies for inclusion in the record. The submitted materials relate to the fiscal year 2005 budget request.

The subcommittee requested that public witnesses provide written testimony because, given the Senate schedule and the number of subcommittee hearings with Department witnesses, there was not enough time to schedule hearings for nondepartmental witnesses.]

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR MICROBIOLOGY

The American Society for Microbiology (ASM) appreciates the opportunity to submit testimony on the fiscal year 2005 appropriation for the Environmental Protection Agency (EPA). The ASM is the largest single life science organization in the world, comprised of more than 43,000 members. ASM members are involved in research to improve human health and the environment and work in academic, industrial, medical, and governmental institutions worldwide. The ASM's mission is to enhance the science of microbiology, to gain a better understanding of life processes, and to promote the application of this knowledge for improved health, and for economic and environmental well-being.

The EPA's mission is to protect human health and to safeguard the natural environment (air, water, and land). The ASM believes that sound public policy for environmental protection depends on adequately funded programs of intramural and extramural research based on scientific peer review to assure that support is awarded to research that has both quality and relevance. The Nation spends comparatively little on environmental research, even though health and the environment are often integrally related. It is essential that the EPA's Science to Achieve Results Research (STAR) program and Indoor Air Quality research, Clean and Safe Water research, and Surface Water Protection and Drinking Water research programs be adequately funded in the EPA budget.

Unfortunately, the EPA budget proposes a 12 percent funding cut for EPA science and technology programs below the fiscal year 2004 allocation, despite the importance of these programs to addressing increasingly complex environmental problems. ASM urges Congress to provide increased funding for EPA science and technology programs. EPA depends on excellent research programs to evaluate risk, develop and defend protective standards, anticipate future health and environmental threats, and to identify solutions to environmental problems.

STAR GRANTS PROGRAM

EPA's Office of Research and Development (ORD) manages the STAR grants program, which is a competitive, peer-reviewed, extramural research grants program intended to increase access to the Nation's best scientists and engineers in academic and other non-profit research institutions. Research sponsored by the STAR program allows the EPA to fill information gaps that are not addressed completely by its intramural research programs, and to respond to new and emerging issues that the agency's laboratories are not able to address.

The EPA budget requests a 35 percent, or \$35 million, cut in funding for the STAR grants program from fiscal year 2004. The National Academy of Sciences (NAS) has urged the continuation of and investment in the STAR program. In 2003, the NAS released a report titled, "The Measure of STAR: Review of the U.S. Environmental Protection Agency's Science to Achieve Results (STAR) Research Grants Program", which argues that the STAR grants are a critical means for the agency to access scientific expertise that it does not have in-house, and to respond quickly to emerging issues.

Since its inception in 1995, STAR research projects have resulted in articles in highly respected, peer-reviewed journals, and have already helped to improve our understanding of the causes, exposures and effects of environmental pollution and microorganisms in the environment. ASM urges Congress to fully restore funding for the STAR grants program to the fiscal year 2004 level of \$100 million. At present, STAR focuses on critical research areas, including the health effects of particulate matter, drinking water, water quality, global change, ecosystem assessment and restoration, human health risk assessment, endocrine disrupting chemicals, pollution prevention and new technologies, children's health, and socio-economic research.

A typical STAR grant is funded at \$500,000, with full funding the first year, and may last up to 3 years. With the proposed budget request, approximately 70 fewer individual research projects will be awarded. The proposed 35 percent cut in funding for the STAR program would:

- Eliminate 50 grants in fiscal year 2005 across all areas of the ecological research program.
- Redirect \$5 million from research to a pollution prevention outreach program in another part of the EPA. Redirecting these funds would eliminate \$3 million in STAR funding, which is EPA's contribution to the EPA-National Science Foundation (NSF) partnership.
- Cut \$4.9 million, which would eliminate the entire STAR grant research program on endocrine disruptors. The funds would otherwise have supported research on the extent to which humans and wildlife are exposed to endocrine disruptors, an area that the NAS and the World Health Organization have identified as an important research gap.
- Eliminate STAR research in fiscal year 2005 on how and where mercury moves through the environment.
- Eliminate ORD's contribution to the five EPA established, university-based centers affiliated with 22 universities to address concerns about hazardous substances in the environment.

STAR FELLOWSHIP PROGRAM

The EPA's Graduate STAR Environmental Fellowship Program has been an outstanding success in attracting some of the best young talent to environmental research. Examples of research conducted in the STAR program include new methods of classifying biologically impaired watersheds and the human health effects of particulate matter. This type of research is unique to the EPA and is integral to its role as steward of the environment. Unfortunately, the EPA budget proposes a 40 percent, or \$4 million, cut for fiscal year 2005.

ASM believes the Fellowship program is one of the initiatives the Federal Government must fully support to ensure that the Nation is prepared to answer the complex scientific questions of the future. Both the public and private sectors will benefit from a steady stream of well-trained environmental specialists. More than 1,300 applicants compete each year for approximately 100 fellowships through a rigorous merit review process.

The proposed cut of the fellowship program will significantly reduce the number of fellowships granted. ASM urges Congress to restore funding for the STAR fellowship program to its fiscal year 2004 level of \$10 million. Additionally, ASM shares the concern raised by the EPA's Science Advisory Board (SAB) that without the Fellowship program, the EPA may be unable to replace many of the EPA scientists nearing retirement with top-level scientists. This issue will become more pronounced as time goes on, increasing the need for more support for this fellowship program.

WATERBORNE PATHOGENS

Although the American public enjoys safe drinking water, waterborne disease outbreaks caused by pathogenic bacteria, viruses, and parasites continue to be reported periodically. Surface water and groundwater sources can be contaminated with many different types of chemical substances and microorganisms. Furthermore, the disinfection process itself creates a number of potentially toxic chemical byproducts. EPA conducts the necessary research to provide a strong scientific foundation for standards that limit the public's exposure to drinking water contaminants and disinfection byproducts. This research supports major regulatory activities including the Microbial/Disinfection Byproduct Rules, and future decisions on unregulated pathogens and chemicals. EPA is conducting research on waterborne pathogens, arsenic, disinfection byproducts, and other chemical contaminants to protect the Nation.

INDOOR AIR QUALITY

Every breath we take, indoors and out, we inhale not just life-sustaining oxygen but dust and smoke, chemicals, microorganisms, and particles and pollutants that float on the air. The average human inhales approximately 10 cubic meters of air daily. Because most people spend about 22 hours each day indoors, poor indoor air quality (IAQ) affects both public health and national productivity. At present, a shortage of IAQ research leaves much unknown about cause-and-effect specifics, but there is little doubt that contaminated buildings are attracting more attention as occupants develop often vague symptoms followed by remediation, litigation, and other costly outcomes.

Although IAQ issues are often viewed as a problem of modern buildings, connections made between air and disease date to ancient times. Long before the germ theory of disease and its indictment of pathogenic microorganisms, humans associated foul miasmas like "sewer gas" with infectious diseases such as malaria. Initially, prevention of disease transmission by infectious pathogens became the principal concern of early public health advocates. Today we understand that airborne non-pathogenic organisms, fragments of microbial cells, and by-products of microbial metabolism also cause problems. ASM believes that more research is needed in this area for the safety and protection of human health.

CONCLUSION

Well-funded research is needed to address emerging issues affecting the environment and human health. For EPA to fulfill its mission to protect human health and to safeguard the natural environment, ASM urges Congress to increase funding for the EPA's science and technology programs to their fiscal year 2004 level.

The ASM appreciates the opportunity to provide written testimony and would be pleased to assist the subcommittee as it considers its appropriation for the EPA for fiscal year 2005.

SCHEDULE OF FEDERAL AWARDS 2004

Federal Grantor/Pass-through Grantor/Program Title	Cost Center	Federal CDA Number	Program or Award Amount	Grants Receivable 1/1/2004	Receipts or Revenue Recognized	Disbursements/Expenditures	Grants Receivable 12/31/2004
MAJOR PROGRAMS:							
Resident Postdoctoral Research	783	93,283	\$999,381.00	\$89,902.49			\$89,902.49
Total Major Programs			999,381.00	89,902.49			89,902.49
OTHER FEDERAL ASSISTANCE:							
HHS:							
NIGMS-MARC	789	93,88	431,300.00				0
Environmental Microorganisms	694	93,856	10,000.00				0
DNA Repair and Mutagenesis	457	93,393	25,000.00				0
Summer Institute	848	93,856	24,000.00	532.99			532.99
Conf Biofilms	425	93,121	25,000.00	25,000.00			25,000.00
Environmental Pathogens	694	93,856	10,000.00				0
Microbial Triggers of Disease	666	93,855	5,000.00				0
Candida and Candidiasis	434	93,121	10,000.00				
National Science Foundation:							
Plant Biotechnology	678	47,074	15,000.00				0
Pathogens	697	47,074	110,000.00	33,608.72			33,608.72
Sub Contract BioSciEd Net	787	47,076	100,000.00	30,838.75			30,838.75
Beyond Microbial Genomics	691	47,074	15,000.00				
U.S. Department of Energy:							
DNA Repair and Mutagenesis	457	81,049	20,000.00				0
Prokaryotic Development	472	81,049	10,000.00				0
Geobiology	675	81,049	15,000.00				0
Microbial Ecology and Genomics	676	81,049	25,000.00				0
Multicellular Cooperation	671	81,049	15,000.00				0
Systems Microbiology	691		10,000.00	6,461.06			6,461.06
USDA:							
Conference Salmonella	421	10,206	10,000.00	10,000.00			10,000.00
Pre-harvest Food Safety	663	10,001	5,000.00	5,000.00			5,000.00
Pre-harvest Food Safety	663	10,2	25,000.00	19,350.00			19,350.00
Pre-harvest Food Safety	663	10,206	10,000.00	7,000.00			7,000.00
Conf Salmonella Pathogenesis	421	10,206	10,000.00				0
EPA:							
Microbial Ecology	676	66.5	20,000.00				0

Infectedious Disease GI Tract	670	66.606	50,000.00	.....	.....	.....	.....	0
PO HHS/FDA Pre-harvest Food	663	.....	10,000.00	.....	10,000.00	.....	.....	10,000.00
PO US Dept of Army	475	.....	10,000.00	.....	.....	.....	.....	0
Total Other Awards	1,025,300.00	147,791.52	0.00	147,791.52
Total Federal Awards	2,024,681.00	237,694.01	0.00	237,694.01

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The NSF is the premier source of Federal support for mathematic, scientific, and engineering research and education across many disciplines. NSF support plays a critical role in the health of the Nation's academic system, which is the source of new ideas and human resources in science. Although NSF represents less than 4 percent of the total Federal funding for research and development (R&D), it accounts for approximately 13 percent of all Federal support for basic research and 40 percent of non-life-science basic research at U.S. academic institutions. NSF's broad support for basic research, particularly at U.S. academic institutions, provides not only a key source of funds for discovery in many fields, but also unique stewardship in developing the next generation of scientists and engineers. NSF is also the principal Federal agency charged with promoting science and engineering education at all levels and in all settings, from pre-kindergarten through career development. This helps ensure that the United States has world-class scientists, mathematicians and engineers, and well-prepared citizens.

ASM appreciates the support that both the Congress and the administration have demonstrated for the National Science Foundation through the enactment of the NSF Authorization Act of 2002 (Public Law 107-368). Public Law 107-368 authorizes a 5-year period of 15 percent annual budget increases for the NSF. We encourage Congress to act upon their commitment and increase funding for NSF by 15 percent, or \$837 million, for fiscal year 2005, raising the NSF budget to \$6.4 billion. Increasing NSF's budget by 15 percent will allow for additional investments in grants, fellowships, and in cross-cutting research priorities like Biocomplexity in the Environment, and Nanoscale Science and Engineering. This recommendation is consistent with that of the Coalition for National Science Funding.

RESEARCH GRANT FUNDING

Fundamental research in the biosciences has laid the foundation for exploring the human genome and now offers new possibilities for understanding the living world from molecules to organisms to ecosystems, providing new discoveries applicable to health, environment, agriculture, and energy. The fiscal year 2005 budget request for NSF is \$5.57 billion, a 3 percent or \$167 million increase over fiscal year 2004. This current level of funding will provide for a 2.2 percent increase in the average size of awards to \$142,000 per year for an average duration of 3 years, assuming there will be a decrease in the number of awards from fiscal year 2004. For core research areas of the biological sciences, it will increase the average size of awards to \$190,750 (median award size \$140,250) per year for 3 years from \$181,670 (median award size \$138,070) per year in fiscal year 2004. However, the number of research grants will drop by 2.5 percent, and the funding rate will drop by 1 percent to 19 percent.

Improving productivity of researchers requires increasing the average award size. ASM applauds efforts to increase the average award size, but is disappointed with the decrease in the number of research grants that will be funded. Increasing NSF's budget by 15 percent would allow NSF to increase the size of the awards and increase the number of grants awarded.

The biological sciences program provides support for research to advance understanding of the underlying principles and mechanisms governing life. Research ranges from the study of the structure and dynamics of biological molecules, such as proteins and nucleic acids, through cells, organs and organisms, to studies of populations and ecosystems. It encompasses processes that are internal to the organism as well as those that are external, and includes temporal frameworks ranging from measurements in real time through individual life spans, to the full scope of evolutionary time.

BIOCOMPLEXITY IN THE ENVIRONMENT

As the world faces significant scientific and societal challenges, including the prospect of rapid environmental and climatic changes, biological threats, and the complicated question of long-term environmental security, the NSF has developed an interdisciplinary program called Biocomplexity in the Environment (BE). BE is de-

signed to give NSF the capability to respond to the demand for new approaches to investigating the interactions of all living things at all levels—from their molecular structures to genes to organisms to ecosystems to urban centers—and the environment. Fundamental study of complex environmental systems is a key element of local, national, and global security and critical to the development of new scientific and technological capabilities.

Microorganisms are key components of soils and aquatic environments, and play profoundly important roles in the distribution and activity of plants and animals. Understanding the distribution and activities of microorganisms is essential for addressing numerous environmental challenges. However, only a small percentage of Earth's microbial species are known, which leaves large gaps in our ability to predict the directions of environmental change.

Two priority areas within BE are relevant to the enhanced fundamental understanding of microorganisms important to nature and to human health. These priority areas are:

- Microbial Genome Sequencing is an interagency effort with the U.S. Department of Agriculture (USDA) which uses high throughput sequencing of microorganisms of fundamental biological interest, agriculture, forestry, food and water quality, or value in understanding potential agents of bioterrorism. Genome sequence information will provide the basis for understanding the physiology, pathology, and ecology of these organisms. This knowledge can be applied to detection of organisms and to understanding microbial adaptation to extreme environments, which could lead to the economic uses of microorganisms. Emphasis will also be placed on sequencing of microbes and their association with other organisms, such as plants, animals, and other microbes.
- Ecology of Infectious Diseases is an interagency partnership with the National Institutes of Health (NIH) for the development of predictive models and discovery of principles for relationships between environmental factors and transmission of infectious agents. Potential benefits include the development of disease transmission models, understanding unintended health effects of environmental change, and improved prediction of disease outbreaks, emergence, and reemergence. Examples of environmental factors include habitat transformation, biological invasion, biodiversity loss, and contamination.

This effort to expand multidisciplinary research will result in more complete understanding of natural processes, of human behaviors and decisions in the natural world, and ways to use new technology effectively to sustain life on earth. The President has requested level funding for BE in fiscal year 2005. Increasing NSF's budget by 15 percent would allow NSF to increase its investment in the BE effort.

NANOSCALE SCIENCE AND ENGINEERING

The Nanoscale Science and Engineering effort encompasses the systematic organization, manipulation and control of matter at atomic, molecular, and supramolecular levels. With the capacity to manipulate matter at the nanometer scale (one-billionth of a meter), science, engineering, and technology are realizing revolutionary advances, in areas such as individualized pharmaceuticals, new drug delivery systems, more resilient materials and fabrics, catalysts for industry and computer chips.

NSF has been a pioneer among Federal agencies in fostering the development of nanoscale science. ASM supports the President's request of \$305 million in fiscal year 2005, a 20.3 percent increase over fiscal year 2004, for the Nanoscale Science and Engineering effort. Of this amount, \$5.85 million will go the Biological Sciences, a 10.2 percent increase over fiscal year 2004. A total of \$174 million will be used for Fundamental Research and Education, and of this:

- \$24.5 million will be devoted to Biosystems at the Nanoscale, a \$3.5 million increase over fiscal year 2004. Biosystems at the Nanoscale support the study of biologically based or inspired systems that exhibit novel properties and potential applications. Potential applications include improved drug delivery, biocompatible nanostructured materials for implantation, exploiting functions of cellular organelles, devices for research in genomics, proteomics and cell biology, and nanoscale sensory systems, such as miniature sensors for early detection of cancer.
- \$11.5 million for Nanoscale Processes in the Environment to support studies on nanoscale physical and chemical processes related to the trapping and release of nutrients and contaminants in the natural environment. Potential benefits include artificial photosynthesis for clean energy and pollution control, and nanoscale environmental sensors and other instrumentation.
- \$22.2 million devoted to Multi-scale, Multi-phenomena Theory, Modeling and Simulation at the Nanoscale, to support theory, modeling, large-scale computer

simulation and new design tools and infrastructure in order to understand, control, and accelerate development in new nanoscale regimes and systems.

Research at the nanoscale is needed to advance the development of the ultra-small technology that will transform electronics, materials, medicine and many other fields.

NATIONAL ECOLOGICAL OBSERVATORY NETWORK

The National Ecological Observatory Network (NEON) will be a continental scale research instrument consisting of geographically distributed infrastructure, networked via state-of-the-art communications, for integrated studies to obtain a predictive understanding of the Nation's environment. It will transform ecological research by enabling studies on major environmental challenges at regional to continent scales. Scientists and engineers will use NEON to conduct real-time ecological studies spanning all levels of biological organization and temporal and geographical scales.

The President has requested a \$12 million increase for NEON over fiscal year 2004 for a total of \$16 million in fiscal year 2005. In fiscal year 2004, \$4 million was allocated to the Biological Sciences Directorate to develop the NEON Coordinating Consortium (NCC) and Project Office. These units will refine the NEON project, scope, budget, and schedule for research infrastructure. The President has requested level funding for fiscal year 2005 for finalizing the development of the NCC and Project Office, and for funding research on enabling technologies. The remaining \$12 million will go to the Major Research Equipment and Facilities Construction Account to initiate construction of the first two NEON observatories.

It is estimated that 1,400 field biologists will use NEON annually. A larger number of scientists, students, resource managers, and decision makers will make use of NEON data, both directly and indirectly, through the network capabilities and data distribution and sharing technologies via the network and the internet. Increasing NSF's budget by 15 percent would allow NSF to increase its investment in NEON. NEON is a resource that has the potential to transform ecological research.

CONCLUSION

The NSF plays a key role in support of basic science in the United States and knowledge gained from NSF studies directly benefits industry and contributes to the Nation's economy and international competitive position. The NSF is in a singular position among all the Federal research and development agencies to support fundamental research in important areas including, microbiology and molecular biology. ASM urges Congress to protect ongoing and future U.S. scientific and technological advancements by supporting a 15 percent budget increase in fiscal year 2005 for the NSF. The ASM also believes NSF should continue to emphasize fundamental, investigator initiated research, research training, and science education as its highest priorities.

The ASM appreciates the opportunity to provide written testimony and would be pleased to assist the subcommittee as it considers its appropriation for NSF for fiscal year 2005.

PREPARED STATEMENT OF THE ASSOCIATION OF STATE DRINKING WATER ADMINISTRATORS

INTRODUCTION

The Association of State Drinking Water Administrators (ASDWA) is pleased to provide testimony to the VA, HUD and Independent Agencies Subcommittee on Fiscal Year 2005 Appropriations for the U.S. Environmental Protection Agency. ASDWA represents the State drinking water programs in each of the 50 States and territories in their efforts to ensure the provision of safe, potable drinking water to more than 275 million consumers nationwide. ASDWA's primary mission is the protection of public health through the effective management of State drinking water programs that implement the Safe Drinking Water Act (SDWA).

TODAY'S MESSAGE

States Need Increased Federal Support

State drinking water programs strive to meet their public health protection goals through two principal funding programs—the Public Water System Supervision Program (PWSS) and the Drinking Water State Revolving Loan Fund Program

(DWSRF). Since enactment of the 1996 Safe Drinking Water Act Amendments, the State role in public health protection has increased dramatically in both scope and complexity. Since September 2001, State drinking water programs have accepted additional responsibilities to work with all public water systems to ensure that critical drinking water infrastructure is protected and that plans are in place to respond to a variety of possible emergency scenarios.

HOW STATES USE FEDERAL FUNDS

The PWSS Program

To meet the requirements of the SDWA, States have accepted primary enforcement authority for oversight of ongoing regulatory compliance and technical assistance efforts for 160,000 public water systems to ensure that potential health based violations do not occur or are remedied in a timely manner. Going beyond these longstanding core responsibilities, since 1996, State drinking water programs have participated in the development and implementation of more than 20 new regulations and strategic initiatives designed to enhance the protection of public health. States are also implementing an array of proactive initiatives to protect public health from “source to tap”—including source water assessments and controls; technical assistance with water treatment and distribution; and enhancement of overall water system capacity. State activities go far beyond simply ensuring compliance at the tap.

The DWSRF Program

The DWSRF program is less than 10 years old, having been created under the SDWA Amendments of 1996. In that short period of time, State drinking programs have accomplished much. Through prudent fiscal management and oversight, States have managed to leverage their resources to fund nearly \$7 billion in low or no interest loans to more than 3,000 communities. Of those totals, approximately 74 percent of the loans and 40 percent of the dollars have gone to smaller communities serving populations of less than 10,000 people.

New Security Responsibilities

Since the terrorist attack in September 2001, States have taken extraordinary measures to meet the security-related needs of the drinking water community. State drinking water programs have endeavored to respond to the significant number of requests for assistance, information, and financial support from the systems under their purview and to determine how best to ensure that drinking water supplies are protected in the event of further terrorist activities. States have also been instrumental in providing support and assistance to systems in assessing whether a contamination event has occurred and, if so, evaluating the magnitude of the public health implications. States have devised training and technical assistance programs, initiated new communications structures, and begun the work of integrating the concepts of enhanced security concerns throughout all aspects of the drinking water program.

WHY INCREASED FUNDING IS NEEDED

States must accomplish all of the above-described activities and take on new responsibilities while responding to escalating pressures to further cut their budgets, streamline their workforces, and operate with less State-provided financial support. State drinking water programs have always been expected to do more with less and States have always responded with commitment and ingenuity. However, State drinking water programs are now in crisis.

In 2002, ASDWA asked each State to complete a self-analysis of their program needs. All 50 State drinking water programs responded. The results, compiled into a document entitled “Public Health Protection Threatened by Inadequate Resources for State Drinking Water Programs: An Analysis of State Drinking Water Programs Resources, Needs, and Barriers”, document a shortfall of approximately \$230 million between the funds available to States and the amount needed to fully implement State drinking water programs. This ever-widening gap is projected to grow to approximately \$370 million by 2006.

Although the 1996 SDWA Amendments authorized the PWSS Program at \$100 million per year and the DWSRF at \$1 billion per year; through fiscal year 2003, the last year for which comparable figures are available, funds for neither program were requested or appropriated at the authorized amount. Through fiscal year 2003, States and territories received only 87 percent of the PWSS authorization and just 82 percent of authorized levels for DWSRF funds that enable them to make loans to drinking water systems. In fiscal year 2003, although the PWSS appropriation

was increased to \$102.6 million, the amount has been reduced by an across-the-board rescission and the approximately 7 percent taken off the top to meet EPA tribal and direct implementation needs. No increase was provided for the DWSRF. These actions, in effect, have amounted to a net decrease in funds each year as the spending power of these dollars steadily declined due to inflation and cost of living increases. Meanwhile, the demands on State drinking water programs have increased exponentially, as discussed earlier.

States must contribute a 25 percent match to be able to receive Federal PWSS program funds and 20 percent to receive their DWSRF funding allocation. Because the needs are so great, States also bring additional dollars to the table through fee programs, general fund allocations, and other sources. However, many States no longer have the luxury—or ability—to continue to overmatch their contributions to support and sustain Federal programs.

FISCAL YEAR 2005 REQUEST LEVELS AND SDWA PROGRAM OBLIGATIONS

The PWSS Program

This year, the State PWSS program request level in the administration's budget has increased to \$105.1 million. If approved, and unless the request amount suffers another rescission, this action would provide an additional \$2 million for States to use for public health protection activities. While States are appreciative of these new funds, they are a literal drop in the bucket (an average of \$40,000 per State), in view of the magnitude of the needs documented in the aforementioned State resource needs report. Substantial new appropriations are needed for the PWSS program and we would recommend that the subcommittee double the requested level to begin to address the State resource gap or at least provide funding that would represent substantial movement in that direction. These new dollars are sorely needed so that States can manage to maintain effective implementation of all of their pre-1996 core responsibilities and take on an overwhelming list of additional tasks, programs, and regulatory implementation requirements such as those for the arsenic, radionuclides, and microbial disinfection byproducts rules. States also must continue in their responsibilities to ensure that public health is protected through preventive measures such as waterborne disease surveillance, risk communication, sanitary surveys, laboratory certification, permitting, and emergency response.

ASDWA respectfully requests that the subcommittee appropriate an amount substantially greater than the requested amount of \$105.1 million in recognition of the current State drinking water resource gap in order to support the PWSS Program for fiscal year 2005. (Doubling of the requested amount would be in the range of the current gap.)

The DWSRF Program

The fiscal year 2005 DWSRF program request in the President's budget is once again \$850 million. The primary purpose of the DWSRF is to improve public health protection by facilitating water system compliance with national primary drinking water regulations through the provision of loans to improve drinking water infrastructure. The 1999 EPA Drinking Water Infrastructure Needs Survey indicated that water system needs total \$150.9 billion over the next 20 years to comply with SDWA mandates and that \$102.5 billion is needed today to address pressing public health needs. In 2002, EPA developed its own "gap analysis" and reported that drinking water capital needs over a 20-year period (2000–2019) are estimated to range from \$154 billion to \$446 billion with a point estimate of \$274 billion. Of note is that neither of these assessments included the impacts of security upgrades now being required of water systems. Despite these documented needs, the maximum DWSRF appropriation has been \$850 million. Without significant increases, the DWSRF will never be able to meet the SDWA compliance and public health protection goals for which it was designed.

ASDWA respectfully requests that the subcommittee appropriate at least \$2 billion to support the DWSRF Program for fiscal year 2005 and further requests that, in the absence of authorizing legislation for fiscal year 2004 and beyond, the backlog of \$3.48 billion in unfunded authorizations through fiscal year 2003 also be appropriated to assist States and water systems in meeting current public health and security related infrastructure needs.

Security Responsibilities

The fiscal year 2005 budget request includes \$5 million for State drinking water programs to continue to expand their security activities, particularly for small and medium systems. States are obligated to provide technical assistance, training, and support as drinking water systems strive to meet the security requirements imposed by the Bioterrorism Act of 2002. Since September 11, States have worked to provide

accurate and timely information to the drinking water community on potential threats, effective countermeasures, and available technical assistance to enhance the physical and cyber security programs of water utilities. States have developed coordinated communications processes within and across State government, with appropriate Federal agencies, and with the drinking water utilities under their purview to ensure that immediate response can be made in the event of a credible threat or event.

ASDWA respectfully requests that the subcommittee appropriate at least \$5 million to support State drinking water program security initiatives in fiscal year 2005.

STATE ACCESS TO DWSRF FUNDS

ASDWA's own research into State program needs to sustain the effectiveness of this public health program under the DWSRF shows that States face significant barriers in accessing and utilizing the funds effectively: 62 percent of the States cannot meet the multiple match requirements (basic program access plus additional match dollars to be able to use certain set-aside funds) attached to the DWSRF and 76 percent of all State drinking water programs have difficulty in overcoming the inherent tension between use of the fund for administrative versus infrastructure needs. One "no cost" solution would be to eliminate the dollar-for-dollar match requirement for the 10 percent program management set-aside. (The current dollar-for-dollar match requirement is on top of an existing 20 percent match for the fund as a whole; thus making it, in reality, a 120 percent match requirement.) This action would require no new funds and would go a long way toward helping State drinking water programs meet their obligations under the SDWA.

ASDWA advocates an amendment to the DWSRF provisions at SDWA Section 1452(g)(2) that would eliminate the additional dollar-for-dollar match requirement for States to access the 10 percent set-aside for program implementation activities and would appreciate the support of the Appropriations Committee in this regard.

CONCLUSION

A strong drinking water program supported by the Federal-State partnership will ensure that the quality of drinking water in this country will not deteriorate and, in fact, will continue to improve—so that the public can be assured that a glass of water is safe to drink no matter where they travel or live. States are willing and committed partners. Additional Federal financial assistance is needed, however, to meet new regulatory and security needs. In 1996, Congress provided the authority to ensure that the burden would not go unsupported. In 2004, ASDWA asks that the promise of that support be realized.

ASDWA appreciates the opportunity to provide this testimony to the subcommittee for its consideration and stands ready to work with the subcommittee to ensure the continued protection of public health through provision of safe drinking water.

PREPARED STATEMENT OF THE AMERICAN GEOLOGICAL INSTITUTE

Chairman and Members of the subcommittee, I appreciate this opportunity to present testimony on behalf of the American Geological Institute (AGI) in support of fiscal year 2005 appropriations for the National Science Foundation (NSF). The fundamental research funded by NSF has fueled our Nation's economic growth and contributes to improvements in our health, safety, and quality of life. This subcommittee has shown leadership in expanding the Federal investment in fundamental research, leadership that will be even more critical in the coming year. AGI urges the subcommittee to provide the requested amount for the EarthScope project in the Major Research Equipment, Facilities and Construction account and to go beyond the President's request by expanding support for the Geosciences Directorate within the Research and Related Activities account. Both EarthScope and the core programs of the Geosciences Directorate represent an important investment in the future of our Nation and our planet.

AGI also supports the Coalition for National Science Funding and its stated target of a 15 percent increase in total funding for the Foundation. This is the amount specified in Public Law 107-368 enacted in December 2002.

AGI is a nonprofit federation of 42 geoscientific and professional societies representing more than 100,000 geologists, geophysicists, and other earth scientists. Founded in 1948, AGI provides information services to geoscientists, serves as a voice for shared interests in our profession, plays a major role in strengthening geo-

science education, and strives to increase public awareness of the vital role the geosciences play in society's use of resources and interaction with the environment.

Geoscience research plays an increasingly important role in an ever-growing range of scientific and societal problems, and Federal investments in geoscience research should increase accordingly. Global climate change, natural disasters, energy resources, and water quality are just a few of the issues that benefit from improved geoscience knowledge and understanding. Federal investments in geoscience R&D continue to pay enormous dividends, and both the Federal Government and the Nation clearly have a stake in maintaining the health of the basic science on which applications and policy decisions ultimately must be based.

NSF support for geoscience research activities covers the entire spectrum from individual investigators to major research centers and large research programs. Many of the most creative and important advances in geoscience research continue to be made by individual investigators and small research teams that are the backbone of the research and graduate education system. NSF should maintain and enhance support for this vital component of geoscience research.

As noted in the NSF budget request, the Foundation has placed a special emphasis on investments in the physical sciences. We applaud the foundation's emphasis on the need to restore balance and hope that the subcommittee views this commitment to the physical sciences broadly, including the many subdisciplines of the geosciences within that terminological umbrella. While the decline in funding for many non-biomedical disciplines is real, any such refocusing should remain broad enough to ensure the multidisciplinary nature of today's science, mathematics, engineering, and technology research. A balance must be found that maintains NSF's hallmark of supporting the most promising ideas in research and education.

NSF GEOSCIENCES DIRECTORATE

The NSF Geosciences Directorate is the principal source of Federal support for academic earth scientists and their students who are seeking insight into the processes that ultimately sustain and transform life on this planet. The President has requested a small increase (about 2 percent) for this directorate as a whole, including a 2.7 percent increase to the Earth Sciences Division and a 2 percent increase to the Ocean Sciences Division. Moreover, within the \$728 million requested for the directorate, there are funds targeted at NSF-wide priorities, which are primarily broad interdisciplinary research and education efforts. Recognizing that these agency priorities areas can result in cutting-edge research and technology, we are nonetheless concerned that the President's request would jeopardize the directorate's core programs to fund what should be complementary initiatives. By meeting the authorized funding level within the Research and Related Activities account, the subcommittee would allow NSF to strengthen core research by increasing the number and duration of grants.

NSF MAJOR RESEARCH EQUIPMENT ACCOUNT: EARTHSCOPE

AGI urges the subcommittee to support the NSF Major Research Equipment, Facilities and Construction budget request of \$50.8 million for EarthScope. Taking advantage of new technology in sensors and data distribution, this multi-pronged initiative—begun thanks to the subcommittee's support in fiscal year 2003—will systematically survey the structure of the Earth's crust beneath North America. The fiscal year 2005 request includes continued support for deployment of three components: a dense array of digital seismometers that will be deployed in stages across the country; a 4-km deep borehole through the San Andreas Fault, housing a variety of instruments that can continuously monitor the conditions within the fault zone; and a network of state-of-the-art Global Positioning System (GPS) stations and sensitive strainmeters to measure the deformation of the constantly shifting boundary between the Pacific and North American tectonic plates. AGI supports development in conjunction with NASA of the fourth component, a satellite-based Synthetic Aperture Radar mission that can measure changes in the Earth's crust after earthquakes and volcanic eruptions.

EarthScope has broad support from the earth science community with endorsements from a number of AGI's member societies, including the Association of American State Geologists, Geological Society of America, Seismological Society of America and Society of Exploration Geophysicists. EarthScope has received a very favorable review from the National Research Council, which released a report in 2001 entitled *Review of EarthScope Integrated Science*.

All data from this project will be available in real time to both scientists and students, providing a tremendous opportunity for both research and learning about the Earth. Involving the public in earth science research will increase appreciation of

how such research can lead to improvements in understanding the environment and a better quality of life. As noted by the National Research Council report: "EarthScope provides an excellent opportunity to excite and involve the general public, as well as K-12 and college students, to work together with the earth science community to understand the earth on which they live." EarthScope can also provide a mechanism to integrate a broad array of earth science research data in a unified system to promote cross-disciplinary research and avoid duplication of effort.

NSF SUPPORT FOR EARTH SCIENCE EDUCATION

Earth science plays a unique and essential role in today's rapidly changing world. Most human activities involve interactions with the planet Earth, and citizens need a basic understanding of our planet in order to make informed decisions about the delicate balance between resource use and environmental protection. NSF can improve the Nation's scientific literacy by supporting the full integration of earth science information into mainstream science education at the K-12 and college levels. The inclusion of earth science as a key component in the National Science Education Standards developed by the National Academy of Sciences presents a tremendous opportunity to achieve this goal.

AGI strongly supports the Math and Science Partnership (MSP) program as it has existed at NSF. This is a competitive peer-reviewed grant program and funds are only awarded to the highest quality proposals. Shifting the MSP program entirely to the Department of Education would mean that all MSP funds would be distributed to States on a formula basis. This would provide no incentive for top researchers to continue to participate in this important program and would limit the flexibility of States to target areas of greatest need. The NSF's MSP program focuses on modeling, testing and identification of high-quality math-science activities whereas the Department of Education program does not. Both the NSF and Department of Education MSP programs are complimentary to each other and are both necessary to continue to reach the common goal of providing world-class science and mathematics education to elementary and secondary school students. AGI opposes the transfer of the MSP from NSF to the Department of Education.

We encourage the Education and Human Resources directorate to expand its interaction with the Geosciences directorate to further integrate research and education activities in the geosciences. Improving geoscience education to levels of recognition similar to other scientific disciplines is important because:

- Geoscience offers students subject matter that has direct application to their lives and the world around them. Civilization depends on responsible use of Earth's natural resources, including energy, minerals, and water. Moreover, geoscience plays a key role in environmental protection.
- Geoscience exposes students to a diverse range of interrelated scientific disciplines. It is an excellent vehicle for integrating the theories and methods of chemistry, physics, biology, and mathematics.
- Geoscience awareness is a key element in reducing the impact of natural hazards on citizens—hazards that include earthquakes, volcanic eruptions, hurricanes, tornadoes, and floods.

We urge NSF to continue playing an active role in the major transformation that is taking place in geoscience education. For example, at the college level, geoscience curricula are changing to better incorporate environmental issues and changing employment opportunities. Improved teaching methods and new educational technology, combined with improvements in college and pre-college geoscience curricula, may help capture and hold the curiosity and enthusiasm of students and better prepare them for the workplace of the 21st century. At the graduate and postdoctoral level, fellowships are increasingly critical in the geosciences because students, following the lead of industry and consumer needs, are conducting research that crosses traditional departmental, disciplinary, and funding boundaries.

Yet some Americans, particularly those of lower income, are still significantly underrepresented in geoscience education. The problem is substantially worse at the graduate level. It is unlikely that any profession, including the geosciences, can flourish without greater participation by all Americans, including those from historically underrepresented groups such as ethnic minorities, women, and people with disabilities. Continued NSF leadership is needed to increase recruitment and retention of students from these groups through improved access to education and research experiences. We must all work together to address the underlying factors that prevent such participation.

I appreciate this opportunity to provide testimony to the subcommittee and would be pleased to answer any questions or to provide additional information for the record.

PREPARED STATEMENT OF THE UPPER MISSISSIPPI RIVER BASIN ASSOCIATION

The Upper Mississippi River Basin Association (UMRBA) is the organization created in 1981 by the Governors of Illinois, Iowa, Minnesota, Missouri, and Wisconsin to serve as a forum for coordinating the five States' river-related programs and policies and for collaborating with Federal agencies on regional water resource issues. As such, the UMRBA has an interest in the budget for the water programs of the U.S. Environmental Protection Agency (EPA).

STATE POLLUTION CONTROL GRANTS (SECTION 106)

UMRBA supports the administration's proposed 11 percent increase in funding for Section 106 State Pollution Control Grants. However, it is important to recognize that this \$22 million increase would be dedicated entirely to two specific efforts—i.e., grants to enhance State monitoring and support for implementing confined animal and stormwater permitting. Special monitoring grants totaling \$17 million would be targeted to critical information needs, including refined biological assessment methods, probability-based designs, landscape models and other predictive tools, remote sensing to determine where additional monitoring is needed, and targeted monitoring to support implementation of total maximum daily loads (TMDLs). Addressing these critical monitoring needs is at the foundation of the States' ability to successfully implement their Clean Water Act responsibilities. Elsewhere in its budget, EPA is also requesting an additional \$3 million for complementary information management efforts within EPA, including improvements to the Storage and Retrieval System (STORET) that the States and others use to archive, analyze, and exchange water quality data.

The other \$5 million in new Section 106 funding would help the States meet the increased permitting workload associated with new Federal requirements for concentrated animal feeding operations (CAFOs) and Phase II stormwater regulations. EPA estimates that the universe of regulated facilities has increased ten-fold, further stressing the States' already under-resourced permitting programs. This additional funding, while not sufficient to fully meet the increased demands, is absolutely essential to the States' ability to serve the regulated community.

Under the President's budget, funds in the baseline Section 106 program would remain static. This is the Federal money that is combined with the States' matching dollars to support the core State water quality programs, including water quality assessment and monitoring, water quality planning and standard setting, total maximum daily load development, point source permitting, and training and public information. Adequate funds are particularly critical to supporting the States' development and implementation of TMDLs. The tasks associated with developing TMDLs for impaired waters include watershed characterization, computer modeling and related analyses, allocation of permissible loads, development of TMDL reports and plans, and public outreach and stakeholder development. These responsibilities have the potential to overwhelm State agency resources that are in many cases already strained. Under the fiscal year 2004 budget of approximately \$200 million, the five States in the Upper Mississippi River Basin received \$21.5 million in Section 106 funding. Continuation of this funding is fundamentally important to the States' ability to carry out their responsibilities under the Clean Water Act.

CLEAN WATER STATE REVOLVING FUNDS

The UMRBA is deeply concerned about the lack of support in the administration's fiscal year 2005 budget proposal for the Clean Water State Revolving Fund (CWSRF), which helps address wastewater infrastructure needs. The CWSRF is widely acknowledged as having been pivotal in improving the Nation's water quality. In fiscal year 2004, the five Upper Mississippi River Basin States received a total of approximately \$177 million in CWSRF funding. However, the President is again proposing to cut the CWSRF by almost 37 percent in fiscal year 2005. This would mean \$850 million for the CWSRF, rather than its authorized and historical level of \$1.35 billion. Given the flexibility to redirect wastewater funds to the Drinking Water State Revolving Fund (DWSRF), even less than \$850 million might well be available for the wastewater SRFs. While the flexibility to shift between these two programs can help the States address their most pressing needs, it is no substitute for adequate funding. EPA's own estimates show multi-billion dollar annual funding gaps for clean water and drinking water infrastructure over the next 20 years. While the Upper Mississippi River States would agree with EPA's fiscal year 2005 budget justification that "successfully closing this gap will require more than federal financial assistance," they most definitely do not agree that the appropriate response to this daunting challenge is to reduce the current level of Federal support

still further. The high demand for these funds underscores the need to reauthorize CWSRF funding and increase annual Federal appropriations to at least \$3 billion.

STATE NONPOINT SOURCE GRANTS (SECTION 319)

Citing increased resources for the USDA's agricultural conservation programs, the administration has requested \$209.1 million for the Section 319 state nonpoint source grant program, a 12 percent cut from the \$237.5 million appropriated in fiscal year 2004. Nonpoint sources are one of the major causes of water pollution in the Upper Mississippi River Basin, which drains the Nation's agricultural heartland. Consequently, the proposed reduction in Section 319 funding is particularly troubling to the UMRBA. For each of the past 4 years, the five States in the Upper Mississippi River Basin have been allocated a total of \$34 million in nonpoint source grants. While the UMRBA welcomes and supports the expansion of USDA conservation programs, it continues to be essential to fund the Section 319 program as well. Without adequate funding, Section 319 cannot work in tandem with the USDA's conservation programs, and certainly cannot address other pressing nonpoint source needs unrelated to agriculture, such as Phase II stormwater work. Thus, at a minimum, UMRBA urges Congress to maintain funding for State nonpoint source grants at the fiscal year 2004 level of \$237.1 million, recognizing that continued progress in addressing nonpoint pollution will require significantly increased resources.

WATER QUALITY INDICATORS AND ASSESSMENT METHODS

Developing sound, scientifically defensible water quality indicators and assessment methods is a nationwide challenge, but nowhere more so than on the country's big rivers. In order to make real progress in meeting this challenge, EPA must exhibit strong and consistent leadership. However, while the need for improvements in this area is broadly acknowledged, the President's fiscal year 2005 budget request represents a significant diminution in EPA's commitment to the very programs that fund this research. Specifically, under the administration's proposal, \$22.7 million in ecosystems research under the Science to Achieve Results (STAR) program would be eliminated. This program of competitive, peer-reviewed grants funds cutting edge research on a variety of critical questions, including the development of biological indicators for use in assessing water quality on big rivers. Similarly, the Central Basin Integrated Assessment, part of EPA's Environmental Monitoring and Assessment Program (EMAP), has been significantly curtailed and EPA does not intend to provide any additional funding in fiscal year 2005. However, the Central Basin EMAP still offers promise in advancing monitoring and assessment for the large rivers of the Mississippi River Basin. It is critical to maintain funding for STAR grants and EMAP if we are to advance the science behind water quality indicators and assessment methods. Without such funding, the States' ultimate ability to implement their Clean Water Act responsibilities on the Upper Mississippi and other big rivers will be jeopardized.

HYPOXIA ACTION PLAN AND WATERSHED GRANTS

The UMRBA is disappointed that the administration's fiscal year 2005 budget proposal does not include additional new resources to address the recommendations in the Hypoxia Action Plan, submitted by the Mississippi River/Gulf of Mexico Watershed Nutrient Task Force in January 2001. The States in the Upper Mississippi River Basin have consistently said that reductions in nutrient inputs to the Gulf of Mexico and monitoring to evaluate the effectiveness of these efforts will only be possible if significant new budgetary resources are provided by the Federal Government. While the States continue to support the goals and strategies set forth in the Action Plan, little progress will be made to reduce the Gulf hypoxic zone and improve water quality conditions throughout the basin without a major Federal financial commitment.

If anything, there is even less emphasis on Gulf hypoxia than in the administration's fiscal year 2004 budget proposal, which identified implementation of the Hypoxia Action Plan as a focus of its Targeted Watershed Grants. While the President is requesting an increase of \$5 million for the watershed grants, \$10 million of the \$25 million total would be set aside for efforts to reduce nutrients from wastewater treatment plants on the Chesapeake Bay. Another \$4 million would be reserved for projects involving water quality trading, leaving only \$11 million for other priorities nationwide. This level of resources is simply not adequate to make progress on a problem with the complexity and spatial scope of Gulf hypoxia.

PREPARED STATEMENT OF THE SANTA CLARA VALLEY WATER DISTRICT

PERCHLORATE CLEANUP IN SANTA CLARA COUNTY

Background.—The perchlorate originated from a former highway safety flare manufacturing plant owned by Olin Corporation, which was operated for 40 years. Operations ceased in 1996, and perchlorate contamination was discovered in 2000. The Central Coast Regional Water Quality Control Board (Regional Board) is providing regulatory oversight of the contamination case, which has affected several hundred drinking water supply wells. Groundwater is currently the only source of drinking water in this area and over 2,000 families are being provided with bottled water or treated groundwater. Significant concerns remain regarding this community's exposure to perchlorate in their drinking water and perchlorate accumulation in agricultural crops and livestock. To address these concerns and ensure that the groundwater basin in this area is aggressively restored and cleaned up, the Santa Clara Valley Water District (District) is requesting Federal assistance. We request funding to facilitate a prompt and complete cleanup of groundwater resources in the Llagas Valley, Santa Clara County.

Perchlorate Investigation and Cleanup Status.—To date, the District has sampled about 1,000 water supply wells in the Llagas Valley. In addition, Olin Corporation has sampled about 600 wells. Results to date show more than 450 wells with detectable perchlorate above 4 parts per billion. Bottled water is currently being delivered to over 1,200 families and businesses in the area. Olin Corporation has installed perchlorate removal systems on three wells for two small water systems in the San Martin area that serve a total of about 450 customers.

The full extent of perchlorate contamination has not yet been determined. Olin Corporation has installed a groundwater cleanup system at their former manufacturing facility. However, they have not yet presented a plan for cleaning up the 9½ mile long plume of contamination, controlling additional plume movement, or long-term solutions for well water users who currently rely on bottled water. Olin has advised State officials that they are not prepared to commit to cleanup of perchlorate impacts to private wells until a State or Federal Maximum Contaminant Level (MCL) for perchlorate is established. Adoption of an MCL at the State and Federal levels has been delayed.

Additional funding is necessary to determine the best long-term solution for the entire groundwater basin and initiate cleanup efforts. Funding for District-led initiatives will help break a regulatory deadlock with Olin that is currently preventing meaningful action to protect well owners.

Fiscal Year 2004 Funding.—One and three quarters of a million dollars was appropriated for Perchlorate activities (\$1 million under State and Tribal Assistance Grants and \$750,000 under Environmental Programs and Management account). The 2004 funding will be used to further the District efforts to restore clean water supplies to local families whose wells are affected by perchlorate. Project ideas include a point-of-use drinking water treatment system installation program, residential wellhead treatment pilot studies, and well installation to provide design criteria for a remediation system.

Fiscal Year 2005 Funding Recommendation.—It is requested that the committee support an appropriation add-on of \$4 million from the United States Environmental Protection Agency in fiscal year 2005 (\$2 million under State and Tribal Assistance Grants and \$2 million under Environmental Programs and Management account).

PREPARED STATEMENT OF THE CITY OF AVONDALE, ARIZONA

AVONDALE WASTE WATER EXPANSION PROJECT

Chairman Bond, Ranking Member Mikulski, subcommittee members, thank you for allowing me to testify in support of \$3.2 million in funding for the expansion of the City of Avondale's waste water treatment facility through the fiscal year 2005 VA, HUD and Independent Agencies Appropriations bill. We are grateful that the subcommittee funded this important project at \$600,000 to begin designing this mandated expansion, and we look forward to your continued support of this important project.

Mr. Chairman, let me state it bluntly—we are in a desperate situation. The City of Avondale has experienced exponential growth as the sixth fastest growing city in the second fastest growing State in the Nation. In 1990, the population was approximately 16,800. Today, the City has nearly tripled in size to more than 50,000 residents. It is estimated that the population will almost double to 80,000 by 2010. In

1995, it was estimated that the City's population growth would not reach 80,000 until 2020. This rapid and sudden expansion, in conjunction with the economic downturn, places City finances at a premium to meet its needs to provide water and wastewater capacity that serves the expected population growth. As you may know, Avondale has a majority of minority races (overwhelmingly Hispanic), and a population that is moderate- to low-income. Fourteen percent of Avondale's residents live at or below the poverty line.

The City of Avondale has exhausted all State and local funding options prior to seeking Federal assistance. In fact, in 2000, the city passed a one-half of 1¢ sales tax to fund street, water and sewer projects. The City used this funding source for the first expansion of the Wastewater Treatment Plant, which was completed in January 2003. The previous 2 years' economic downturn, resulting in declining sales tax revenue, has left the city with limited local funds for the next expansion of the Treatment Plant, and the City does not have voter authorization to issue bonds required by the State Revolving Fund.

As you know, the EPA mandates that current treatment facilities must be expanded once they reach 80 percent capacity. Even with the recently completed expansion of the facility, it is estimated that the Avondale facility will reach over 80 percent by 2008. Knowing that time and money is needed to design such a large project, the City has begun the necessary preliminary permitting, environmental and pre-design processes in anticipation of the master plan and construction, which will be aided by the \$600,000 of Federal STAG funds received in fiscal year 2004, and the fiscal year 2005 request. With Federal funding, however, the city will increase the current 6.4 MGD capacity of the plant to 10 to 12 MGD, while also increasing the capacity of the plant to reuse treated water for irrigation or recharge purposes, and allow the plant to treat effluent to supplement the city's potable water supply.

Furthermore, under the Clean Water Act's outdated formula Arizona ranks last in per-capita and per-need funding under the State Revolving Fund that is designed to help communities finance infrastructure projects. This funding inequity has created problems for communities like Avondale that have limited means but that must still meet Federal water quality standards. The only fair way to rectify this inequity would be for the Federal Government to provide the necessary funds to complete the mandated expansion of the facility.

It is important to note that the City of Avondale's improved and expanded wastewater treatment facility will do more than provide wastewater services to the residents. It will also provide treated effluent that will dramatically reduce its need for potable water supplies. The expansion will also enable the City to better meet its State-mandated 100-year water supply by recharging the remaining effluent into the ground for future use, allowing nature to further purify the water in order for it to be used for future potable purposes.

Not only will this expansion allow the City to remain in compliance with strict local, State and Federal regulatory requirements, it will also add treatment processes that will allow the City to reuse the treated wastewater for irrigation purposes, thereby recharging this valuable resource. Recharging treated wastewater will allow the City to reduce its dependence on imported water sources such as the Colorado River, which benefits all municipalities relying on the river.

Finally, it is important to note that \$600,000 included in the fiscal year 2004 VA, HUD and Independent Agencies Appropriations bill was a critical first step because the waste water plant is reaching full capacity. However, it is critically important to keep this project on an optimal funding schedule to ensure the project is completed before the treatment plant reaches maximum capacity. With that in mind, we can utilize \$3.2 million in fiscal year 2005 toward completion of this \$20 million project of which the City will provide 53 percent of the funding.

This project serves a broad public purpose in three ways: (1) it will allow the City to continue to provide the necessary sewer service for our residents; (2) will benefit the rest of Arizona by helping to cut down on the amount of scarce water the City uses, because the plant also treats the water to allow it to be re-used for irrigation purposes; and (3) will allow the city to treat the effluent to bring it up to Class A standards and to recharge it into the ground to be withdrawn later as potable water.

Again, I ask that you support the City's request for \$3.2 million from the STAG account in the fiscal year 2005 VA, HUD and Independent Agencies Appropriations bill for the expansion of our waste water treatment plant. Thank you in advance for your consideration of this request.

PREPARED STATEMENT OF THE K-12 SCIENCE, TECHNOLOGY, ENGINEERING &
MATHEMATICS EDUCATION COALITION

We encourage you to continue the Federal commitment to math and science education by maintaining the peer-reviewed Math and Science Partnerships (MSPs) at the National Science Foundation (NSF) and supporting robust funding for both the U.S. Department of Education (ED) and the NSF Math and Science Partnership programs.

We urge you to oppose the administration's budget proposal that would phase-out the NSF MSP program and establish a new Federal grant administered by the Secretary of Education that would, in effect, limit individual States' discretion to target much-needed funds for local science and mathematics education reforms.

We believe that the MSPs at both the Department of Education and at NSF are necessary and complementary. Without one, the other is significantly weakened.

The competitive, peer-reviewed, NSF MSPs seek to develop scientifically sound, model, reform initiatives that will improve teacher quality, develop challenging curricula, and increase student achievement in mathematics and science. The funds appropriated under NCLB for the ED MSPs go directly to the States as formula grants, providing funds to all States to replicate and implement these initiatives throughout the country.

While we support the administration's proposal to increase funding for the ED MSPs, we oppose the creation of a new \$120 million ED grant program that runs counter to congressional intent by focusing only on math and reducing State flexibility to target funds to areas of greatest need. We encourage you to oppose new restrictions on the additional funding slotted for the State-based ED MSPs.

In summary, we strongly urge Congress to: (1) reject the administration's proposed phase-out of the NSF MSP program; (2) oppose additional restrictions to the ED MSP program; and (3) provide robust funding for both MSP programs.

PREPARED STATEMENT OF THE VILLAGE OF WELLINGTON, FLORIDA

Mr. Chairman and members of the subcommittee, on behalf of the Village of Wellington, we are pleased to submit this statement for the record in support of our request for funding in the amount of \$3,000,000 for The Village's Water Cleanup and Phosphorus Removal Project. We respectfully request that this funding be provided through an appropriation to the Environmental Protection Agency and that the funding be included in the fiscal year 2005 Appropriation Bill for VA/HUD and Independent Agencies.

PROJECT EXECUTIVE SUMMARY

The 1994 Everglades Forever Act (EFA) established water quality goals for the restoration and preservation of the Everglades Protection Area. It also identified Basin B within the Village of Wellington as an area that will need to meet the new phosphorus standard by December 31, 2006 for its stormwater discharges into the Arthur Marshall Loxahatchee National Wildlife Refuge (Conservation Area No. 1).

The Acme Basin B Discharge project is one of 55 that comprise the Comprehensive Everglades Restoration Plan (CERP). The Basin B drainage area is part of the Acme Improvement District, which was created by the State of Florida in 1953 to provide drainage for agricultural land in central Palm Beach County. During the 50 years since its inception, land uses within the improvement district have changed dramatically. The Acme Improvement District now serves the Village of Wellington and over 50,000 residents. Basin B consists of 8,680 acres of low-density development located in the southern half of the Improvement District. The western boundary of Basin B abuts the Loxahatchee Refuge.

The benefits created by the CERP Acme Basin B Discharge project are largely related to restoration of the natural environment. The health of the Loxahatchee Refuge and Everglades National Park will be enhanced with improved quality and quantity of water generated from within the basin. Specifically, the project will provide the equivalent of 28.5 million gallons of water per day to the Everglades, which, without the project, would be needlessly sent to the ocean via the Lake Worth Lagoon.

The Village has been working diligently to arrive at a solution to meet the EFA requirements in an economic and technically feasible manner. The actual phosphorus standard will be adopted by the Florida Department of Environmental Protection (FDEP) through the Environmental Regulatory Commission (ERC). Therefore, the Village has been evaluating numerous alternatives to be used, to arrive at a Basin B Water Quality Clean Up Solution.

Some of these alternatives that have been, or are still being, evaluated, are:

- A water quality improvement Pilot Program with CH2M Hill Constructors, Inc.
- Development of a Best Management Practices (BMP) Ordinance with phosphorous fertilizer limitations and livestock waste handling procedures among others.
- Preparation of a Request for Proposals and obtaining responses for a “Multi-Purpose Stormwater Management Program” as a design/build/operate (DBO) contract.
- Development of Basin B Water Quality Clean Up alternatives for further evaluation by the South Florida Water Management District (SFWMD) through its study consultants, Burns & McDonnell, and Brown & Caldwell.
- Work with SFWMD and the U.S. Army Corps of Engineers through a Cooperation Agreement with SFWMD to develop a Basin B Water Quality Clean Up Plan as an already federally authorized Other Project Element (OPE) of the Comprehensive Everglades Restoration Plan (CERP).
- Implementation of a detailed water quality monitoring program to identify “hot spots” within Basin B for potential individual site specific clean up.

As part of its Basin B Water Quality Clean Up Initiative, the Village of Wellington assembled a “Surface Water Action Team” (SWAT) comprised of key personnel and expert consultants. The SWAT Team, while continuing to work on many of the above initiatives, is presently working on a Phase II BMP Ordinance, along with an updated Cooperative Agreement with SFWMD.

The ongoing water quality monitoring program has indicated a fairly significant decrease in average phosphorus concentrations since 1999. In 1999, the average Basin B phosphorous concentration discharged to the Loxahatchee Refuge was 189 parts per billion (ppb). In 2002, the average concentration has dropped to 88 ppb, which is a 53.4 percent decrease in phosphorus levels. Although inconclusive, it is likely that the implementation of the BMP Ordinance played a part in this decrease in phosphorus concentrations.

To date, the Village of Wellington has made a considerable financial investment of approximately \$3.25 million, not including internal staff hours, in an effort to meet the standards set by the Everglades Forever Act requirements.

CONCLUSION

The Village of Wellington would appreciate the subcommittee’s favorable consideration of our request for \$3 million for fiscal year 2005 in the EPA portion of the subcommittee’s bill to support the Village’s Water Cleanup and Phosphorus Removal Project.

Thank you for your consideration of our request.

PREPARED STATEMENT OF THE PEOPLE FOR THE ETHICAL TREATMENT OF ANIMALS (PETA)

Chairman Bond, Ranking Member Mikulski, and Members of the subcommittee, People for the Ethical Treatment of Animals (PETA) is the world’s largest animal rights organization, with 800,000 members and supporters. We greatly appreciate this opportunity to submit testimony regarding the fiscal year 2005 appropriations for the Environmental Protection Agency (EPA). Our testimony will focus on non-animal chemical toxicity tests that are available to replace animal tests currently required by the EPA.

As you know, the EPA requires substances such as pesticides, industrial chemicals, and others to be tested for, among many other hazards, their rates of skin corrosion, skin absorption, and skin irritation. Traditionally, these particular tests have involved smearing chemicals on animals’ shaved backs, often causing effects ranging from swelling and painful lesions to wounds where the skin is totally burned through.

Fortunately, there are non-animal test methods that are just as effective, if not more so, for these three endpoints. “Human skin equivalent” tests such as EpiDerm™ and EpiSkin™ have been scientifically validated and accepted in Canada, the European Union, and by the Organization for Economic Cooperation and Development (OECD), of which the United States is a key member, as total replacements for animal-based skin corrosion studies. Another non-animal method, Corrositex™, has been approved by the U.S. Interagency Coordinating Committee on the Validation of Alternative Methods. Various tissue-based methods have been accepted in Europe as total replacements for skin absorption studies in living animals. In fact, in 1999 the EPA itself published a proposed rule for skin absorption testing using a non-animal method that, as of this writing, has still not been final-

ized. Government regulators in Canada accept the use of a skin-patch test in human volunteers as a replacement for animal-based skin irritation studies (for non-corrosive substances free of other harmful properties).

However, the EPA continues to require the use of animals for all three of these endpoints, despite the availability of the non-animal tests.¹

In fiscal year 2002, the subcommittee allocated the first-ever appropriation for the EPA to research, develop, and validate non-animal methods. The appropriation was in the amount of \$4,000,000 and was to be used for “non-animal, alternative chemical screening and prioritization methods, such as rapid, non-animal screens and Quantitative Structure Activity Relationships.” However, to date, the EPA has refused to provide a detailed accounting of how this appropriation was spent and exactly what non-animal testing methods received these funds.

We respectfully request that the subcommittee include the following report language:

“The Administrator of the EPA is required to report to Congress no later than December 1, 2004, regarding the use of Corrositex™ and ‘human skin equivalent’ tests such as EpiDerm™ and EpiSkin™ for skin corrosion studies, in vitro methods using skin from a variety of sources (e.g. human cadavers) for skin absorption studies, and human volunteer clinical skin-patch tests (for chemicals first determined to be non-corrosive and free of other harmful properties) for skin irritation studies. The Administrator should describe the reasons for which the agency has delayed accepting the aforementioned methods for regulatory use as total replacements for their animal-based counterparts, exactly what steps the agency is taking to overcome those delays, and a target date by which the agency intends to accept these methods for regulatory use.”

PETA also supports the testimony submitted by the Doris Day Animal League requesting that targeted existing resources in the EPA’s Science and Technology account for the Office of Research and Development be used to fund specific validation studies of non-animal test methods to speed their acceptance by the agency.

Animal Tests Cause Immense Suffering

Traditionally, the degree to which corrosive materials are hazardous has been measured by the very crude and cruel method of shaving rabbits’ backs and applying the test substance to the animals’ abraded skin for a period of hours. As one can imagine, when highly corrosive substances are applied to the backs of these animals, the pain is excruciating. In skin absorption tests, the rate at which a chemical is able to penetrate the skin is measured by shaving the backs of rats and smearing the substance on them for an exposure period of up to 24 hours. They are eventually killed, and their skin, blood, and excrement are analyzed. A similar method is used to test for skin irritation, except the unfortunate subjects are again rabbits, who are locked in full-body restraints. A test chemical is applied to their shaved backs, and the wound site is then covered with a gauze patch for normally 4 hours. A chemical is considered to be an irritant if it causes reversible skin lesions or other clinical signs, which heal partially or totally by the end of a 14-day period. Animals used in the above tests are not given any painkillers.

These Tests Have Never Been Proven to be Relevant to Humans

None of the animal tests currently used for skin corrosion, absorption, or irritation has ever been scientifically validated for its reliability or relevance to human health effects. Animal studies yield highly variable data and are often poor predictors of human reactions. For example, one study, which compared the results of rabbit skin irritation tests with real-world human exposure information for 65 chemicals, found that the animal test was wrong nearly half (45 percent) of the time in its prediction of a chemical’s skin damaging potential (Food & Chemical Toxicology, Vol. 40, pp. 573–92, 2002).

Validated Methods Exist Which do not Harm Animals

Fortunately, test methods have been found to accurately predict skin corrosion, absorption, and irritation.

EpiDerm™ and EpiSkin™ are test systems comprised of human-derived skin cells, which have been cultured to form a multi-layered model of human skin. The Corrositex™ testing system consists of a glass vial filled with a chemical detection fluid capped by a membrane, which is designed to mimic the effect of corrosives on

¹The EPA may allow the use of EpiDerm™, however it will apparently require confirmatory testing on animals of any negative non-animal test results. This sets an unjustified precedent of requiring confirmatory testing of validated non-animal tests with non-validated animal tests.

living skin. As soon as the corrosive sample destroys this membrane, the fluid below changes color or texture.

For skin absorption tests, the absorption rate of a chemical through the skin can be measured using skin from a variety of sources (e.g. human cadavers). The reliability and relevance of these in vitro methods have been thoroughly established through a number of international expert reviews, and have been codified and accepted as an official test guideline of the OECD.

Instead of animal-based skin irritation studies, government regulators in Canada accept the use of a skin-patch test using human volunteers. (The chemical is first determined to be non-corrosive and free of other harmful properties before being considered for human studies.)

Non-animal Test Methods Can Save Time, Money, and Yield More Useful Results

Whereas animal testing can cost more than \$1,800, EpiDerm™ costs on average less than \$800. Unlike animal testing that can take 2 to 4 weeks, Corrositex™ testing can provide a classification determination in as little as 3 minutes and no longer than 4 hours, and costs less than \$200 per chemical tested.

Tissue culture methods to test for skin absorption allow researchers to study a broader range of doses, including those at the actual level of exposure that occurs in the occupational or ambient environment, which is not possible with the animal-based method.

Many non-animal methods can yield results with greater sensitivity and at a lower cost than animal-based methods. Protocols are more easily standardized, and the variations among strains and species are no longer a factor.

The EPA Continues to Require the Use of Animals

Despite the ethical, financial, efficiency, and scientific advantages of the above non-animal methods, the EPA continues to require and accept the unnecessary use of animals in tests for skin corrosion, absorption, and irritation.

Summary

Non-animal methods are available now to replace animal-based methods to test substances for skin corrosion, absorption, and irritation. There simply is no excuse for continuing to cause animals to suffer when non-animal tests are available.

We therefore hereby request, on behalf of all Americans who care about the suffering of animals in toxicity tests, that you please include language in the report accompanying the fiscal year 2005 VA, HUD and Independent Agencies Appropriations bill stating that:

“The Administrator of EPA is required to report to Congress no later than December 1, 2004, regarding the use of Corrositex™ and ‘human skin equivalent’ tests such as EpiDerm™ and EpiSkin™ for skin corrosion studies, in vitro methods using skin from a variety of sources (e.g. human cadavers) for skin absorption studies, and human volunteer clinical skin-patch tests (for chemicals first determined to be non-corrosive and free of other harmful properties) for skin irritation studies. The Administrator should describe the reasons for which the agency has delayed accepting the aforementioned methods for regulatory use as total replacements for their animal-based counterparts, exactly what steps the agency is taking to overcome those delays, and a target date by which the agency intends to accept these methods for regulatory use.”

PETA also supports the testimony submitted by the Doris Day Animal League requesting that targeted existing resources in the EPA’s Science and Technology account for the Office of Research and Development be used to fund specific validation studies of non-animal test methods to speed their acceptance by the agency.

Thank you for your consideration of our request.

PREPARED STATEMENT OF THE STATE AND TERRITORIAL AIR POLLUTION PROGRAM ADMINISTRATORS AND THE ASSOCIATION OF LOCAL AIR POLLUTION CONTROL OFFICIALS

The State and Territorial Air Pollution Program Administrators (STAPPA) and the Association of Local Air Pollution Control Officials (ALAPCO) appreciate this opportunity to provide testimony regarding the fiscal year 2005 proposed budget for the U.S. Environmental Protection Agency (EPA), particularly regarding grants to State and local air pollution control agencies under Sections 103 and 105 of the Clean Air Act.

STAPPA and ALAPCO are the national associations of air quality officials in 53 States and territories and more than 165 metropolitan areas across the country. The

Clean Air Act gives State and local air quality officials the primary responsibility for implementing our country's clean air program. These agencies must work to limit or prevent emissions of a variety of pollutants from many different sources. These include particulate matter, ground-level ozone, toxic air pollution, and acid rain, among others. In order to protect public health, State and local air pollution control agencies are responsible for implementing myriad activities and programs. These include, among others, developing State Implementation Plans, monitoring ambient air quality, developing inventories of emissions, formulating air pollution control strategies, providing compliance assistance to the regulated community, issuing permits to sources, inspecting facilities, carrying out enforcement actions, and providing public education and outreach. In addition to maintaining the fundamental and ongoing elements of their programs, State and local air agencies must, at the same time, address new and emerging problems.

RECOMMENDATION

Section 105 of the Clean Air Act authorizes the Federal Government to provide grants up to 60 percent of the cost of State and local air quality programs, while State and local agencies must provide a 40 percent match. The reality is that the Federal share represents only approximately 25 percent of the total State/local air budget, while State and local governments provide 75 percent (not including income from the Title V permit fee program).

It is estimated that the total amount spent on State and local efforts to implement the Clean Air Act is approximately \$900 million. A study that the U.S. Environmental Protection Agency (EPA) and STAPPA and ALAPCO conducted several years ago concluded that State and local programs faced a deficit of approximately \$163 million, meaning that the total needed is over \$1 billion. If EPA were to support 60 percent of that total, as the Clean Air Act envisioned, Federal grants would amount to \$600 million annually.

Unfortunately, the administration has recommended a total of \$228.6 million in fiscal year 2005 for grants to State and local air quality agencies under Sections 103 and 105 of the Clean Air Act, which is far short of the \$600 million that is needed. To make matters worse, over the past decade, Federal grants for State and local air agencies to operate their programs have decreased by 25 percent in terms of purchasing power (when adjusted for inflation).

In light of the need for a substantial increase, the budget request is insufficient to support State and local air agency efforts. However, we recognize that Congress must address many competing needs and cannot fund many activities and programs as fully as necessary. Therefore, although we believe that air pollution poses a significant threat to public health and should be among our highest priorities, we are recommending that Federal grants to State and local air quality agencies be increased by only \$100 million above the President's request in fiscal year 2005, for a total of \$328.6 million. While this will not fill the gap entirely, it will provide a much needed increase to State and local air quality efforts. Unless State and local air quality programs receive a substantially greater boost in funding, they will continue to face a serious financial shortfall, which will adversely affect their ability to protect and improve air quality. This shortfall will only become worse as greater demands are placed on their programs.

AIR POLLUTION POSES SEVERE HEALTH AND ENVIRONMENTAL RISKS

In spite of the best efforts of air quality regulators, air pollution poses a serious threat to public health and the environment. In fact, we know of no other environmental problem that presents a greater risk. It is a pervasive and universal danger—all of us breathe. We have no choice in the matter. While some of us can choose to eat certain foods or select what we drink, we have no option but to breathe the air that is in our midst.

Unfortunately, the fact is that many, if not most, people in the United States are exposed to unhealthful levels of air pollution. In this country, over 170 million tons of pollution are emitted into the air each year. An astounding 133 million people live in areas of the country that violate at least one of the six health-based National Ambient Air Quality Standards (NAAQS). Many millions are exposed to toxic air pollutants that cause cancer and other health problems. When we consider our children, who are among our most sensitive and precious populations, the bad news mounts. In 1996, all children lived in counties in which the combined estimated concentrations of hazardous air pollutants exceeded a 1-in-100,000 cancer risk benchmark; approximately 95 percent lived in counties in which at least one hazardous air pollutant exceeded the benchmark for health effects other than cancer. Between 1980 and 1995, the percentage of children with asthma doubled, to 7.5 percent, and

by 2001, 8.7 percent of all children had asthma. These figures are nothing less than shocking.

The following is greater detail about just a few types of air pollution that we face.

The first is fine particulate matter—or $PM_{2.5}$. The U.S. Environmental Protection Agency has established a new standard for $PM_{2.5}$. While the agency has not yet officially designated which areas of the country violate the standard, we know one thing: $PM_{2.5}$ poses the greatest health risk of any air pollutant, resulting in as many as 30,000 premature deaths each year. Additionally, fine particles are responsible for a variety of adverse health impacts, including aggravation of existing respiratory and cardiovascular disease, damage to lung tissue, impaired breathing and respiratory symptoms, irregular heart beat, heart attacks and lung cancer. Based on preliminary data, it appears that $PM_{2.5}$ concentrations in over 120 counties throughout the United States exceed the health-based standard.

We have faced an uphill battle against ground-level ozone, or “smog.” In spite of our efforts, levels of ozone in some parts of the country actually increased during the past 10 years, and in 33 national parks, ozone has risen by more than 4 percent. A significant factor in this trend is the increase we have experienced in nitrogen oxide (NO_x) emissions, which are not only a precursor to ozone, but also a contributor to such public health and welfare threats as acid rain, eutrophication of water bodies, regional haze and secondary $PM_{2.5}$. Over the past 20 years, NO_x emissions have increased by almost 9 percent, largely due to emissions from nonroad engines and diesel vehicles. Current data show that almost 300 counties measure exceedances of the 8-hour ozone standard.

Another concern is the serious public health threat posed nationwide by emissions of hazardous air pollutants (HAPs). According to EPA’s most recent National-Scale Air Toxics Assessment, more than 200 million people in the United States live in areas where the lifetime cancer risk from exposure to HAPs exceeds 1 in 100,000 and approximately 3 million face a lifetime cancer risk of 1 in 10,000. To put this in context, consider that EPA has established 1 in 1,000,000 as the generally acceptable level of risk. These figures demonstrate that HAP emissions are a nationwide threat. It will require a significant level of effort to reduce the risk they pose to all of us.

One HAP that is especially worrisome is mercury. Air emissions are responsible for much of the mercury that is found in fish. This is a significant problem, especially for those who rely on fish as an important part of their diets. In this country, in 1999–2000, approximately 8 percent of women of child-bearing age had at least 5.8 parts per billion of mercury in their blood (children born to women with blood concentrations above that number are at some increased risk of adverse health effects). Due to public health concerns about the consumption of mercury in contaminated fish, 45 States, territories and tribes have issued advisories to the public about elevated concentrations of mercury in the fish that is caught in their water bodies.

The magnitude of the air quality problem and the associated health effects make it clear that significantly increased funding for the control of air pollution should be a top priority.

SOURCES OF FUNDING FOR STATE AND LOCAL AIR POLLUTION CONTROL PROGRAMS

State and local air pollution control programs are funded through a variety of sources. These include State and local appropriations; the Federal permit fee program under Title V of the Clean Air Act; State and local permit and emissions fee programs and Federal grants under Sections 103 and 105 of the Clean Air Act. Section 103 traditionally funds specific monitoring efforts (e.g., particulate matter or air toxics monitoring). Section 105 supports the fundamental elements of State and local air quality efforts, including, but not limited to, the personnel needed to run the programs.

As discussed above, State and local contributions provide a disproportionate share of air budgets. Unfortunately, not only have Section 105 grants failed to equal the percentage of the total air budget that the Clean Air Act envisioned, they have actually declined by 25 percent in terms of purchasing power during the past decade, from \$224 million to \$168 million in 2003 dollars. This decrease has come at the same time that State and local responsibilities have steadily increased. We have attached to this testimony a chart that illustrates Section 105 grants from fiscal year 1993-fiscal year 2003, adjusted for inflation (based upon U.S. Department of Labor inflation statistics).

Since Federal grants to State and local air agencies have not risen commensurately with their needs, and in fact have declined in terms of purchasing power, State and local air agencies have attempted to accommodate deficiencies in their

budgets. They have tried to maximize efficiencies (i.e., working better and smarter), trim any “fat” from their budgets, disinvest programs that are not essential and raise revenues on the State and local levels. Unfortunately, even those measures are not enough to accommodate the shortfall.

Many believe, mistakenly, that the permit fee program under Title V of the Clean Air Act Amendments of 1990 was the answer to the State and local air agencies’ financial problems. Unfortunately, those revenues do not solve the funding problems for several reasons. First, the fees only support the operating permit program and must not be used for other activities. Second, fees only apply to major sources and do not cover the significant costs related to non-major sources, which include minor source permits, monitoring, enforcement, compliance assistance, etc. Third, the current fees already are substantial and there would be considerable resistance to any increases. Fourth, fee revenue is decreasing due to reductions in emissions, on which they are based. Finally, increases in costs for air quality programs (except for permit programs themselves) are not addressed by permit fee programs.

The Title V fee program, while essential to State and local efforts, is not the solution to the funding shortfall. Federal grants must be expanded to meet the significant resource requirements.

EPA/STATE/LOCAL STUDY RECOGNIZED NEED FOR FEDERAL AIR GRANT INCREASES

Several years ago, EPA, in cooperation with STAPPA and ALAPCO, conducted an intensive effort to identify the activities that are necessary for State and local agencies to carry out and estimate the amount of Section 105 grants needed. The study concluded that a total increase of approximately \$163 million over Federal grant levels would be needed for State and local air agencies to operate a good (not perfect) program in fiscal year 1999. In spite of the significant funding shortfall identified by the EPA needs assessment study, sufficient budget increases in operating programs have not been forthcoming. Furthermore, since that time, State and local responsibilities have continued to increase, only widening the funding gap.

HOW WOULD AN INCREASE BE USED?

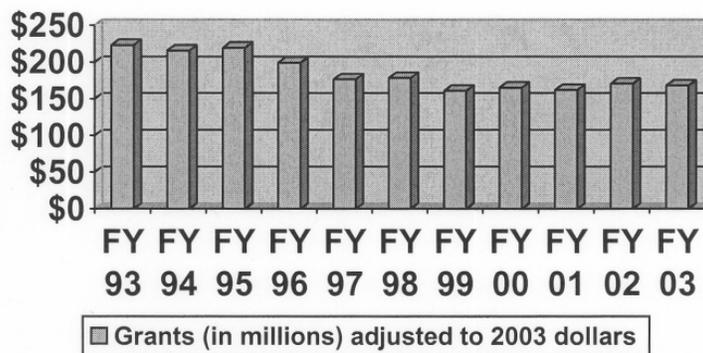
State and local air agencies have identified several high-priority activities on which they would spend increased grant funds. For example, they will be required to develop State Implementation Plans—plans to implement the 8-hour ozone standard, which is an effort that will require significant resources. This will be especially onerous for smaller agencies, including local agencies, that have very limited resources. In addition, State and local air quality agencies are facing many other responsibilities for which additional funds are needed. These include the following, among others: improve emission inventories of toxic air pollution; increase the frequency of inspections of major and minor sources; meet the various Federal and public expectations under Section 112 (air toxics); expand criteria pollutant monitoring; improve risk assessment capacity; reduce concentrations of fine particulates; increase public outreach efforts; improve small business compliance assistance; purchase replacements for equipment that has outgrown its expected usage; increase the number of air toxics monitoring locations to better characterize baseline concentrations and localized impacts; and improve modeling tools to determine emission reductions needed.

CONCLUSION

Federal grants to State and local air pollution control agencies are severely inadequate; accordingly, there are many critical activities that are not being carried out, or implemented as well as could be. Many of these activities are the foundation of the Nation’s air quality program and are, therefore, essential. Without additional Federal grants, and the flexibility to target them to the activities that are most appropriate in individual States and communities, State and local air agencies will find it increasingly difficult to obtain and maintain healthful air quality. Accordingly, we recommend an increase of \$100 million above the President’s fiscal year 2005 request for grants to State and local air quality agencies.

Thank you for this opportunity to provide our testimony. We will also supply you with a report entitled, “The Critical Funding Shortfall of State and Local Air Quality Agencies”, which we have prepared to provide additional detail about State and local air agencies’ funding difficulties. Please contact us if you have questions or require any additional information.

SECTION 105 GRANTS TO STATE AND LOCAL AIR AGENCIES



PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND
LAND-GRANT COLLEGES

On behalf of the National Association of State Universities and Land-Grant Colleges (NASULGC), thank you for your support of academic research. We appreciate the opportunity to provide recommendations for science and technology funding at NSF, EPA and NASA for fiscal year 2005.

NATIONAL SCIENCE FOUNDATION

As a member of the Coalition for National Science Funding, NASULGC supports a 15 percent increase for NSF over the fiscal year 2004 enacted level, for a total of \$6.415 billion. This increase is necessary to put NSF on the “doubling” track that Congress and the President endorsed less than 18 months ago by passing the National Science Foundation Authorization Act of 2002. We also oppose the proposed transfer of the Math-Science Partnership to the Department of Education, because it is well-run by NSF and should remain a competitive grant program rather than shifting to block grants. The current system, in which NSF’s program focuses on the modeling, testing and identification of high-quality math and science activities whereas the Department of Education focuses on their dissemination, is the most desirable and effective approach to address our nation’s math-science education needs.

Within the Research and Related Activities (R&RA) account, we would like to call your attention to three Directorates of particular interest to the environmental science community: Geosciences, Polar Programs and Biological Sciences. We ask that you provide these accounts with increases equal to the overall R&RA increase. The President’s budget proposal restricts them all to miniscule increases of approximately 1 or 2 percent. We support the President’s requested \$58.3 million increase for Major Research Equipment, Construction and Facilities, and urge you to fully fund EarthScope, the National Ecological Observatory Network, the Scientific Ocean Drilling Vessel, and the Rare Symmetry Violating Processes projects.

ENVIRONMENTAL PROTECTION AGENCY

NASULGC recommends \$790 million in fiscal year 2005 for the EPA Science and Technology account and \$10 million for the Office of Environmental Education (OEE). This amount would restore the proposed 12 percent cut in the President’s budget and provide a small increase to maintain ongoing programs. Without sound science, EPA will be unable to correctly identify and develop sound management and mitigation strategies for critical environmental problems. Cuts to EPA S&T account would result in drastic reductions in essential extramural research funded by the Office of Research and Development (ORD) and education and outreach carried out by OEE.

One of the most effective programs for improving the agency's science capabilities is the Science to Achieve Results (STAR) program. Despite the National Research Council's recent strong endorsement of STAR in its report, "The Measure of STAR," the President's budget proposes a cut of approximately 35 percent. We urge you to restore STAR funding to \$100 million for competitive grants and \$10 million for graduate fellowships. The small investment EPA ORD makes in STAR is functionally one of its most important, because STAR is not a stand-alone grants program. It is coordinated with EPA program and regional offices, and targeted at high-priority needs that support the agency's mission. The program is leveraged by the participation of other Federal agencies and the private sector, and involves thousands of research scholars in universities. These investigator-initiated research grants are significantly expanding the number of scientists conducting EPA-related research and enhancing the overall quality of EPA S&T. STAR graduate fellowships are also an excellent investment in the next generation of scientists and engineers, and provide opportunities for some of the brightest minds to develop the skills to enhance and replenish this Nation's environmental science expertise. STAR funding is a very important tool in the effort to address the future workforce needs of EPA.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

NASULGC opposes the delays in planned scientific missions and the long-term cuts to the Earth Science Enterprise (ESE) proposed in the President's budget. While we appreciate the President establishing space exploration as a priority, the shifts in funding proposed would impact a number of missions that have been carefully planned for years, in both Space and Earth Science. This change in priorities was developed over a comparatively short time with little community input. Therefore, we recommend that NASA engage the National Academy of Sciences to set the science goals of the exploration initiative and examine the impact of deferred programs, including within ESE.

The long-term decline in funding for ESE forecast in the fiscal year 2005 proposal is very distressing. ESE plays a key role in our understanding of the earth and its atmosphere, and sustainable funding for these programs should not be abandoned. The proposed cuts to Earth Science Application programs would adversely affect funding for partnerships that are turning important findings into practical applications—such as fire hazard prediction and water availability, farming and forestry, and urban and regional planning. Partnerships between NASA and the academic community provide the agency with flexibility to deal with an aging workforce and the wave of anticipated retirements. We urge you to provide, at a minimum, the fiscal year 2004 appropriated level of \$91 million for Earth Science Applications. We support the requested levels of \$141 million for the NPOESS Preparatory Project and \$99 million for the Climate Change Research Initiative.

ABOUT NASULGC

NASULGC is the Nation's oldest higher education association. Currently the association has over 200 member institutions—including the historically black land-grant institutions—located in all 50 States. The Association's overriding mission is to support high quality public education through efforts that enhance the capacity of member institutions to perform their traditional teaching, research, and public service roles.

Thank you for the opportunity to share our views with the committee.

PREPARED STATEMENT OF THE NATIONAL COALITION FOR HOMELESS VETERANS

The National Coalition for Homeless Veterans appreciates the opportunity to submit recommendations on fiscal year 2005 appropriations for and program management issues related to the U.S. Department of Veterans Affairs (VA), U.S. Department of Housing and Urban Development (HUD), and U.S. Interagency Council on Homelessness (ICH).

The National Coalition for Homeless Veterans (NCHV), established in 1990, is a nonprofit organization with the mission of ending homelessness among veterans by shaping public policy, promoting collaboration, and building the capacity of service providers. NCHV's nearly 250 member organizations in 42 States and the District of Columbia provide housing and supportive services to homeless veterans and their families, such as street outreach, drop-in centers, emergency shelter, transitional housing, permanent housing, recuperative care, hospice care, food and clothing, primary health care, addiction and mental health services, employment supports, educational assistance, legal aid and benefit advocacy.

The VA estimates that more than 299,000 veterans are homeless on any given night; more than 500,000 experience homelessness over the course of a year. Conservatively, 1 of every 3 homeless adult males sleeping in a doorway, alley, box, car, barn or other location not fit for human habitation in our urban, suburban, and rural communities has served our Nation in the Armed Forces. Homeless veterans are mostly males (2 percent are females). Fifty-four percent are people of color. The vast majority are single, although service providers are reporting an increased number of veterans with children seeking their assistance. Forty-five percent have a mental illness. Fifty percent have an addiction.

America's homeless veterans have served in World War II, Korea, the Cold War, Vietnam, Grenada, Panama, Lebanon, anti-drug cultivation efforts in South America, Afghanistan, and Iraq. Forty-seven percent of homeless veterans served during the Vietnam Era. More than 67 percent served our Nation for at least 3 years and 33 percent were stationed in a war zone.

Male veterans are twice as likely to become homeless as their non-veteran counterparts, and female veterans are about four times as likely to become homeless as their non-veteran counterparts. Like their non-veteran counterparts, veterans are at high risk of homelessness due to extremely low or no income, dismal living conditions in cheap hotels or in overcrowded or substandard housing, and lack of access to health care. In addition to these shared factors, a large number of at-risk veterans live with post traumatic stress disorders and addictions acquired during or exacerbated by their military service. In addition, their family and social networks are fractured due to lengthy periods away from their communities of origin. These problems are directly traceable to their experience in military service or to their return to civilian society without appropriate transitional supports.

Contrary to the perceptions that our Nation's veterans are well-supported, in fact many go without the services they require and are eligible to receive. One-and-a-half million veterans have incomes that fall below the Federal poverty level. Neither the VA, State or county departments of veteran affairs, nor community-based and faith-based service providers are adequately resourced to respond to these veterans' health, housing, and supportive services needs. For example, the VA reports that its homeless treatment and community-based assistance network serves 100,000 veterans annually. With an estimated 500,000 veterans experiencing homelessness at some time during a year and the VA reaching only 20 percent of those in need, 400,000 veterans remain without services from the department responsible for supporting them. Likewise, other Federal, State, and local public agencies—notably housing and health departments—are not adequately responding to the housing, health care and supportive services needs of veterans. Indeed, it appears that veterans fail to register as a target group for these agencies.

We urge Congress to make a public commitment and take immediate action to ensure access to housing, income, and health security for those who have nobly served our Nation.

VETERANS AFFAIRS APPROPRIATIONS AND PROGRAM MANAGEMENT RECOMMENDATIONS

Appropriations for VA Homeless Programs.—The landmark Homeless Veterans Comprehensive Assistance Act of 2001 (Public Law 107–95) establishes new program authorities and reauthorizes long-standing homeless programs within the VA. While the authorization law set explicit funding levels for many of the VA homeless programs and authorities, actual annual spending levels are set by the VA Secretary via allocation of funds from the VA health care account, which are appropriated by Congress.

We are extremely disappointed that the VA, in the three budget cycles since passage of Public Law 107–95, has neither implemented each of its provisions nor allocated funds from the VA health care account to the Department's homeless programs at the levels authorized in the statute.

Accordingly, we request the subcommittee to ensure that sufficient funds are included in the fiscal year 2005 VA budget for the Department's homeless programs. Further we urge the subcommittee to include specific instructions in bill language or report language (as appropriate) directing the Secretary to allocate specific funding amounts from the VA appropriation to the following VA homeless programs:

- \$75 million for the Homeless Provider Grant and Per Diem program, the fiscal year 2005 level authorized by Public Law 107–95. The GPD program provides competitive grants to community-based, faith-based, and public organizations to offer transitional housing or service centers for homeless veterans.
- \$45 million for the Health Care for Homeless Veterans (HCHV) program. This level of funding would enable VA to continue to support 134 existing HCHV

- teams across the country that provide targeted outreach, medical treatment, and referral services to homeless veterans.
- \$51 million for the Domiciliary Care for Homeless Veterans (DCHV) program. This level of funding would enable VA to continue to support 35 existing DCHVs across the country that provide residential rehabilitation supports to homeless veterans.
 - \$10 million for the purpose of expanding domiciliary care capacity (either directly or via contract with nonprofit homeless veteran service providers), the total level authorized for DCHV expansion in fiscal year 2003 and fiscal year 2004. VA did not exercise this authority in either fiscal year.
 - \$10 million for Compensated Work Therapy and CWT/Therapeutic Residences. This level of funding would enable VA to continue to support existing CWT and CWT/TR activities.
 - \$6 million for the VA staffing component of the HUD-VASH program. Under this program VA disburses Housing Choice Vouchers and provides case management services to 1,780 chronically homeless veterans.
 - \$5 million for a demonstration grant program for homeless veterans with special needs, the fiscal year 2005 level authorized by Public Law 107-95.
 - \$6 million to establish dental care services for certain homeless veterans, as authorized by Public Law 107-95. The CBO estimate that accompanied Public Law 107-95 estimated this provision to cost \$6 million annually. VA implementation of this authority has been mixed.
 - \$750,000 for technical assistance grants for nonprofit community-based groups, the fiscal year 2005 level authorized by Public Law 107-95.
 - \$500 million increase over the fiscal year 2004 level of VA spending on mental health and substance abuse care, in part to implement provisions of Public Law 107-95 requiring the VA to ensure that each primary care facility of the Department develops and carries out plans to provide mental health services and substance abuse services.
 - \$27 million for additional comprehensive homeless service centers, as authorized in Public Law 107-95. The CBO estimate that accompanied Public Law 107-95 estimated this provision to cost \$27 million annually.

Of the programs and authorities above, we call special attention to our recommendations for the Homeless Provider Grant and Per Diem program and the Homeless Veteran Service Provider Technical Assistance program, as these are most germane to the community-based, faith-based, and local public organizations we represent.

The Homeless Provider Grant and Per Diem Program provides competitive grants to community-based, faith-based, and public organizations to offer transitional housing or service centers for homeless veterans. The GPD program is an essential component of the VA's continuum of care for homeless veterans, assuring the availability of social services, employment supports, and direct treatment or referral to medical treatment. VA reports that in fiscal year 2002, GPD grantees provided 11,013 "episodes of care" at an average 85 days length of stay per episode—and at an average cost of only \$1,674 per episode. Using this figure, an increase of the GPD allocation from its current \$70 million to its full authorized level would enable VA to provide a bridge from homelessness to long-term rehabilitation or permanent housing for 3,345 more homeless veterans. We urge the subcommittee to include report language with the fiscal year 2005 VA-HUD appropriations measure urging the Secretary to allocate VA appropriations to the GPD program at the \$75 million authorized level.

The Homeless Veteran Service Provider Technical Assistance Program makes competitive grants to organizations with expertise in preparing grant applications to provide technical assistance to nonprofit community-based and faith-based groups with experience in providing assistance to homeless veterans in order to assist such groups in applying for homeless veterans grants and other grants addressing problems of homeless veterans. Community-based and faith-based organizations serving homeless veterans rely on a complex set of funding and service delivery streams with multiple agencies in order to assemble comprehensive housing and supportive services. These providers face a capacity gap around managing this complexity. We are proud to have successfully competed for funding under this program. We believe we have been effective stewards of the TA funds and look forward to participating in future competitions. We urge the subcommittee to include report language with the fiscal year 2005 VA-HUD appropriations measure urging the Secretary to allocate VA appropriations to the homeless veteran service provider TA program at the \$750,000 authorized level.

Capital Asset Realignment (CARES).—We are committed to assisting the men and women who have served our Nation in the military in accessing adequate nutrition,

decent shelter, safe, affordable, and permanent housing, health care, and employment assistance or income supports. With that goal in mind, we work to ensure that organizations, agencies, and groups desiring to assist veterans with these most fundamental human needs secure the public and private resources, including capital assets, necessary to provide opportunities and supports to them. Hence we were and remain quite active in participating in the VA's Capital Asset Realignment for Enhanced Services (CARES) process.

With an estimated 500,000 veterans homeless at some time during a year and the VA reaching only 20 percent of those in need, 400,000 veterans remain without services from the department responsible for supporting them. In the mean time, numerous VA properties sit vacant or underutilized. We had hoped that the CARES process would have been the moment when homeless veteran needs could be finally aligned with VA property availability, thus making a major stride toward ending homelessness for our Nation's veterans. In particular, we had hoped that the process would have elicited from the VA a commitment to fully implement the McKinney-Vento Title V (surplus property) program. Sadly, the Draft National CARES plan submitted by the Department to the CARES Commission failed to articulate a coherent national plan to deploy its capital assets to maximize housing and supportive services opportunities for homeless veterans, and further, neglected to even reference the McKinney-Vento Title V program.

We are pleased that the Commission surfaced our concern in its final report to the Secretary. The Commission recommended that "any study involving excess or surplus property should consider all options for divestiture, including outright sale, transfer to another public entity, and a reformed EUL process. VA should also consider using vacant space to provide supportive services to homeless veterans" (p. 3–33).

While the Commission recommends a helpful first step, we are urging the Department to be even more vigorous in ensuring that vacant or underutilized VA properties are first made available to organizations serving those in greatest need rather than continuing to gather dust or being converted to commercial purposes. We urge the subcommittee to include report language with the fiscal year 2005 VA–HUD appropriations measure urging the Secretary to take the following actions with regard to management of capital assets:

- issue a Department-wide directive that articulates that surplus, excess, unutilized or underutilized VA properties shall first be made available on a no-cost or lowest-cost basis to nonprofit or public organizations responding to the human needs of veterans (and low-income persons in general secondarily), with a preference for organizations experienced in serving homeless veterans;
- establish as a Departmental goal the establishment of at least 50,000 additional supportive housing units for homeless veterans on VA property and instruct VISNs to develop concrete action plans for reaching this goal;
- instruct VISNs to identify and advertise properties currently or potentially suitable and available for disposition under the McKinney-Vento Title V program;
- instruct VISNs to use the Title V criteria for determining suitability for homeless uses when conducting these property assessments; and
- take action to ensure the Department's full compliance with the Title V program; prepare an analysis of VA property acquisition and disposition statutes, regulations, and policy guidance and their intersection with the Title V program; and recommend or adopt any changes needed in order for the VA to fully participate in the Title V program.

HUD APPROPRIATIONS AND PROGRAM MANAGEMENT RECOMMENDATIONS

Appropriations for HUD–VASH.—The Housing and Urban Development-Veterans Affairs Supportive Housing (HUD–VASH) program provides permanent housing subsidies and case management services to homeless veterans with mental and addictive disorders. VA screens homeless veterans for program eligibility and provides case management services to enrollees. HUD allocates rental subsidies from its Housing Choice Voucher program to the VA, which then distributes them to the enrollees. Rigorous evaluation of the program conducted by the VA's Northeast Program Evaluation Center (NEPEC) indicates that HUD–VASH significantly reduces days of homelessness for veterans plagued by mental and addictive disorders. HUD currently allocates 1,780 housing choice vouchers under this program.

The Homeless Veterans Comprehensive Assistance Act of 2001 (Public Law 107–95) authorizes HUD to allocate 500 additional HUD–VASH vouchers to VA in each of fiscal year 2003 through fiscal year 2006. Congress authorized the additional vouchers because those currently in circulation have been fully utilized by formerly homeless veterans, and only a small number become available each year to veterans

who are now ready to resume living in the community. Inexplicably, HUD has not requested funding for additional HUD-VASH vouchers in any of its past three budget submissions to Congress. This failure is particularly perplexing given that the administration, with Congressional support, has made a commitment to ending chronic homelessness. Yet, the HUD-VASH program, which addresses the very population addressed by the chronic homeless initiative, remains frozen.

We urge the subcommittee to include in the fiscal year 2005 HUD appropriation at least \$13.5 million explicitly for the HUD-VASH program. This level of funding assumes an average annual cost per voucher of \$7,000 and would sustain the current 1,780 HUD-VASH vouchers in circulation, fill the backlog of 1000 additional authorized vouchers that were not put into circulation in fiscal year 2003 and fiscal year 2004, and fund 500 additional HUD-VASH vouchers authorized for fiscal year 2005.

Appropriations for HUD McKinney-Vento Programs.—HUD McKinney-Vento programs (Emergency Shelter Grant, Supportive Housing, Shelter Plus Care, and Section 8 Moderate Rehabilitation Single Room Occupancy for Homeless Individuals) provide access to emergency shelter, transitional and permanent housing, and support services for homeless people across the Nation. From a veteran perspective, HUD McKinney-Vento programs are especially important for financing housing and services that the VA itself is not authorized to offer (e.g., emergency shelter, permanent housing), services that VA is not authorized to delegate to nonprofit organizations (e.g., case management services), and health and supportive services to homeless veterans who live far from VA medical centers or outside the range of VA homeless outreach teams. We urge the subcommittee to include at least \$1.8 billion for HUD McKinney-Vento programs in fiscal year 2005 VA-HUD appropriations legislation. In addition, we support the administration's request for the Samaritan Initiative, which includes a \$50 million component for HUD and a \$10 million component for VA.

HUD McKinney-Vento Program Management.—HUD McKinney-Vento programs are the largest source of Federal funding for emergency shelter, transitional and permanent housing, and support services for homeless people. Despite comprising between one-quarter and one-third of the homeless adult population overall, homeless veterans do not receive nearly that proportion of McKinney-Vento resources. Homeless veterans are inadequately served by many general homeless assistance organizations because such agencies fail to identify veterans as they enter their programs and thus do not know to refer them to VA programs for which they may eligible or to homeless veteran service providers with specialized expertise. In addition, some regional and local homeless assistance planning bodies are not permitting homeless veteran service providers or VA representatives to participate meaningfully in their planning and priority setting processes. Our efforts to persuade HUD to take action to ensure fairness in the allocation of resources for and focused attention to veterans experiencing homelessness have fallen on deaf ears. We urge the subcommittee to include report language with the fiscal year 2005 appropriations measure urging the Secretary to issue HUD McKinney-Vento application or program guidance as follows:

- require applicants for HUD McKinney-Vento homeless assistance funds to develop specific plans for housing and services to homeless veterans. The veteran plans should inventory existing and proposed targeted homeless veteran programs in the service area; identify the unique housing and services needs of homeless veterans in the service area; outline a strategy for addressing services gaps; address how homeless assistance providers will screen housing and services users for military service experience; and describe processes for referring homeless veterans to VA or nonprofit homeless veteran service providers in the service area (if any exist).
- require collaboration between continua of care established for the purpose of competing for HUD McKinney-Vento homeless assistance funds and Community Homelessness Assessment, Local Education, and Networking Groups (CHALENGs) established by VA medical centers for the purpose of identifying and addressing unique needs of homeless veterans in their service areas.
- require that continua of care established for the purpose of competing for HUD McKinney-Vento homeless assistance funds include at least one homeless veteran service provider, at least one homeless veteran, and representatives of the VA medical center(s) and Veterans Benefit Administration regional offices within the service area of the continuum.

Housing Assistance for Low-Income Veterans.—While the Federal Government makes a sizeable investment in homeownership opportunities for veterans, there is no parallel national rental housing assistance program targeted to low-income veterans. Veterans are not well-served through existing housing assistance programs

due to their program designs. Low-income veterans in and of themselves are not a priority population for subsidized housing assistance. And HUD devotes minimal attention to the housing needs of low-income veterans, as exemplified by the long-standing vacancy in the position of special assistant for veterans programs within the Office of Community Planning and Development. It is imperative that Congress elevate national attention to the housing assistance needs of our Nation's low-income veterans. We urge the subcommittee to include report language with the fiscal year 2005 VA–HUD appropriations measure instructing the Secretary to:

- conduct a quantitative and qualitative study of a representative sample of low-income veterans to determine the extent of housing insecurity among this population, including their barriers to rental housing assistance and homeownership and their past or current homelessness or risk for future homelessness.
- amend the guidelines for public housing authority plans for public housing and Section 8 and consolidated plans to include veterans sections. The new sections should identify veteran housing needs, priority veteran housing needs, and articulate a veteran housing strategy. In addition, the guidelines should instruct jurisdictions to include veterans, veterans service organizations, homeless veteran service providers, and VA representatives in the public participation processes used to develop the plans.
- develop a guide for assisting low-income veterans in accessing Federal, State, and local housing assistance resources and services.
- develop a guide for assisting veterans service organizations and homeless veteran service providers in accessing Federal, State, and local housing assistance funds and housing and community development planning processes.
- fill the vacancy in the Special Assistant for Veterans Programs position within the Office of Community Planning and Development.

ICH APPROPRIATIONS AND PROGRAM MANAGEMENT RECOMMENDATIONS

We are pleased that the Secretary of Veterans Affairs will assume the position of Chair of the U.S. Interagency Council on Homelessness in April 2004. This occasion provides a tremendous opportunity for the Federal Government to focus on the needs of homeless veterans that are best met through agencies other than the VA itself. We have urged the VA Secretary to use his position as ICH Chair to focus on the following interagency efforts: prevent future homelessness of separating service members (DOD, DOL, VA), ensure the housing security of low-income veterans (HUD, Ag), ensure homeless veteran and veteran service provider access to mainstream programs and funding streams (DOL, HHS, HUD); and deploy excess and surplus Federal capital assets to best address the needs of homeless persons (DOD, VA, GSA, HUD, HHS). We urge the subcommittee to include report language with its fiscal year 2005 appropriation measure urging ICH to declare its 2004–2005 operating cycle as the “year for homeless veterans” and charging ICH to address homelessness prevention among separating service members, housing security of low-income veterans, veteran and veteran service provider access to mainstream resources and services, and government-wide capital asset management. In addition, we urge the subcommittee to include \$1.5 million for ICH as requested by the administration.

CONCLUSION

The National Coalition for Homeless Veterans appreciates the opportunity to submit recommendations to Congress regarding the resources and activities of HUD, VA, and ICH. We look forward to continuing to work with the Appropriations Committee in ensuring that our Federal Government does everything within its grasp to prevent and end homelessness among our Nation's veterans. They have served our Nation well. It is beyond time for us to repay the debt.

PREPARED STATEMENT OF THE SAVE AMERICORPS COALITION

As members of the Save AmeriCorps Coalition, we are writing to urge you to support the President's fiscal year 2005 funding request of \$452 million for AmeriCorps grants and the National Service Trust. We very much appreciate the increase in funding that you provided last year. This year's request reflects a 2 percent increase over last year's funding level. These funds are critical if AmeriCorps is to continue to strengthen and renew our communities through service, and achieve the goal of having 75,000 AmeriCorps members this year.

In his 2002 State of the Union address, President Bush called upon “every American to commit at least 2 years . . . to the service of your neighbors and your Na-

tion.” Community based organizations and national nonprofit organizations responded to the President’s call. They reported large increases in the number of people wanting to serve their communities through AmeriCorps programs across the Nation.

AmeriCorps members serve with more than 2,100 local and State nonprofit organizations, public agencies, and faith-based organizations funded through State commissions as well as with national nonprofit AmeriCorps programs including Teach for America, the National Association of Community Health Centers, the Red Cross, Habitat for Humanity, City Year, and Public Allies, the National Association of Service and Conservation Corps, and Jumpstart.

AmeriCorps members teach in underserved schools, tutor and mentor youth, build affordable housing, provide public health services, prevent forest fires and do disaster relief, run after-school programs, and help communities respond to disasters. Hundreds of AmeriCorps State programs clean rivers and streams, enrich after school programs, support local law enforcement, deliver services to the elderly, and meet other needs defined by the communities they serve. Since September 11, the AmeriCorps program has expanded its work in public safety, public health and disaster relief to assist in homeland security.

During the funding debate last year, virtually every governor, more than 150 mayors, hundreds of university presidents, and corporate and civic leaders publicly recognized the good that AmeriCorps has accomplished since its creation 10 years ago. More than 100 editorials provided ample evidence of how AmeriCorps members improved their communities.

This overwhelming bipartisan support reinforced support for the programs. Because of your efforts last year, local communities throughout the Nation will continue to be served by as many as 75,000 AmeriCorps members. To sustain this level of service, we urge you to fund AmeriCorps at the level proposed by President Bush in his fiscal year 2005 budget.

This year the Corporation for National and Community Service has embarked on a rulemaking process that could affect the future of AmeriCorps as much as any substantial reduction in funding. The Coalition has submitted a series of recommendations to the Corporation that we believe can make AmeriCorps stronger, more efficient, and more responsive. A summary of that statement follows. We have attached the entire submission for the Record.

RECOMMENDATIONS FOR RENEWING AMERICORPS—AND DELIVERING ON PRESIDENT
BUSH’S NATIONAL CALL TO SERVICE THROUGH AMERICORPS

In response to the questions raised in the Notice Inviting Preliminary Public Input in Advance of Rulemaking, which appeared in the Federal Register on March 4, 2004, the Save AmeriCorps Coalition has prepared recommendations based on the following principles:

- Affirm the intentions of the National and Community Service Trust Act of 1993 with regard to the purpose, quality and sustainability of AmeriCorps programs;
- Support the role of Governors and States to decide what is best for their communities;
- Promote competition and reward quality;
- Encourage innovation, entrepreneurship and replication of successful programs;
- Protect and strengthen the public-private partnership that is the hallmark of AmeriCorps; and
- Build-up and improve the national service infrastructure based on 14 years of experience.

New rules should support the intent of Congress as reflected in the National and Community Service Act of 1990, later amended in 1993, and should build on what we have learned over the last 14 years about what works. We believe that the law must serve as a point of reference in considering any reforms to AmeriCorps. We are concerned that some of the proposals, especially those related to sustainability, reflect neither the spirit nor the letter of the enacted legislation and are being considered without hearings or review by the authorizing committees in the Senate and the House.

In the National and Community Service Trust Act of 1990, as amended in 1993, Congress set the following goals for AmeriCorps:

- “To meet the unmet human, educational, environmental and public safety needs of the United States;
- “To renew the ethic of civic responsibility and the spirit of community throughout the United States;

- “To expand educational opportunity by rewarding individuals who participate in national service with an increased ability to pursue higher education or job training;
- “To encourage citizens of the United States, regardless of age, income, or disability, to engage in full-time or part-time national service;
- “To reinvent government to eliminate duplication, support locally established initiatives, require measurable goals for performance, and offer flexibility in meeting those goals;
- “To expand and strengthen existing service programs with demonstrated experience in providing structured service opportunities with visible benefits to the participants and community;
- “To build on the existing organizational service infrastructure of Federal, State and local programs and agencies to expand full-time and part-time service opportunities for all citizens; and
- “To provide tangible benefits to the communities in which national service is performed.” Sec. 2. [42 U.S.C. 12501].

We are confident that by working together we can succeed in strengthening, rather than weakening, the national service field through rulemaking. It is in this spirit that we offer the following recommendations:

- We support a definition of sustainability that reflects the language in the original law and includes strong and broad based community support.*—New rules should affirm the definition of sustainability—which includes “strong and broad based community support” as a criterion—in the 1993 amendment to the National and Community Service Act of 1990. Demonstration of such support may include but not be limited to: partnerships at the local level; volunteers serving with, and supported by, AmeriCorps members; endorsement from public officials; funding diversification; etc. Several of the rulemaking proposals being considered with regard to sustainability including time limits and reducing the Federal share of the cost per member are not consistent with current law. The National and Community Service Trust Act of 1993 defines sustainability as “evidence of the existence of (A) strong and broad-based community support for the programs; and (B) multiple funding sources or private funding for the program.” We strongly support this definition of sustainability and oppose any definition that eliminates strong and broad-based community support as a criterion or that suggests that sustainability should mean operating AmeriCorps programs with declining levels of Federal support. Congressional authorizers wisely understood that sustainability involves more than financial support and is critical to the sustainability and success of AmeriCorps programs.
- Time limits on program participation in AmeriCorps would decrease sustainability, stifle competition, and discourage private investment.*—Time limits contradict the original legislative intent to invest in quality programs that meet community needs.
 - (A) Time limits go against the fundamental, American idea of competition.*—CNCS should fund quality programs that offer the best return on taxpayer dollars by ensuring that competition for funding is in no way limited or restricted by time or amount. Evidence indicates that competition is bringing new programs into AmeriCorps. A recent survey conducted by America’s Service Commissions, reported that 90 percent of the AmeriCorps portfolio has turned over since the first funding cycle. (Only 64 of over 800 current AmeriCorps State grantees have been funded since 1994). Of the 40+ national nonprofit grantees, only a handful received their first funding in 1994. Competition has ensured a dynamic “marketplace” for AmeriCorps funding.
 - (B) Time limits would lead to a decrease in sustainability.*—The presumption that in order to increase a grantee’s sustainability, the Corporation’s support for a program or project should decrease over time contradicts the original legislation, which seeks to, “expand and strengthen existing service programs with demonstrated experience in providing structured service opportunities with visible benefits to participants and the community.” Gradual reductions in program funding would disinvest in programs that are meeting the sustainability objectives as defined in current law.
 - (C) When Federal funding is cut over time, private sector funding disappears—killing AmeriCorps’ hallmark of a public-private partnership that works.*—Many private sector funders contribute to AmeriCorps because they know their funding is leveraged through public sector support. Some private funders would withdraw support if CNCS funding was no longer available, as demonstrated by a decrease in private sector support for some AmeriCorps programs in 2003–2004, when Federal AmeriCorps funding was cut. Rather

than promoting sustainability, setting time limits decrease sustainability and result in the closure of some programs.

—*States know best.*—The Corporation should support the spirit and practice of devolution and allow governors, State commissions, and parent organizations—which best understand local need and capacity—the maximum flexibility to manage for sustainability and inform national guidelines set by the Corporation. Specific calibrations should be managed by State commissions, as well as national directs who should be held to the same standards as these commissions. States must be given maximum flexibility to ensure quality, accountability, and effectiveness, including the ability to devise matching requirements with aggregate percentages as a goal. State commissions are best able to determine how to balance their State-wide portfolio between programs struggling to meet match requirements with those that can overmatch, thus effectively sharing resources throughout their diverse regions.

The Corporation should also devise rules that recognize that certain regions of the country, including many low-income, minority, and rural communities, lack private sector funders to offset program costs. A “one-size-fits-all” match—particularly a large non-Federal match—would pose such a hardship that the communities that most need AmeriCorps services would almost certainly lose them. Community members could no longer serve to improve their own communities.

—*AmeriCorps is a public-private partnership that works—but is easily destroyed by abandoning Federal investment.*—It is imperative that the Corporation not abandon the public-private partnership by dramatically scaling back Federal support over time. Private sector partners insist that one of their primary motivations for investing in specific AmeriCorps programs is that the public-private partnership enables all parties to leverage their investments. AmeriCorps program directors continually stress that Federal funds attract private dollars. There is no evidence that shows the private sector is either willing or able to absorb the Federal Government’s share in the AmeriCorps partnership. Congress never intended that non-Federal sources would pick up the lion’s share of AmeriCorps costs. It is essential that CNCS accurately count all private sector investment in AmeriCorps. Currently, the Corporation only requires organizations to report on funding raised to meet the required match, and additional leverage is not accounted for. Only by full accounting of all contributions to AmeriCorps can the Corporation have a true understanding of how Federal investment is leveraged.

—*Use AmeriCorps members as tools to build capacity.*—One way to increase sustainability is to allow AmeriCorps members to perform the same capacity building activities that VISTA members do, including raising funds to support programs and services. We propose that AmeriCorps members be permitted to enhance their program’s sustainability—and develop new skills—by allowing them to participate in the same capacity-building activities as AmeriCorps*VISTA members. We support extending these long-standing authorities to all AmeriCorps members, without making them the exclusive focus of the program.

—*AmeriCorps is highly cost-effective when compared to other successful service providers.*—The Corporation should revert to the fiscal year 2003 cost per member of \$12,800 and should adjust for inflation thereafter. The Federal share of the cost per member has already declined in real terms over the past decade. In 7 years, the cost per FTE has increased only 9 percent (from a low of \$11,250 in 1998 to \$12,400 in 2004) while the mandatory minimum living allowance has been cost-of-living-adjusted by 18 percent in the same time frame (from \$8,340 in 1998 to \$10,200 in 2004). This means that increasing percentages of program operating costs have been absorbed by private and other public sector funders. In 2004, the minimum living allowance has been increased while the cost per member was decreased, resulting in a \$700 per member cut to programs. Furthermore, mandated health insurance costs have risen by over 100 percent while the average cost per member grew by only 3 percent. The net result is that programs are being starved of operating dollars. Such changes are so destabilizing that some programs have already closed.

—*To leverage non-Federal funds, the Coalition supports increasing the match requirement for program costs from the statutory set level of 25 percent to 33 percent.*—Programs, especially those in rural and poor urban areas, already find it difficult to secure private sector support. The Coalition would nonetheless support increasing the match requirement from the 25 percent supported by the statute to 33 percent, provided governors, States and parent organizations have maximum flexibility to meet or exceed match requirements in the aggregate. Programs have already exceeded the statutory requirement of 25 percent by

meeting a 33 percent match for program operating costs over the last several years. Further increases to the match requirement would penalize programs for success and limit the number of new applicants who can afford to participate in AmeriCorps, especially those in areas where resources are scarce. Instead, the Corporation should create incentives to capture the true extent to which AmeriCorps programs are leveraging resources.

—*Challenge grants promote competition and leverage private funds.*—We agree with the goal of trying to stimulate private sector investment through incentives, such as challenge grants. The Corporation's challenge grant fund should be increased to \$50 million. The National and Community Service Trust Act allowed for Federal challenge grants. We understand that the response was an overwhelming. We suggest that the Corporation provide incentives to programs by expanding the challenge grant program.

—*More efficiency and less administrative burden from the Corporation will make programs more sustainable.*—The Corporation should devise strategies for reducing the administrative burden on new programs and give States more flexibility to manage match requirements across portfolios. CNCS should disaggregate planning grants from a State's costs per FTE, and/or ensuring that States annually receive a fixed number of Education Award Only slots that they may award after a local competitive process. These two strategies will specifically benefit new grantees and will prepare them for managing larger grants and programs. New grantees require extensive training and oversight. Their expense inflates the average cost per member, and actually deters States from awarding planning grants and discourages them from bringing new programs into the AmeriCorps portfolio. State commissions report that a year of planning is advisable prior to program implementation. States should be offered a set number of EAO slots by formula allocation to allow them to gradually start new programs, bring down their average cost per member and use the remainder where it is most needed.

—*Healthcare and childcare are essential to ensuring that all Americans can serve their country.*—The Corporation should maintain the current statutory requirements for the Federal share of health costs and childcare costs to preserve equal access to AmeriCorps for all Americans. Healthcare and childcare are critical to ensuring that all Americans, regardless of income level, have the opportunity to participate in AmeriCorps. Means testing would add a significant administrative burden and expense to programs stretched thin by complex requirements. In addition, AmeriCorps members that have no other means of support would not be able to afford health coverage on the subsistence level living allowance they receive in exchange for a year of full-time service.

If childcare benefits are reduced, it is likely that low-income parents would not be able to participate in AmeriCorps. This kind of rule change would have a dramatic impact on areas like rural Mississippi, an economically depressed area where the Delta Reading Corps is composed almost exclusively of young single mothers. Members must already demonstrate that they are income eligible and have children under 13 to receive the childcare benefit and reimbursement rates are based on State parameters.

Participation in AmeriCorps should not be denied to citizens from low-income communities. AmeriCorps programs offer many disadvantaged young people the chance to develop employment and leadership skills and further their education. Therefore, rules should ensure that AmeriCorps programs allow the largest number of individuals from diverse backgrounds to serve; in particular, youth who are low-income and/or out of school. Rules should be sensitive to the fact that programs whose enrollment focus is on low-income, out of school, and minority young people are likely to have challenges in certain areas including recruitment and retention of members.

—*Programs depend on the Federal contribution to member living allowance.*—The Corporation should maintain the current statutory requirements for the Federal share of the living allowance at 85 percent, which is already burdensome for many programs. The match share of the living allowance must be provided in cash and from non-Federal sources. Many programs, particularly new programs, those in rural or poor areas, stand alone national service programs and those operating within small nonprofit organizations, rely on in-kind donations to meet match obligations and raising a cash match is already a struggle.

—*The Corporation should strengthen and simplify performance measurement.*—The current performance measurement system is burdensome, confusing and time consuming and does not allow the Corporation to make most effective use of the data it collects. The Corporation should develop a standardized list of outcomes and benchmarks for which they want to collect data, and require grant-

ees to report on those that are applicable to their program's mission and model. Performance measures are critical and grantees should be held accountable, but the process needs a more realistic timeframe and simplified directions. The Corporation should design aggregated performance measurement tools for the field and provide grantees with relevant training and technical assistance. It should design separate performance measures for intermediary organizations to ensure that appropriate outcomes are designated without additional administrative burden. In addition, the Coalition urges the Corporation to require end outcomes within a more realistic and useful time frame instead of during the first year of a grant. We recommend creating standard performance measures to aggregate data in the areas of civic education and volunteer generation to eliminate time-consuming guesswork for programs. We also recommend that the Corporation allow more flexibility in WBRs reporting.

—*The “No-Refill” Rule hurts communities and schools that depend on AmeriCorps members.*—The Corporation should allow States and programs to refill AmeriCorps positions following attrition of members or to re-budget between categories. In the current system, programs cannot re-budget unused stipends and benefits or recruit or enroll new members to fill the slots left open by attrition. This rule undermines commitments to communities and schools. Programs are faced with an even larger burden as they must raise additional dollars to cover fixed costs, such as staff and administration. Because attrition is a natural and expected occurrence for every program, organizations are guaranteed a revenue shortfall by the end of the year. Administrative funds, capped at 5 percent, are also reduced proportionately to what is recovered. True costs are never captured. The inability to provide a contracted number of members to a site may mean that match funding from the site will dry up. This can put small programs out of business. According to a recent GAO survey, 80 percent of programs surveyed commented that the no-refill rule will have a generally or very negative effect on their program (Management of AmeriCorps and the National Service Trust, January 2004, pp. 25–26).

This regulation devised in response to a crisis, has had clear, unfortunate, and unintended consequences. Refilling slots has been the practice in the past, with an historic usage rate of 75 percent. Flexibility to refill will therefore produce good results for programs and communities and will not cause a surplus to accumulate in the Trust.

—*Education Award Only slots should be a tool for State flexibility and cost-effectiveness.*—A maximum of 40 percent of the AmeriCorps portfolio should be allocated to Education Award Only programs, allowing States to reduce cost per member, and be responsive to both local resources and local needs. The Education Award Only Program was introduced in 1998 to engage more citizens in service and to lower the average cost per member. State commissions should have the flexibility to award Education Award Only slots to ensure that the overall portfolio cost per member is within the prescribed maximum and that programs that need funding or provide more comprehensive service have the funding they need. This allows for wide variation in geographic location, market analysis and funding capacity.

—*Properly trained corps members from all educational levels and backgrounds can be successful tutors and mentors.*—Paraprofessional requirements for tutoring programs will unnecessarily reduce the number of opportunities to serve and limit the number of citizens who can give back to their communities. The Corporation should focus on the quality, frequency and effectiveness of member training and performance measurement rather than imposing paraprofessional requirements on individual members. AmeriCorps members—senior citizens as well as young people—make excellent and effective tutors for children and youth. In addition to tutoring young people, these members offer a consistent presence for children and often serve as informal mentors to their tutees. An independent evaluation of Experience Corps, a program that engages Americans over the age of 55 in vital public and community service, showed that 69 percent of students that were tutored by Experience Corps members, who receive rigorous training but are not required to be paraprofessionals, improved by at least one grade level. The Corporation should not require that every member be a high school graduate or have earned a GED because this may disqualify people who have the capacity to be successful tutors.

—*To improve efficiency and effectiveness, grant cycles should match needs of programs and the Corporation.*—To accommodate the large number of programs that serve in schools, the Corporation should adjust the timing of the grants cycle to a full year between the date of the RFP and the date of the grant award, from June to June. The Corporation should award grants no later than

June 1 so that members may be recruited on or very near that date and enrolled. CNCS should clarify that members are allowed to be enrolled as of the award notification date, not the contract execution date. The current time frame does not work for programs with a July 1 start date, who need to recruit members to begin service at the start of the school year. Currently the Corporation requires grantees to have a signed contract in place prior to charging costs or earning hours, and in some States, programs have waited as many as 8 months for contracts to be in place because of the involvement of other government agencies or fiscal agents.

—*The Corporation should simplify the grant process by offering 3-year grants with a simple renewal process.*—A longer grant cycle would increase efficiency, reduce administrative burdens and costs, reduce paperwork, and ensure continuity in planning. The Corporation can simplify the grants process and reduce the administrative burden on programs by maximizing the use of Progress Reports, developing 3-year budgets from the beginning with new budgets annually, and allowing State commissions to approve continuations and changes. For new grantees, the Corporation should consider amending the initial grant term to 2 years to weed out underperforming programs. Those programs that are successful after 2 years would be eligible to compete for 3-year funding.

—*The Corporation should develop separate guidelines to foster the development of both new and existing professional corps.*—While professional corps programs can and should meet many of the criteria that other AmeriCorps programs meet, there are some critical distinctions between professional corps and other service corps that should be addressed, including the timing of the grants cycle, which adversely affects teacher corps and other programs operating in schools. In addition, some of the guidelines designed for AmeriCorps programs do not fit professional corps and should be modified.

—*The Corporation should build on the systems and efficiencies offered by State commissions, not repeat them.*—The Corporation has a network of State commissions that act as grantmaking entities in every State save one. These organizations have boards that provide diverse views to policy and program development and serve as stewards of the grant-making processes, ensuring their integrity. The Corporation should eliminate processes that repeat these activities at the Federal level and focus some of those resources on the existing State commission network. In addition to saving the resources spent on the peer review process, it could include a reconstruction of the recruitment, training and technical assistance systems as well.

We offer these suggestions in the spirit of strengthening AmeriCorps within the bounds of the current law. We appreciate the invitation to offer our comments, and look forward to continuing the conversation with the Corporation as the rulemaking process progresses. We would be happy to provide more detail or additional information about any of the above suggestions.

PREPARED STATEMENT OF THE FEDERATION OF AMERICAN SOCIETIES FOR
EXPERIMENTAL BIOLOGY

Mr. Chairman and distinguished members of the subcommittee, I am Robert D. Wells, Ph.D., President of the Federation of American Societies for Experimental Biology (FASEB) and the Director of the Center for Genome Research at the Institute of Biosciences and Technology, Texas A&M University, Texas Medical Center in Houston.

Thank you for the opportunity to testify on behalf of FASEB, the largest coalition of biomedical research associations in the United States. FASEB, comprised of 22 scientific societies with more than 65,000 scientists, serves as the voice of biomedical scientists nationwide. Our mission is to enhance the ability of biomedical and life scientists to improve, through their research, the health, well-being and productivity of all people.

Let me express thanks on behalf of FASEB for the support that this committee has made to the National Science Foundation (NSF) and the Department of Veterans Affairs (VA). We believe that it has been money well spent in the public interest and that sustained investment will continue to pay extraordinary dividends in the years to come.

NSF has been the steward of America's science and engineering investments for more than 50 years and continues to support the fundamental research that leads to groundbreaking advances in science, engineering and mathematics. For this reason, we urge the subcommittee to sustain the vitality of NSF and set the Founda-

tion's budget on the doubling path, which was authorized in 2002, with an increase of 15 percent to \$6.39 billion for fiscal year 2005.

For the Department of Veterans Affairs (VA), I recommend that you support a fiscal year 2005 appropriation of \$460 million for the direct costs of the Medical and Prosthetics Research Program. I also urge you to support an appropriation of \$45 million for improvements, upgrades and renovation of the VA's increasingly outdated research facilities. With thousands of military personnel engaged in overseas combat, this is the optimum time to invest in research that could have a direct impact on their post-deployment quality of life.

SUPPORT OF THE NATIONAL SCIENCE FOUNDATION IS CRITICAL FOR OUR NATION TO
REMAIN AT THE FOREFRONT OF SCIENTIFIC DISCOVERY

The National Science Foundation is one of our Nation's most important agencies for promoting and funding scientific, mathematical, and engineering research and education. This support is across all fields of science, as well as for interdisciplinary partnerships and new frontiers of scientific inquiry, such as nanotechnology and biomedical research.

Many new products, procedures, and methods have accrued from the NSF investment in basic research. Therefore, research of this kind is essential to breakthroughs relevant to our modern world even though at the time of discovery its relevance is not suspected.

As an example, Magnetic Resonance Imaging—a technology that is highly valued in health care today—is the result of five decades of advances in mathematics, physics, chemistry, and biology. And not surprisingly, NSF supported much of the research that made MRI possible. We must continue to nurture the seed of scientific discovery from which today's technology flows.

The recent budget request proposes a 0.6 percent increase in the overall Federal basic research budget of the U.S. Non-medical Federal basic research budget will decline by 2.5 percent in fiscal year 2005. NSF is an important agency for supporting basic research. In fact, although the NSF accounts for only 4.0 percent of Federal spending for research and development, it supports nearly 50.0 percent of the non-medical basic research at our colleges and universities.

Federal support, applied broadly across all disciplines, is critical for the U.S. scientific enterprise to remain healthy and be a contributor to innovation 20 to 30 years from now. Neglect of basic inquiry, over time, will inhibit the growth of innovation and affect the country's economic stability as well as our national security.

Furthermore, the foundation's mission is imperative to ensuring the continuous stream of technological innovations that are essential to reinforcing and expanding one of America's main competitive advantages, technological leadership in the global economy.

NSF programs not only provide the underpinnings for technological innovation, but also help prepare the next generation of scientists and engineers for the jobs of the future. In a recent Department of Commerce report, manufacturers have expressed serious concerns about whether the United States was adequately preparing the next generation of workers for an increasingly high-tech workplace that requires advanced labor skills. NSF's Education Directorate provides critical support for the education and training of scientists and researchers at all levels.

NSF prides itself on investing in the best ideas from the most capable scientists and engineers, as determined by outside reviewers through a rigorous, merit-based competitive process. In 2003, it evaluated proposals based on both intellectual merit and broader society impacts and selected almost 11,000 new awards from more than 40,000 proposals. This is the lowest funding rate in a decade. Greater support would allow NSF to pursue many unmet opportunities, including the funding of more highly-rated proposals that will provide the potential for the pioneering of dramatic scientific advances.

We have all benefited from the investment in NSF, but we must not be complacent with our past successes. Increased support of basic research and the education of the next generation of scientists will be critical in expanding the United States' place at the forefront of scientific and technological innovation.

THE VA MISSION IS CENTRAL TO THE HEALTH OPPORTUNITIES AND CHALLENGES FACING
OUR NATION'S VETERANS

A fundamental responsibility of the Department of Veterans Affairs (VA) is to ensure that the Nation's veterans receive the highest quality of medical care. The success of this mission is dependent upon the quality and dedication of the physicians and researchers who work at the VA Medical Centers (VAMCs). By providing a strong environment for medical research, the VA has been enormously successful in

attracting outstanding physicians to serve our veteran population. Cooperation between medical schools and VAMCs has flourished because of the ongoing state-of-the-art scientific research at the VAMCs. Furthermore, the outstanding quality of patient care in VAMCs can be directly correlated with the availability of VA research funding and the close connection with affiliated medical schools.

VA research has underwritten both the recruitment and the retention of talented physicians, including those hard-to-attract subspecialists needed to care for the aging and challenging VA patient population. VA subspecialists are predominantly bench researchers who have chosen to locate at VAMCs where they can develop and expand their research laboratories. The availability of research opportunities helps the VA to fulfill its tri-fold obligation to provide optimal care to patients, perform cutting edge research and train the next generation of clinician-scientists who are so needed to bring insight from the patient's bedside to the laboratory bench and back again to the patient.

Federally funded advances in the biological sciences have created an unprecedented opportunity for progress against the diseases and disorders that plague the veteran population. The administration's fiscal year 2005 budget proposes a devastating \$20 million (5 percent) cut in the R&D appropriation. If enacted by Congress, the VA would be unable to maintain its current level of effort in advancing treatments for conditions particularly prevalent in the veteran population, including prostate cancer, diabetes, heart diseases, Parkinson's disease, mental illnesses, spinal cord injury and aging related conditions. The VA would also have to suspend its major new initiative in military deployment health research as well as delay plans to expand efforts in areas such as rehabilitation from traumatic injury, quality improvement, chronic diseases and diseases of the brain.

Three types of researchers, working together, are required for this state-of-the-art progress in clinical practice: (1) laboratory scientists, who have the knowledge and skills to unravel biological complexities and to translate their discoveries into drugs that ameliorate disease; (2) clinical researchers, who test whether new drugs and approaches are beneficial and safe; and (3) health services researchers, who evaluate the most effective and efficient ways to utilize new discoveries. No one researcher can function or translate new scientific findings without an integrative and collaborative approach to the pursuit of new medical knowledge.

Few research environments attract all three of these types of researchers. If properly supported, the VA research enterprise can continue to provide the distinctive opportunity to facilitate and nurture the important collaborations of the three, while assuring the veteran population of the best medical care.

The veterans, who have made extraordinary sacrifices for our Nation, so that we can live in freedom, have relied heavily on scientific advances for carrying out their missions, in fighting wars and defending threats to our homeland. They have also relied heavily on scientific advances for medical diagnoses and treatments they have received in the VA hospitals. The next generation of veterans will be no less reliant, and research supported by NSF today will surely provide significant benefits for them tomorrow.

RESIST PRESSURES TO DEPART FROM MERIT REVIEW

The last issue that I would like to discuss with the subcommittee does not emanate from the President's budget, but may continue to arise during congressional consideration. Congress should continue to resist pressures to depart from merit review at all Federal agencies that support scientific research, including the VA and NSF. Scientific merit review remains the best process for allocating research funds to research projects with the greatest promise. Merit review promotes an efficient and effective allocation of funds.

A foundation of modern science is the principle that scientific merit is best evaluated by peer review. Whether judging the suitability of a manuscript for publication, the selection of grants to be funded, or programmatic allocation of research funds within an organization, decisions should be based on the advice of experts who are most familiar with the science. Recognition by Congress that peer review is the fairest and most efficient mechanism for allocation of public resources to support scientific research is a major reason why the United States leads the world in biomedical research.

If departures from merit review are permitted, pressure will only intensify—and scientific opportunities will be lost. Investing scarce resources in anything other than the highest-quality science would be a disservice to the taxpayers who are funding this investment in future scientific and health improvements.

We all know that this is an incredibly difficult year for Federal budgets and that this committee's task will not be very pleasant. But as you decide how to divide up

the allocation among the various agencies and programs for which you have responsibility, I would ask you to consider how interrelated these activities truly are. The investments you make in NSF are investments made in the rest of the VA-HUD bill. I cite just two examples.

CONCLUSION

Mr. Chairman, I thank you and the subcommittee again for this opportunity to emphasize the need to adequately support the VA and NSF. While these agencies are different in purpose, I would like to again point out that scientific research is at the foundation of both of their missions. Furthermore, I encourage your support of the merit review process, which ensures the quality of work and helps maximize the public's investment in both agencies.

Thank you.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS

AEROSPACE DIVISION

Mr. Chairman and members of the subcommittee, the Aerospace Division of the American Society of Mechanical Engineers (ASME) is pleased to provide this testimony on the President's fiscal year 2005 budget for the National Aeronautics and Space Administration.

INTRODUCTION TO ASME AND THE AEROSPACE DIVISION

ASME is a nonprofit, worldwide engineering Society serving a membership of 120,000. It conducts one of the world's largest technical publishing operations, holds more than 30 technical conferences and 200 professional development courses each year, and sets many industrial and manufacturing standards. The work of the Society is performed by its member-elected Board of Governors through five Councils, 44 Boards, and hundreds of committees operating in 13 regions throughout the world.

The ASME Aerospace Division has approximately 15,000 members from industry, academia and government. ASME members are involved in all aspects of aeronautical and aerospace engineering at all levels of responsibility. They have had a long-standing interest and expertise in the Nation's federally funded aerospace research and development activities at the National Aeronautics and Space Administration (NASA). In this statement, the ASME Aerospace Division's Executive Committee (herein referred to as "the Committee") will address programs that are critical to the long-term health of the Nation's aerospace enterprise.

NASA'S FISCAL YEAR 2005 BUDGET REQUEST

The Committee applauds the administration for its new space exploration initiative. One of the greatest achievements of the United States is its position of leadership in space technology, and NASA guarantees the United States a competitive edge on the world's technological stage. However, while this is potentially a great endeavor, we must not neglect other aspects of NASA's responsibilities, especially aeronautics.

While we are pleased with the administration's support for the space program, we remain concerned about the relative lack of support for the aeronautics research and technology (R&T) programs contained within NASA's Office of Aeronautics. This is the portion of the NASA budget that has the most immediate and practical benefit to the Nation, and yet the administration proposes to reduce those programs by \$115 million from the fiscal year 2004 appropriation of just over \$1 billion (even with fiscal year 2004 earmarks removed, this still represents a reduction of \$43 million or 4.5 percent).

We appreciate that Congress faces a trying budgetary climate this year, but we urge you to not only fully fund NASA's fiscal year 2005 budget request, but to ensure adequate funding for aeronautics R&T. It is the Committee's recommendation that the aeronautics portion of the NASA budget be increased to \$2 billion over the next 8 years, with a long-term target of attaining a level of 10 percent of the total NASA budget. Achieving this target would re-establish aeronautics funding, as a percentage of the NASA budget, at its pre-1990 level. Strong investments are required in fundamental engineering research in aeronautics, so as to maintain core competency and produce the technological advances needed to maintain U.S. long-term leadership.

There are also important and needed first steps being taken to focus our Nation's aeronautics research in government, as well as industry and academia, such as the formation of the Joint Planning and Development Office to develop a national plan to transform the U.S. air transportation system. Our concern is that these first steps come at a time of decreasing budgets in aeronautics and that without the investment to follow through on these first steps, nothing will happen.

AERONAUTICS RESEARCH AND TECHNOLOGY

The U.S. aeronautics enterprise is confronted with several critical challenges—a sharp decrease in the number of new commercial and military aircraft programs, a decline in the quality of the research infrastructure, and erosion in the technologically literate workforce needed to ensure pre-eminence in an increasingly competitive marketplace. The issues are not unrelated, and all are driven by dramatic reductions in Federal funding for research in aeronautics over the past decade.

Infrastructure.—There is a need to refocus on the infrastructure required to develop a new generation of advanced flight vehicles. In an era of budget cuts and fewer defense contracts, the Nation has embarked on a path where key wind tunnel and other ground test facilities are being retired. Our Committee recommends a team of experts from industry, government and academia be chartered to identify the infrastructure requirements for a robust national aeronautical R&D program aimed at developing a new generation of advanced aeronautical vehicles. In parallel, funded R&D adequate to sustain or build this infrastructure should be identified. The Nation should guard against a loss of technical expertise in the critical field of wind tunnel testing, a very real possibility in the current climate of attrition.

Workforce.—Aeronautics faces the same pressures being felt by the space industries: fewer research dollars over time has resulted in fewer companies with skilled workers capable of designing and building complex aeronautical systems. An investment in aeronautics is a matter of national welfare and strategic importance. These investments lead to high paying jobs for American workers. For example, in the manufacturing sector aerospace workers earn 50 percent more than the sector average. Also, for every aerospace job created, two additional jobs are created in the supplier base.

Aerospace companies have an aging workforce, a high percentage of which will reach retirement age in this decade. Aerospace suffers from a lack of available young workers with advanced technology degrees who can step in to replace retiring, experienced workers. The aerospace industry looks to NASA to create a demand for long-term R&T to encourage students to go to graduate school and on to companies who are doing aeronautical research.

Aeronautical Technologies Critical to U.S. Leadership.—Contrary to perception, aeronautics is not a mature industry. Exciting new opportunities exist for major advances in many areas of aeronautical technology, including automated flight vehicles, “fail-safe” avionics, new platforms/configurations, efficient propulsion, “quiet” aircraft, enhanced safety, and “zero” emissions aircraft. The Committee identified numerous technologies that are critical to the long-term health of the Nation's civil and military aviation and aeronautics technology enterprise including:

- Flight demonstrations (jointly funded by DOD and NASA) should be sustained at an annual budget level sufficient to determine the integrated performance of promising and dramatic new emerging technology opportunities.
- Research into avionics systems and their applications should be aggressively pursued because their use is pervasive and is often critical to the success of advanced aircraft developments.
- Research and development into Uninhabited Air Vehicles (UAVs) should be given sustained support addressing issues of reliability, maintainability and cost, so that the full potential of these promising aircraft can be realized.
- Quieter, more environmentally friendly aircraft engines are not only possible, but highly desirable over the near- and longer-term. More distant, but intriguing, are the possibilities for engines using alternative fuels, including hydrogen. A vigorous pursuit of these technologies is likely to pay rich dividends to the United States air transportation system and the national economy.
- Research on new and more effective prediction methodologies are sorely needed to meet the challenge of addressing the increased complexity of design decisions. Computational Fluid Dynamics (CFD) methods, for example, have evolved to the point of achieving good correlation with test results, but are so computer-time intensive as to be currently impractical for the multiplicity of calculations needed for design of optimum configurations.

- Methodologies that facilitate the development of cost-effective, extraordinarily reliable software and systems for safety critical operations should receive the strongest possible support.
- Composite-Structures research is a critical enabling technology for advanced aeronautical development, and should be vigorously supported. In particular, new advances in manufacturing techniques for large-scale composite structures are required to promote the development of a new generation of aeronautical vehicles.
- Significant new aerodynamics research is required in support of innovative and promising applications ranging from micro UAVs, to Vertical Takeoff and Landing (VTOL) regional transports to Single Stage to Orbit (SSTO) launch vehicles and hypersonic missiles.
- Essential simulation, ground, and flight-testing capabilities must be preserved and new, more productive capabilities should be developed—including physical infrastructure and personnel—so that new generations of advanced aircraft can be designed safely to be competitive in the world market.
- There is a continuing need for R&D into flight mechanics and control for new, innovative configurations including un-piloted aircraft. Research to minimize if not entirely eliminate the impact of pilot and operator errors on flight safety should be a primary focus.

We urge you to read our more detailed report on “Persistent and Critical Issues in the Nation’s Aviation and Aeronautics Enterprise,” prioritizing technologies critical to the long-term health of the Nation’s civil and military aviation and aeronautics technology enterprise which is located on our website at <http://www.asme.org/gric/ps/2003/ASMEPolicyPaper.pdf>

CONCLUSION

In conclusion, we applaud the proposed fiscal year 2005 NASA budget request as the first step towards reinvigorating the Nation’s space policy. We urge Congress to continue its support for NASA’s long-range goals and to support real increases in the NASA Space and Aeronautics budget. NASA’s fiscal year 2005 budget is the start of many opportunities and challenges and we hope that NASA’s track record of meeting and exceeding the Nation’s expectations will be continued into the 21st century.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS

ENVIRONMENTAL ENGINEERING DIVISION

The Environmental Engineering Division (EED) of the Council of Engineering, ASME, is pleased to have this opportunity to provide written comments on the fiscal year 2005 budget request for the Environmental Protection Agency (EPA).

INTRODUCTION

ASME is a 120,000-member professional organization focused on technical, educational, and research issues of the engineering and technology community. ASME conducts one of the world’s largest technical publishing operations, holds numerous technical conferences worldwide, and offers hundreds of professional development courses each year. ASME sets internationally recognized industrial and manufacturing codes and standards that enhance public welfare and safety.

This testimony represents the considered judgment of the ASME Environmental Engineering Division (EED), and does not represent a position of ASME as a whole. The ASME EED promotes the art, science, and practice of environmental engineering in all issues pertaining to the environment. Its members are engaged in a broad range of environmental engineering issues, including air, water, and waste management.

BACKGROUND

Scientists and engineers have a long-standing professional interest in research and technology to protect the environment and human health. Mechanical engineers have a breadth of subspecialties, from combustion and fluid mechanics to machine and process design and increasingly collaborate with other professionals in the course of their work. The opinions of the ASME EED reflect a diversity of opinions from ASME members who represent many disciplines. Mechanical engineers working in various subspecialties form a significant proportion of the technical workforce tackling current environmental problems.

The EPA plays an essential role in the Nation's efforts to protect human health and safeguard the natural environment. Protection of the environment is defined as action that directly or indirectly protects human health and the health of the larger ecosystem, and includes conservation and pollution prevention. Accordingly, research and development (R&D) in environmental protection includes studies pertinent to environmental health, ecology, environmental monitoring, environmental technology, pollution prevention, and related topics.

Given the impact that EPA has on the residents of the United States it is encouraging to see that the administration has requested over \$100 million more for the agency in fiscal year 2005 than it did in the previous fiscal year. We note, however, that within this larger budget, the request for Science and Technology (S&T) shows a reduction of over \$42 million. That is a troubling decline, and incongruous with the agency's stated goal "to further strengthen the role of science in decision-making by using sound scientific information and analysis to help direct policy and establish priorities." With this reduction, Science and Technology represents less than 9 percent of the requested EPA appropriation.

The EPA fiscal year 2005 budget is organized to support five strategic goals supported by a dedicated budget line titled "Enhance Science and Research." The resource request to support "Enhance Science and Research" for each goal and the differences in requests (in millions of dollars) between fiscal year 2004 and fiscal year 2005 are:

- Clean Air and Global Climate Change: \$130.9; +2.8.
- Clean and Safe Water: \$121.0; +0.5.
- Land Preservation and Restoration: \$57.6; -2.3.
- Healthy Communities and Ecosystems: \$394.8; -25.2.
- Compliance and Environmental Stewardship: \$70.1; -7.1.

Thus the total budget request to "Enhance Science and Research" for the five strategic EPA goals represents a reduction of over \$30 million when compared with funds allocated in the fiscal year 2004 appropriation.

The majority of the fiscal year 2005 S&T budget requested by EPA is allocated to the Office of Research and Development (ORD). In fiscal year 2005 this amounts to \$572 million. Through research and technical assistance, ORD provides the scientific foundation for EPA's regulatory programs and decisions, assesses the state of the environment, identifies emerging issues of potential concern, and provides information and tools to support risk-based decisions. Hence the ORD administers programs addressing foundational research to improve the scientific tools used to understand and evaluate environmental health and problem-driven research designed to provide scientific solutions to high-priority environmental problems. It is a valuable national resource.

The EPA budget documentation dwells more on attempts to "prove" the quality of ORD research than on describing the fruits of ORD work. While it is essential to insure that Federal funds are used wisely and efficiently, it is extremely difficult to demonstrate the worth of research and development relying solely on current metrics. Often the true value of such investments is only apparent years after the investment is made. We hope that ORD is not overly diverted from its true mission by constant calls to prove the unprovable. The Science Advisory Board (SAB), a collection of eminent scientists that EPA has assembled, should be relied upon to provide a quality metric.

ASME EED notes that many of this administration's most controversial proposals (e.g., oil exploration in the Arctic, the reduction of allowable arsenic groundwater concentrations, the non-endorsement of the Kyoto Accords) have environmental dimensions. It is critical to protect ORD from political forces so that its peer-reviewed research results can be beyond political dispute.

Goal 1—Clean Air and Global Climate Change

The protection and rehabilitation of stratospheric ozone is one of the singularly most important global environmental issues over the long term. The budget for this aspect of the Clean Air and Global Climate Change strategic goal would increase 14.4 percent from this year to next. That is a very positive step in a year of flat overall funding. Nonetheless, proposed fiscal year 2005 funding for this program is only 2.2 percent of the total budget for the Clean Air and Global Climate Change goal. The level of funding belies the gravity of the problem it addresses.

Goal 2—Clean and Safe Water

The stated goal of the safe water aspect of this strategic goal is to "restore and maintain oceans, watersheds, and their aquatic ecosystems to [1] protect human health, [2] support economic and recreational activities, and [3] provide healthy habitat for fish, plants, and wildlife." While compelling arguments can be made for

making the protection of human health the agency's primary concern, it is disconcerting that economic and recreational activities may hold a higher priority than do those of native flora and fauna. Promotion of economic and recreational interests is best left with other departments within the government. The EPA should concentrate on its role as environment steward.

Goal 3—Land Preservation and Restoration

An ounce of prevention is worth a pound of cure. Thirteen-point-two percent (\$237 million) of the Land Preservation and Restoration strategic goal budget in fiscal year 2005 is devoted to preserving land. While this amount is minor compared to the \$1.5 billion (83.6 percent of the Land Preservation and Restoration budget) devoted to land restoration, it is positive to see that the land preservation portion of the budget has increased a healthy 12.4 percent from the fiscal year 2004 level of \$211 million. The better land is preserved in the present, the lesser the land restoration bills will be in the future. It is reassuring to see the foresight of pollution prevention and land preservation becoming key aspects of EPA's approach to preserving the environment.

Goal 4—Healthy Communities and Ecosystems

It appears in fiscal year 2005 a greater focus will be placed on the ecosystems portion of the Healthy Communities and Ecosystems strategic goal. The funding level for ecosystems increases by 25 percent to \$201 million, compared to an increase in funding for communities of only 0.2 percent. This level is still only 63 percent of the funding for communities, but is a big step towards more equitable funding between the two aspects of this strategic goal. The long-term benefits of environmental health enhance human communities as well as the natural world.

As with the 3.8 percent decline in science and research under the Land Preservation and Restoration goal, the 6.0 percent decline in Science and Research for Healthy Communities and Ecosystems from fiscal year 2004 to fiscal year 2005 is a harbinger of future problems. Tomorrow's solutions are found in today's research and development. Delaying the discovery and implementation of new, novel approaches to environmental management only increase their cost and the environmental losses incurred in the interim.

Goal 5—Compliance and Environmental Stewardship

The budget for Pollution Prevention and Innovation would grow by 22.6 percent from fiscal year 2004 to fiscal year 2005. That budget shift indicates a commitment to the concept that "pollution prevention has become a key element of initiatives to improve federal environmental management." Further, it supports EPA's stated plan to "work to improve environmental protection and enhance natural resource conservation on the part of the government, business, and the public through the adoption of pollution prevention and sustainable practices . . .". The EED fully supports the pursuit of this philosophy in environmental stewardship. Resource and energy conservation, combined with resource recycling, are critical to reducing the future costs of environmental remediation and resource recovery.

CROSS-CUTTING ISSUES

Scientific Understanding and Risk Analysis

The ASME EED notes that EPA continually refers to the need to base agency actions on "sound science." We believe that the EPA's risk-based approach, which engages all interested parties (i.e., "stakeholders"), provides a good framework for the formulation of environmental policies. The EED supports EPA's continuing effort to implement a research program that is aimed at expanding the role, and improving the state-of-the-art of environmental science as it pertains to decision-making and policy formulation.

The ASME EED supports the goal of applying "the best science" to the Nation's environmental problems but we note that many of the Nation's problems involve potential risks to the public and the environment from low levels of hazardous materials. In these instances, the scientific basis for decision making is highly uncertain since the health impacts of exposure to low levels of hazardous substances is largely unknown. The EED supports increased research in this area and notes that EPA has requested a large increase in research funding in the area of computational toxicology (+\$4 million), which should help increase the understanding of the impact of low dose exposures. In the absence of definitive knowledge of the biological responses to low doses of hazardous materials, the ASME EED feels it important that EPA acknowledge the uncertainty in its risk estimates whenever communicating risk to the public.

Interactions with Other Federal Agencies

In the absence of definitive scientific data about the risks posed by small amounts of hazardous materials, EED believes that EPA must insure that corrective measures to eliminate exposure to small quantities of such materials do not themselves generate greater risks. We therefore recommend that EPA coordinate its activities with other Federal agencies to develop an integrated policy that minimizes the total risk to all parties, particularly workers. This policy must consider environmental risks to the public and to ecosystems, along with occupational risks and risks to the public due to remediation activities. It would be folly to expose workers and the public to real risks while attempting to reduce hypothetical risks to the public and the environment.

Oversight of DOE and WIPP

One of EPA's major radiation-related responsibilities is to certify that all radioactive wastes shipped by the Department of Energy (DOE) to the Waste Isolation Pilot Plant (WIPP) are permanently and safely disposed of, consistent with EPA standards. EPA conducts inspections of waste generator facilities and biennially evaluates DOE's compliance with applicable environmental laws and regulations. Every 5 years EPA must re-certify that WIPP complies with EPA's radioactive waste disposal regulations.

The budget for EPA's oversight of WIPP falls within the protection section of its radiation program. The President's request for fiscal year 2005 for radiation protection reflects a decrease of approximately \$1.8 million. The reduction derives from higher priorities within EPA's budget. It is not possible to determine from the published documents what fraction of the budget reduction EPA's WIPP Program within the Office of Radiation and Indoor Air will absorb. However, several comments can be made regarding the budget proposal:

- No mention is made of the ongoing compliance recertification effort. The level of effort required to review the application for recertification, accept public comment, obtain and review additional documentation from DOE, and make a compliance decision will be significant. As the Nation's only operational, certified repository for permanent disposal of radioactive waste, WIPP comprises a key to cleanup of DOE's weapons complex.
- Performance measures for EPA's involvement at WIPP pertain solely to certification of a specified number of drums for disposal. Certainly this measure represents an important role for EPA. However, the EPA's decision to certify WIPP also included four conditions requiring continued oversight from EPA, a long-term groundwater-monitoring program, and ongoing review of changes to WIPP's operations. One of the conditions imposed by EPA on its certification of WIPP was construction of panel closure systems. Review of documents by an independent oversight group (the Environmental Evaluation Group) documents that DOE intends to request a revision to the certified panel closure design. This would represent a significant change to the EPA compliance baseline for WIPP.

These topics suggest that additional performance measures specific to conditions of the certification and the long-term monitoring program should be added to EPA's performance measures. These performance measures would serve to enhance public confidence in the facility. By contrast, the proposed performance measure reflects a desire to meet DOE's need to ship waste from its clean-up sites. Given how central a viable WIPP is to DOE's cleanup plans, EPA should carefully weigh the impact of budget reductions that support WIPP.

ENVIRONMENTAL EDUCATION/STRENGTHENING THE S&T BASE

Extramural research grants and graduate fellowships administered by the EPA would be severely cut under the President's proposed budget request for fiscal year 2005. EPA's Science to Achieve Results (STAR) graduate fellowship program would be cut by 33.5 percent relative to the fiscal year 2004 appropriation. EPA's larger STAR research grants program would be cut by approximately 30 percent, or \$36 million. Approximately 93 fewer STAR research grants would be awarded, according to EPA's budget justification to Congress. Deep budget cuts in EPA's STAR programs have been proposed less than 1 year after the National Academy of Sciences (NAS) issued a laudatory report entitled *The Measure of STAR*.

The STAR fellowship program is the only Federal fellowship program designed exclusively for students pursuing advanced degrees in the environmental sciences and engineering. It provides funding for graduate students interested in the solution of environmental problems and allows them to undertake research in areas directly relevant to EPA's mission and objectives. It is the opinion of the EED that the

STAR fellowship program is an important investment in the future of both EPA and the Nation. The EED fully supports this program.

In fiscal year 2005, EPA will also support Association of Schools of Public Health (ASPH) fellowships. This investment will help EPA to better design its programs for human health outcomes. Under a cooperative agreement with the ASPH, eligible fellows are placed in EPA labs, centers, and offices to conduct projects that contribute to EPA's public health mission. EED supports this program and suggests that it be a model for additional fellowships in ancillary areas, particularly in occupational health.

The research portion of the Federal budget is the largest share of support for U.S. graduate students in fundamental science and engineering disciplines, through both fellowships and research grants to universities. In areas such as environmental science and national defense, a broad view across agencies, rather than a programmatic view, is necessary to ensure sufficient graduates and continuing quality in graduate programs. The EED encourages lawmakers to consider not only current programmatic needs, but also future national needs, when determining the number of graduate students to be funded by Federal programs, particularly in science and engineering disciplines. A highly trained workforce is vital to ensuring future success in resolving national science, security, and technology issues.

CONCLUSIONS

EPA's budget decisions for fiscal year 2005 indicate a philosophical commitment to pollution prevention and ecosystem preservation that the EED supports. Conversely, the marked decrease in funding for science and technology in fiscal year 2005 is disturbing. Because of the complex, multidisciplinary nature of environmental issues, it is imperative that EPA base its actions on sound science. A strong R&D program is essential for the ongoing development of science-based decision making. Reduced R&D funding will hurt the science and engineering community in the present and will, in the future, only cause larger, more expensive environmental problems for society at large.

PREPARED STATEMENT OF THE NATIONAL UTILITY CONTRACTORS ASSOCIATION

Chairman Bond, and distinguished members of the subcommittee, thank you for the opportunity to provide testimony to your committee on issues involving water and sewer infrastructure funding.

My name is Bill Bowman and I am the President of the National Utility Contractors Association (NUCA), which represents thousands of companies that provide the materials and workforce to build and maintain our Nation's network of water, sewer, gas, telecommunications, and other utility systems. I am also the Chairman of the Board of the Bowman Group, located in West Berlin, New Jersey, a company I founded more than 30 years ago with a handful of men, a backhoe, a dump truck, and a small loan. Today my company builds and maintains water, sewer, and other underground utility systems in and around Southern New Jersey and Southeastern Pennsylvania.

Let me begin by thanking the committee for its consideration and insistence in maintaining level funding for the Clean Water and Drinking Water State Revolving Fund (SRF) programs despite what have become yearly cuts proposed by the White House budget. This subcommittee's efforts to support the SRF programs have benefited millions of Americans. I know this because I see it every day I go to work.

I want to voice my industry's strong support for the U.S. Environmental Protection Agency's (EPA) Clean Water and Drinking Water SRF programs. Simply put, these essential financial programs clean up the environment, protect public health, promote economic development, and create thousands of jobs. Why then, does the administration continually propose to cut the Clean Water SRF by 40 percent when its own EPA reports that existing needs exceed \$181 billion? We cannot help but notice the contradiction between the EPA's needs estimates and the President's proposed solution.

Utility contractors have been called the "true environmentalists" because we are the ones getting our boots dirty installing and repairing the infrastructure that help make our lakes and rivers safe for public use. And while I understand that your committee is under tremendous pressure to keep Federal spending in check, I urge you to boost the Federal capitalization of these funds because not only do they enhance our Nation's quality of life, but they help create thousands of good paying jobs right in our own backyards. These are jobs that cannot be exported—this work must be performed in America.

THE NEEDS

As the committee is well aware, last year the EPA released The Clean Watersheds Needs Survey (CWNS) 2000 Report to Congress, which painted a bleak picture of America's wastewater infrastructure. The CWNS documents State-by-State wastewater infrastructure needs and clearly demonstrates that the condition of our Nation's wastewater infrastructure is going from bad to worse. The CWNS presents the results of a survey of wastewater infrastructure needs conducted between April 2000 and January 2002, detailing a total need of \$181.2 billion for publicly-owned wastewater collections, treatment facilities and eligible activities to control pollution from storm water and nonpoint sources. This figure represents an increase of \$26.6 billion from the amount reported in the 1996 CWNS. It is important to note that previous CWNS reported 20-year modeled needs but that the 2000 CWNS represents documented needs. In other words, the 2000 CWNS provides a snapshot of what is needed today, not projected over 20 years. This change in study methods "hides" the true increase because the results compare 20-year modeled needs from 1996 against 5-year current documented needs from 2000. If the CWNS projected out 20 years, the number would be exponentially higher.

As the committee is well aware, in 2002, the EPA's Clean Water and Drinking Water Infrastructure Gap Analysis forecasted a \$534 billion gap between current spending and projected needs over 20 years for water and wastewater infrastructure if Federal funding is not increased. To someone in our industry, this is a distressing report that in my experience, forecasts an environmental disaster. Even a modest 3 percent annual growth in water infrastructure spending will project to a \$76 billion funding gap over the next 20 years. As a point of fact, funding for the Clean Water and Drinking Water SRF programs has remained stagnant since 1997. This analysis shows that we are not doing enough to tackle this problem.

The SRF programs are not examples of throwing good money after bad. States are making progress in repairing their infrastructure. But the infrastructure is failing at a rate that exceeds what the SRFs can currently handle.

As bad as the water infrastructure problems are across America, this committee is uniquely positioned to make a change for the better. The Gap Analysis clearly shows that a modest increase in Federal capitalization grants will limit the funding gap and assist States in addressing their water infrastructure problems.

PROBLEMS HIT CLOSE TO HOME

As representatives of NUCA before me have testified, aging wastewater infrastructure is failing in every State. Each year, sewers back up in basements 400,000 times and municipal sanitary sewers overflow on 40,000 occasions, dumping potentially deadly pathogens into the Nation's streets, waterways, and beaches. Water and sewer systems built generations ago that had projected use periods of 30, 50, and even 100 years are all reaching their useful life concurrently. Scores of American cities are under consent decrees with the EPA to fix their combined sewer overflow problems or face millions of dollars in fines. You need not look any further than right here in Washington, DC, where we are witnessing a health crisis caused by aging drinking water infrastructure resulting in dangerously high lead levels.

Sometimes it takes the intense media scrutiny during a crisis, like the lead problems in the District of Columbia, to get people to notice water infrastructure problems. In my business, I see firsthand these problems every day. What's out of sight and out of mind to most Americans is clearly visible to utility contractors. We regularly uncover pipes with gaping holes from which raw sewage escapes into the surrounding ground in residential neighborhoods. This leakage can go undetected for months, if not years. My colleagues can tell stories of finding infrastructure so old that the pipes are made out of hollowed tree trunks. To make matters worse, these systems are often within very close proximity to lakes and rivers where we swim, fish, and play.

Conditions grow substantially worse every day. We are knowingly failing to refurbish and install vital wastewater infrastructure in a meaningful way that maintains public safety, even though we have the capability to fix the rotting pipes. It's time we do so before we irreversibly contaminate our water supply, before sewer moratoriums shut down our communities, and before your constituents' sewer rates go through the roof.

The scenario is becoming increasingly clear: water and wastewater infrastructure needs are constantly on the rise while Federal capital investment is being sustained but is no longer sufficient. While inadequate Federal capitalization is provided every year, the existing infrastructure continues to age. Incidents of sewer overflows will continue to rise as the declining investment fails to keep up with the aging pipes.

This financial gap will only get worse unless a firm commitment is made and increased Federal resources are provided to needy communities.

Moreover, the current lack of adequate funding unintentionally widens the investment gap by sending the implicit message that our Nation's environmental infrastructure is not a national priority.

EFFECTIVENESS OF THE STATE REVOLVING FUND PROGRAMS

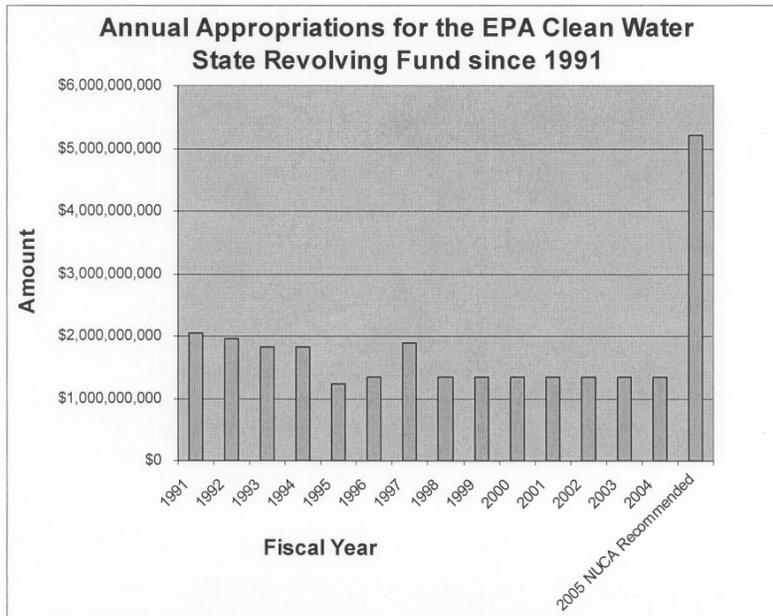
The EPA's SRF programs help ensure the quality of America's wastewater and drinking water facilities. Funding from the SRF programs provide urgently needed resources for communities across the country to address their water and wastewater infrastructure problems.

Revolving fund programs work in perpetuity. The Clean Water SRF, for example, has leveraged approximately \$22.4 billion in Federal grants into more than \$43 billion in revolving loans to communities. These loans are then repaid at low interest and redistributed for other priority wastewater projects within the State. The Drinking Water SRF has provided more than \$6.5 billion to communities for drinking water projects and State and local activities. These projects are needed to maintain compliance with health-based standards, such as installation and replacement of failing treatment and distribution systems. The SRF programs have been hailed as the most successful federally sponsored infrastructure financing program ever.

As you know, the Clean Water SRF program originated in 1987, but authorization lapsed in 1994. Again, I want to commend this subcommittee for recognizing the effectiveness of the Clean Water SRF by continuing to appropriate funding to the program. When authorization expired in 1994, appropriations were just over \$2 billion. That funding level dropped in 1998 to \$1.35 billion, where it has remained. Unfortunately, this level is woefully inadequate. Immediate funding increases must be provided to begin to close the funding gap.

The administration's budget request again proposes an appalling \$850 million for each SRF program. While this would represent level funding for next year's drinking water projects, the proposal reflects what would be a \$500 million cut to the Clean Water SRF.

NUCA respectfully suggests there is a stark contradiction in the administration's estimation of what is needed and what should be provided to begin to address the problem. Six months after reporting needs that exceed \$181 billion, this administration proposes what would reflect nearly a 40 percent reduction of an already inadequate funding level. These programs need immediate increases, not cuts.



The Clean Water SRF provides a perpetual source of funding to build and improve wastewater treatment plants; control agricultural, rural, and urban runoff; improve estuaries; control wet weather overflows; and restore brownfield sites. Recognizing its remarkable success in turning Federal capitalization grants into revolving loans, the SRF program is by all accounts an efficient, fiscally sound, and environmentally successful partnership that enhances public health, creates thousands of jobs, and improves the quality of life for communities across America.

Nearly a decade ago, our industry commissioned a report that found that for every \$1 billion spent on water infrastructure, up to 55,000 jobs are created across the country. As our economy struggles to grow, it is important to note how quick and easy it is to create good, long-term construction jobs. In most States, due to advance planning and engineering work, a backlog of projects are ready to start once money arrives from the Federal Government.

Our industry has worked to move legislation that will reauthorize the Clean Water SRF program at higher funding levels in order to better ensure the appropriation of these imperative Federal resources. Water Resources Subcommittee Chairman John Duncan and Transportation and Infrastructure Committee Chairman Don Young introduced the Water Quality Financing Act of 2003 (HR 1560) last year, which would authorize \$20 billion for the Clean Water SRF over 5 years and additional resources for "wet weather" projects.

NUCA fully supports HR 1560, and we look forward to advancing this legislation through the committee onto the House floor for a vote. However, while SRF reauthorization is a priority, we encourage the VA-HUD Appropriations Subcommittee to take the necessary steps to provide immediate resources to refurbish our environmental infrastructure.

Recently, the Senate passed an amendment during debate on the fiscal year 2005 Budget Resolution that increased fiscal year 2005 funding for the Clean Water and Safe Drinking Water State Revolving Fund to \$5.2 billion. NUCA is recommending that the subcommittee recognize the dramatic needs and the job creation that comes with infrastructure spending and match the amount set forth in this amendment—\$3.2 billion for the Clean Water and \$2 billion for the Safe Drinking Water State Revolving Funds.

The House budget resolution did not include these necessary increases in funding for this vital infrastructure. NUCA encourages this subcommittee to enact the Senate's approved budget blueprint for fiscal year 2005 appropriations to the SRF programs. In fact, a diverse coalition of industry groups that includes administrators, labor unions, environmental groups, and manufacturers and NUCA has joined forces to support the Senate passed budget authorization in the final budget conference. These groups rarely work together but this issue trumps any differences they may have. Attached to this testimony is a copy of their letter sent to fiscal year 2005 budget conferees. Also attached is a letter from the Clean Water Council, a coalition of construction industry associations, in support of the Senate funding levels.

The fate of America's water quality is in your hands. The successful SRF programs play a key role in enhancing public health and safety, protecting the environment, and maintaining a strong economic base. They increase labor productivity, create scores of jobs, rehabilitate local neighborhoods, and ensure the availability of recreational use of our waterways and shorelines. They help protect the overall quality of life, from preparing a meal, to taking a shower, to simply taking a drink of water on a hot day.

People intuitively understand that their lives are directly linked to water quality and the collection and treatment of wastewater. The State revolving funds have been demonstrably efficient and effective, but clearly, more needs to be done. Sufficient Federal resources must be invested to ensure that human and environmental impacts of the multi-billion dollar funding gap are prevented. Providing \$5.2 billion towards our environmental infrastructure would be a big step in the right direction.

This year, Congress is reauthorizing Federal highway and transit programs. While important, NUCA hopes the focus on the highway bill will not undermine Congress' recognition of the need to address the imperative lifelines that exist underneath the roads. The underground environmental infrastructure is falling apart by the minute.

Finally, NUCA members and utility construction industry as a whole make a tremendous and vital contribution to the American economy. In times of economic difficulty, funding construction projects provide effective ways to stimulate growth and development. Economic benefits ripple through local economies from manufacturers to distributors to construction laborers, along with the induced economic benefits to our communities. Infrastructure spending is a sound Federal investment.

We strongly encourage this subcommittee to increase funding of EPA's SRF programs to \$5.2 billion in fiscal year 2005. Again, thank you Chairman Bond and

Ranking Member Mikulski, for the opportunity to present testimony before your esteemed panel.

ATTACHMENT.—AMERICAN FEDERATION OF STATE, COUNTY AND MUNICIPAL EMPLOYEES; AMERICAN RIVERS; ASSOCIATION OF METROPOLITAN SEWERAGE AGENCIES; ASSOCIATION OF STATE AND INTERSTATE WATER POLLUTION CONTROL ADMINISTRATORS; COALITION FOR ALTERNATIVE WASTEWATER TREATMENT; NATURAL RESOURCES DEFENSE COUNCIL; NATIONAL UTILITY CONTRACTORS ASSOCIATION; WATER AND WASTEWATER EQUIPMENT MANUFACTURERS ASSOCIATION; WATER ENVIRONMENT FEDERATION

The diverse organizations above represent municipal authorities, operators of water and wastewater facilities, State water regulators and financial officers, labor organizations, contractors, manufacturers, and environmental groups dedicated to improving America's water and wastewater infrastructure. We write on behalf of our millions of members who urge you to protect human health and the environment and create hundreds of thousands of jobs by increasing the budget authority for the Environmental Protection Agency's (EPA) Clean Water and Drinking Water State Revolving Fund (SRF) programs to \$5.2 billion in fiscal year 2005, as provided in the Senate budget resolution. The SRF programs help local communities meet water quality standards, protect public health, repair and replace old and decaying pipelines and treatment plants, and ensure continued progress in restoring the health and safety of America's water bodies. Authorizing \$3.2 billion for the Clean Water SRF and \$2 billion for the Drinking Water SRF next year would provide a badly-needed down payment to improve America's water and wastewater infrastructure.

Budget authority in the Senate budget resolution would create nearly 247,000 American jobs—three times the job creation that would come from the House budget resolution. This would aid the national economic recovery by keeping good paying jobs in local communities. Moreover, it is estimated that there are projects valued at between \$3.2 billion and \$4.1 billion that are ready to move forward in less than 90 days. This would create considerable jobs in the near future.

In 2002, EPA's Clean Water and Drinking Water Infrastructure Gap Analysis found that there will be a \$534 billion gap between current spending and projected needs for water and wastewater infrastructure if the Federal investment is not stepped up. Moreover, last year EPA issued its Clean Watersheds Needs Survey 2000 Report to Congress, which documented existing wastewater infrastructure needs at more than \$181 billion. There is no doubt of the need for increased resources toward this vital infrastructure.

When the Clean Water Act was passed more than 30 years ago, the Federal Government made a commitment to the American people to clean up the Nation's waters. Since that time the Federal Government's funding to maintain clean water infrastructure in America has decreased by 70 percent; today the Federal Government funds a mere 5 percent of national infrastructure costs. In 1996, the Safe Drinking Water Act expanded the Federal Government's role in assuring clean water for every citizen. Much has been accomplished but there is much left to be done. States, localities, and private sources addressing these problems cannot do it alone.

We support this substantial increase in water infrastructure funding next year because it takes a step toward a longer-term solution for our Nation's water needs. We again urge you to support a \$5.2 billion allocation for the Clean Water and Drinking Water SRFs programs in the final Budget Resolution, and we thank you for your consideration.

ATTACHMENT.—THE CLEAN WATER COUNCIL

The Clean Water Council (CWC) is a coalition of underground construction contractors, design professionals, manufacturers and suppliers, and other professionals committed to ensuring a high quality of life through sound environmental infrastructure. The CWC strongly urges you to increase budget authority for the Environmental Protection Agency's (EPA) Clean Water and Drinking Water State Revolving Fund (SRF) programs to \$5.2 billion in fiscal year 2005, as provided in the Senate budget resolution. This funding level will provide a badly-needed down payment to improve America's water and wastewater infrastructure.

Unfortunately, the administration's budget has again proposed a \$500 million cut in funding for the Clean Water SRF at a time when the Nation's wastewater infrastructure needs are skyrocketing. In 2002, EPA's Clean Water and Drinking Water Infrastructure Gap Analysis found that there will be a \$534 billion gap between current spending and projected needs for water and wastewater infrastructure if the Federal investment is not stepped up. Moreover, last year EPA issued its Clean Watersheds Needs Survey 2000 Report to Congress, which documented existing waste-

water infrastructure needs at more than \$181 billion. The CWC believes it is contradictory for the administration to propose what would be close to a 40 percent reduction in funding for clean water projects when its own agency studies have shown an overwhelming gap between the needs and current spending and provided a snapshot of current needs that are approaching \$200 billion. America's water and wastewater infrastructure needs immediate funding increases, not cuts.

The SRF programs provide a perpetual source of funding to build and improve this vital infrastructure, but the SRFs do more than clean up our environment. Funding the SRF programs at this level would create at least 238,000 American jobs. It is estimated that there are projects valued at between \$3.2 billion to \$4.1 billion that are ready to move forward in less than 90 days that are stalled due to the lack of funding. Importantly, the "revolving" nature of the SRF makes the program a fiscally sound partnership. For example, since its inception in 1987, the Clean Water SRF has leveraged approximately \$22 billion in Federal capitalization grants into more than \$44 billion in revolving loans to local communities.

The Senate budget resolution would provide \$3.2 billion for the Clean Water SRF and \$2 billion for the Drinking Water SRF next year. The CWC understands that these are substantial funding increases but we believe they are justified and necessary. These funding levels will help secure our water and wastewater infrastructure while assisting the Nation's economic recovery by providing high paying jobs in local communities right here in America. The CWC requests that you support a \$5.2 billion in budget authority for the Clean Water and Drinking Water SRF programs in the final budget resolution.

Members of the Clean Water Council

American Council of Engineering Companies; American Concrete Pressure Pipe Association; American Rental Association; American Road & Transportation Builders Association; American Society of Civil Engineers; American Subcontractors Association; Associated Equipment Distributors; Associated General Contractors; Association of Equipment Manufacturers; Construction Management Association of America; National Precast Concrete Association; National Ready Mixed Concrete Association; National Society of Professional Engineers; National Stone, Sand and Gravel Association; National Utility Contractors Association; Portland Cement Association; The Vinyl Institute; Uni-Bell PVC Pipe Association; Water and Wastewater Equipment Manufacturers Association.

PREPARED STATEMENT OF THE NATIONAL COUNCIL FOR SCIENCE AND THE ENVIRONMENT

SUMMARY

The National Council for Science and the Environment (NCSE) commends the Senate Appropriations Subcommittee on VA, HUD and Independent Agencies for its bipartisan leadership in support of science to improve environmental decision-making. We ask for your continued leadership by appropriating strong and growing funding for environmental research and education to address pressing national challenges.

Environmental Protection Agency.—We urge Congress to reject drastic budget cuts proposed for competitive research grants and graduate fellowships administered by the Environmental Protection Agency's Science to Achieve Results (STAR) program. The fiscal year 2005 budget request would cut the STAR research grants program by approximately 30 percent to \$65 million in the fiscal year 2005 budget request. It would also cut the STAR graduate fellowship program by 33.5 percent to \$6.1 million in the fiscal year 2005 budget request. We ask Congress to appropriate at least \$100 million for the STAR research grants program and at least \$10 million for the STAR graduate fellowship program in fiscal year 2005.

National Science Foundation.—NCSE recommends a 15 percent increase in funding for the National Science Foundation (NSF), bringing the agency's budget to \$6.41 billion in fiscal year 2005. This is consistent with the National Science Foundation Authorization Act of 2002 (Public Law 107-368), which authorizes a doubling of the NSF budget in 5 years. NCSE emphasizes the need for increased funding for NSF's Environmental Research and Education (ERE) portfolio. Although the National Science Board identified this area as one of NSF's "highest priorities," funding for the ERE research portfolio would decrease by 0.2 percent to \$930.2 million under the fiscal year 2005 budget request. Moreover, funding for the priority area on Bio-complexity in the Environment—the flagship program of the ERE portfolio—would be flat at \$99.8 million in fiscal year 2005. NCSE urges Congress to increase fund-

ing for NSF's Environmental Research and Education portfolio by at least the same percentage as the agency's overall growth rate.

National Science Board Report.—NCSE encourages Congress to strongly support full and effective implementation of the National Science Board (NSB) report, Environmental Science and Engineering for the 21st Century, within the context of efforts to double the budget of the National Science Foundation. The lagging growth of the NSF Environmental Research and Education budget relative to the total NSF budget in recent years raises serious concerns about its status of one the agency's "highest priorities."

FEDERAL INVESTMENTS IN ENVIRONMENTAL R&D

The National Council for Science and the Environment thanks the Senate Appropriations Subcommittee on VA, HUD, and Independent Agencies for the opportunity to testify before the panel in support of appropriations for the Environmental Protection Agency and the National Science Foundation.

NCSE is dedicated to improving the scientific basis for environmental decision-making. We are supported by over 500 organizations, including universities, scientific societies, government associations, businesses and chambers of commerce, and environmental and other civic organizations. NCSE promotes science and its relationship with decision-making but does not take positions on environmental issues themselves.

Federal investments in R&D and science education are essential to the future well-being and prosperity of the Nation and deserve the highest priority of Congress. The long-term prosperity of the Nation and our quality of life are contingent upon a steady commitment of Federal resources to science and technology, and especially environmental R&D.

The Appropriations Subcommittee on VA, HUD and Independent Agencies plays the largest role in setting funding levels for environmental R&D. It has jurisdiction over agencies that account for approximately 45 percent of Federal funding for environmental R&D. Federal investments in environmental R&D must keep pace with the growing need to improve the scientific basis for environmental decision-making. In recent years, Congress has played a crucial role by supporting strong and growing Federal investments in environmental R&D. We appreciate the subcommittee's leadership and encourage its continued support in this difficult fiscal environment.

EPA STAR PROGRAMS

Extramural research grants and graduate fellowship programs administered by the U.S. Environmental Protection Agency would be severely cut under the President's budget request for fiscal year 2005. Funding for EPA's Science to Achieve Results (STAR) research grants program would be cut by approximately 30 percent, from an estimated \$92 million in the fiscal year 2004 enacted appropriations bill to \$65 million in the fiscal year 2005 budget request. As a result of these cuts, approximately 93 fewer competitive research grants would be awarded to scientists at universities and nonprofit institutions across the Nation, according to EPA's budget justification to Congress. Funding for EPA's STAR graduate fellowship program—the only Federal program aimed specifically at students pursuing advanced degrees in environmental sciences—would be cut by 33.5 percent, from \$9.17 million in the fiscal year 2004 enacted appropriations bill to \$6.1 million in the fiscal year 2005 budget request. The National Council for Science and the Environment urges Congress to restore full funding for EPA's Science to Achieve Results (STAR) research grants and graduate fellowship programs.

Rep. Vernon Ehlers, Chairman of the House Science Subcommittee on Environment, Technology and Standards, convened a hearing on March 11, 2004 that examined the proposed cuts in EPA's STAR programs. At the conclusion of the hearing, he said, "I have not heard a convincing reason today for why the STAR program was cut so dramatically. By all accounts, it is a well-run, competitive, peer reviewed program that produces high quality research. These proposed reductions should not be allowed to take effect."

EPA STAR Research Grants.—NCSE urges Congress to appropriate at least \$100 million for the STAR Research Grants program in fiscal year 2005. This is the funding level proposed in the President's budget request for fiscal year 2004. Deep budget cuts in EPA's STAR program have been proposed less than 1 year after the National Academies issued a laudatory report, The Measure of STAR, which concludes that the program supports excellent science that is directly relevant to the agency's mission. According to the report, the STAR program has "yielded significant new findings and knowledge critical for regulatory decision making." The report says, "The program has established and maintains a high degree of scientific excellence."

It also concludes that the EPA STAR program complements research supported by other agencies and leverages its resources through partnerships, stating “The STAR program funds important research that is not conducted or funded by other agencies. The STAR program has also made commendable efforts to leverage funds through establishment of research partnerships with other agencies and organizations.”

The EPA STAR research program compares favorably with programs at other science agencies. According to the National Academies report, “The STAR program has developed a grant-award process that compares favorably with and in some ways exceeds that in place at other agencies that have extramural research programs, such as the National Science Foundation and the National Institute of Environmental Health Sciences.”

The STAR research grants program expands the scientific expertise available to EPA by awarding competitive grants to universities and independent institutions, to investigate scientific questions of particular relevance to the agency’s mission. The National Academies report says, “The STAR program should continue to be an important part of EPA’s research program.” According to the fiscal year 2005 budget request, funding for the following STAR grants would be cut.

—*Ecosystems Protection* (–\$22.2 million).—Approximately 50 STAR grants for research on ecosystem stressors and effects would be eliminated. According to the agency’s budget documents, “As a result of this reduction, STAR efforts designed to establish or improve the connection between ecosystem stressors and effects, serving as input to decisions at the regional, state, and local levels, will be discontinued.”

—*Pollution Prevention* (–\$5 million).—Over 20 research grants would not be funded under the Technology for the Sustainable Environment (TSE) program, which is a collaborative effort with the National Science Foundation.

—*Endocrine Disruptors* (–\$4.9 million).—Approximately 18 STAR research grants for research on endocrine disrupting chemicals would be eliminated.

—*Mercury Research* (–\$2 million).—The approximately 5 STAR grants that support mercury research would be eliminated.

—*Hazardous Substance Research Centers* (–\$2.3 million).—A 5-year program that awarded grants for hazardous substance research would not be funded in fiscal year 2005. According to EPA, some multi-year grants would not be funded in their final year due to this cut.

—*Homeland Security Building Decontamination Research* (–\$8.3 million).—Research on building decontamination for homeland security would be completely eliminated.

—*Environmental Technology Verification* (–\$1.0 million).—One or two centers for testing the effectiveness of commercial environmental technologies would be closed.

EPA STAR Graduate Fellowships.—NCSE urges Congress to appropriate at least \$10 million for the STAR graduate fellowship program in fiscal year 2005. This is the only Federal program aimed specifically at students pursuing advanced degrees in environmental sciences. According to the National Academies report, “The STAR fellowship program is a valuable mechanism for enabling a continuing supply of graduate students in environmental sciences and engineering to help build a stronger scientific foundation for the nation’s environmental research and management efforts.” The STAR fellowship program is highly competitive, with only 7 percent of applicants being awarded fellowships.

The President’s budget request has proposed deep cuts in the STAR graduate fellowship program in the past 2 years. The budget request would have cut funding for the STAR graduate fellowship program by 50 percent in fiscal year 2004 and by 100 percent in fiscal year 2003. Under the leadership of this subcommittee, Congress restored full funding for the EPA STAR graduate fellowship program in both years. NCSE encourages Congress to restore full funding for the program again in fiscal year 2005.

Science, Technology and Education at EPA.—EPA’s overall Science and Technology account faces serious reductions in the President’s fiscal year 2005 budget request. This account would be cut by 11.8 percent to \$689.2 million in fiscal year 2005. We encourage Congress to provide at least \$790 million to fund this important function at EPA.

The fiscal year 2005 budget request proposes no funding for the EPA Office of Environmental Education. NCSE strongly encourages Congress to restore full funding of at least \$10 million to support the congressionally mandated programs administered by this office. These programs provide national leadership for environmental education at the local, State, national and international levels, encourage careers re-

lated to the environment, and leverage non-Federal investment in environmental education and training programs.

NATIONAL SCIENCE FOUNDATION

Implementing the NSF Doubling Act.—The National Council for Science and the Environment urges Congress to appropriate the funds necessary to implement the National Science Foundation Authorization Act of 2002, which was passed by Congress on November 15, 2002 and signed into law by the President on December 19, 2002 (Public Law 107–368). A central goal of the Act is to double the budget of the National Science Foundation in 5 years. It authorizes a budget increase of 105 percent for the NSF, from \$4.8 billion in fiscal year 2002 to \$9.8 billion in fiscal year 2007. The NSF Authorization Act of 2002 is a major milestone for the NSF, the scientific community, and the Nation. It recognizes the critical connection between science and the long-term economic strength of the Nation. In order to achieve the outcomes envisioned by this bold legislation, Congress must appropriate the funding levels specified in the NSF Authorization Act.

The National Council for Science and the Environment urges Congress to appropriate \$6.41 billion for the National Science Foundation in fiscal year 2005, which would be a 15 percent increase over fiscal year 2004. NCSE supports an increase of 15 percent in fiscal year 2005 in order to place NSF on the doubling track that Congress deemed necessary. Although the authorized funding level is \$7.38 billion for fiscal year 2005, we understand that this may be beyond reach in the current fiscal environment.

The President's budget request would increase funding for NSF by 3.0 percent to \$5.75 billion in fiscal year 2005. Of the \$167 million in new funding, 45 percent would be devoted to a management initiative that would provide more staff for NSF and improve the security of its computer systems. Under the fiscal year 2005 budget request, funding for most of the disciplinary directorates, such as Biological Sciences and Geosciences, would increase by only 2.2 percent, only slightly more than the expected rate of inflation.

Expanding NSF's Environmental Research and Education Portfolio.—The National Science Foundation plays a crucial role in supporting environmental R&D. Environmental research often requires knowledge and discoveries that reach across disciplinary and institutional boundaries. The NSF recognizes this and encourages multidisciplinary environmental activities across the entire agency, as well as with other Federal agencies. The NSF has established a "virtual directorate" for Environmental Research and Education (ERE). Through this virtual directorate, NSF coordinates the environmental research and education activities supported by all the directorates and programs.

Although the National Science Board said environmental research and education should be one of NSF's "highest priorities" (see below), funding for the ERE research portfolio would decrease by 0.2 percent, from \$932.1 million in fiscal year 2004 to \$930.2 million in the fiscal year 2005 budget request (Table 1). This is the first time that ERE funding would decline since the National Science Board identified it as one of NSF's highest priorities in 2000. NCSE encourages Congress to support more investment in this important area of research. Given that the National Science Board has been identified environmental research and education as one of the agency's highest priorities, funding for the ERE portfolio should grow at least as rapidly as the total NSF budget. In order to achieve the \$1.6 billion funding level recommended by the National Science Board, NCSE supports rapid growth in NSF's Environmental Research and Education portfolio over the next several years.

TABLE 1.—NATIONAL SCIENCE FOUNDATION: ENVIRONMENTAL RESEARCH AND EDUCATION (ERE)
 [Budget Authority in Millions of Dollars]

	Environmental R&D					Change 2004 to 2005			
	Fiscal Year 1999 Actual	Fiscal Year 2000 Actual	Fiscal Year 2001 Actual	Fiscal Year 2002 Actual	Fiscal Year 2003 Actual	Fiscal Year 2004 Plan	Fiscal Year 2005 Request	Amount	Percent
Research and Related Activities (R&R):									
Biological Sciences	\$117.9	\$125.3	\$167.0	\$174.5	\$188.3	\$214.1	\$214.1		
Comp. & Info. Sci. & Eng	4.0	7.0	15.1	15.1	22.1	23.9	23.9		
Engineering	38.0	50.0	62.7	63.7	76.0	76.0	74.0	-\$2.0	-2.6
Geosciences	320.9	327.9	409.4	442.8	499.1	513.1	513.1		
Math. and Physical Sci	44.3	48.3	56.4	56.4	11.0	32.2	32.2		
Soc., Behav. & Econ. Sci	17.8	17.3	20.1	21.7	5.0	21.9	21.9		
Office of Polar Programs	45.3	45.3	47.5	49.8	50.9	50.9	50.9		
Integrative Activities ¹	7.0	50.0							
Subtotal, R&R	595.2	671.2	778.1	824.0	852.4	932.1	930.2	-2.0	-0.2
Edu. and Human Res. ²					2.0	2.0	2.0		
TOTAL, ERE Budget	595.2	671.2	778.1	824.0	854.4	934.1	932.2	-2.0	-0.2
TOTAL, NSF Budget	3,690.3	3,923.4	4,459.9	4,774.1	5,369.3	5,577.8	5,745.0	167.2	3.0

¹In fiscal year 1999 and fiscal year 2000, funding for the Biocomplexity and the Environment (BE) Priority Area was included in the Integrative Activities account. Beginning in fiscal year 2001, BE funds were distributed across the directorates. Funding for BE was \$4.88 in fiscal year 2001; \$58.10 million in fiscal year 2002; and \$75.20 million in the President's Request for fiscal year 2003.

²Figures for environmental funding in the Education and Human Resources account are not available prior to fiscal year 2003. Although education is not generally scored as R&D, \$2.0 million for Environmental Education was included in the Education and Human Resources Directorate in the ERE budget from fiscal year 2003 to 2005 (request).

Source: NSF.

Biocomplexity in the Environment.—NCSE is especially supportive of NSF's priority area on Biocomplexity in the Environment, which is the flagship of the ERE portfolio. This priority area provides a focal point for investigators from different disciplines to work together to understand complex environmental systems, including the roles of humans in shaping these systems. It includes research in microbial genome sequencing and ecology of infectious diseases—to help develop strategies to assess and manage the risks of infectious diseases, invasive species, and biological weapons crucial to homeland security.

The Biocomplexity in the Environment priority area was reviewed by a Committee of Visitors in February 2004. The committee reported:

“This program is highly responsive to a great need for integrative research to answer non-linear complex questions. The outcomes are helpful to establishing sound science evidence for use in policy decisions, in making science relevant to the community, in including the human dimension in consideration of environmental change, and in integrating these areas of science knowledge and discovery with the need for environmental literacy among our students in formal education and the education of the general public.”

We urge Congress to support this critical initiative and to consider funding it at a level of \$136 million, as proposed in fiscal year 2000 budget request for NSF. After several years of rapid growth, the fiscal year 2005 budget request would provide flat funding of \$99.8 million for Biocomplexity in the Environment.

NATIONAL SCIENCE BOARD REPORT ON ENVIRONMENTAL SCIENCE AND ENGINEERING

The National Council for Science and the Environment encourages Congress to support full and effective implementation of the 2000 National Science Board (NSB) report, *Environmental Science and Engineering for the 21st Century: The Role of the National Science Foundation*, within the context of a doubling of the budget for the NSF.

The National Science Board report sets out an ambitious set of recommendations that could dramatically improve the scientific basis for environmental decision-making. The first keystone recommendation is as follows:

“Environmental research, education, and scientific assessment should be one of NSF's highest priorities. The current environmental portfolio represents an expenditure of approximately \$600 million per year. In view of the overwhelming importance of, and exciting opportunities for, progress in the environmental arena, and because existing resources are fully and appropriately utilized, new funding will be required. We recommend that support for environmental research, education, and scientific assessment at NSF be increased by an additional \$1 billion, phased in over the next 5 years, to reach an annual expenditure of approximately \$1.6 billion.”

The report says that the National Science Board expects NSF to develop budget requests that are consistent with this recommendation. At first, growth in the Environmental Research and Education budget reflected its priority status: from fiscal year 1999 to 2001, the ERE account grew more rapidly than the overall NSF budget. However, the ERE growth rate has trailed the total NSF growth rate since that time. From fiscal year 2002 to fiscal year 2005 (request), the ERE budget grew by only 13.1 percent while the total NSF budget grew by 20.3 percent. The lagging growth of the Environmental Research and Education budget relative to the total NSF budget in recent years raises serious concerns about its status of one NSF's “highest priorities.”

The National Science Board envisioned a 167 percent increase in funding for the ERE portfolio, from approximately \$600 million to \$1.6 billion, within the context of a doubling of the total NSF budget over 5 years. The doubling has not materialized. Nevertheless, if the Environmental Research and Education portfolio is one of NSF's highest priorities, then the growth rate of the ERE budget should not lag behind the growth rate of the total NSF budget.

The National Science Foundation has taken many steps to implement the recommendations of the NSB. Full implementation of the NSB report will require strong support from Congress and a significant increase in funding for NSF's portfolio of environmental science, engineering and education.

The National Council for Science and the Environment appreciates the subcommittee's sustained support for environmental research at the Environmental Protection Agency and the National Science Foundation. Investments in these agencies continue to pay enormous dividends to the Nation. Thank you very much for your interest in improving the scientific basis for environmental decision-making.

PREPARED STATEMENT OF THE NATIONAL ASSOCIATION OF UNIVERSITY FISHERIES
AND WILDLIFE PROGRAMS

The National Association of University Fisheries and Wildlife Programs (NAUFWP) appreciates the opportunity to offer comments on the fiscal year 2005 budget for the National Science Foundation. NAUFWP is thankful for support that both the Congress and the administration demonstrated for the National Science Foundation (NSF) by enacting the National Science Foundation Authorization Act of 2002. The Act authorizes a 5-year period of 15 percent annual budget increases, placing NSF on a “doubling track,” which will enhance current and future U.S. scientific and technological advancements in science. The National Association of University Fisheries and Wildlife Programs urges Congress to act on its commitment by increasing fiscal year 2005 funding for NSF 15 percent over the fiscal year 2004 enacted budget, for a total increase of \$6.415 billion.

Despite tough budget times, this kind of investment is critical. NSF is one of the Nation’s best tools for promoting and advancing scientific research and education. Although NSF accounts for only 4 percent of Federal Research and Development spending, it supports nearly 50 percent of the non-medical Biological Sciences research at our colleges and universities.

BIOLOGICAL SERVICES

Within the Research and Related Activities (R&RA) account, the Biological Sciences Directorate is of particular interest to the wildlife conservation and research community. The Biological Sciences Activity (BIO) supports research, infrastructure, and education at U.S. academic institutions, including NAUFWP universities.

BIO provides 65 percent of the support for basic research in non-medical aspects of the biological sciences at academic institutions. Because the majority of Federal support for the life sciences—over 85 percent—goes to health-related research funded by the National Institute of Health, NSF’s contribution to the broad array of the biological sciences is highly significant and strategically focused, particularly in such areas as environmental biology and plant sciences. In nationally important issues related to wildlife and wildlife habitat, BIO-supported research enhances the understanding of how living organisms function and interact with non-living systems.

Current research includes a project investigating elk-wolf interactions in Yellowstone National Park. Results of the project will enhance knowledge of large mammalian systems and facilitate design of sound endangered species programs. Another BIO-supported research project involves modeling population density and foraging behavior of Brazilian free-tailed bats. Data from this project have shown that bats from two Texas caves provide pest control service for agricultural crops such as corn and cotton. The estimated value of protection afforded the crops by the bats amounts to as much as \$258 million annually; thus conserving bat diversity and habitat is both biologically and economically beneficial.

The President’s budget proposal restricts the BIO program to an increase of approximately 2 percent. We recommend you provide the Biological Sciences account with an increase equal to the overall R&RA increase, which is 4.7 percent over the fiscal year 2004 enacted level. This would equal an increase of \$27.58 million for Biological Sciences, for a total budget of \$614.47 million in fiscal year 2005.

TOOLS

One of the NSF’s strategic goals is to support investment in Tools—state-of-the-art science and engineering facilities, tools, and other infrastructure that enable discovery, learning, and innovation. Funds dedicated to this account allow NSF to revitalize and upgrade aging infrastructure, and enable progress in research and education. NAUFWP supports the President’s requested \$58.3 million increase for the Major Research Equipment and Facilities Construction (MREFC), within the Tools account. Increased funding for MREFC will support ongoing projects and provide funding necessary to launch proposed projects.

We urge you to support the President’s request of \$12 million in fiscal year 2005 for the National Ecological Observatory Network (NEON). NEON will be a continental-scale research instrument consisting of geographically distributed observatories, networked via state-of-the-art communications allowing scientists and engineers to conduct research spanning all levels of biological organization. NEON will provide researchers with important tools necessary to address ecological questions regarding habitat and wildlife conservation in the United States. Examples of research that could be addressed by NEON include: the spread of infectious diseases

like West Nile Virus and the affect of western wildfires on water quality in the central or eastern United States.

ABOUT THE NATIONAL ASSOCIATION OF UNIVERSITY FISHERIES AND WILDLIFE PROGRAMS

The National Association of University Fisheries and Wildlife Programs represents approximately 55 university programs and their 440 faculty members, scientists, and extension specialists, and over 9,200 undergraduate and graduate students working to enhance the science and management of fisheries and wildlife resources. Our affiliates conduct research on a diversity of subjects, fulfilling the information needs of fish, wildlife, and natural resource management. Individual projects are used as building blocks in comprehensive research that provides applied science information for management.

Please include this testimony in the official record. Thank you for the opportunity to share our views with the committee.

PREPARED STATEMENT OF THE NATURE CONSERVANCY

INTRODUCTION AND BACKGROUND

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to submit written testimony on behalf of The Nature Conservancy for fiscal year 2005 appropriations for the U.S. Environmental Protection Agency (EPA).

The Nature Conservancy is an international, non-profit organization dedicated to the conservation of biological diversity. Our mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Conservancy has more than 1,000,000 individual members and 1,900 corporate associates. We have programs in all 50 States and in 27 foreign countries. We have protected more than 15 million acres in the United States and nearly 102 million acres with local partner organization globally. The Conservancy owns and manages about 1,400 preserves throughout the United States—the largest private system of nature sanctuaries in the world. Sound science and strong partnerships with public and private landowners to achieve tangible and lasting results characterize our conservation programs.

Biological diversity is important for a number of reasons. Species and natural communities harbor genetic and chemical resources that contribute to advances and products in medicine, agriculture and industry. The value of these goods is enormous. It represents, however, only a fraction of the value these ecosystems provide to humanity in terms of services, such as waste assimilation and treatment, climate regulation, drinking water, and flood control. One estimate of the value of these services for the entire biosphere is \$33 trillion, which is nearly double the global gross national product (Costanza et al 1997). In addition to these benefits, the environment serves as an instrument through which educational, cultural, aesthetic and spiritual values are often expressed.

In 2000, The Nature Conservancy and the Association for Biodiversity Information released a study documenting America's astonishing natural abundance. For example, we now know the United States is home to more than 200,000 native species of plants and animals and ranks at the top in its variety of mammals and freshwater fish. Ecosystems in the United States are also among the most diverse. They range from tundra, to deserts, prairies, and various forest types. However, as many as one-third of the Nation's species are at risk and at least 500 species have already gone extinct or are missing. The single biggest threat to species survival is loss of habitat, which generally occurs as a result of human activities. Almost 60 percent of America's landscape is already severely altered.

Reversing the trend will require working at larger scales and across State and other jurisdictional lines. The Nature Conservancy is committed to this effort. For example, we have invested \$1 billion in private funds over the last several years to protect critical natural areas around the United States and abroad, and we are committed to making similar investments over the next several years. These investments alone, however, will not be enough. True conservation success will be achieved only through the work of partners, including the Federal Government. Funding is needed at the Federal level to support on-the-ground conservation projects and to ensure policies that promote a sustainable environment.

SUMMARY OF RECOMMENDATIONS

EPA is responsible for administering a number of programs that protect public health and the environment. The Nature Conservancy recommends level or modest

funding increases for seven programs with which we have had direct experience and that we believe help preserve biodiversity. The seven programs include the following:

THE NATURE CONSERVANCY'S FISCAL YEAR 2005 FUNDING RECOMMENDATIONS FOR SELECTED
EPA PROGRAMS

Program Name	Fiscal Year 2005 Recommendations	
	EPM Account	STAG Account
Clean Water Act State Revolving Fund (CWSRF)		\$1,350,000,000
Coastal Watersheds and National Estuaries Program	¹ \$50,000,000	
Non-point Source Management Program (Section 319)	16,900,000	250,000,000
Targeted Watershed Program	25,000,000	
Wetlands Protection Program	18,000,000	18,000,000
Chesapeake Bay Program	22,000,000	
Great Lakes National Program Office	17,000,000	

¹ Includes \$35 million for National Estuaries Programs as authorized under the Estuaries and Clean Waters Act of 2000 and \$15 million for other coastal activities.

Implementation of these programs produces benefits to public health, the environment and, by extension, biodiversity conservation. For example, loans made under the CWSRF to establish or restore riparian corridors along streams (to address non-point pollution) will improve water quality, while also improving or providing important aquatic and terrestrial habitat. Section 319 funds can be used to produce a similar range of benefits.

In general, these programs satisfy niches filled by no other Federal programs. For example, the Section 319 program, unlike Farm Bill programs, can be used to address non-point pollution from diverse sources such as urban runoff and leaking septic systems, not just pollution from agricultural sources. Its broader focus reaches more vulnerable habitats such as grassed swales that are important to grassland birds, which as a group are the most threatened in the United States.

In general, the above programs are holistic and non-regulatory in approach. The geographically focused programs, in particular, enable multiple pollution problems to be addressed in an integrated rather than singular fashion, which makes them incredibly important to biodiversity conservation. They also provide opportunities for public and private parties to collaborate to achieve mutually beneficial goals.

My remaining comments focus on two of the above programs: Coastal Watersheds and National Estuaries Program; and the Great Lakes National Program Office. Should the subcommittee request it, the Conservancy would be happy to provide documentation of the importance of the other programs not highlighted in my comments below.

COASTAL WATERSHEDS AND NATIONAL ESTUARIES PROGRAM

Through this program, the EPA provides funding to the 29 National Estuary Programs (NEPs) for development and implementation of Comprehensive Conservation and Management Plans (CCMPs). In addition, this program funds other activities benefiting coastal watersheds including partnerships to abate threats to coastal habitats and recreational waters. Key management issues addressed by the NEPs and other local coastal partnerships include habitat loss and degradation, introductions of pathogens and toxins that threaten human and aquatic health, invasive species, and freshwater inflows. This program also funds monitoring and permitting activities, such as dredging, and is examining how to curtail point source discharges into coastal waters.

Coastal watersheds contribute to the Nation's economic, environmental, and social well being. They provide habitat for various life stages of important plant and animal species, including threatened and endangered species and those having commercial or recreational value. They also harbor species that filter pollutants from water, control sedimentation, and protect against shoreline damage and floods.

Over half of the United States population lives within areas that affect coastal watersheds. Additional resources are needed to enable the NEPs and other partnerships to address the complex threats to coastal health, such as invasive species and nutrient pollution.

Increased resources for this program will enable NEPs to implement their conservation plans. Additional funding will strengthen the EPA's ability to provide seed monies to other important local coastal watershed projects that heretofore have had few funding opportunities available to them. Financing of these latter projects could

perhaps be provided through a competitive grants program to State, local, and non-governmental organizations. Additional funding could be used to expand coverage of the NEP to additional estuaries. Since 1991, 34 additional sites have either been nominated by a governor or have expressed interest in being designated as a NEP. EPA, however, has been able to select only seven nominees due to funding constraints. If the Nation is to make progress in addressing the significant management issues facing estuaries, additional funding is required for this program.

The Nature Conservancy respectfully requests an appropriation of \$50 million for Coastal Watersheds and National Estuaries Program, which includes the \$35 million authorized level for the NEPs and an additional \$15 million for other coastal activities. The administration's request for these two programs combined is \$19.2 million.

THE GREAT LAKES

EPA's Great Lakes National Program Office (GLNPO) funds and conducts programs and projects to protect, maintain and restore the chemical, biological and physical integrity of the Great Lakes—the largest freshwater ecosystem on Earth. GLNPO serves an important role of bringing together Federal, State, tribal, non-governmental and industry partners in an integrated ecosystem approach.

GLNPO collaborates with its multi-State and multi-agency partners to accomplish an agenda for ecosystem management which includes reducing toxic substances, protecting and restoring important habitats, and protecting human/ecosystem health. GLNPO combines research and monitoring with education and outreach, and it supports grants for specific activities to enhance and protect the Great Lakes environment. GLNPO advocates implementation of a community-based ecosystem approach to coordinate environmental efforts in the Great Lakes and has favored targeting the ecologically significant habitats identified in The Nature Conservancy's Great Lakes Program and Great Lakes State Chapters have been frequent and substantial partners with GLNPO.

The Nature Conservancy recommends an appropriation of \$17 million in base funding for EPA's Great Lakes National Program Office in fiscal year 2005. This request is \$1.6 million higher than the administration's request of \$15.4 million. The Conservancy also supports the \$5.7 million included in the President's request for the Remedial Action Plans and Lakewide Management Plans.

CLOSING

Thank you for the opportunity to provide these brief comments and for your attention to the important role EPA's programs play in protecting public health and the environment and in conserving biodiversity. While the charge to conserve biodiversity is a daunting one, public and private partnerships such as those afforded under EPA's programs offer a promise of success. The Conservancy would not be investing so heavily with its own resources if we did not believe this to be true. We look forward to continuing our work with Federal agencies, State and local governments, non-governmental organizations, and the private sector to ensure the long-term protection and sustainable use of the environment toward the ultimate goal of preserving the diversity of life on Earth. We appreciate the subcommittee's support for the EPA programs that help make this important work possible.

PREPARED STATEMENT OF THE UNIVERSITY OF MEDICINE AND DENTISTRY OF NEW JERSEY

The following is the testimony of the University of Medicine and Dentistry of New Jersey (UMDNJ), the largest freestanding public university of the health sciences in the Nation. The University is located on five State-wide campuses and contains three medical schools, and schools of dentistry, nursing, health related professions, public health and graduate biomedical sciences. UMDNJ also comprises a University-owned acute care hospital, three core teaching hospitals, an integrated behavioral health care delivery system, and affiliations with more than 200 health care and educational institutions State-wide.

We appreciate the opportunity to bring to your attention two priority projects—the Child Health Institute and the Geriatric Research Center—which are consistent with the mission of this committee.

Our first priority is the development of the Child Health Institute of New Jersey at the UMDNJ-Robert Wood Johnson Medical School (RWJMS) in New Brunswick. RWJMS is one of three schools of medicine at UMDNJ. It is nationally ranked

among the top ten medical schools in the percentage of minority student enrollment, and the top one-third in terms of grant support per faculty member. RWJMS is home to major research institutes including The Cancer Institute of New Jersey, the Center for Advanced Biotechnology and Medicine, the Environmental and Occupational Health Sciences Institute, and the Child Health Institute of New Jersey.

The Child Health Institute of New Jersey is a comprehensive biomedical research center. It will be the cornerstone institution of a major research and clinical effort to understand, prevent and treat environmental and genetic diseases of infants and children. Its development is integral to the enhancement of research at Robert Wood Johnson Medical School (RWJMS) in developmental genetics and biology, particularly as it relates to disorders that affect a child's development and growth, physically and functionally. The program will enable the medical school to expand and strengthen basic research efforts with clinical departments at the Robert Wood Johnson University Hospital (RWJUH) and, in particular, those involved with the new Bristol-Myers Squibb Children's Hospital at RWJUH, especially obstetrics, pediatrics, neurology, surgery and psychiatry.

The Institute builds on existing significant strengths in genetic, environmental and neuroscience research within UMDNJ–RWJMS and associated joint programs with Rutgers University and other research institutes. For example, the Environmental and Occupational Health Sciences Institute (EOHSI) is a National Institute of Environmental Health Sciences (NIEHS) recognized center of excellence which investigates environmental influences on normal and disordered functions; the Cancer Institute of New Jersey (CINJ), a National Cancer Institute-designated Comprehensive Cancer Center, studies disordered cell growth; and the Center for Advanced Biotechnology and Medicine (CABM) characterizes gene structure and function.

The best science requires creative scientists working in state of the art buildings using state of the art equipment. The construction of the Child Health Institute at RWJMS will fill a critical gap through recruitment of new faculty to build an intellectual atmosphere of basic molecular programs in child development and health.

Research conducted by the Institute will focus on the molecular and genetic mechanisms that direct the development of human form, subsequent growth, and acquisition of function. The scientists and students will investigate disorders that occur during the process of development to determine how genes and the environment interact to cause childhood diseases. Ultimately, we hope to identify avenues of prevention, treatment, and even cures for these disorders.

Investigations by the Institute will address basic and translational scientific issues at the molecular and mechanistic levels to advance biomedical science and improve health. For example, despite effective therapy, asthma-related health needs have risen by almost 50 percent over the past decade with hospitalization rates 4 to 5 times higher for African Americans. Methods of prevention, with attention at both micro and macro-environmental conditions, have only been partially effective. Treatment regimens are relatively unchanged. Effective prevention and treatment will require more exacting understanding of the molecular mechanisms of the stimuli-receptor reactions that elicit asthmatic attacks as well as more detailed understanding of the molecular reactions effected by cells once stimulated by environmental factors. The molecular and cellular basis of injury reactions, including reactions of an allergic nature, will be a focus of the research at the Child Health Institute. Continued exploration of the basic molecular underpinnings of injury reactions will lead to more rational methods to prevent, minimize and treat asthmatic reactions and deaths. Urban academic medical centers such as the Robert Wood Johnson Medical School are at the epicenter of the current escalation in asthma and the Child Health Institute is well positioned, in conjunction with other institutes at the medical school to address this critical issue.

The Child Health Institute will act as a magnet for additional growth in research and healthcare program development in New Jersey. The Institute will encompass 150,000 gross square feet and will house more than 40 research laboratories and associated support facilities. Fourteen senior faculty will direct teams of MDs and PhDs, visiting scientists, postdoctoral fellows, graduate students and technicians for a full complement of approximately 130 employees. The institutional goals of the Child Health Institute are to forge the scientific programs at the Institute with hospital based programs into a major center for children's health and to partner with pharmaceutical, chemical and information industries in growing opportunities in biotechnology and bioinformatics.

Construction costs for the Institute are estimated to be approximately \$72 million; approximately half of this figure is generally associated with local employment. At maturity, the Institute is expected to attract \$7 to \$9 million of new research funding annually. The Institute's total annual operating budget is projected to be \$10

to \$12 million, with total economic impact on the New Brunswick area projected to be many times this amount.

The Child Health Institute has assembled over \$40 million to fund its building and programs through a strong partnership among private, corporate and government entities. This support includes more than \$6 million in congressionally directed appropriations for the CHI over the past 4 years, including an appropriation from this committee in fiscal year 2003; and a \$1.9 million facility grant awarded by the National Center for Research Resources of the National Institutes of Health. We respectfully seek \$2 million to complement support already received in Federal participation to further advance the development of the Child Health Institute of New Jersey. A critical component of the research infrastructure being developed within the Child Health Institute is an Imaging Core Facility. Through this facility, researchers will be able to better visualize the dynamics of structures within cells and cells within developing tissues. Understanding these dynamics is crucial to expanding knowledge of the processes involved in basic molecular underpinnings of normal and abnormal growth and injury reactions. Requested funding will be utilized for the purchase of analytical equipment, including laser scanning and multi-photon microscopes to fit-out this shared facility.

Our second priority is the development of a Geriatric Research Center within the Center for Aging, which is part of the UMDNJ-School of Osteopathic Medicine (SOM) in Stratford in southern New Jersey. As an osteopathic medical school, SOM places great emphasis on primary care, wellness, health promotion and disease prevention in all areas of its Mission. Enrolled students receive comprehensive instruction in the basic and clinical sciences, emphasizing the primary care of the patient. SOM also sponsors the largest graduate medical education program of all osteopathic medical schools in the Nation. An active continuing medical education program targets primary care physicians in the southern region of New Jersey. SOM's longstanding affiliation with the Area Health Education Centers provides links to hundreds of community-based agencies and health care providers, with whom the school works in partnership to address community health care needs and policy issues. For more than a decade the school has finished among the top three osteopathic schools in the Nation for research funds received from the National Institutes of Health.

In response to the growing number of elderly in New Jersey, including nearly 300,000 veterans living in the State over age 65, SOM has taken a leadership role in the development of programs and services specifically for older individuals. These activities are coordinated through the SOM Center for Aging, which was established in 1987 and designated as a center of excellence in clinical services, education and research in 1989.

The Center, whose staff represents multiple disciplines, is nationally recognized as a leader in quality care for older individuals, providing an array of services, varied educational experiences for health care professionals and research in the field of aging.

Through a comprehensive continuum of care which includes ambulatory sites, acute care, nursing homes, assisted living facilities, hospice programs, home care, adult medical day care, and senior citizen subsidized housing, the Center for Aging provides health care to both well community-residing elderly as well as those who are frail, multiply compromised and homebound.

Recognized for its strength in education and training, the Center for Aging and SOM has attained both State-wide and national prominence. In 1989 UMDNJ-SOM was the first osteopathic medical school to receive Federal funding for a 2-year geriatric medicine and dentistry fellowship program. Currently in its 14th year of Federal support, the fellowship program has been expanded to include psychiatry and psychology. The UMDNJ-School of Osteopathic Medicine, through the Center of Aging, was ranked in the top ten best graduate schools in geriatric medicine for 2004 in U.S. News and World Report. It was also recognized as "Best Medicine" in geriatrics for 2004 by Philadelphia Magazine. The Center for Aging also serves as the administering agency for the State-wide New Jersey Geriatric Education Center (NJGEC), which has been federally funded since 1990 and has received Federal recognition for its health promotion initiatives. NJGEC has provided training to more than 15,000 healthcare professionals of multiple disciplines throughout New Jersey.

As a center of excellence, the Center for Aging continues to build its research component. The Center is involved in many clinical drug trials and has several clinical and behavioral research projects underway. It is in a position to build an extensive patient database across its service continuum, and to collaborate with the other schools within the UMDNJ system in aging-related research.

Attracting more researchers to the Center is critical to achieving national prominence as a center for excellence in geriatrics. A major drawback to that goal is the lack of dedicated space to expand the Center's research laboratories.

The UMDNJ-School of Osteopathic Medicine is seeking \$5 million in capital and program funds to support dedicated space and faculty for a Geriatric Research Center within the Center for Aging. Total project costs are estimated at \$30 million for capital and program needs. External public and private sources, including the U.S. Department of Health and Human Services, Health Resources and Service Administration; the Administration on Aging; and the State of New Jersey; have contributed over \$6 million toward activities associated with this project.

Requested fiscal year 2005 funding would provide support for the construction of the physical space to house research programs focusing on the cellular, biochemical and psychological aspects of aging. Basic science research will build on existing programs in nutrition, protein loss, free radical injury, genetic determinants of aging and disease, the cellular aging process and Alzheimer's disease. Space would also be allocated to support behavioral research, where researchers in the biopsychosocial aspects of aging will study such areas as caregiver stress, mental health problems in the elderly, end of life issues, palliative care, and behavioral management intervention strategies.

The Center's clinical and educational programs will provide the synergy needed for the development of a full range of basic science and behavioral research in the field of aging. The strength of this dual approach underscores the close relationship between the physiological and psychological aspects of growing old and will broaden opportunities to seek extramural funding for research in a variety of areas. Of key importance will be the role of the Center in translating research findings into patient care practices, thereby enhancing the health and quality of life of older Americans, including those most vulnerable and at greatest risk for poor health across our State and Nation. We respectfully seek \$5 million in capital and program funds to support dedicated space for a Geriatric Research Center.

We want to thank this committee for supporting the critical needs of research and economic development throughout the Nation, and for recognizing the role that medicine and its associated technologies contribute as engines for economic growth. Thank you for your consideration of UMDNJ's priority projects—the Child Health Institute of New Jersey, and the Geriatric Research Center.

PREPARED STATEMENT OF THE ALLIANCE TO SAVE ENERGY

My name is Kateri Callahan and I serve as the President of the Alliance to Save Energy, a bipartisan, nonprofit coalition of more than 80 business, government, environmental, and consumer leaders. The Alliance's mission is to promote energy efficiency worldwide to achieve a healthier economy, a cleaner environment, and greater energy security. The Alliance, founded by then-Senators Charles Percy and Hubert Humphrey, currently enjoys the leadership of Senator Byron Dorgan as Chairman; former CEO of Osram Sylvania Dean Langford as Co-Chairman; and Representative Ed Markey and Senators Susan Collins, Jeff Bingaman, and Jim Jeffords as its Vice-Chairs. Attached are lists of the Alliance's Board of Directors and its Associate members, which I respectfully request be included in the record as part of this testimony.

I thank the subcommittee for the opportunity to testify on behalf of the members and Board of the Alliance to voice our strong support for increased Federal funding to the Environmental Protection Agency's Energy Star program in fiscal year 2005. The Energy Star program is, in our opinion, one of the government's most successful efforts to promote marketplace solutions to greater energy efficiency. The Energy Star program is an entirely voluntary program that is yielding significant economic returns to our Nation's consumers and significant environmental benefits to our Nation as a whole. Increased investment in the Energy Star program will translate to increased energy savings by taxpayers across the country. Studies estimate that every Federal dollar spent on the Energy Star program results in an average savings of \$75 or more in consumer energy bills; the reduction of about 3.7 tons of carbon dioxide emissions; and an investment of \$15 in private sector capital in development of energy-efficient technologies and products.

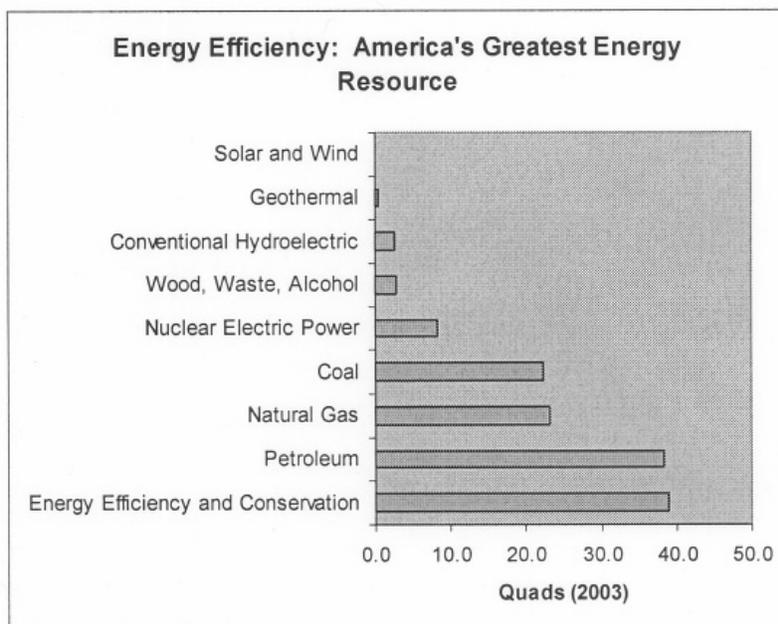
The Alliance has a long history of advocacy, as well as research and evaluation, of Federal efforts to promote energy efficiency. Congress has enacted important measures, and the administration has adopted meaningful regulations and standards that are yielding energy savings through energy efficiency; the Energy Star program is of particular note, however, as it testifies to the important achievements that can be made through cooperative partnerships between government and busi-

nesses. The Climate Protection Division at EPA, which operates the Energy Star program, works closely with manufacturers, retailers, building owners, and energy service providers, as well as State and local governments, nonprofits, and other organizations to promote energy-efficient products and buildings. As you may know, through the Energy Star program a set of rigorous guidelines that represent high energy efficiency goals are established for the products or services of the participants in order to qualify for the Energy Star label. The label is, quite simply, the “good housekeeping seal of approval.” Through this important and impressive program, business and government—working in lockstep—are achieving national environmental, energy security, and economic goals.

Energy efficiency is an investment. By purchasing more efficient, smarter technologies, there is often a modest additional cost, but that additional cost is paid back many times to the consumer through lower energy bills. Energy Star helps consumers understand and realize these benefits. Last year alone, Americans, with the help of Energy Star, saved \$9 billion on their energy bills. Consumers can use these significant savings to invest in the economy, their families, and their future.

ENERGY EFFICIENCY IS AMERICA’S GREATEST ENERGY RESOURCE

Mr. Chairman, energy efficiency is America’s greatest energy resource. It makes a larger contribution to meeting our energy needs than petroleum, natural gas, or even coal. The Alliance to Save Energy estimates that energy efficiency gains since 1973 are now saving at least 39 quadrillion BTUs of energy each year, or about 40 percent of our actual energy use.¹ The energy savings we are enjoying from energy efficiency far exceed consumption of natural gas or coal, and far outpace energy produced using oil, nuclear, and other sources.



Every BTU we save is one less BTU that needs to be generated. What’s more, increasing America’s energy efficiency is the quickest, cleanest, and cheapest way of increasing our energy supply. Without these enormous savings, our difficulties in meeting energy demand would be far, far worse than they are today.

For example, in 2003, Energy Star helped Americans save enough energy to power 20 million homes and avoid greenhouse gas emissions equivalent to removing 18 million cars from the road. Getting more for less is the American way, and En-

¹Energy efficiency savings estimated by Alliance to Save Energy. Production quantities from Energy Information Administration, Monthly Energy Review, January 2004.

ergy Star meets this goal by helping millions of Americans get the energy they need, while saving money and pollution.

Despite the introduction of new technologies and the integration of energy efficiency into the Nation's energy policies and economy, we barely have scratched the surface of energy efficiency's potential. It seems that every year technological developments bring more and better measures for reducing electricity demand and for making homes, buildings, and the devices we use, from washing machines to computers, more energy-efficient. Mr. Chairman, Energy Star is an important tool for educating American consumers about these emerging, efficient products. Consumers are learning to "look for the Energy Star label" as they comparison shop for appliances, homes, electronic devices, and other products.

HOW ENERGY STAR CAPITALIZES ON THIS RESOURCE

Mr. Chairman, EPA's Energy Star program has proven to be an extremely effective way for this Nation to capitalize on the potential of energy efficiency as a resource. Energy Star's voluntary partnership program—which includes Energy Star Buildings, Energy Star Homes, Energy Star Small Business, and Energy Star Labeled Products—works by removing marketplace barriers to existing and emerging technologies; by providing information on technology opportunities; by generating awareness of energy-efficient products and services; and by educating consumers about life-cycle energy savings. Consumers know that a product with the Energy Star label is among the most energy-efficient in the market.

Last year, the Alliance to Save Energy undertook an extensive public opinion survey and found that the name recognition of the Energy Star program is very high—86 percent among U.S. homeowners. Approximately one-third of U.S. consumers report using the Energy Star label as an information tool for making purchase decisions; and an even higher number report using Energy Star as an information tool to help them save energy. Most consumers who are aware of the Energy Star label correctly understand that products bearing the Energy Star label use less energy and can save them money on energy bills.

Mr. Chairman, as you may be aware, your State of New York has a program to promote, actively, the Energy Star label with consumers. This effort has yielded very positive results. Our research indicates that New York residents are significantly more likely to have purchased an Energy Star labeled product than consumers outside the State. New York's efforts are an impressive example of how, by using the Energy Star label, government can reduce overall energy use while at the same time assuring lower utility bills for constituents.

ABOUT THE ENERGY STAR PARTNERSHIPS

Energy Star is composed entirely of voluntary partnerships, and these have grown since the early 1990's to include thousands of product manufacturers, private and public building owners and operators, homebuilders, small businesses, utilities, and retailers. The sheer number of these partnerships demonstrates clearly that energy efficiency delivers "pollution prevention at a profit."

Energy Star serves broad constituencies in every State in the country. Energy Star includes over 1,250 manufacturing partners who make and market over 18,000 different models of Energy Star qualifying products. Energy Star assists over 8,000 small businesses with their efforts to maximize the energy efficiency of their facilities. Energy Star counts more than 3,000 builder partners and partners who supply products and services for energy-efficient home construction. To date, more than 100,000 Energy Star Homes have been built—locking in financial savings for homeowners of more than \$26 million annually. Energy Star includes more than 12,000 commercial and industrial participants representing more than 15 percent of the Nation's total commercial, public, and industrial markets and estimated savings of more than 47 billion kilowatt hours of energy.

As you may know, for the last 4 years, the Alliance has asked many of Energy Star's supporters to join us in our request for a significant increase in funding for the program. The response has been remarkable. Joining us in our request are 575 companies and partners of the Energy Star program as well as 2,850 individuals from around the country. Attached please find a copy of this letter with the names and addresses of the supporters for the record.

MUCH HAS BEEN ACCOMPLISHED, BUT HUGE POTENTIAL REMAINS UNTAPPED

The Energy Star program has made a significant contribution to reducing consumer energy use, but a wide array of important, additional opportunities to use the program to promote energy remain untapped. Energy Star is a success, poised

to provide more savings and enhanced environmental protection as soon as the government is ready and able to invest more.

In 2001, the President's National Energy Plan recommended that the Energy Star program be expanded and that the Energy Star labeling program be extended to cover more products. For the past 3 years, the energy bills that have passed the House and Senate have authorized or expanded the Energy Star program. And, time and again, the President and the Administrator of the EPA have noted that voluntary measures are vital to addressing climate change and have held up Energy Star as an exemplary program. Notwithstanding these pronouncements of support, for the fourth year in a row, the administration has recommended virtually level funding for the Energy Star program in fiscal year 2005. In addition, over the past several years, the program has been subjected to funding rescissions and internal cuts. Yet, even in the face of these tight Federal budgets, the number of products and manufacturers in the labeling program has greatly expanded, and the number of partners in the Buildings, Homes, and Small Business programs has soared.

Mr. Chairman, considering the growing energy prices around the country and the concerns about electricity reliability and pollution abatement, the Alliance believes that the Energy Star program should not only be significantly increased for fiscal year 2005, but that the subcommittee also should commit to doubling funding for the program over the next 5 years. This would enable the Energy Star program to look not only at additional products, but also to address whole-home retrofits, including insulation, duct sealing, and home envelope sealing. Energy Star has additional market barriers to break through, including building homeowner trust in energy-efficient home improvements and audit programs. By building on the Energy Star name, we can save much more energy.

In addition to labeling products and buildings, Energy Star has begun a successful effort working with State and local organizations to help homeowners audit and upgrade the efficiency of their homes. Home Performance with Energy Star has been successful in New York, Wisconsin, and California. For example, in New York, as of January of this year, 4,000 energy upgrades had been completed at a pace of some 300 homes/month. On average these upgrades save each homeowner some 600 kWh per year. But much more needs to be done to implement similar programs across the country. With additional funding, the Energy Star program could develop a supportive infrastructure for contractors around the country, share information with interested State organizations, and develop marketing efforts in up to 10 metropolitan areas per year.

RECOMMENDATIONS

Mr. Chairman, EPA's Energy Star program has clearly demonstrated its importance to allowing the United States to capitalize on its greatest energy "resource"—energy efficiency. The program is delivering real progress toward meeting our country's environmental and energy security goals, while at the same time putting more money in consumers' pockets through reduced energy bills. That's a win-win-win—on four important national fronts. More investment by the Federal Government, we believe, would simply expand and increase the benefits now being enjoyed by the country and its citizens through this important, voluntary partnership between the government and industry.

The Alliance to Save Energy respectfully recommends the subcommittee take the following actions to best leverage the proven results that stem from EPA's Energy Star program:

- First, we ask that the Congress, as it did in fiscal year 2004, specify the exact level of Federal funding that is appropriated for the Energy Star program. Such direction to EPA will help to assure that funding intended by Congress for the program is used by the agency for that purpose.
- Second, we recommend that the Congress increase funding of the Energy Star program by \$10 million over the administration's proposal to expand the number of products, programs, and partners involved in the current program. As mentioned earlier in the testimony, we believe Congress should double the budget for the Energy Star program within 5 years; this can be accomplished by adding \$10 million per annum over the next 5 fiscal years.
- Third, we ask Congress to consider an expansion of the Energy Star program to include a "Home Performance" component. This new component that would bring together the Federal Government (EPA, along with the Departments of Energy and Housing and Urban Development), the private sector, and State-level organizations to extend the Energy Star brand into whole-house improvements. Home Performance pilot projects in this area have been undertaken successfully in New York, Illinois, and Wisconsin. The Alliance believes that the

Federal Government needs to take leadership in this area to assure that the energy efficiency benefits being realized in pilot projects today can be translated into a nationwide, whole-home energy savings program.

CONCLUSION

The Energy Star program proves that environmental protection can be achieved while simultaneously saving consumers money on their energy bills and enhancing the economy. Energy Star provides the catalyst for many businesses, State and local government institutions, and consumers to invest in energy efficiency, which in turn yields multiple private and public benefits. It does this by providing access to information, improving brand recognition, and reporting positive publicity.

While there are many demands on the country's financial resources, Energy Star has proven tremendously cost-effective and, more importantly, it returns important benefits to the Nation. Every Federal dollar invested in Energy Star in fiscal year 2005 will return a significant yield in cost-effective pollution reduction; economic stimulation through investment in new technology; energy security through reduced demand; and consumer savings through lower energy bills. It is a program deserving of both expansion and greater Federal investment.

Mr. Chairman and members of the subcommittee, on behalf of the Alliance to Save Energy, its Board and its Associates, I appreciate this opportunity to appear before you today.

PREPARED STATEMENT OF THE U.S. CONFERENCE OF MAYORS, NATIONAL ASSOCIATION OF COUNTIES, NATIONAL ASSOCIATION OF LOCAL HOUSING FINANCE AGENCIES, AND NATIONAL COMMUNITY DEVELOPMENT ASSOCIATION

Mr. Chairman and members of the subcommittee, this testimony is presented on behalf of the U.S. Conference of Mayors, the National Association of Counties, the National Community Development Association, and the National Association of Local Housing Finance Agencies. We appreciate the opportunity to present our views on fiscal year 2005 appropriations for the Department of Housing and Urban Development, and in particular, the two priority programs for local governments—the Community Development Block Grant (CDBG) and the Home Investment Partnerships program (HOME).

We thank you, Mr. Chairman and members of the subcommittee for your continuing support for these priority local government programs. Local government officials urge you to increase CDBG formula funding in fiscal year 2004 to \$5 billion and HOME formula funding to \$2.25 billion. These programs work, they make a real difference in people's lives, and it is our sincere hope that they will be funded at levels that reflect the very real community development and affordable housing needs that exist across our country.

WHY CDBG IS EFFECTIVE AND CRITICALLY NEEDED

Now in its 30th year, having been signed into law by President Gerald Ford in 1974, CDBG is working in communities across the country. The key to its success is the inherent flexibility for it to adapt to affordable housing and neighborhood revitalization needs in our Nation's urban, suburban and rural areas.

In fiscal year 2003 alone, 94.8 percent of the CDBG funds allocated to entitlement cities and counties went to activities principally benefitting low- and moderate-income persons and 96.7 percent of the CDBG funds allocated to States went to activities principally benefitting low- and moderate-income persons. A total of 184,611 households were assisted through the program in fiscal year 2003. The program created or retained an astounding 108,700 jobs. For every \$1 of CDBG funding another \$2.79 in private funding and \$0.77 in public funding was leveraged in fiscal year 2003. The program has a good track record in business retention, with over 80 percent of the businesses assisted through the program still in operation after 3 years. Even though the program has performed well the annual formula allocation for CDBG has remained relatively static over the last decade, even decreasing slightly in the past 2 years. The program has never been adjusted for inflation, since its enactment in 1974. With the existing cuts to the program, continued project-specific set-asides in the program, inflation, and more entitlement communities receiving funds, the formula allocation is decreasing nationwide for cities and counties that administer the program. In the last 2 years, an across-the-board reduction in Federal programs has reduced the program even further.

We, therefore, urge you to fund the CDBG program in fiscal year 2005 at a level of at least \$5 billion in formula grants.

Mr. Chairman, we are concerned and take strong exception to the Office of Management and Budget's characterization of the Community Development Block Grant (CDBG) Program as "ineffective", as stated in the administration's fiscal year 2005 budget request. OMB reached this conclusion through application of its Performance Assessment Rating Tool (PART). In the PART review of the CDBG program, it appears that OMB chooses to interpret the statute and facts in order to support a dogmatic agenda and avoids acknowledgment of any positive achievements from the more than \$105 billion in CDBG funds spent by cities, counties and States since 1975 on their most pressing affordable housing, community and economic development needs over the 30 years of the program. We urge you to reject it out of hand.

HOME INVESTMENT PARTNERSHIPS (HOME) PROGRAM

The HOME Investment Partnerships (HOME) Program is also an effective block grant program with a very impressive track record of providing rental housing and homeownership opportunities to low- and moderate-income households. According to cumulative HUD data, the program has helped to develop or rehabilitate over 785,553 affordable housing units. The majority of HOME funds have been committed to housing that will be occupied by very low-income people and a substantial amount will assist families with incomes no greater than 30 percent of median. As of the end of February 2004, more than 81 percent of HOME assisted rental housing was benefitting families at or below 50 percent of area median income. And more than 56 percent of all HOME assisted rental housing (including tenant-based rental assistance) was helping families with incomes at or below 30 percent of area median income.

HOME funds also help low- and very low-income families realize the dream of homeownership by providing for construction and rehabilitation of housing as well as providing the down payment and or closing cost assistance. As of February 2004, the program has assisted 296,197 families in becoming first-time homebuyers. HOME fund also allows existing low- and moderate-income persons to stay in their homes by providing rehabilitation assistance. Since 1992, HOME funds have been used to rehabilitate 151,920 existing homeowner units.

Moreover, HOME is cost effective and provides the gap financing necessary to attract private loans and investments to projects. For each HOME dollar, \$3.01 of private and other funds has been leveraged since the program's inception. This clearly illustrates the effective and judicious use of HOME funds by participating jurisdictions.

We, therefore, urge you to fund the HOME program in fiscal year 2005 at a level of at least \$2.25 billion in formula grants. In addition, we support \$200 million in funding for the American Dream Downpayment Initiative, which was enacted by Congress last session and which is administered by HOME participating jurisdictions. Unfortunately, Congress did not provide an administrative fee for jurisdictions to operate the program. We urge Congress to provide an administrative fee of 10 percent for the program in fiscal year 2005.

HOMEOWNERSHIP

We applaud the administration's efforts to promote homeownership for low-income families. Homeownership provides citizens with a stake in their communities, and increases the stability and vitality of neighborhoods. As representatives of local elected officials and practitioners, we support the concepts of providing housing counseling for new and prospective homeowners, as well as a homeownership tax credit that would help offset the costs of developing more affordable housing. These same concepts may also provide opportunities to revitalize distressed communities and increase our members' ability to leverage public dollars with private resources.

SECTION 108 AND BROWNFIELDS

We have serious concerns about the administration's decision to zero out several important economic development tools in the fiscal year 2005 budget proposal, including the Section 108 loan guarantee program and the Brownfields Economic Development Initiative (BEDI) program. These programs fund much-needed investment in our communities, helping to create jobs and reclaim contaminated sites that can be made productive again. The Section 108 program provides communities with a source of financing for economic development, housing rehabilitation, public facilities, and large-scale physical development projects. We are seeking at least \$7.325 million in credit subsidy funding for Section 108, the same level approved for the program in fiscal year 2004. We are seeking \$50 million for BEDI in fiscal year 2005 and ask Congress to de-couple the BEDI program from Section 108 so that commu-

nities can compete for BEDI funds without having to first secure a Section 108 loan guarantee.

HOMELESS HOUSING FUNDING

Mr. Chairman, we support a funding level of \$1.27 billion for homeless housing programs as proposed by the Bush Administration. We support legislation that would convert the McKinney Act's homeless housing programs into a pure, formula-driven block grant program, like the CDBG and HOME block grant programs. In order for such a program to give sufficient funds to communities to carry out meaningful projects at the local level, it needs an appropriation close to \$1.3 billion. We support the existing Continuum of Care planning process and would recommend that this process be codified as part of the block grant. We also urge full funding of the Shelter Plus Care contract renewals. We also support the administration's proposed \$50 million Samaritan Initiative. This initiative is intended to address the most pressing homeless issue—chronic homelessness—and is to be a coordinated effort with the Department of Health and Human Services and the Veterans Affairs and the Interagency Council on Homelessness.

SECTION 8

Mr. Chairman, we commend the subcommittee and the Congress for fully funding all expiring tenant-based and project-based rent subsidy contracts in fiscal year 2004. We urge Congress to do the same this year. The need for affordable housing continues to grow as housing prices increase faster than wages for low-income Americans.

We oppose the administration's cut in the Section 8 voucher program. The budget request falls short by \$1.6 billion needed to fully fund all vouchers now in use. Approximately 250,000 low-income families could lose their vouchers. An analysis by the Low Income Housing Coalition of the American Housing Survey revealed that 31 percent of all households had housing problems in 2001. A reduced voucher program would surely add to the critical need for low-income housing assistance.

We are also concerned about the administration's proposed Flexible Voucher Program. While we agree that revisions are needed to the Section 8 program so as to reduce and contain program costs that could threaten other housing and community development programs, we are opposed to the elimination of long-standing rules that benefit low income families. Moreover, it is difficult to believe that a lump sum of funds to PHAs would be adequate to serve all vouchers holders.

HOPE VI

Once again the President's budget proposes to zero out the HOPE VI program. We oppose this recommendation. The HOPE VI program eliminates distressed public housing and replaces it with mixed-income developments. It harnesses the private sector, working in partnership with public housing agencies. This 10-year-old grant program has generated billions of dollars in community investment and revitalized neighborhoods over the Nation. Since 1993, \$5.6 billion has been awarded to revitalize 193 public housing developments which have leveraged an additional \$9 billion in investments.

LEAD HAZARD REDUCTION

We thank Congress for continuing to provide funding for lead hazard reduction. We ask that the Lead Hazard Reduction Demonstration Program be funded in fiscal year 2005 at \$50 million, the approximate level as fiscal year 2004. This small program provides needed assistance to local governments in eradicating lead hazards from low-income housing units.

CONCLUSION

Mr. Chairman, local government officials believe that a strong Federal role in housing and community development programs must continue. Since the Housing Act of 1937, Congress has enunciated, and repeated in subsequent housing acts, that, as a matter of national policy, the Federal Government has an obligation to assist States and local governments in providing decent, safe and sanitary housing for lower income households. Perhaps, Congress said it best in a "Declaration of National Housing Policy" included in Section 2 of the Housing Act of 1949:

"The Congress hereby declares that the general welfare and security of the nation, and the health and living standards of its people, require housing production and related community development sufficient to remedy the serious housing shortage,

the elimination of substandard and other inadequate housing through the clearance of slums and blighted areas, and the realization as soon as feasible, of the goal of a decent home and suitable living environment for every American family.”

We submit to you that, while progress has been made toward this goal, it has not been fully achieved. The Federal Government must continue its commitment to this National Housing Policy, backed by the necessary resources with which to continue the battle against neighborhood deterioration and a decaying housing stock.

Mr. Chairman, we look forward to working with you and the subcommittee in adequately funding HUD’s housing and community development programs for fiscal year 2005.

Thank you.

PREPARED STATEMENT OF THE AMERICAN PUBLIC POWER ASSOCIATION

The American Public Power Association (APPA) is the national service organization representing the interests of over 2,000 municipal and State-owned utilities in 49 of the 50 States (all but Hawaii). Collectively, public power utilities deliver electricity to 1 of every 7 electric consumers (approximately 40 million people), serving some of the Nation’s largest cities. However, the vast majority of APPA’s members serve communities with populations of 10,000 people or less.

We appreciate the opportunity to submit this statement outlining our fiscal year 2005 funding priorities within the VA–HUD Subcommittee’s jurisdiction.

ENVIRONMENTAL PROTECTION AGENCY: ENERGY STAR PROGRAMS

Energy Star is a voluntary partnership program pairing EPA with businesses and consumers nationwide to enhance investment in underutilized technologies and practices that increase energy efficiency while at the same time reducing emissions of criteria pollutants and greenhouse gases. In particular, APPA member systems across the country have been active participants in a subset of the Energy Star program called “Green Lights.” The Green Lights program encourages the use of energy efficient lighting to reduce energy costs, increase productivity, promote customer retention and protect the environment.

According to the EPA, Energy Star is saving businesses, organizations, and consumers more than \$9 billion a year, and has been instrumental in the more widespread use technological innovations like LED traffic lights, efficient fluorescent lighting, power management systems for office equipment, and low standby energy use.

Because this program has such broad benefits, APPA urges the subcommittee to consider a substantial increase above the administration’s request of \$16.1 million for fiscal year 2005.

ENVIRONMENTAL PROTECTION AGENCY: LANDFILL METHANE OUTREACH PROGRAM

The Landfill Methane Outreach Program (LMOP) helps to partner utilities, energy organizations, States, tribes, the landfill gas industry and trade associations to promote the recovery and use of landfill gas as an energy source. According to the EPA, LMOP has more than 345 organizations that have signed voluntary agreements to work with EPA to develop cost-effective landfill gas (LFG) projects, including every major LFG project development company. The program has also developed detailed profiles for over 1,300 candidate landfills in 31 States, and has data for more landfills in all States.

Landfill gas is created when organic waste in a landfill decomposes. This gas consists of about 50 percent methane and about 50 percent carbon dioxide. Landfill gas can be captured, converted, and used as an energy source rather than being released into the atmosphere as a potent greenhouse gas. Converting landfill gas to energy offsets the need for non-renewable resources such as coal and oil, and thereby helps to diversify utilities’ fuel portfolios and to reduce emissions of air pollutants from conventional fuel sources.

As units of local and State governments, APPA’s member utilities are uniquely poised to embark on landfill-gas-to-energy projects. EPA’s LMOP facilitates this process by providing technical support and access to invaluable partnerships to our members and the communities they serve.

APPA appreciates the administration’s request of \$2.6 million for fiscal year 2005 as it reflects a small increase from the fiscal year 2004 budget request and mirrors the fiscal year 2004 allocation by Congress. We would urge the subcommittee to again consider an allocation for this program over and above the administration’s request given the “bang for the buck” that LMOP initiatives have facilitated.

COUNCIL ON ENVIRONMENTAL QUALITY

APPA supports the administration's request of \$3.284 million for fiscal year 2005 for the White House's Council on Environmental Quality (CEQ). Public power utilities have experienced a general lack of consistency in Federal Government regulation, particularly involving environmental issues. While additional layers of government should be avoided, a central overseer can perform a valuable function in preventing duplicative, unnecessary and inconsistent regulation. CEQ is responsible for ensuring that Federal agencies perform their tasks in an efficient and coordinated manner.

Again, we appreciate your consideration of our priorities for the VA-HUD Subcommittee's fiscal year 2005 appropriations.

PREPARED STATEMENT OF THE AMERICAN SOCIETY OF PLANT BIOLOGISTS

Thank you, Mr. Chairman for this opportunity to submit testimony on behalf of the American Society of Plant Biologists (ASPB). My name is Mary Lou Guerinot. I am President of ASPB and professor at Dartmouth College, Biological Science Department.

Founded in 1924, ASPB represents nearly 6,000 plant scientists. The largest segment of ASPB members conducts research at universities in each of the 50 States. ASPB membership also includes scientists at government and commercial laboratories.

The National Science Foundation (NSF) funds research in new frontiers of scientific inquiry and contributes to creating a highly skilled workforce. The fundamental breakthroughs that have led to new technologies including biotechnology, nanotechnology and information technology led to new industries for America's economy and workers.

Support by the subcommittee for fundamental research supported by the National Science Foundation and its Directorate for Biological Sciences leads to discoveries that benefit society, the economy and the environment. Fundamental plant biology research contributes to introduction of new technologies. New technologies, such as plant biotechnology, have led to enhanced plant production and new methods of protecting and preserving limited environmental resources, such as fresh water supplies.

The Nation's capabilities in fundamental biology research in plants, systematics, physiology, water relations, environmental stress and other areas is dependent upon support from NSF and the NSF Directorate for Biological Sciences.

The NSF Directorate for Biological Sciences has sponsored research that NSF has identified as being among the 50 breakthroughs that have had the most impact or influence on every American's life over the past 50 years. Five of these breakthroughs cited by NSF in plant biology are:

- NSF-sponsored genomic research on the model plant *Arabidopsis thaliana*. The entire genome sequence was completed well ahead of schedule. Now that the sequence has been completed, NSF is proceeding with the 2010 Project to determine the function of every gene in this model plant.
- NSF-supported basic research provided a base of knowledge that will lead to plants genetically modified to produce lifesaving pharmaceuticals.
- Novel approaches were discovered that could be used to alleviate allergic reactions to wheat products and other food-related ailments. Hypo-allergenic foods are expected to result from NSF-sponsored basic plant research.
- Up to 12 percent of soils under cultivation around the world contain metals that stunt plant growth and development and result in poor harvests. NSF-funded researchers are using genetic engineering to engineer plants that flourish in metal-rich soils.
- Almost one-third of the irrigated land on earth is not suitable for growing crops because it is contaminated with high levels of salt. More farmable land is lost annually through high salt levels in soil than is gained through the clearing of forest resources. Basic research supported by NSF will lead to more salt-tolerant crops.

We mark the 51st anniversary this year of the discovery of the structure of DNA by Watson and Crick. This discovery changed the course of biology forever, leading to the age of molecular biology, genetic engineering and now genomics.

Today, just as human genome research has advanced medical science, the NSF-sponsored Plant Genome Research Program and biotechnology have revolutionized the way scientists can improve plants. NSF-sponsored genomic research on *Arabidopsis*, rice, corn and other plants is providing valuable fundamental knowledge of plant structure and functions. Resulting enhanced plants will be used to bet-

ter provide needed food supplies, renewable energy sources, industrial feed stocks, clothing and building materials, and lifesaving medicines.

“Plant biology has been transformed completely over the last 50 years. It is now squarely in the age of genomics, and is constantly changing as new concepts emerge and novel technologies develop,” the National Science and Technology Council, Committee on Science, Interagency Working Group on Plant Genomes (IWG) noted in the January 2004 Progress Report on the National Plant Genome Initiative. Recognizing the enormous scientific opportunities, the National Plant Genome Initiative (NPGI) was established in 1997 under the National Science and Technology Council and the Office of Science Technology and Policy (OSTP).

Support led by Chairman Bond together with Ranking Member Mikulski and this subcommittee for the Plant Genome Research Program has helped place the United States in the forefront of plant genomics in the world. Examples of research results from the Plant Genome Research Program that the IWG noted were reported the past year include:

- Construction of a high resolution maize map that integrates genetic and physical maps: a culmination of 5 years of hard work that will benefit both basic researchers and breeders.
- Identification of the full encyclopedia of genes necessary for mineral nutrition in plants, that forms the foundation for understanding the mechanism of plant uptake of both beneficial and toxic minerals.
- Development of the marker-assisted breeding strategies for wheat.
- Establishment of a comparative cereal genomics database, Gramene, which uses the complete rice genome sequence as a reference and serves as the information resource for the entire cereal research community including maize, wheat, barley and sorghum.
- Active involvement of plant genome researchers in education and training of undergraduates, high school students and K–12 teachers.
- Research collaboration between U.S. scientists and scientists in developing countries in plant genomics and related fields of science.

Examples of new projects that the IWG noted should further advance the field in coming years include:

- Building of resources and tools for plant genome research.
- Advances in nutritional genomics that will lead to higher quality food products.
- Identification of networks of genes involved in disease resistance.
- A new comprehensive database for the entire plant genome research community to provide seamless access to relevant information resources that are distributed all over the world.

Plant genome research and research on the applications of plant biotechnology, supported by this subcommittee have revolutionized the way scientists can improve plants. This is essential to meeting the growing national and world needs for food, renewable energy sources, industrial feed stocks, clothing and building materials, and lifesaving medicines.

Plant genome research sponsored by NSF that I am conducting in my lab is addressing the area of metal transport and regulation of gene expression by metals. I have focused on iron because increasing the ability of plants to take up iron could have a dramatic impact on both plant nutrition and human health. Iron deficiency afflicts an astounding number of people with estimates that 3 billion people worldwide suffer from iron deficiencies. Plants are the principal source of iron in most diets. Fundamental research made possible by the NSF Plant Genome Research Program is providing knowledge that could lead to new varieties of food crops that would supply more iron needed in diets of people throughout the world.

We commend the tireless efforts of Chairman Bond in traveling to developing nations of the world to see first-hand the plight of human nutritional deficiencies. The continued leadership of Chairman Bond, Ranking Member Mikulski and the subcommittee for plant genome and related research will help to alleviate ravages of nutritional deficiencies here and abroad.

The leadership of this subcommittee has put NSF on the path of substantial budget increases over recent years! We recognize that the realities of this year's budget may make an increase of as much as 15 percent very difficult to attain. However, the continued strong support by the subcommittee of NSF, including the NSF Directorate for Biological Sciences and the Plant Genome Research Program is deeply appreciated by our science community. Investment in world-leading, competitively awarded basic research sponsored by NSF will continue to help benefit the future of the Nation's security, economy, and workers.

Thank you again for the honor of addressing the subcommittee today.

PREPARED STATEMENT OF THE ECOLOGICAL SOCIETY OF AMERICA

As President of the Ecological Society of America, I am pleased to provide written testimony for the Environmental Protection Agency (EPA). The Ecological Society of America has been the Nation's premier professional society of ecological scientists for nearly 90 years, with a current membership of 8,000 researchers, educators, and managers. We appreciate the opportunity to offer written testimony on behalf of the Environmental Protection Agency.

EPA's dual mission to safeguard human health and the environment depends upon the agency's intramural and extramural research programs, both of which would suffer significant cuts under the President's proposed budget for fiscal year 2005. As the Nation continues to face a host of environmental challenges, we believe shortchanging EPA's science and technology programs will compromise the agency's ability to perform its mission.

In particular, the Ecological Society of America is concerned about proposed cuts to the agency's STAR Grants Program. Managed by the agency's Office of Research and Development, this competitive, peer-reviewed, extramural grants program generates scientific information that supplements the agency's intramural research programs and better equips EPA to respond to emerging issues. The proposed fiscal year 2005 budget would slash this valuable program by \$35 million, in spite of its excellent track record and recent laudatory review by the National Academy of Sciences. "The Measure of STAR: Review of the U.S. Environmental Protection Agency's Science to Achieve Results (STAR) Research Grants Program," points out that STAR grants fill a critical gap in the agency's in-house scientific expertise and enhance EPA's ability to respond to new issues. The Ecological Society of America encourages Congress to fund the STAR Grants Program at its fiscal year 2004 level of \$100 million.

Another area of concern is the EPA's STAR Fellowship Program, which would decline by 40 percent (\$4 million) under the agency's proposed budget for the coming fiscal year. This program, which is the only one of its kind, funding graduate students conducting applied environmental research, has also had an excellent track record since its inception in 1995. An extremely competitive program—only 7 percent of applicants are awarded fellowships—the program has produced high quality research and is helping to train the next generation of environmental scientists. The Ecological Society of America appreciates the past support of this committee in restoring previous cuts to the STAR Fellowship Program and we hope committee members will do so again for fiscal year 2005, funding the Program at its current level of \$10 million.

In addition to these extramural programs, we are also concerned about the proposed cuts to the agency's intramural Science and Technology account and urge the committee to bring this account to the fiscal year 2004 level.

We appreciate the committee's past support of EPA's research programs and the opportunity to provide our comments on its proposed budget. Thank you for considering our testimony.

PREPARED STATEMENT OF THE DORIS DAY ANIMAL LEAGUE

Chairman Bond, Ranking Member Mikulski, and members of the subcommittee, the Doris Day Animal League represents 350,000 members and supporters nationwide who support a strong commitment by the Federal Government to research, development, standardization, validation and acceptance of non-animal and other alternative test methods. Thank you for the opportunity to present testimony relevant to the fiscal year 2005 budget request for the U.S. Environmental Protection Agency's (EPA) Science and Technology budget for the Office of Research and Development (ORD).

In 2000, the passage of the ICCVAM Authorization Act into Public Law 106-545, created a new paradigm for the field of toxicology. It requires Federal regulatory agencies to ensure that new and revised animal and alternative test methods be scientifically validated prior to recommending or requiring use by industry. An internationally agreed upon definition of validation is supported by the 15 Federal regulatory and research agencies that compose the Interagency Coordinating Committee for the Validation of Alternative Methods (ICCVAM), including the EPA. The definition is: "the process by which the reliability and relevance of a procedure are established for a specific use."

In recent years, thanks to the leadership of Chairman James Walsh and Representative David Price, efforts to provide specific funding for and prioritization of research, development and validation of non-animal and other alternative test methods has helped to guide EPA's approach to this necessary thrust for sound science

that replaces, reduces or refines the use of animals in toxicity testing. However, recent dialogue with the EPA has demonstrated a lack of prioritization for funding actual validation studies of non-animal and other alternative methods. This is the equivalent of developing a new car that is intended to provide reduced emissions without assessing the validity of the reduced emissions claim, ensuring the car will never be marketed.

For several years, the enacted budget for the Office of Research and Development has hovered at approximately \$500 million, comprising just 9 percent of EPA's total budget. Animal protection organizations have consistently supported a mere 1–2 percent of this budget specifically for research, development and validation of non-animal, alternative test methods. Chairman Walsh secured a \$4 million appropriation first-ever directive for research, development and validation of non-animal test methods in the fiscal year 2002 budget for EPA. And while the animal protection community is greatly appreciative of this first-ever directive, we have yet to receive a detailed accounting of the expenditure of funds. The agency has stated that funding has been provided for bench science that may have future relevant applications. EPA contends it has used monies from the Science and Technology Account for the Office of Research and Development to fund research and development of non-animal and other alternative test methods; but the funding stops at the stage when a test method must be scientifically validated in order to be considered for incorporation into recommendations or requirements. Unfortunately this approach does little to support the final development or necessary validation studies for non-animal test methods with potential current application in existing EPA programs.

We request that the subcommittee support the inclusion of \$1 million specifically for validation studies for non-animal and other alternative test methods; with non-animal methods prioritized. In addition, we request the following report language be included in bill:

“The Committee encourages the agency to prioritize research, development, standardization and validation of non-animal and other alternative screening and testing methods which have potential to reduce, refine or replace animal studies. The Committee also directs the agency to provide \$1 million from within the existing Science and Technology Account specifically for validation of non-animal and other alternative test methods, including prioritizing those that replace animal-based eye irritation methods, embryotoxicity, carcinogenicity and acute toxicity for mammals and fish, for which the scientific review of the validation status will be conducted under the auspices of the Interagency Coordinating Committee on the Validation of Alternative Methods. Any such activities should be designed in consultation with EPA's Office of Pollution Prevention and Toxic Substances to ensure integration of scientifically valid non-animal and other alternative test methods into existing and future programs. The Committee directs the agency to provide a report to the Committee by March 30, 2005 regarding expenditures of fiscal year 2005 funds for research, development and validation of non-animal and other alternative methods.”

SKIN CORROSION, SKIN ABSORPTION AND SKIN IRRITATION—NON-ANIMAL TEST METHODS

“Human skin equivalent” tests such as EpiDerm™ and EpiSkin™ have been scientifically validated and accepted in Canada, the European Union, and by the Organization for Economic Cooperation and Development (OECD), of which the United States is a key member, as total replacements for animal-based skin corrosion studies. Another non-animal method, Corrositex™, has been approved by the U.S. Interagency Coordinating Committee on the Validation of Alternative Methods. Various tissue-based methods have been accepted in Europe as total replacements for skin absorption studies in living animals. In fact, in 1999 the EPA itself published a proposed rule for skin absorption testing using a non-animal method that, as of this writing, has still not been finalized. Government regulators in Canada accept the use of a skin-patch test in human volunteers as a replacement for animal-based skin irritation studies (for non-corrosive substances free of other harmful properties).

However, the EPA continues to require the use of animals for all three of these endpoints, despite the availability of the non-animal tests. In order to assess the progress of the EPA in implementing the non-animal replacements for these three endpoints, we concur with our colleagues at People for the Ethical Treatment of Animals and respectfully request that the subcommittee include the following report language:

“The Administrator of the EPA is required to report to Congress no later than December 1, 2004, regarding the use of Corrositex™ and ‘human skin equivalent’ tests such as EpiDerm™ and EpiSkin™ for skin corrosion studies, in vitro methods

using skin from a variety of sources (e.g. human cadavers) for skin absorption studies, and human volunteer clinical skin-patch tests (for chemicals first determined to be non-corrosive and free of other harmful properties) for skin irritation studies. The Administrator should describe the reasons for which the agency has delayed accepting the aforementioned methods for regulatory use as total replacements for their animal-based counterparts, exactly what steps the agency is taking to overcome those delays, and a target date by which the agency intends to accept these methods for regulatory use.”

SUMMARY

While significant progress has been made in nearly every other scientific discipline, the field of toxicology has remained wedded to antiquated methods dating from the mid-20th century. The United States must provide a marked investment in sound science that reflects the humane ethic espoused by the majority of Americans. Only by ensuring that Federal regulatory agencies fund research, development and validation of non-animal and other alternative test methods can the number of methods accepted on the basis of scientific merit exponentially increase. And in cases where scientific validity is demonstrated and non-animal and other alternative methods are incorporated into European Union, Canadian or OECD guidelines, the United States should expedite its own acceptance of the methods.

PREPARED STATEMENT OF THE AMERICAN INDIAN HIGHER EDUCATION CONSORTIUM

This statement focuses on three areas: Department of Housing and Urban Development, National Science Foundation, and National Aeronautics and Space Administration.

Mr. Chairman and members of the subcommittee, on behalf of this Nation's 34 American Indian Tribal Colleges and Universities (TCUs), which compose the American Indian Higher Education Consortium (AIHEC), thank you for the opportunity to express our views and requests for fiscal year 2005.

SUMMARY OF REQUESTS

Department of Housing and Urban Development (HUD)

Since fiscal year 2001, a modest TCU initiative has been funded within the Community Development Block Grant program. This competitive program enables tribal colleges to build, expand, renovate, and equip their facilities available to and used by the larger community. We strongly urge the subcommittee to support this program at a minimum \$5 million, an increase of \$2 million over the President's fiscal year 2005 budget request.

National Science Foundation (NSF) Programs

Tribal Colleges and Universities Program (TCUP).—Since fiscal year 2001, this program has provided important assistance to TCUs as they build their capacity to provide strong science, technology, engineering, and mathematics (STEM) teaching and learning programs for American Indians. As of fiscal year 2003, 13 of the 32 eligible TCUs have been awarded implementation grants, along with four Alaska Native and Native Hawaiian serving institutions, and five new awardees are expected in fiscal year 2004. As more than half of the eligible TCUs have yet to receive grant awards, we request that Congress expand this vital program to \$15 million, a \$5 million increase over fiscal year 2004 to help increase the number of TCUs able to participate and to support funding of Alaska Native and Native Hawaiian serving institutions, which NSF includes in the TCU program and funds to a significant extent. Additionally, we seek report language clarifying that for any provision of technical assistance under this program, eligible organizations are defined as national and regional non-profit organizations comprised of TCUs; and further language requiring Science and Technology Centers and EPSCoR Institutions to develop and implement plans to effectively collaborate with Tribal Colleges and Universities in education and research activities.

Advanced Networking with Minority Serving Institutions (AN-MSI).—In fiscal year 1999, NSF funded a project to help MSIs develop campus infrastructures and national connections necessary to participate in the Internet-based Information Age. The project involves an historic and successful collaboration between three minority communities and mainstream institutions, which had little or no prior experience working together. AN-MSI has developed a successful model for providing support and technical assistance and is working with tribal colleges on collaborative education and research projects. AN-MSI's funding expires in fiscal year 2004, and if

new funding is not secured, the project's work will cease. We request that the subcommittee include funding within NSF's CISE directorate to continue and expand the AN-MSI program at \$15 million over the next 5 years.

National Aeronautics and Space Administration (NASA)

In fiscal year 2001, the tribal colleges established a formal cooperative agreement with NASA for a project designed to increase access, participation, and success of American Indians in high quality K-16 science, technology, engineering, and mathematics programs. The agreement includes a TCU liaison between AIHEC and NASA to oversee implementation of the project and modest program enrichment grants to the colleges. We request that Congress include report language encouraging NASA to continue and expand its successful \$1.2 million cooperative agreement on behalf of TCUs; clarifying that for any provision of technical assistance under this program, eligible organizations are defined as national and regional non-profit organizations comprised of TCUs; and encouraging NASA faculty exchange programs and IPA contracts with TCUs to provide needed on-site expertise and partnerships. Additionally, we seek further report language encouraging the development of new initiatives to address the technology infrastructure needs at the TCUs, and further language to require Space Grant and EPSCoR Institutions to develop and implement plans to effectively collaborate with Tribal Colleges and Universities in education and research activities.

BACKGROUND

As a group, Tribal Colleges and Universities are this Nation's youngest institutions of higher education. The first tribal college—Navajo Community College (now Diné College) in Tsaile, Arizona—was established in 1968. Over the next few years, a succession of tribal colleges followed, primarily in the Northern Plains. In 1972, the first six tribally controlled colleges established AIHEC to provide a support network for member institutions. Today, AIHEC represents 34 TCUs located in 12 States. Annually, these institutions serve approximately 30,000 full- and part-time American Indian students from more than 250 federally recognized tribes. Yet in comparison with other institutions, TCUs benefit from only a handful of dedicated programs and receive only a very small portion of overall Federal higher education funding.

The vast majority of TCUs is accredited by independent, regional accreditation agencies and like all institutions of higher education, must undergo stringent performance reviews on a periodic basis. In addition to associate, bachelor, and master's degree programs, TCUs provide much needed high school completion (GED), basic remediation, job training, adult education, and vitally needed community-based continuing education programs. Tribal colleges function as community centers; libraries; tribal archives; career and business centers; economic development centers; public meeting places; and child care centers. Each TCU is committed to improving the lives of students through higher education and community programs and to moving American Indians toward self-sufficiency.

TCUs provide access to higher education for American Indians and others living in some of the Nation's most rural and economically depressed areas. These institutions, chartered by their respective tribal governments, combine traditional teachings with conventional postsecondary courses and curricula. They have developed innovative means to address the needs of tribal populations and are successful in overcoming long standing barriers to higher education for American Indians. Over the past three decades, these institutions have come to represent the most significant development in the history of American Indian education, providing access to underrepresented students and promoting achievement among students who may otherwise never have known postsecondary education success.

Despite their remarkable accomplishments, TCUs remain the most poorly funded institutions of higher education in the country. Chronically inadequate operations funding continues to be the most significant barrier to their success. Funding for the basic institutional operations of 26 reservation-based TCUs is provided through Title I of the Tribally Controlled College or University Assistance Act (Public Law 95-471), which was first funded in 1981. Today, 23 years later these colleges are operating at \$4,230 per full-time Indian student count (ISC), just 70 percent of the authorized level of \$6,000 per ISC. Additionally, TCUs are located on Federal trust territories, and therefore States have no obligation to fund them even for the non-Indian State-resident students who account for approximately 20 percent of TCU enrollments. Yet, if these same students attended any other public institution in the State, the State would provide basic operating funds to the institution.

As a result of more than 200 years of Federal Indian policy—including policies of termination, assimilation and relocation—many reservation residents live in ab-

ject poverty comparable to that found in Third World nations. Through the efforts of TCUs, American Indian communities receive services they need to reestablish themselves as responsible, productive, and self-reliant.

JUSTIFICATIONS

Department of Housing and Urban Development

We are pleased that the President's fiscal year 2005 budget request includes \$3 million for HUD-TCU program funded under the Community Development Block Grant program. This competitive grants program enables tribal colleges to expand their roles and effectiveness in addressing development and revitalization needs in their respective communities. No academic or student support projects are funded through this program; rather, funding is available only for community-based outreach and service programs at TCUs. Over the past few years, a handful of tribal colleges have been able to build or enhance child care centers, social service offices; help rehabilitate tribal housing; establish and expand small business development; and enhance vitally-needed library services.

The number of TCUs is continuing to grow. Two additional colleges have joined our ranks, Saginaw Chippewa Tribal College in Michigan and Tohono O'odham Community College in Arizona. We strongly urge the subcommittee to support this program at a minimum \$5 million, an increase of \$2 million over the President's fiscal year 2005 budget request, to help ensure that much needed community services and programs are expanded and continued.

National Science Foundation Programs

Tribal Colleges and Universities Technology Initiative.—In fiscal year 2001, NSF launched a new TCU initiative designed to enhance the quality of science, technology, engineering and mathematics (STEM) instruction and outreach programs, with an emphasis on the leveraged use of information technologies at TCUs. The program enables colleges to implement comprehensive institutional approaches to strengthen teaching and learning in ways that improve access, retention, and completion of STEM programs, particularly those that have a strong technological foundation. Through this program, colleges gain support for their efforts to bridge the "digital divide" and prepare students for careers in information technology, science, mathematics, and engineering fields. The overall goals of the program are to improve access, retention, and graduation rates among American Indian students and to increase the number of American Indians in the information technology, science, mathematics and engineering workforce. In 3 years, 13 of the 32 eligible TCUs have received implementation grants, along with four Alaska Native and Native Hawaiian serving institutions, with five additional grants expected to be awarded in fiscal year 2004. We request that Congress expand this vital program to \$15 million, \$5 million above the President's budget request. This level more accurately reflects the true needs of the eligible pool, which NSF significantly expanded when it included Alaska Native and Native Hawaiian serving institutions in the TCU program. Additionally, we seek report language clarifying that for any provision of technical assistance under this program, eligible organizations are defined as national and regional non-profit organizations comprised of TCUs; and further language requiring Science and Technology Centers and EPSCoR Institutions to develop and implement plans to effectively collaborate with Tribal Colleges and Universities in education and research activities.

Advanced Networking with Minority Serving Institutions (AN-MSI).—Five years ago, NSF funded a project within its Computer and Information Science and Engineering (CISE) Directorate to help minority-serving institutions (MSIs) develop the campus infrastructure and national connections necessary to participate in the emerging Internet-based Information Age. The project involves an historic and successful collaboration between three minority communities and mainstream institutions, which had little or no prior experience working together. AN-MSI has developed a successful model for providing TCUs and other MSIs with technical assistance, education, and training programs to improve campus-based information and communications systems and strengthen IT staff. While much has been accomplished, TCUs are at the beginning stages of technology use, particularly for collaborative education and research. AN-MSI's funding expires in fiscal year 2004, and if new funding is not secured, the project's work will cease. We request that Congress allocate \$15 million for this initiative over the next 5 years.

National Aeronautics and Space Administration (NASA)

In fiscal year 2001, TCUs established a formal cooperative agreement with NASA for a project designed to increase access, participation, and success of American Indians in high quality K-16 mathematics, science, engineering, and technology pro-

grams. The agreement includes a TCU liaison between AIHEC and NASA to oversee implementation of the project and modest program enrichment grants to the colleges. We request that Congress include report language encouraging NASA to continue and expand its successful \$1.2 million cooperative agreement on behalf of TCUs; clarifying that for any provision of technical assistance under this program, eligible organizations are defined as national and regional non-profit organizations comprised of TCUs; encouraging NASA faculty exchange programs and IPA contracts with TCUs to provide needed on-site expertise and partnerships. Additionally, we seek further report language encouraging the development of new initiatives to address the technology infrastructure needs at the TCUs; and further language requiring Space Grant and EPSCoR Institutions to develop and implement plans to effectively collaborate with Tribal Colleges and Universities in education and research activities.

CONCLUSION

In light of the justifications presented in this statement and the overwhelming evidence of inequitable access to technology in rural America, we respectfully request Congress increase funding for Tribal College and University programs to help bring economic self-sufficiency to Indian Country. Fulfillment of AIHEC's fiscal year 2005 request will strengthen the missions of TCUs and the enormous, positive impact they have on their respective communities. Your support will help ensure that they are able to educate and prepare thousands of American Indians for the workforce of the 21st Century. TCUs have proven to be very responsible with the Federal support they have received over the past three decades. It is important that the Federal Government now capitalize on its investment. We respectfully request your continued support of tribal colleges and full consideration of our fiscal year 2005 appropriations requests.

PREPARED STATEMENT OF THE INTEGRATED PETROLEUM ENVIRONMENTAL CONSORTIUM

It is proposed that the U.S. Environmental Protection Agency continue to support a focused, university-based program, the Integrated Petroleum Environmental Consortium (IPEC), with the goal of increasing the competitiveness of the domestic petroleum industry through a reduction in the cost of compliance with U.S. environmental regulations. Continued Federal support of \$2 million is specifically requested as part of the fiscal year 2005 appropriation for the Environmental Protection Agency through the Science and Technology account or other source the subcommittee may determine to be appropriate.

Mr. Chairman, on behalf of the Integrated Petroleum Environmental Consortium (IPEC), I would like to take this opportunity to thank the subcommittee for providing \$8.2 million in funding for IPEC in the fiscal year 1998-2004 appropriations bills for the Environmental Protection Agency (EPA). Specifically this funding was provided for the development of cost-effective environmental technology and technology transfer for the domestic petroleum industry. With funding under the Science and Technology account of EPA, IPEC is implementing a comprehensive mechanism (EPA Research Center) to advance the consortium's research expertise in environmental technology. IPEC's operating practices and linkages to the independent sector are ensuring that real problems in the domestic petroleum industry are addressed with real, workable solutions. The consortium includes the University of Tulsa, the University of Oklahoma, Oklahoma State University, and the University of Arkansas.

We are pleased to report that, as envisioned and proposed by the Consortium, State-level matching funds have been obtained to support IPEC, creating a true Federal-State partnership in this critical area. Since fiscal year 1998 the Oklahoma State Regents for Higher Education have provided over \$800,000 in matching funds for IPEC. Significant matching funds have also been obtained from industry resulting in a total match of \$0.84 for every Federal dollar expended or encumbered to date.

Mr. Chairman, IPEC's mission has never been more important than today. As the United States imports more oil from politically unstable regions of the world our Nation's domestic reserves and production become ever more vital to the Nation's economy and our national security. However, domestic production and our domestic infrastructure are in decline as the major producers and refiners seek greater returns for their stockholders overseas. The mature reservoirs that they found to be no longer profitable have been taken over by the independent producers. To their credit these independent producers together are accounting for 85 percent of domes-

tic wells drilled, 40 percent of domestic oil production, and 65 percent of domestic natural gas production. Although the price of oil is currently up, the instability of world crude oil prices takes its toll on these entrepreneurs who have only one source of income—the sale of oil and gas. They are constantly caught in the squeeze between the cost of production and the price they receive for their product. For example, when prices fell to historic lows in 1998 and early 1999 the effect on the independent producers was markedly worse than on the large integrated oil companies. Capital expenditures fell 30 percent, rig counts dropped 50 percent, employment in exploration and production fell by 65,000, and 150,000 wells were shut-in (IPAA). As prices have recovered new capital has been invested in exploration and production but now there is a serious shortage of skilled employees. Once again the cycling of world oil prices threatens the development of new resources and further weakens our domestic infrastructure. The strategic value of this industry demands that action be taken to preserve and expand this critical component of our energy supply and reduce our dependence on foreign oil. As Vice-President Cheney has said (May, 2001) “to meet our energy challenge we must put to good use the resources around us and the talent within us”.

NEW TECHNOLOGIES

With the help and support of Congress IPEC has and will continue to answer this call. IPEC works diligently to help independent producers reduce their production costs and increase profitability in this turbulent market. IPEC responds to the needs of the independents in two ways. First, IPEC funds a vigorous research program to develop cost-effective environmental technologies. Critical to the effectiveness of IPEC is the process by which projects are chosen for funding. IPEC has an Industrial Advisory Board (IAB) which is dominated by independent producers. The IAB identifies the research needs of the domestic industry which form the basis of Calls for Proposals issued to the IPEC institutions. But their influence on the selection process does not stop there. Investigators respond to the Call for Proposals with what is termed a pre-proposal which contains enough information to identify the problem to be addressed and the expected advantages of the proposed research to the domestic industry. It is the IAB that evaluates these pre-proposals for relevance to IPEC's mission. If the IAB believes that the research proposed helps to solve a problem that makes a serious dent in the independent's profitability it is approved. The Board has established a benchmark of 80 percent of voting members for a pre-proposal to be selected. Investigators whose pre-proposals are approved by the IAB are invited to write a full, detailed technical proposal for evaluation by a Science Advisory Committee (SAC) which will assess the scientific quality of the proposal. The SAC is composed of nationally recognized scientists and engineers from academia and government laboratories. An investigator whose proposal passes this second hurdle is funded by IPEC to do the research. By the way, any pre-proposal that does not pass the IAB is dead in the water!

In addition to ensuring that project funding is industry driven and on target this selection process has had the additional advantage of creating a dialog between producers and the regulatory community that serves the interest of both groups. The second largest group on the IAB is composed of State regulatory agency personnel who serve on the Board at the invitation of the independent producers. The discussion of industry needs fostered by the review process has resulted in a more collegial relationship between the regulators and those who are regulated.

Mr. Chairman, I invite you to visit the IPEC website at <http://ipeec.utulsa.edu> to learn more about IPEC's funded research projects. On the website you will learn how IPEC has significantly advanced the scientific basis for risk-based decision making in the management of hydrocarbon spills which allows precious remediation resources to be directed to where they will do the most good. You will also find a project which, while investigating the natural attenuation of complex hydrocarbons mixtures, has actually pointed the way to how we may some day convert unrecoverable oil to natural gas using microorganisms. You will also see projects that are pioneering the use of plants to remediate oil-impacted soil and reduce the costs of remediation of brine spills on soil and restoring the productivity of damaged land. Thanks to the IPEC Industrial Advisory Board all of these projects are expected to reduce the cost of environmental compliance and the cost of production and at the same time increase compliance.

EFFECTIVE TECHNOLOGY TRANSFER

IPEC also has an active technology transfer program which makes an important contribution to the consortium's mission. Guided by the Industrial Advisory Board IPEC has and will continue to develop tools for independent producers to empower

them to take control of resolving their own environmental problems and reducing their cost of doing business. One of the first tools produced by IPEC was a training video entitled "Cost Effective Environmental Strategies for Improving Production Economics". This video shows the producer how to do an audit of their oil or gas production facilities to help them keep more product in the sales line and more money in their pocket. Producers are shown that by being proactive they can minimize remediation costs, stay out of trouble with the regulatory agencies, reduce future liability, and increase the value of their lease. Over 3,000 of these videos have been distributed free of charge and the reviews are outstanding. Environmental Health and Safety officers of some of the larger independent oil companies have remarked that it is the best training video of its kind available. IPEC has also produced a training video on the bioremediation of oil spills and a video on remediation of brine spills will be released this year. Production will start soon on additional training videos on the remediation of joint spills of oil and brine, emergency response procedures, and on money-saving how-to tips from the IPEC Industrial Advisory Board.

Other tools include a self-assessment checklist to help producers identify problems that are going to cause them problems and cost them money if not fixed. Again the goal is to help them be proactive and take control of their production costs. IPEC also seeks to empower independent producers to be able to remediate small spills of oil and brine when they occur without spending a lot of money on soil analysis or high-priced consultants. Of course the training videos help in this regard but we don't stop there. IPEC works with industry organizations and State agencies like the Oklahoma Marginal Well Commission to offer 1-day training workshops on remediation of oil and brine spills. For oil spills IPEC shows the producers how to be effective at bioremediation of oil spills without having to do TPH analysis and at a minimal cost. IPEC also produces a laminated card for producers to carry around in their trucks that provides easy to follow, step-by-step instructions with photos on how to carry out the bioremediation process. IPEC has also developed a staged response to brine spills that reduces costs while effectively remediating these spills and at the same time more effectively restores the productivity of the impacted land. To assist the producer in brine remediation IPEC has developed a Soil Salt Analysis Kit and a Water Analysis Kit which are distributed free of charge to independent producers. The kits come with laminated cards with photo instructions on how to use the kits and how to interpret the results. With this field kit producers can follow the progress of the remediation and restoration process and identify "hot spots" which need extra attention without the expense of a lot of analytical costs. With these kits producers can determine soil chloride concentrations and relate the results of analyses to plant salt tolerances. This allows the producer to effectively communicate with the regulatory field inspectors and determine what plants could be grown on the site at various stages of restoration. IPEC has also recently contracted with the Railroad Commission of Texas to bring their popular workshop on Waste Minimization in E&P Operations to Oklahoma and Arkansas.

In a program unique in the oil industry IPEC uses the field agents of State regulatory agencies to deliver these tools into the hands of the producers. Although IPEC tries as much as possible to bring training to the producers by offering the soil remediation and waste minimization workshops in their back yard, many of the smallest producers cannot afford to be away from their business for a training workshop. However, these producers see their field inspectors on a regular basis. In order to take advantage of this relationship IPEC holds training workshops for these field inspectors introducing them to all of the latest IPEC tools and establishes with them a tracking mechanism to determine where the tools are going and allowing us to follow up to assess the effectiveness of these tools. This has proven to be an effective mechanism for distribution of IPEC tools to these small producers. As a bonus the producers see the field inspectors in a helpful role. One of the goals of IPEC's technology transfer program is to foster the feeling among small producers that field inspectors should be seen as a member of their team and a valuable source of information.

IPEC's technology transfer program also includes some of the more traditional elements such as a website, newsletter and annual conference. On the website producers can follow the progress of IPEC sponsored projects, learn about upcoming training events and tools, read the proceedings of IPEC's annual conference, and access other useful information. The newsletter is called "The Connector" and is published quarterly. Each issue features a cover story on new technology for petroleum environmental problems. Other articles cover new regulations, anticipated regulatory changes, and announcements for upcoming events of interest to the domestic industry. Anyone can subscribe to "The Connector" free of charge or look for the latest issue on the IPEC website.

IPEC's annual conference, the International Petroleum Environmental Conference, is fast becoming the premier event of its kind and focuses on environmental issues and solutions in oil and gas production and refining. Cosponsored by the U.S. Department of Energy National Petroleum Technology Office, the conference annually attracts about 350 participants, 60 percent of who come from industry, 20 percent from State and Federal regulatory agencies, and 20 percent from academia. The next IPEC conference, the eleventh, will be held in Albuquerque, NM, October 12-15, 2004. Check out the proceedings of previous conferences on the consortium website and look at the conference website at <http://ipec.ens.utulsa.edu> for the current Call for Papers and the program for the eleventh conference.

IPEC MAKES A DIFFERENCE

With the help and support of the industry and Congress IPEC is making a real difference in the domestic petroleum industry. We have kept faith with our supporters and Congress and are delivering on all of the promises and pledges we made during our campaign for funding. We are especially proud of the fact that as noted above to date IPEC has obtained matching funds from the industry and State governments of \$0.84 for every Federal dollar expended or encumbered. IPEC is truly a Federal-State-industry partnership that works!

IPEC underwent a site review in May, 2002 by an EPA review panel. IPEC passed the review with flying colors. IPEC was especially commended for the Center's enthusiasm for its mission, the relevancy of the Center's research projects to that mission, the Center's management practices, the diversity of constituencies from whom we seek input, and the aggressiveness of the Center's technology transfer program. In fact IPEC's technology transfer program was termed by the review panel as "tech transfer par excellence". The chair of the review panel told us informally "I give most EPA Research Centers a 5, I give IPEC an 8".

FUNDING OF IPEC

Mr. Chairman, the EPA site review panel was so enthusiastic about IPEC they suggested that we make an effort to expand to other oil and gas producing States, bring in other academic institution as partners and consortium members, and expand the range of research projects we are working on to further benefit the domestic industry. We could not agree more with these goals but this will require additional resources. Therefore, IPEC is seeking appropriations of \$2 million for fiscal year 2005 through the Environmental Protection Agency. The consortium will be responsible for at least a 50 percent match of Federal appropriations with private sector and State support over any 5-year period. The Consortium will be subject to annual review to ensure the effective production of data, regulatory assessments, and technology development meeting the stated goals of the Consortium.

Thank you for your continued support.

PREPARED STATEMENT OF THE CALIFORNIA GOVERNMENT AND PRIVATE SECTOR COALITION FOR OPERATION CLEAN AIR

Mr. Chairman and members of the subcommittee, on behalf of the California Government and Private Sector Coalition for Operation Clean Air's (OCA) Sustainable Incentive Program, we are pleased to submit this statement for the record in support of our fiscal year 2005 funding request of \$1,000,000 for OCA as part of a Federal match for the \$180 million already contributed by California State and local agencies and the private sector for incentive programs. This request consists of \$500,000 from the Environmental Protection Agency (EPA) for a public education program related to the Clean Air Act and \$500,000 from the Department of Housing and Urban Development related to reduction of emissions from individual residential activities.

California's great San Joaquin Valley is in crisis. Home to over 3.3 million people, its 25,000 square miles now has the unhealthiest air in the country. Even Los Angeles, long known as the smog capital of the Nation, can boast better air quality by certain standards. While peak concentrations of air pollutants are still greater in Los Angeles, for the past 4 years, the San Joaquin Valley has exceeded Los Angeles in violations of the ozone 8-hour Federal health standard.

A combination of geography, topography, meteorology, tremendous population growth, urban sprawl and a NAFTA corridor of two major highways with over 5 million diesel truck miles per day, have collided to produce an air basin in which over 300,000 people, nearly 10 percent of the population, suffer from chronic breathing disorders. In Fresno County, at the heart of the San Joaquin Valley, more than 16

percent of all children suffer from asthma, a rate substantially higher than any other place in California. The extreme summertime heat creates smog even though smog-forming gases are less than half the amount in the Los Angeles basin. There is no prevailing wind to flush the natural geologic bathtub and, as a result, pollutants and particulates stagnate, accumulate, and create unhealthy air.

Degradation of human health is not the only consequence of poor quality air. In December 2003, the San Joaquin Valley Air Pollution Control District Board decided to become the first Air District in the Nation to voluntarily declare itself an "extreme" non-attainment area. This designation, if approved by USEPA, will defer until 2010 the date for attainment of Federal standards of air quality, but comes at a cost of imposing permitting on thousands of more businesses and even further discouraging business expansion or relocation. More Valley's businesses will be required to obtain permits and comply with increasingly burdensome regulations imposed by Federal and State law and the Air Pollution Control District, resulting in added cost in compliance, reporting and record keeping. At the same time, the area is burdened by chronic unemployment rates of nearly 20 percent. Encouraging business expansion in or relocation to the San Joaquin Valley to combat unemployment will be extremely difficult in the face of such regulatory burdens.

The San Joaquin Valley is home to the most productive agricultural land in the world. Over 350 crops are produced commercially on 28,000 farms encompassing more than 5 million irrigated acres. While the agricultural industry has made great strides at considerable expense to replace old diesel engines and manage fugitive dust and other emissions, farming does contribute to the problem. However, it is a \$14 billion industry that forms the backbone of the Valley's economy, and its vitality is crucial.

Industry alone is not the source of the Valley's poor air quality. Population growth rates exceeding those in the rest of the State and most of the Nation, in an area without effective mass transit, where cheap land has led to a landscape of suburbia and sprawl, results in excessive over-reliance on the automobile. Trucking has increased dramatically with the increase in population, and Federal free trade policies. Other factors such as fireplace burning in the winter, open field agricultural burning because of lack of sufficient alternatives, and wild fires resulting from lack of controlled burning in the nearby foothills and mountains all contribute to the problem.

Despite the challenges listed above, much progress has been made. The State has spent nearly \$80 million on improvement and compliance programs. Local government and private industry have spent over \$100 million on technology and compliance. As specific examples, over one half of the diesel operated irrigation pumps used by agriculture have been replaced with cleaner engines. The City of Tulare has converted its entire fleet of vehicles to natural gas as have several other private fleet operators. A \$45 million federally financed comprehensive study of ozone and particulate matter is nearing completion. As a result, the number of 1-hour EPA health standard exceedences has been reduced by 40 percent since 1989.

But much more needs to be done. The District estimates that daily emissions must be reduced by 300 tons to achieve attainment. There is no single or short-term quick fix. The entire Valley (an area the size of the State of Connecticut) is part of the problem and the entire Valley will need to be part of the solution.

Operation Clean Air is a coalition of business, government, health care, and environmental groups throughout the eight county San Joaquin Valley Air Pollution Control District. Its goal is to clean the Valley's air and increase its economic prosperity. The coalition seeks to catalogue efforts that have produced positive effects and identify those strategies that could produce even greater effects if supported by sufficient resources. At the heart of its efforts will be an array of sustainable, voluntary practices and activities that can and will be undertaken by all of the residents of the San Joaquin Valley, both public and private, to improve air quality.

This unique public-private partnership has invested considerable resources in this project to date, and will continue to do so, but Federal funding is both imperative and justified to help address what is essentially an unfounded Federal mandate.

For fiscal year 2004, our Coalition is seeking funding of \$500,000 from the Environmental Protection Agency (EPA) related to public education regarding the Clean Air Act and \$500,000 from the Department of Housing and Urban Development for the implementation of individual residential emission reduction programs.

First from EPA, the coalition is seeking \$500,000 for a public education and awareness campaign. The purposes of the campaign are to provide information to the public regarding the impact of air quality on health and engage the public in voluntary air quality improvement efforts. The health-care sector, comprised of many medical professionals committed to Operation Clean Air is uniquely positioned

to both educate the public about the impact of air quality on health and collect data on the health effects of air pollution on the population.

The public education and awareness campaign will include a valley-wide media campaign to raise awareness of the health effects of poor air quality including television, radio, print, Internet, brochures, flyers, posters and billboards in English, Spanish and Hmong; school-based curriculum including materials to reach new teen drivers with information on vehicle maintenance and cost-effective driving habits. Fact sheets and videos will be developed on steps that individuals and institutions can take to reduce their individual contribution of air pollutants. A special effort will be made to collaborate with county public health officers to make sure that they have adequate information for their education programs.

From HUD, the coalition is seeking \$500,000 to reduce the emissions from individual residential activities including heating with non-EPA certified wood heaters, use of gasoline lawn and gardening equipment, and low efficiency lighting. The co-funding will be made available to low-income residents to fund the removal and replacement of non-EPA certified wood heaters with new EPA certified unit, and for repair or upgrade of sub-standard heating systems to reduce the reliance on wood for heat. Co-funding will also be used for programs providing incentives to residents and hospitals for battery operated leaf blowers, electric lawn mowers, and other replacement equipment to displace gasoline or diesel operated landscaping equipment throughout the valley. During the winter months 15 percent of the particulate matter pollution in the San Joaquin Valley is attributable to residential wood smoke. By providing grant funds to low-income residents that currently rely on wood for heat we will be able to provide them with a more efficient heating source and reduce disproportionate impact of wood smoke in low-income neighborhoods.

Thank you very much your consideration of our requests.

PREPARED STATEMENT OF THE CALIFORNIA INDUSTRY AND GOVERNMENT CENTRAL
CALIFORNIA OZONE STUDY (CCOS) COALITION

Mr. Chairman and members of the subcommittee, on behalf of the California Industry and Government Central California Ozone Study (CCOS) Coalition, we are pleased to submit this statement for the record in support of our fiscal year 2005 funding request of \$1.0 million from the Environmental Protection Agency (EPA) for CCOS as part of a Federal match for the \$9.4 million already contributed by California State and local agencies and the private sector. We greatly appreciate your past support for this study (\$1,000,000 in fiscal year 2002, \$900,000 in fiscal year 2003, and \$500,000 in fiscal year 2004) as it is necessary in order for the State of California to address the very significant challenges it faces to comply with the air pollution requirements of the Federal Clean Air Act.

Most of central California does not attain Federal health-based standards for ozone and particulate matter. The San Joaquin Valley has recently requested redesignation to extreme and is committed to updating their 1-hour ozone State Implementation Plan (SIP) in 2004, based on new technical data. In addition, the San Joaquin Valley, Sacramento Valley, and San Francisco Bay Area exceed the new Federal 8-hour ozone standard. SIPs for the 8-hour standard will be due in the 2007 timeframe—and must include an evaluation of the impact of transported air pollution on downwind areas such as the Mountain Counties. Photochemical air quality modeling will be necessary to prepare SIPs that are approvable by the U.S. Environmental Protection Agency.

The Central California Ozone Study (CCOS) is designed to enable central California to meet Clean Air Act requirements for ozone SIPs as well as advance fundamental science for use Nation-wide. The CCOS field measurement program was conducted during the summer of 2000 in conjunction with the California Regional PM₁₀/PM_{2.5} Air Quality Study (CRPAQS), a major study of the origin, nature, and extent of excessive levels of fine particles in central California. This enabled leveraging of the efforts of the particulate matter study in that some equipment and personnel served dual functions to reduce the net cost. From a technical standpoint, carrying out both studies concurrently was a unique opportunity to address the integration of particulate matter and ozone control efforts. CCOS was also cost-effective since it builds on other successful efforts including the 1990 San Joaquin Valley Ozone Study.

CCOS includes an ozone field study, data analysis, modeling performance evaluations, and a retrospective look at previous SIP modeling. The CCOS study area extends over central and most of northern California. The goal of the CCOS is to better understand the nature of the ozone problem across the region, providing a strong

scientific foundation for preparing the next round of State and Federal attainment plans. The study includes five main components:

- Designing the field study;
- Conducting an intensive field monitoring study from June 1 to September 30, 2000;
- Developing an emission inventory to support modeling;
- Developing and evaluating a photochemical model for the region; and
- Evaluating emission control strategies for upcoming ozone attainment plans.

The CCOS is directed by Policy and Technical Committees consisting of representatives from Federal, State, and local governments, as well as private industry. These committees, which managed the San Joaquin Valley Ozone Study and are currently managing the California Regional PM₁₀/PM_{2.5} Air Quality Study, are landmark examples of collaborative environmental management. The proven methods and established teamwork provide a solid foundation for CCOS. The sponsors of CCOS, representing State, local government, and industry, have contributed approximately \$9.4 million for the field study. The Federal Government has contributed \$4,874,000 to support some data analysis and modeling. In addition, CCOS sponsors are providing \$2 million of in-kind support. The Policy Committee is seeking Federal co-funding of an additional \$2.5 million to complete the remaining data analysis and modeling. California is an ideal natural laboratory for studies that address these issues, given the scale and diversity of the various ground surfaces in the region (crops, woodlands, forests, urban and suburban areas).

There is a national need to address national data gaps and California should not bear the entire cost of addressing these gaps. National data gaps include issues relating to the integration of particulate matter and ozone control strategies as well as the need to address air quality modeling of long-term, multi-pollutant scenarios. Current air quality modeling practice is to represent an entire ozone season by one episode, or in rare cases, a few episodes, which has been a limitation of modeling used for the 1-hour ozone standard. However, to ensure that air pollution control decisions are based on sound and thorough assessments of the available data, improvement in the scientific methods that would be used for 8-hour ozone, PM_{2.5}, and regional haze standards is imperative. It is particularly important that there is an expansion of the number of episodes evaluated. The duration, quality, and completeness of the combined database of CCOS and CRPAQS offers a unique opportunity to assess and improve air quality models and the ability to perform long-term air quality simulations that address both ozone and particulate matter. This is necessary to comprehensively assess emission control strategies for both pollutants and regional haze.

For fiscal year 2005, our Coalition is seeking funding of \$1.0 million from the Environmental Protection Agency (EPA). The CCOS would use the \$1.0 million requested for fiscal year 2005, in conjunction with other funding, to help address modeling needs for the 8-hour ozone and PM_{2.5} standards. It is particularly important that there is an expansion of the number of episodes evaluated. The requested funding will allow for significant improvements in computer programming and computer processing, both of which are necessary to handle the vast amount of data required to be analyzed for evaluating multiple episodes. The requested funding will also allow for air quality model validation assessments. These assessments are necessary to ensure that models are representing the results for the right reasons. The U.S. EPA has a direct stake in, and will benefit from, the CCOS program. This program will further the fundamental science of air quality modeling and advance the use of models for future SIPs Nation-wide.

Thank you very much for your consideration of our request.

Current CCOS Study Sponsors

Private Sector

Western States Petroleum Association; Pacific Gas and Electric Company; Electric Power Research Institute; Nisei Farmers League and Agriculture; Independent Oil Producers' Agency; California Cotton Ginners and Growers Associations.

Local Government

San Joaquin Valley Unified Air Pollution Control District (on behalf of local cities and counties); Bay Area Air Quality Management District; Sacramento Metro Air Quality Management District; San Luis Obispo County Air Pollution Control District; Mendocino County Air Pollution Control District.

State Government

California Air Resources Board; California Energy Commission.

Federal Government

National Oceanic and Atmospheric Administration; Environmental Protection Agency; Department of Agriculture; Department of Transportation.

 PREPARED STATEMENT OF THE ECOLOGICAL SOCIETY OF AMERICA

As the Vice President for Science for the Ecological Society of America, I am pleased to provide written testimony for the National Science Foundation. The Ecological Society of America has been the Nation's premier professional society of ecological scientists for nearly 90 years, with a current membership of 8,000 researchers, educators, and managers. We appreciate the opportunity to offer written testimony on behalf of the National Science Foundation.

We thank the committee for its strong commitment to the NSF over the last several years. Investment in this agency is very much in the public interest and your vision will pay extraordinary dividends in the years to come. We are also grateful to the 107th Congress for passing the NSF Authorization Act, which laid out a plan to boost the Nation's investment in this agency.

We believe that NSF's fiscal health is critical to maintaining the Nation's international scientific leadership. Dividends from past investments in the NSF are manifested in the individual scientific disciplines, as well as in the groundwork that has been laid for interdisciplinary research needed to meet present and future scientific challenges. Research supported through the NSF has led not only to major advancements in all of the sciences, mathematics, and engineering, but has repeatedly underpinned new technologies such as the use of bar codes for inventory control and bioengineering microbes to clean up toxic waste, as well as new techniques, for example improving a building's resistance to damage during an earthquake.

I wish to particularly note that the NSF is responsible for the majority of all non-medical biological research, ranging from the molecular level to the study of entire ecosystems. Approximately 65 percent of all academic, non-medical, biological research is supported through the National Science Foundation.

Important accomplishments have resulted through NSF-funded research and the potential for future opportunities is immense. Biological research will improve our ability to assess and predict the status of ecosystems, which provide the United States with goods such as fish, and services, such as water purification. Research efforts in the social sciences will enhance our understanding of large-scale transformations such as globalization and democratization, while work in the ocean sciences holds the potential to reveal previously unimaginable images of even the deepest oceans. Advances in NSF-supported chemistry may lead to cleaner industrial technology and address problems of carbon sequestration. Research in the mathematical sciences has led to advances in cryptography and improved internet security.

In a time where we find more and more federally funded research directed by a particular agency mission, I want to highlight that one of NSF's greatest strengths is its support of the best research, regardless of its potential use. The NSF peer review system has an excellent track record of choosing the best science and the best investigators to perform the research, as the significant number of Nobel Prize winners who received support from NSF demonstrates.

As a Professor of Biology and Director of Graduate Studies for Duke University's Program in Ecology I have first-hand knowledge of the positive impact NSF has on a scientific discipline. Our own NSF-funded research on the Central Plains has shown us that historic experience, including the 1930's Dust Bowl, is unremarkable in light of climate swings of the last few centuries. We've learned many species cannot migrate fast enough to track a shifting 21st Century climate and will be left behind, with large consequences for biodiversity. This has significant implications for agriculture in the Great Plains region.

Continued advancement in ecological science depends upon healthy NSF budgets. Many ecologists whose grant proposals are deemed of very high quality are either not funded or go under-funded due to inadequate NSF grant funds. Eventually this funding situation is likely to affect the choices of U.S. students as to whether or not they choose to enter the field of ecology, a science that is crucial to meeting emerging environmental challenges ranging from the ecology of disease to the likely consequences of human alteration of the nitrogen cycle.

Other science, mathematics, and engineering fields experience many of the same tensions exhibited in the ecological sciences. These disciplines share our concern that not enough U.S. students are interested in science and engineering-related careers. Many of us in the scientific community are worried that the United States

may lose its preeminent position in science. All science, math, and engineering disciplines depend upon a strong National Science Foundation.

As the only Federal agency to support science and education across all disciplines, and as the principal supporter of environmental biology, NSF's contributions have been extremely valuable to the U.S. research enterprise. We hope that the committee will do its best to ensure that the agency continues on this path. Thank you for consideration of our testimony and for your concern for the National Science Foundation.

PREPARED STATEMENT OF THE ASSOCIATION OF AMERICAN UNIVERSITIES

I appreciate the opportunity to submit testimony on behalf of the Association of American Universities (AAU). The AAU is an organization of 62 leading public and private research universities in the United States and Canada.

I would first like to thank the subcommittee for its strong support of the National Science Foundation (NSF) and the National Aeronautics and Space Administration (NASA). Universities play a substantial role in the research activities of these two agencies, and your efforts to increase funding for them is very much appreciated.

For the National Science Foundation, AAU supports an fiscal year 2005 budget of \$6.415 billion, an \$837 million increase over the fiscal year 2004 enacted level of \$5.578 billion. This would represent a 15 percent increase over the level appropriated for NSF in fiscal year 2004, the same growth rate authorized by Congress and the President in the NSF Authorization Act of 2002 (Public Law 107-368). AAU realizes, however, that such growth in the current fiscal environment would be extremely difficult. We hope that the subcommittee will provide as large an increase as possible in recognition that the investment is both needed and of critical importance to the Nation. The President has requested \$5.745 billion for NSF in fiscal year 2005, an increase of 3 percent, an increase which for reasons discussed below we view as being somewhat spurious.

For NASA's Exploration, Science, and Aeronautics (ESA) account, AAU supports \$8.0 billion, \$240 million above the fiscal year 2004 level. AAU supports the space exploration vision announced by President Bush on January 14, 2004, but feels strongly that NASA's science offices can and must play a central role in both the early and long-term stages of the initiative. Developed over a relatively short period of time with limited input from the community, the space exploration initiative substantially delayed a number of opportunities on which the science community and NASA had agreed. While NASA has the authority to reset priorities, the cuts were made with no review or consultation with the community most affected. We urge that the subcommittee encourage NASA to engage with the National Academy of Sciences both to set the science goals of the exploration initiative and to examine the impact of deferred programs and to recommend ways by which the scientific returns from the new institute can be maximized.

NATIONAL SCIENCE FOUNDATION

NSF is the heart of the Federal investment in basic scientific research. Since its founding in 1950, NSF has had an extraordinary impact on American scientific discovery and technological innovation. Despite its size, it is the only Federal agency with responsibility for research and education in all major scientific and engineering fields. Approximately 95 percent of the agency's total budget directly supports the actual conduct of research and education, while less than 5 percent is spent on administration and management.

I cannot overstate the importance to our Nation's future prosperity of investment in basic scientific research and in the people who conduct this research. From pioneering medical tools to robotics, from the invention of the Internet to fiber optics, from discovering how children learn to expanding our computing capacity, NSF has had an extraordinary impact on scientific discovery that has driven the Nation's economy and improved the quality of life.

AAU recognizes that the VA-HUD and Independent Agencies Subcommittees on both the House and Senate side have been extraordinarily supportive of the NSF. In fiscal year 2001, with the subcommittee's help, Congress provided the single largest funding increase, in both percentage and dollar terms, in the history of the NSF. Substantial increases were also provided in fiscal year 2002, fiscal year 2003 and fiscal year 2004. We thank the subcommittee, and in particular Chairman Bond and Ranking Member Mikulski, for their critical role in securing these increases. The university community is enormously grateful for this support.

AAU has real concerns about the President's proposed budget for NSF. Of the proposed \$167 million funding increase requested, approximately \$75 million is di-

rected to the salaries and expense account for internal operations and staffing, making the real increase for NSF programs \$92 million, an increase of only 1.6 percent. In addition, Research and Related Activities (R&RA) would increase to \$4.5 billion, a 4.7 percent increase over the fiscal year 2004 level of 4.3 billion. Eighty million dollars of this funding comes from a transfer of funds to support previous obligations made under the Math Science Partnerships program which was previously funded as a part of the Education and Human Resources (EHR) account. If this transfer of MSP funds is discounted, the RR&A funding increase is only 2.8 percent over the fiscal year 2004 level.

Restoration of the Math Science Partnerships

AAU is deeply concerned about the administration's proposal to transfer NSF's Math Science Partnership (MSP) program to the Department of Education. In its current form within the Education and Human Resources account, this program links top scientific researchers at colleges and universities to elementary and secondary schools in an effort to improve the quality of math-science education. As a competitive grant program administered by the NSF, money is only awarded to the highest quality proposals based upon technical merit and a comprehensive peer review process.

We are concerned that transferring the MSP program entirely to the Department of Education will fundamentally change the manner in which funds are distributed. The MSP program at the Department of Education is primarily a block grant program where funds are distributed to States on a formula basis. This would be a significant disincentive for the best researchers at our universities to continue to participate in this important program. Moreover, as currently constructed, NSF's MSP program focuses on the modeling, testing and identification of high-quality math-science activities whereas the Department of Education focuses on their dissemination.

Because the MSP program at NSF is a unique program of proven effectiveness, we strongly encourage Congress to restore the \$80 million requested for the MSP program to the Education and Human Resources account and increase funding for the program to \$140 million—an amount slightly above what Congress provided in fiscal year 2004.

Fulfilling the Intent of the NSF Reauthorization Act of 2002 (Public Law 107-368)

In a report to Congress required by the NSF Reauthorization Act of 2002 (Public Law 107-368), the National Science Board (NSB) notes, "There has never been a more critical or opportune time to invest in research and education." AAU concurs with this statement and urges Congress to fulfill the intent of Public Law 107-368 by increasing NSF funding in fiscal year 2005 at the rate suggested by this important legislation. Presently, 15 to 20 percent of highly-rated proposals to the NSF are not funded because of inadequate resources. In some NSF programs, this percentage is even higher.

The NSB report proposes several areas for additional investment including: improving the productivity of researchers and expanding opportunities for students; opening new frontiers in research and education; building a diverse competitive and globally engaged U.S. science and engineering workforce; increasing the number and diversity of institutions that participate in NSF-funded activities; and providing researchers with advanced tools, facilities, and cyberinfrastructure. AAU supports the proportional funding that the NSB designates for these activities and urges that NSF funding increases be distributed accordingly.

NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

NASA has a long history of productive collaboration with universities, supporting research that has given the United States the undisputed leadership role in the study of space and the earth's environment. University-based research, with important technological applications, has been supported through research grants, individual collaborations between faculty and NASA scientists, and formal partnerships between NASA centers and universities.

A New Vision for Solar System Exploration

A new vision for space exploration was announced by the administration in January. AAU supports NASA's new exploration goals and believes that the goals can and should be pursued in the context of fulfilling NASA's vision and mission statement. In doing so, science must play a key role and be nurtured, both in parallel to and as an integral part of exploration. The science programs should remain robust and exploration should be aided by the same kind of scientific guidance and community support that has consistently served our Nation over the years.

AAU supports a robust human exploration program, guided by science and scientific goals. NASA has not had a mandate for its manned programs for 30 years, even though it has needed a clear goal to define the mission and purpose of that program. Moreover, the new vision for exploration is consistent with a recent report by the National Academy of Sciences that calls for a clear goal for human spaceflight, the exploration of the Moon and Mars as possible goals for human spaceflight, and the expectation that exploration will be a long-term endeavor accomplished through a series of small steps.

Seek the Advice of the National Academy of Science

While the Moon-Mars initiative has many positive aspects, it will be years before it yields any payoff in manned missions; all of the preparation will be done robotically. Moreover, human exploration is more than simply putting astronauts in space. These individuals become not only the subjects of studies that advance our knowledge in human biology, but also the operators of scientific experiments in a number of disciplines, not the least of which are the biological and physical sciences. Therefore, as the initiative proceeds, science must be a full partner. Scientific milestones—not just technological ones—should be identified in the implementation plan.

In addition, the space exploration initiative will have a major impact on many planned scientific missions that have been carefully developed over a period of years by advisory committees at NASA and the national academies. Relying heavily on community input and group consensus, the committees have laid out 10-year plans for specific scientific disciplines in decadal surveys. The prior advice includes explicit sets of consensus priorities for meeting goals that support the NASA mission. These efforts include hard choices on priorities and are not simply wish lists.

Developed over a relatively short period of time with limited input from the community, the space exploration initiative substantially delays a number of opportunities on which the science community and NASA have agreed. For example, in the Beyond Einstein program, LISA is delayed to 2013, Constellation-X is delayed to 2016, and the Einstein Probes, including the Dark Energy Probe or Joint Dark Energy Mission, are deferred beyond the current budget 5-year horizon. The Sun-Earth-Connections strategic plan has also been affected, particularly the Solar-Terrestrial Probe line, the sub-orbital program, and the Guest Investigator and Supporting Research & Technology (SR&T) programs. Similar delays would also take place in the Earth Sciences.

Certainly the administration has the authority to redirect NASA's priorities. However, funding reductions and delays in existing programs have been proposed with little consultation with the communities most affected. Therefore it is unlikely that the proposed program would realize an optimal science strategy. NASA should engage with the National Academy of Sciences to set the science goals of the exploration initiative, examine the impact of deferred programs, and recommend ways in which the scientific returns from the new initiative can be maximized. This review should include science performed under all three NASA science offices. The NAS already has underway a review of the final Hubble servicing mission at the subcommittee's request, but we suggest the National Academy be asked to review all the science programs as they relate to the space exploration initiative.

Restore the Explorer Cut

Although many of the cuts to existing NASA programs are in the outyears, some impacts will be felt immediately. The President proposes a reduced budget for the Explorer program resulting in a reduced flight rate for future Explorer missions. AAU urges that NASA proceed with the number of missions originally planned and that future Explorer Announcements of Opportunity (AO) not be slowed from the previously planned pace. We ask that \$240 million be added for this purpose.

The Explorer program has been extraordinarily successful, in part, because consistent funding and regular flights have provided frequent opportunities for scientific investigations from space. This in turn has driven NASA technology development with great efficiency. Heavily utilized by universities, the Explorer program is small in terms of size and budget. Total definition, development, launch service, and mission operations and data analysis costs may not exceed \$240 million. Since the first mission, more than 70 U.S. and cooperative international scientific space missions have been flown on Explorer satellites, making impressive discoveries about the solar system and the universe beyond. Science magazine recently selected the results from the WMAP Explorer mission as the scientific breakthrough of the year in all areas of science.

A similar program exists in the Earth Science Enterprise. While the Earth Pathfinders do not have as long a heritage as the Explorer program, they too have made remarkable advances. The TRMM mission has provided unprecedented information

on rainfall over the tropics, which is leading to significant new scientific discoveries and improvements in weather prediction. The Explorer program and its Earth Science counterpart show how NASA has applied the concept of “faster-cheaper-better” most successfully. NASA should seek to maintain and enhance these valuable programs.

I appreciate the opportunity to submit testimony on behalf of the AAU, and I hope the subcommittee will continue to provide strong funding for NSF and NASA science programs. It is in the best interest of the Nation and its scientific and technological strength.

PREPARED STATEMENT OF THE WILDLIFE SOCIETY

The Wildlife Society appreciates the support that both the Congress and the administration have demonstrated for the National Science Foundation (NSF) through the enactment of the National Science Foundation Authorization Act of 2002. The Act authorizes a 5-year period of 15 percent annual budget increases and places the NSF on the “doubling track” in order to protect ongoing and future U.S. scientific and technological advancements in science.

The Wildlife Society urges Congress and the administration to act upon their commitment to the NSF by increasing the fiscal year 2005 funding level for this agency by 15 percent over the fiscal year 2004 enacted budget, for a total of \$6.415 billion.

The Wildlife Society encourages you to consider our funding recommendation for the National Science Foundation’s fiscal year 2005 budget. Despite tough budget times, this kind of investment is critical. NSF is one of the Nation’s greatest tools for the promotion and advancement of scientific research and education. Although NSF accounts for only 4 percent of Federal Research and Development spending, it supports nearly 50 percent of the non-medical Biological Sciences research at our colleges and universities.

BIOLOGICAL SERVICES

Within the Research and Related Activities (R&RA) account, the Biological Sciences Directorate is of particular interest to the wildlife conservation and management community. The Biological Sciences Activity (BIO) supports research, infrastructure, and education at U.S. academic institutions.

BIO provides 65 percent of the support for basic research in non-medical aspects of the biological sciences at academic institutions. Because the majority of Federal support for the life sciences—over 85 percent—goes to health-related research funded by the National Institute of Health, NSF’s contribution to the broad array of the biological sciences is highly significant and strategically focused—particularly in such areas as environmental biology and plant sciences. In nationally important issues related to wildlife and wildlife habitat, BIO-supported research enhances the understanding of how living organisms function and interact with non-living systems.

Current research includes a project funded by the Division of Environmental Biology that is investigating the elk-wolf interactions in Yellowstone National Park. Results of the project will enhance fundamental knowledge of large mammalian systems and facilitate design of sound endangered species programs. BIO-supported researchers have modeled the population density and foraging behavior of Brazilian free-tailed bats and determined that bats from two Texas caves provide pest control service for crops including corn and cotton. The estimated value of the protection afforded the cotton crop by bats from the two caves amounts to as much as \$258.0 million annually; thus conserving bat diversity and habitat is both biologically and economically beneficial.

The President’s budget proposal restricts the BIO program to an increase of approximately 2 percent. We recommend you provide the Biological Sciences account with an increase equal to the overall R&RA increase, which is 4.7 percent over the fiscal year 2004 enacted level. This would equal an increase of \$27.58 million for Biological Sciences, for a total budget of \$614.47 million in fiscal year 2005.

TOOLS

Tools, the NSF strategic goal to revitalize and upgrade aging infrastructure, enables progress in research and education by providing the cutting edge tools necessary for working with today’s complex and highly variable research tasks. The Wildlife Society supports the President’s requested \$58.3 million increase for the Tools account, Major Research Equipment and Construction Facilities (MREFC). In-

creased funding for MREFC will support ongoing projects and provide funding necessary to launch proposed projects.

We urge you to support the President's request of \$12 million in fiscal year 2005 for the proposed National Ecological Observatory Network (NEON) project under the MREFC account. NEON will be a continental-scale research instrument consisting of geographically distributed observatories, networked via state-of-the-art communications allowing scientists and engineers to conduct research spanning all levels of biological organization. NEON will provide researchers with important tools necessary to address ecological questions regarding habitat and wildlife conservation in the U.S. Examples of research questions that could be addressed by NEON include: the spread of infectious agents like West Nile Hanta virus, and the affect of western wildfires on water quality.

ABOUT THE WILDLIFE SOCIETY

The Wildlife Society is the association of nearly 9,000 professional wildlife biologists and managers dedicated to excellence in wildlife stewardship through science and education. Our mission is to enhance the ability of wildlife professionals to conserve diversity, sustain productivity, and ensure responsible use of wildlife resources for the benefit of society. The Wildlife Society supports all aspects of Federal programs that benefit wildlife and wildlife habitat through research and education.

Please include this testimony in the official record. Thank you for the opportunity to share our views with the committee.

PREPARED STATEMENT OF THE GREAT LAKES INDIAN FISH AND WILDLIFE COMMISSION

EPA—Environmental Programs and Management Account.—\$300,000 (same as fiscal year 2004 enacted) as a stable funding base so that GLIFWC can: (1) Bring a tribal perspective to the mix of Great Lakes managers; and (2) Use its scientific expertise to study issues that directly bear upon the health of tribal members and the ecosystems that sustain treaty harvests of fish, wildlife and wild rice. Specifically:

Lake Superior Binational Program and Lake Superior LaMP.—\$80,000 for continued participation in the Binational Program, in implementing the Lake Superior LaMP, and in IJC, SOLEC, and other Great Lakes forums.

Habitat and Human Health Research Projects.—\$220,000 for research projects in three areas of GLIFWC's particular expertise and experience:

—*Lake Superior Habitat and Human Health Research.*—\$90,000 for ongoing research projects on contaminant levels in Lake Superior fish and on potentially contaminated whitefish and lake trout spawning reefs in Lake Superior.

—*Mercury/Heavy Metals in Biota Research.*—\$90,000 for a 3-year project to assess the risks posed to fish and wild rice by habitat disturbances within watersheds.

—*Sulfide Mining Evaluation and Monitoring.*—\$40,000 to assess the impacts of contaminants leaking from the closed Flambeau Mine in Wisconsin, to develop a groundwater flow scoping model for the proposed Yellow Dog mine in the Michigan Upper Peninsula, and generally to continue to gather data regarding other identified potential mining sites in northern Wisconsin and the Upper Peninsula of Michigan.

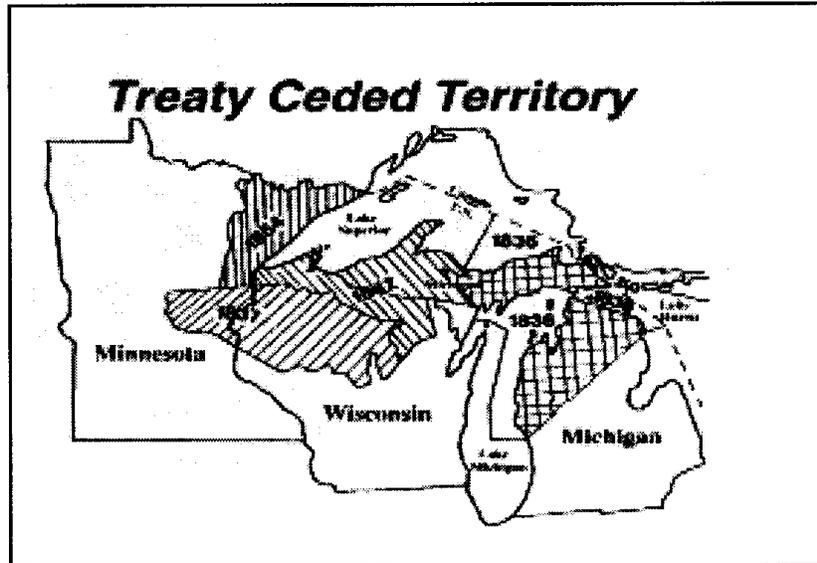
Federal Responsibilities and Funding Authority.—Over the past 10 years, Congress and EPA have funded GLIFWC's treaty rights environmental protection program to meet specific Federal responsibilities including: (1) Treaty obligations under the U.S./Chippewa treaties of 1836, 1837, 1842, and 1854; (2) Federal trust responsibility toward Indian Tribes; (3) Court decisions affirming the treaty rights, including a 1999 U.S. Supreme Court decision; and (4) Federal statutes requiring integration of Tribes into Federal environmental programs, such as the Clean Water Act (33 U.S.C. § 1268) [EPA and GLNPO to integrate tribal agencies in the development and implementation of action plans to carry out the United States' responsibilities under the Great Lakes Water Quality Agreement].

Ceded Territory Treaty Rights and GLIFWC's Role.—Tribal members rely upon fish, wildlife, and plants for religious, cultural, medicinal, subsistence, and economic purposes. Their treaty rights mean little if contamination of these resources threatens the health, safety, and economy of tribal members, or if the habitats supporting these resources are degraded.

GLIFWC was established in 1984 as a "tribal organization" within the meaning of the Indian Self-Determination Act (Public Law 93-638). It exercises authority delegated by its member tribes to implement Federal court orders and various inter-

jurisdictional agreements related to their treaty rights. GLIFWC assists its member tribes in:

- securing and implementing treaty guaranteed rights to hunt, fish, and gather in Chippewa treaty ceded territories; and
- cooperatively managing and protecting ceded territory natural resources and their habitats.



The requested EPA funds would assist GLIFWC in achieving its broader conservation/habitat protection mission by maintaining partnerships with other resource managers and scientific/conservation organizations and by funding specific environmental research projects.

For nearly 20 years, Congress and administrations have funded GLIFWC through the BIA, EPA and other agencies to meet specific Federal obligations under: (a) a number of U.S./Chippewa treaties; (b) the Federal trust responsibility; (c) the Indian Self-Determination Act, the Clean Water Act, and other legislation; and (d) various court decisions, including a 1999 U.S. Supreme Court case, affirming the treaty rights of GLIFWC's member tribes.

GLIFWC serves as a cost efficient agency to conserve natural resources, to effectively regulate harvests of natural resources shared among treaty signatory tribes, to develop cooperative partnerships with other government agencies, educational institutions, and non-governmental organizations, and to work with its member tribes to protect and conserve ceded territory natural resources.

As directed by its member tribes, GLIFWC operates a comprehensive ceded territory natural resources conservation and protection program through its staff of biologists, scientists, technicians, conservation enforcement officers, and public information specialists.

GLIFWC's program includes: natural resource population assessments; biological and scientific research; development of natural resource management plans and tribal harvest regulations; invasive species eradication and control projects; harvest monitoring and reporting; enforcement of tribal conservation codes into tribal courts; funding for tribal courts and tribal registration/permit stations; negotiation and implementation of agreements with State, Federal and local agencies; and development and dissemination of public information materials.

GLIFWC Programs Currently Funded by EPA.—GLIFWC currently administers EPA funding for a variety of ceded territory environmental protection programs and studies.

—*Participation in the Lake Superior Binational Program.*—Since fiscal year 1996, EPA has provided CEM funds of about \$80,000 per year for a 1 FTE position to facilitate GLIFWC's participation in the Binational Program to Restore and Protect Lake Superior, including preparation and implementation of the Lake

- Superior LaMP and participation in various International Joint Commission (IJC) and State of the Lake Ecosystem Conference (SOLEC) forums.
- Study of Proposed Sulfide Mining in Wisconsin.*—Since fiscal year 2001, EPA funding of over \$210,000 has allowed GLIFWC to conduct a number of technical studies and assessments (such as hydrological modeling, contaminant transport analysis, and baseline biomonitoring studies) of a proposed mine in Wisconsin, to participate as a “cooperating agency” in the preparation of the Federal EIS, and to maintain hydrological and contaminant transport expertise.
- Ceded Territory Fish Consumption Mercury Advisory Program.*—In fiscal year 2004, Congress appropriated \$141,000 to continue GLIFWC’s long-standing program to collect and test fish for mercury content and to communicate testing results to tribal communities and the public through health care providers and Geographic Information System (GIS) maps.
- Research and Special Projects.*—Since fiscal year 1997, EPA has provided a combination of CEM, GLNPO, and Environmental Justice funds for GLIFWC to conduct scientific research, including the testing of several Lake Superior fish species for dioxin and persistent organic pollutants, resulting in data relevant to the Binational Program/Lake Superior LaMP and to human health. In fiscal year 2004, Congress appropriated about \$90,000 for GLIFWC to study the potential impacts of mine waste (stamp sands) on a lake trout and whitefish spawning reef near Michigan’s Keweenaw Peninsula in Lake Superior.
- Fiscal Year 2005 Funding Needs/Rationale.*—GLIFWC would use fiscal year 2005 funds for:
- Participation in the Lake Superior Binational Program.*—\$80,000 for continued funding of GLIFWC staff (1 FTE equivalent, and related travel and other expenses) who will participate in the Binational Program, in the on-going implementation of the Lake Superior LaMP, in IJC and SOLEC forums, and in the implementation of the Great Lakes Strategy for 2002—A Plan for the New Millennium.
- Rationale.*—The purpose of this funding is to help provide basic infrastructure for tribal participation consistent with Federal treaty obligations and the trust responsibility.
- GLIFWC has been actively involved in the Binational Program since 1993. GLIFWC currently serves on the Binational Program’s Task Force and Workgroup, and on the Workgroup’s chemical, terrestrial and habitat committees. Its staff Co-Chairs the Workgroup’s habitat committee and terrestrial committee. GLIFWC is participating in the on-going review and implementation of the Lake Superior LaMP. It also helps to liaison with other relevant Great Lakes institutions, such as the Great Lakes Fishery Commission, on issues of mutual concern between environmental and natural resource managers.
- As for IJC forums, GLIFWC staff regularly attend the biennial IJC meetings and provide periodic comments when issues arise in the interim, such as on the matter of Great Lakes water diversions. Within the last 3 years, GLIFWC staff: (i) addressed the 2000 plenary session at SOLEC on the topic of wild rice and organized a breakout session on wild rice; (ii) participated in SOLEC sessions on human health issues related to environmental contaminants, Great Lakes bio-monitoring indexes, and Traditional Ecological Knowledge (TEK) techniques; (iii) participated in the U.S. EPA/American Fisheries Society Fish Contaminant Forum; (iv) presented a platform entitled “PCB Aroclors, Methylmercury and Selenium in Lake Superior Fish” at Midwest SETAC’s 11th Annual Meeting; (v) participated in the FDA and EPA Development of a Joint Advisory for Methylmercury-containing Fish Consumption for Women of Childbearing Age and Children; and (vi) participated in the Great Lakes Radio Consortium “Native Americans Weigh Contaminated Fish Risks” program.
- Habitat and Human Health-Related Research/Special Projects.*—\$220,000 for Lake Superior habitat and human health research projects.
- Rationale.*—GLIFWC has undertaken a number of studies over the years related to the Lake Superior ecosystem. For example, with GLNPO and CEM funds, GLIFWC is preparing a report on the threat of wetland and terrestrial exotic plants to Lake Superior, has studied sturgeon in the Lake Superior basin, and has prepared GIS maps of fish spawning and nursery locations for both native and exotic species. In addition, as part of its ongoing natural resource contaminant/human health research, GLIFWC used Environmental Justice grants to update its fish consumption advisory database and to undertake wild rice contaminant research for heavy metals.
- For fiscal year 2005, research would be in three areas:
- Lake Superior Research Projects (\$90,000).*—Two projects for the upcoming year:

- Keweenaw Peninsula Mining Waste Assessment*.—Assess impacts from mining waste (stamp sands) dumped into Lake Superior near Upper Michigan's Keweenaw Peninsula during the late 1800's, map important whitefish and lake trout spawning reefs, and determine the distribution of stamp sands in relation to the spawning reefs. This study specifically addresses objectives of the Binational Program's Aquatic Communities Committee 2004–2006 work plan to identify and quantify critical habitat for key fish species and to develop linkages between habitat supply and fish community production.
- Lake Superior Herring Contaminant Assessment*.—Assess mercury, PCB and organochlorine pesticide levels in lake herring harvested by tribes in west-central Lake Superior, and evaluate the new data in relation to current fish consumption advisories. The Lake Superior LaMP 2000 identifies the need to improve the effectiveness of fish consumption advisories and to test contaminants in commercially-sold Lake Superior fish. There is a dearth of data on lake herring, yet it accounted for a total harvest of almost 1.4 million pounds lakewide in 2000 and was the second most harvested fish in the U.S. waters of Lake Superior.
- Mercury/Heavy Metals in Biota Research (\$90,000)*.—Assess whether habitat disturbance within a watershed increases the risk that contaminants pose to walleye and wild rice. Previous GLIFWC research suggests that fluctuating water levels in riparian wetland habitat appeared to mobilize methylmercury in a number of FERC-regulated reservoirs in northern Wisconsin. The fiscal year 2005 funding would allow GLIFWC to expand upon previous studies of watershed characteristics and heavy metals in biota. This project would involve 2 years of baseline data collection and one year of analysis and statistical modeling.
- Sulfide Mining Evaluation and Monitoring (\$40,000)*.—Using the expertise and experience it gained in assessing the proposed Crandon Mine in northern Wisconsin, GLIFWC would:
- Flambeau Mine in Northern Wisconsin*.—Assess the impact of contaminants leaking into the adjacent Flambeau River from the re-filled Flambeau Mine pit near Ladysmith, Wisconsin, by testing mussels for 1 year and crayfish for 3 years in the river above and below the location of the refilled pit. Analysis of mussel shells and soft tissue should provide both a measure of recent metals exposure and of metals exposure over the life of the individuals.
- Yellow Dog Mine in the Upper Peninsula of Michigan*.—Develop a groundwater flow scoping model to assess the potential impact of a proposed sulfide copper mine on two Lake Superior Tributaries—the Salmon-Trout River and Yellow Dog River. GLIFWC would explore the impacts of both open pit and deep mining activities by identifying which feeder streams should be monitored and the geological information needed to refine future models to ensure protection of aquatic habitats, including water quality and quantity.
- Sulfide Mining Evaluation and Monitoring*.—Continue to gather data regarding other identified potential mining sites in northern Wisconsin and the Upper Peninsula of Michigan. In 1997 and 1998, GLIFWC evaluated the likelihood that sulfide deposits located in the ceded territories would be developed for mineral extraction. Since then, there has been new exploration in the western Upper Peninsula of Michigan and continued exploration in north-central Wisconsin. GLIFWC would collect available records of mineral leasing, as well as drilling and land purchases by mining/exploration companies, to continue monitoring the potential for mining in the 1842 and 1837 Ceded Territories. With this information GLIFWC would identify watersheds and tribal communities most likely to be impacted by mine development.

PREPARED STATEMENT OF THE AMERICAN SOCIETY FOR ENGINEERING EDUCATION

On behalf of the American Society for Engineering Education Engineering Deans Council (EDC), I would like to express appreciation for the opportunity to present testimony for the record on fiscal year 2005 appropriations for the National Science Foundation. I request that my testimony be made part of the record of the hearings on the fiscal year 2005 NSF budget. I want to begin by thanking the Chairman Christopher Bond and Ranking Minority Member Barbara Mikulski and all the other members of this subcommittee for their strong and continuing support for a strong budget for the National Science Foundation and for supporting the doubling of the NSF budget over 5 years. The NSF plays a vital role in supporting and advancing basic research in science and engineering and in developing the human cap-

ital needed to advance science and technology. Funding levels for the agency greatly impact engineering educators, as well as the Nation as a whole.

The Engineering Deans Council thanks the Congress and the administration for recognizing the importance of the National Science Foundation by enacting the NSF Authorization Act of 2002, which provides for doubling the budget of the National Science Foundation over a 5-year period. This Act represents a major milestone for the NSF and for the scientific community, because it authorizes raising the budget of the NSF from its fiscal year 2002 level of approximately \$4.8 billion to the level of \$9.8 billion in fiscal year 2007.

For fiscal year 2005 the EDC advocates raising the NSF budget by 15 percent above the fiscal year 2004 enacted level of \$5.6 billion, to \$6.1 billion. Even in tough budget years, this kind of investment is critical to developing the human and technical infrastructure that will continue to be the basis of economic growth and security for the country.

The EDC strongly opposes the administration's proposal to phase out the NSF Math and Science Partnership (MSP) Program in favor of a similar program in the Department of Education, and instead urges Congress to fully fund the NSF MSP. The Engineering Deans Council also strongly supports the 5-year Workforce for the 21st Century Initiative under which all the NSF directorates will be partnering in an integrated research and education effort to address science and engineering workforce needs. The EDC supports the \$20 million requested by the administration for this program.

The NSF occupies a unique position, with the ability to influence the economic strength of the Nation through research and innovation. Basic research funded through the NSF opens the doors for further discoveries that can advance medical care, improve communication equipment, and contribute to creating better civilian and military security systems. In the current climate of global economic competition and a heightened need to protect our citizens and infrastructure, strong support of the NSF serves a vital national interest.

Science and technology have become a core component of economic strength and competitiveness. The NSF brings special expertise to the task of identifying and promoting the basic science and engineering research that underlies the United States' world economic leadership. Research sponsored by the NSF is vital to the Nation's investment across the scientific disciplines, and yields short term benefits and future advances for our national and homeland security, economic prosperity, quality of life, and educational growth. A growing chorus touts the importance of this kind of Federal engagement with science and technology, including Federal Reserve Chairman Alan Greenspan, the Council on Competitiveness, and Business Week, among many others. As Chairman Greenspan said before the House Education Committee in March 2004, "Technological advance is continually altering the shape, nature, and complexity of our economic processes. To effectively manage this ever-increasing complexity, our labor force has had to become more and more technically oriented." To become more technically oriented as a society, research is crucial.

NSF is the sole Federal agency charged with the important task of funding a broad range of research, spanning a wide variety of disciplines including basic science, engineering, mathematics, and computing. It provides necessary financial and intellectual support for scientists working on groundbreaking research, much of which will lead to innovations that could impact any number of emerging technologies. While NSF accounts for less than 4 percent of total Federal research and development spending, the agency supports almost half of the non-medical basic research at American colleges and universities. In the field of engineering, NSF provides nearly one-third of all Federal support for basic research and has contributed to important developments such as computer-aided design, fiber optics, biotechnology, advanced composite materials, and magnetic resonance imaging (MRI). Renewing support for research and equipment will allow the Nation to take advantage of the opportunities presented by these new technologies, creating further economic opportunities and improving overall quality of life.

NSF-sponsored research has led to many of the current developments in the area of homeland security. Recent NSF projects ranging from improving bomb detection to preventing an attack on our water supply help bolster our Nation's ability to prevent and respond to terrorist attacks. "The scientific and engineering community is aware that it can make a critical contribution to protecting the nation from catastrophic terrorism," Lewis M. Branscomb, emeritus professor, John F. Kennedy School of Government, said in a 2002 National Academies of Science report.

The benefits of a strong science investment are evident as the men and women of our armed forces respond to unprecedented threats to U.S. national security. Because of its superiority, much of it brought about by investments in S&T, this Nation's military is successfully waging war against terrorism. In this new environ-

ment, characterized by unforeseen and unpredictable threats, maintaining and enhancing technological superiority will become even more imperative.

Across all fields, NSF support for research produces first-rate results on modest levels of investment. NSF-supported work is exceptionally well managed, and regularly attracts additional funding from outside sources. The agency has a diverse, responsive, results-oriented staff, efficient business processes that take advantage of staff knowledge and technology resources, and state-of-the-art business tools and technology. NSF has exceptional business practices, as seen by winning two "greens" on the President's Management Agenda scorecard and receiving the President's 2003 Award for Management Excellence. Former OMB Director Mitchell Daniels said that the NSF deserves to be strengthened, noting, "NSF is one of the true centers of excellence in the government where 95 percent of the funds that taxpayers provide goes out on a competitive basis directly to researchers pursuing the frontiers of science at a very low overhead cost." NSF's management successes include doubling its budget between 1990 and 2000 while simultaneously decreasing the number of employees at the agency.

Much of NSF's work looks beyond technological innovation by engaging new generations of students to aid in discoveries while gaining valuable skills that help prepare them for the cutting-edge research of the future. Many NSF grants require undergraduate students to be involved in performing federally funded research. K-12 teachers are invited to join in summer research programs at MIT's Radio Haystack Observatory, and then are able to develop lesson plans that integrate modern scientific concepts and real life research processes. The NSF's Math and Science Partnership Program extends improved science education into classrooms by uniting local school districts with the faculties of nearby colleges and universities. NSF also helped to sponsor "Deans Summit II: Fostering Campus Collaborations," last year. The meeting catalyzed the formation of many partnerships between engineering and education deans to improve K-12 science and mathematics education. Top science teachers, such as those who have won Presidential Awards, have singled out the NSF's Math and Science Partnership Program for their success. "I am not an extraordinary teacher, but I have been given extraordinary focus and opportunities by NSF," said 2003 Presidential Awardee Jonathan Roland, a physics teacher at Perry Hall High School in Baltimore, Maryland, at a recent House Science Committee hearing.

Engaging students in science from their pre-kindergarten education through college will help endow growing generations of Americans with the skills and interests necessary both to maintain U.S. leadership in economic, health, and military fields, as well as to function as citizens in an increasingly technology-driven society. A vibrant engineering education enterprise benefits civic, economic, and intellectual activity in the country. Engineering graduates learn to integrate scientific and engineering principles to develop products and processes that contribute to economic growth, advances in medical care, enhanced national security systems, ecologically sound resource management, and many other beneficial areas. As a result, students who graduate with engineering degrees bring highly prized skills into a wide spectrum of sectors in the American workforce. Some conduct research that results in socially or economically valuable technological applications. Others produce and manage the technological innovations said to account for one-third to one-half of growth in the American economy. Still more bring advanced analytical abilities and knowledge of high technology to fields as diverse as health care, financial services, law, and government. Within all of these groups, the diversity of engineering graduates' backgrounds and viewpoints contributes to their ability to achieve the advances in innovation, productivity, and effectiveness that make them valuable contributors to the American workplace.

Engineering graduates in particular bring highly prized skills into all sectors of the American workforce. The most advanced carry on the research that pays off in many surprising ways. Other engineering graduates produce and manage many of the technological innovations said to account for one-third to one-half of the recent growth in the American economy. Still others bring advanced analytical abilities and knowledge of high technology to fields as diverse as health care, financial services, law, and government. In the Addendum immediately following my testimony, I have attached additional documentation of the many ways NSF support is promoting engineering education and research at U.S. colleges and universities. This wealth of human capital owes much of its capacity to strategic NSF support for engineering education.

A succession of predictable, sizable increases to the NSF budget will permit even greater development of human resources. In addition to the Math and Science Partnership initiative, NSF programs have become important vehicles for broadening the participation of under-represented groups such as minorities and women in the

fields of science, math, and engineering. Through programs like the Experimental Program to Stimulate Competitive Research (EPSCoR), NSF works to strengthen the research and development infrastructure of many rural and low-population States. Consistent growth in the NSF budget will permit the allocation and coordination of the activities needed to promote the broadest possible development of science, mathematics, and technology skills among all Americans.

A 15 percent increase for the NSF budget will enhance the value of the agency's other cross-cutting initiatives. New funding for multidisciplinary mathematics research will enhance the transfer of results and applications from mathematics and statistics research to science and engineering disciplines, expanding the cadre of researchers trained in both mathematics and science. Dynamic interdisciplinary work across engineering and science disciplines promises startling advances in, for example, medicine, manufacturing, and communications. The assurance of steady resources over extended periods of time for high-risk, high-reward endeavors—such as research in nanotechnology, biocomplexity, and high-speed computing—would greatly enhance their prospects for success. As Harold Varmus, former Director of the National Institutes of Health and currently President of the Memorial Sloan-Kettering Cancer Center, has said, "it is crucial that leaders of science agencies be able to anticipate several years of steady growth during periods of expansion. These agencies make multi-year awards and are responsible for training and research infrastructure, as well as the operational costs of doing research." In an increasingly interdependent research system, the NSF is uniquely situated to initiate and promote productive exchanges across the full range of scientific and engineering disciplines.

Thank you for the opportunity to present this testimony to the subcommittee. The Engineering Deans Council would be pleased to respond to any questions from you and your staff.

The Engineering Deans Council of the American Society for Engineering Education (ASEE) is the leadership organization of more than 300 deans of engineering in the United States. Founded in 1893, ASEE is a non-profit association dedicated to the improvement of engineering and engineering technology education.

ADDENDUM.—EXAMPLES OF NSF-FUNDED PROGRAMS AT ENGINEERING SCHOOLS

Voice-Actuated Computers in Police Cars.—Electrical engineering professors are helping to create voice-actuated computers for patrol cars, to allow officers to quickly access computerized databases, such as motor vehicle license records and criminal records, while freeing up their hands. The goal of the University of New Hampshire project, which is funded in part by the NSF and the U.S. Department of Justice, is to improve the protection of officers and augment homeland security efforts by allowing safer and quicker access to important security databases.

Improved Bomb Detection.—A Pennsylvania State University researcher, through a NSF grant, has developed a bomb detection portal capable of "sniffing" the air around a person and operates much like a conventional airport metal detector. The machine can detect trace amounts of explosives from anyone who has handled any explosive substance. The machine has been patented and is set to be used in airports.

Preventing Attacks on U.S. Water Supplies.—Some parts of the Nation's water supply infrastructure are inherently vulnerable to terrorist attack. For example, working from the privacy of a secluded basement, a determined terrorist could surreptitiously inject pathogens or poisons into a municipal drinking water distribution system. To help water utilities anticipate and control this potential threat, researchers in Civil and Environmental Engineering at the University of Cincinnati are developing a new computer model to simulate contaminant movement through a water distribution system. The research, funded in part by the NSF, will help both large and small utilities across the Nation recognize and minimize the vulnerability of drinking water distribution systems to surreptitious terrorist attacks.

Quickly Identifying Deadly Viruses.—A portable pathogen detector is currently being developed by scientists at the Center for Biophotonics at the University of California-Davis, through an NSF grant, to identify potentially deadly viruses and other biological agents in an unknown sample within 15 minutes. Originally developed at Lawrence Livermore National Laboratory with industry partners, the unit aims to help paramedics, emergency room specialists, police, and other first-responders who may unknowingly be exposed to bioterrorism or other infectious agents.

Underwater Monitoring.—A professor of electrical engineering and materials science and engineering at Pennsylvania State University has developed a network sensor technology that can operate in liquid, thanks to a grant from the NSF. The

new system allows for underwater monitoring that could prove useful for environmentalists, manufacturers, and homeland security personnel. Using a node-to-node multi-hop information transfer system, the research team was able to overcome the problem of water's interference with the radio transfer of information.

Creating Artificial Vision.—A researcher at the University at Buffalo has created a silicon chip that mimics the structure and functionality of an octopus retina. The "o-retina" chip can process images just like an octopus eye does, allowing rescue or research robots to see more clearly than human eyes can in dark or murky conditions. The research, funded in part by the NSF, will help researchers build a complete artificial system, including a brain that mimics the visual systems of various animals, allowing humans to look at the world from different perspectives.

Increasing Electrical Efficiencies.—In contrast to a large central generator that can supply a small city, researchers in Carnegie Mellon University's Electricity Industry Center have shown that there are many advantages to small generators to supply a neighborhood or even a large building. This distributed generation offers greater efficiency since it uses the "waste heat" from generation to heat water, buildings, and even cool buildings. Perhaps of greater importance, it offers lower electricity costs and greater reliability in the face of natural hazards and terror attacks. The work is funded in part by the NSF and the U.S. Office of Naval Research.

Finding the Shortest Route Among a Set of Points.—The Traveling Salesman Problem, finding the shortest route among a set of points, is among the most studied in Computer Science. It is of high computational complexity, and has applications in logistics, manufacturing, transportation, and telecommunications, including airline routing, circuit board layout, and job shop scheduling. The Applied Computational Intelligence Lab at the University of Missouri-Rolla has developed an approximate solution algorithm that solves large instances much faster than competing approaches. It uses neural networks to divide the problem into subproblems that can then be solved and rejoined by more conventional algorithms. For the 10 million city case, the algorithm is four times faster than the nearest other known approach on a fast personal computer. The advantage rapidly grows even more significant with problem size. This work was funded by the National Science Foundation and Sandia National Laboratories.

Improving One's Memory.—The Nation, and indeed, the world are undergoing an unprecedented shift in demographics, with the proportion of older adults increasing dramatically. To help meet the needs of this aging population, researchers from the University of Michigan, through an NSF grant, have developed intelligent computer-based technology that can assist people with memory impairment, by monitoring their performance of daily activities and providing them with flexible, adaptive reminders when needed. This technology will enable people to maintain their autonomy and remain in their homes longer, thus simultaneously increasing quality-of-life and decreasing the costs associated with institutionalization.

Improving Technological Literacy.—As technology becomes integral to all aspects of society, the need for a technologically literate population becomes apparent. The Tufts (University) Engineering the Next Steps (TENS) GK-12 program, funded by the National Science Foundation, works from the Center for Engineering Educational Outreach to do just that. By pairing graduate and undergraduate Fellows from Tufts University's School of Engineering with teachers in K-12 classrooms, content knowledge and methodologies of engineering and computer science are integrated into existing science and mathematics curricula. TENS works to increase teachers' knowledge of, comfort with, and ability to teach engineering and algorithm design to ultimately increase students' engineering knowledge and skills.

Creating the World's Smallest Engine.—A group of Washington State University researchers has developed the world's smallest engine. Thinner than a piece of paper and fitting inside the hole of a Lifesaver, the engine is radically different in design, fabrication, and operation from any existing engine. The researchers hope to use their micro-engine as a viable power source for commonly used military devices, such as miniaturized radar or mobile robotic sensors, and to eliminate the need for problematic batteries, which weigh a lot for the power they produce and are difficult to recharge in the field. The work was funded in part by the NSF and the DOD.

Devices for People with Disabilities.—What do a shoulder-steered tricycle for a boy born without arms, a foot-operated guitar strummer for a boy paralyzed on his right side, and an automatic swing for a girl with cerebral palsy have in common? All were built by Duke University students, as part of the Biomedical Engineering class "Devices for People with Disabilities," funded in part by a grant from the NSF. In the past 7 years, small teams of students have designed, constructed, and delivered over 40 projects such as these to adults and children in the community. Students

gain real-world engineering experience, and clients benefit by receiving devices that meet their needs free of charge.

Environmental Cleanup of Mines.—Highly acidic drainage from an abandoned sulfide mine in Rowe, Massachusetts, is slowly cleaning itself over time, and an interdisciplinary research team from the University of Massachusetts at Amherst is studying why. The group brings together experts from the fields of microbiology, geology, engineering, and science education, to determine the extent and rate of bioremediation. Researchers say their findings may enable quicker natural cleanups not just at this mine, but at others throughout the country and the world. The interdisciplinary project is funded by the “Biocomplexity in the Environment” program of the National Science Foundation.

PREPARED STATEMENT OF THE AMERICAN MUSEUM OF NATURAL HISTORY

ABOUT THE AMERICAN MUSEUM OF NATURAL HISTORY

The American Museum of Natural History (AMNH) is one of the Nation’s preeminent institutions for scientific research and public education. Since its founding in 1869, the Museum has pursued its mission to “discover, interpret, and disseminate—through scientific research and education—knowledge about human cultures, the natural world, and the universe.” It is renowned for its exhibitions and collections of more than 32 million natural specimens and cultural artifacts. With nearly 4 million annual visitors—approximately half of them children—its audience is one of the largest, fastest growing, and most diverse of any museum in the country. Museum scientists conduct groundbreaking research in fields ranging from all branches of zoology, comparative genomics, and informatics to earth, space, and environmental sciences and biodiversity conservation. Their work forms the basis for all the Museum’s activities that seek to explain complex issues and help people to understand the events and processes that created and continue to shape the Earth, life and civilization on this planet, and the universe beyond.

Today more than 200 Museum scientists, in five science divisions (Anthropology; Earth, Planetary, and Space Sciences; Invertebrate Zoology; Paleontology; and Vertebrate Zoology) as well as the Center for Biodiversity and Conservation conduct groundbreaking lab and field research. This research includes 100 expeditions each year and field station investigations at the Museum’s Southwestern Research Station in Arizona. The Museum also conducts graduate training programs in conjunction with a host of distinguished universities, supports doctoral and postdoctoral scientists with highly competitive research fellowships, and offers talented undergraduates an opportunity to work with Museum scientists.

The Museum’s Center for Biodiversity and Conservation, founded in 1993, is dedicated to enhancing the use of rigorous scientific data to mitigate critical threats to global biodiversity. The CBC draws on the strengths of the Museum’s scientific, education, and exhibition departments to integrate this information into the conservation process and to disseminate it widely. It forges key partnerships to conduct conservation-related field projects around the world, train scientists, organize scientific symposia, present public programs, and produce publications geared toward scientists, policy makers, and the lay public. Each spring, the CBC hosts a symposium that focuses on conservation issues. In 2002, the symposium, “Sustaining Seascapes: the Science and Policy of Marine Resource Management,” examined the large-scale conservation of marine and coastal ecosystems, giving special consideration to novel approaches to the sustainable management of biodiversity and fisheries. The focus of 2003’s symposium was on conservation issues related to increased ecotourism in Southeast Asia, and 2004’s symposium examines the role of invertebrates in environmental systems.

The Museum’s vast collections are a major scientific resource, providing the foundation for the Museum’s interrelated research, education, and exhibition missions. They often include endangered and extinct species as well as many of the only known “type specimens”—examples of species by which all other finds are compared. Collections such as these are historical libraries of expertly identified and documented examples of species and artifacts, providing an irreplaceable record of life on earth. They provide vital data for Museum scientists as well for more than 250 national and international visiting scientists each year.

The Museum interprets the work of its scientists, highlights its collections, addresses current scientific and cultural issues, and promotes public understanding of science through its renowned permanent and temporary exhibits as well as its comprehensive education programs. These programs attract more than 400,000 students and teachers and more than 5,000 teachers for professional development opportuni-

ties. The Museum also takes its resources beyond its walls through the National Center for Science Literacy, Education, and Technology, launched in 1997 in partnership with NASA.

An exciting chapter in the Museum's history occurred last spring when one of the flagship and most popular halls—the Hall of Ocean Life—reopened after an extensive renovation. Drawing on the Museum's world-renowned expertise in Ichthyology as well as other areas of vertebrate and invertebrate zoology, the Hall is pivotal in educating visitors about the oceans' key role in sustaining life on our planet. The renovated Hall of Ocean Life, together with the new Halls of Biodiversity, Planet Earth, and the Universe and the rebuilt Hayden Planetarium (part of the new Rose Center for Earth and Space), provides visitors with a seamless educational journey from the universe's beginnings, to the formation and processes of Earth, to the extraordinary diversity of life on our planet.

COMMON GOALS OF EPA AND THE AMERICAN MUSEUM

The Environmental Protection Agency (EPA) is dedicated to protecting and safeguarding human health and the environment. With a focus on environmental results—making the air cleaner, water purer, and better protecting our land through the application of sound science and the conduct of leading-edge research—the Agency seeks to ensure that environmental protection contributes to making our communities and ecosystems diverse, sustainable, and economically productive. Its fundamental purposes include ensuring that all parts of society have access to accurate information sufficient to effectively participate in managing human health and environmental risks.

The American Museum shares EPA's commitment to these environmental goals and to the scientific research, technologies, and public education that underlie them. Indeed, informed environmental stewardship and preservation of our planet's biodiversity and resources—in aquatic, wetland, and other natural environments and ecosystems—are integral to the Museum's most fundamental purposes. Museum scientists conduct research worldwide on conservation biology and habitat protection. Their investigations advance scientific understanding and public awareness of these vital issues.

New research tools—including Geographical Information Systems (GIS) and remote sensing, molecular technologies, new collection types, innovations in computation—are revolutionizing the way research can be conducted and data analyzed, as well as the way museum collections can be used and accessed by scientists, educators, policy makers, and the general public. The Museum has also long been at the forefront of developing new research tools and methods, and today the CBC and the science divisions are carrying out leading research programs using the Museum's unmatched resources and technologies. Museum research resources include the following:

Remote Sensing and Geographical Information Systems Technologies.—The CBC houses a Remote Sensing/Geographical Information Systems (RS/GIS) lab that has had noted success since it was launched in the fall of 1998. Wise conservation policy requires effective knowledge of the distribution of species and ecological communities at local, regional, and global scales. Without this information, it is difficult to decide where to allocate scarce conservation resources. Remote sensing technologies can provide essential data on such things as land-cover and land-use, as well as sea surface temperatures and chlorophyll content. GIS makes it possible for scientists to compare and visualize the relationships among satellite and legacy data, raw standardized samples, and data obtained through ground truthing. Because it provides the database backbone that can connect fieldwork to analysis, GIS is becoming an indispensable component in environmental data analysis and is thus revolutionizing work in conservation.

The CBC uses its RS/GIS technologies in biodiversity, ecosystem, and environmental research in ways aligned with EPA goals. Its uses of RS/GIS include identifying sites suitable for biological inventory; providing supplementary quantitative and qualitative data in and around study sites (e.g. extent of habitat fragmentation); and developing persuasive visual depictions and digital presentations for reports, publications, and conferences.

Molecular Research Program.—The Museum is also home to a distinguished molecular systematics program that is at the leading edge of comparative genomics and the analysis of DNA sequences for biological research. It includes two Molecular Systematics Laboratories, with sophisticated technologies for sequencing and advancing genomics research. In these laboratories, more than 40 researchers in molecular systematics, conservation genetics, and developmental biology conduct their research on a variety of study organisms. Their work is supported by the Museum's

new frozen tissue collection of biological tissues and isolated DNA stored in a super-cold storage facility. This collection is an invaluable resource for research in many fields, including conservation biology, genetics, and comparative genomics, because it preserves genetic material and gene products from rare and endangered organisms that may become extinct before science fully exploits their potential. These researchers also have onsite access to a 700-processor supercomputing cluster—the fastest parallel computing cluster in an evolutionary biology laboratory and one of the fastest installed in a non-defense environment.

Southwestern Research Station.—Since 1955, the Museum's Southwestern Research Station (SWRS) has served biologists, geologists, and anthropologists interested in studying the diverse environments and biotas of the Chiricahua Mountains in southeastern Arizona. Today, under the direction of the CBC, the Station welcomes scientists and advanced students from all parts of the country and from around the world to carry out their research projects in such varied fields as entomology, herpetology, botany, geology, and population, behavioral, and physiological ecology. Projects focus in particular on wetland and stream management and on riparian ecosystems.

Building on the scientific strengths and resources outlined above, the Museum now proposes to launch, in partnership with EPA, a multi-faceted research, training, and education initiative focused on the role of water in healthy communities, ecosystems, and the environment as a whole. AMNH scientists will integrate remote sensing, GIS, and computational tools in basic and applied research in aquatic ecosystems and wetlands assessment, watershed restoration, and habitat loss. These activities support EPA's efforts to further strengthen the role of science in decision-making by using sound scientific information and analysis to help direct policy and establish priorities.

The proposed initiative involves a variety of projects closely aligned with EPA's fundamental goals and whose results will be presented to stakeholders as well as the public through conferences, through development of technical guidance and information tools to support decision-making, and through education and outreach programs. Potential projects include:

—*Riparian Ecosystems Research.*—Riparian ecosystems research will focus on questions of restoration, management, and monitoring, drawing on resources of the Museum and facilities of the Southwestern Research Station, including work on ephemeral and permanent ponds and streams. The research station offers unique advantages: Located in an area of high biodiversity, ecosystems range from desert to high elevation montane forests and riparian habitats that cross five life zone boundaries.

—*Research and Education on Biodiversity in Urbanizing Landscapes.*—Research will target indicator taxa for particular projects, advancing knowledge of development's effects on biodiversity in sprawling environments. This is critical to EPA's ongoing work on smart growth, anti-sprawl initiatives, development of sustainable urban environments, and concern over the loss and destruction of habitat due to sprawl and exploitation of natural resources, invasive species, and non-point source pollution. Expansion of this project to make it applicable to a wider constituency would also match directly with EPA's smart growth educational offerings.

—*Regional Invertebrate Information Clearinghouse.*—With links to resources, references, and ongoing research about invertebrates in the New York metropolitan region, a Clearinghouse would serve as an important source of information for those developing projects related to EPA priority research areas such as: effects of climate change; restoration monitoring protocols (e.g., related to wetlands, riparian corridors or brownfields); pollution and pesticide impacts; and water quality monitoring.

—*Freshwater Ecosystems Symposium.*—Bringing together researchers, practitioners, and policy makers from a broad range of academic, government, and private sector entities, the symposium will provide an opportunity for diverse stakeholders to address current understanding of and approaches to managing and conserving freshwater systems. Sessions will address both ecological principles (hydrology, biogeochemistry, connectivity, etc.) and the resources in the manager's toolbox (such as reserves, flow management, riparian buffers, headwaters protection, restoration, integrated basin management, education and outreach on invasive species, and more). Proceedings will be disseminated widely and made available on the web.

The Museum requests \$1 million for this research, training, and public education initiative on the role of water in sustaining healthy communities, ecosystems, and the environment in which we live. In partnership with EPA, and with the Museum supporting its participatory share with funds from non-Federal as well as Federal

sources, we will use cutting-edge technologies to advance basic and applied research, integrated with public education and outreach, to promote shared goals for safeguarding the natural environment.

PREPARED STATEMENT OF THE POINTS OF LIGHT FOUNDATION

The Points of Light Foundation and Volunteer Center National Network request an appropriation increase from \$10 million to \$35 million. \$10 million would maintain the allocation to the Points of Light Foundation for its work at the national level. \$25 million would be distributed to Volunteer Center members of the Points of Light Foundation for three purposes:

- to expand the number of people engaged in traditional voluntary service;
- to build the capacity for effective engagement of volunteers by training non-profit agencies in volunteer management;
- to expand operations so Volunteer Center services, which are currently available to approximately 50 percent of the population, are available to closer to 100 percent of the population of the United States.

BACKGROUND

Our American ideal is one of democracy, of civic engagement, and of individual participation in collective goals. To be successful as a form of government and as a society, democracy demands that people take responsibility for their communities, that they play an active role, that they be informed, and that they weigh and consider options before deciding on a course of action. The traditions upon which our country was founded and built have influenced the development of our spirit of volunteerism. Whether Native Americans, early immigrants, pioneers or more recent immigrants, Americans have always placed value and emphasis on hard work and self-reliance, on taking responsibility for our own life and actions.¹

Traditional community volunteering, in which individuals serve willingly and without expectation of financial remuneration, is perhaps the purest expression of both civic responsibility and civic engagement. The altruistic inclinations of individuals and groups are both strengthened and fulfilled through voluntary participation in activities that meet important needs in local communities. When people volunteer, they are indicating that they are part of the solution, not part of the problem. The benefits that inure to the traditional volunteer are significant and include a sense of fulfillment, of giving back to the community, and of inclusion in the broader world. People who volunteer feel connected to their society and, as such, have a deeper and broader sense of civic responsibility.

Volunteer Centers in local communities provide the pivotal link between this human ideal of connectedness and its expression in the real world. They strengthen communities by connecting people with important local needs, and they strengthen organizations by building their capacity to effectively engage traditional volunteers.

The work of Volunteer Centers is focused in four areas:

- connecting people with opportunities to serve by maintaining knowledge through database reservoirs of volunteer opportunities in local communities; Volunteer Centers presently aggregate approximately 1.5 million valid, vetted opportunities for traditional volunteer service at public and private agencies.
- building capacity for effective local volunteering by providing training for non-profit agencies in volunteer program management. The Points of Light Foundation & Volunteer Center National Network have developed an outstanding six-session Volunteer Management Training Series that can be delivered by skilled Volunteer Center leaders to agencies.
- promoting volunteering through recognition and awards programs and by extensive outreach through traditional and electronic media to people in local communities where they live, work, go to school, and worship.
- participating in strategic initiatives that mobilize volunteers to meet important needs in local communities; utilizing their vast knowledge of communities and problems, the Volunteer Center National Network can serve as conveners, bringing relevant players to the table to address local issues. For example, Volunteer Centers are an integral part of Earned Income Tax Credit education and filing, and that they help communities prepare for, respond to and recover from disaster. They are also collaborators, working closely with stipended service programs to ensure integrated services to those engaged in both stipended and non-stipended service.

¹Lautenschlager, Janet, Department of Canadian Heritage, 1992.

THE PROBLEM

The current budget includes nearly \$1 billion to support domestic volunteer programs. However, there is virtually no support at the Federal level for the important work of engaging traditional volunteers in community service activities.

The request of the Points of Light Foundation & Volunteer Center National Network is that an additional \$25 million be allocated to support the efforts of Volunteer Centers to reach the 99 percent of Americans who will likely never participate in stipended service, but who may, if connected to volunteer opportunities and managed effectively, participate in traditional volunteer activities.

THE SOLUTION—A RATIONALE FOR REQUESTED FUNDING

Several recent studies provide the rationale for this request.

Connecting people with opportunities to serve.—The Pew Partnership² found that not only are many citizens unaware of whom to turn to for information about community needs, but that “the challenge for community problem solving efforts lies in knowing how to connect community issues with a public willing to work to solve them.” Furthermore, “almost 40 percent of people who do not volunteer say that their lack of knowledge about which organizations needed their help or who to call contributed to their inaction.”

Building capacity for effective volunteering.—The findings of a 1998 study by UPS³ substantiate a crisis in volunteer management because volunteers expect the time they donate to be well managed, but too many are turned off by what they regard as inefficient use of their time by the agencies where people volunteer.

Another study,⁴ prompted by questions raised following President Bush’s call to service in his January 2002 State of the Union address, found that the call for thousands of new volunteers will not, by itself, create effective engagement of those volunteers. There must be a companion effort to ensure that volunteers are trained effectively, deployed in meaningful ways, supervised and recognized appropriately so that the volunteers can, in turn, deliver quality services to their communities. The study concludes that it will be necessary to increase the community capacity to accommodate the gifts of time and service provided by volunteers.

The Urban Institute⁵ reports that the problems that charities face in training and supervising volunteers could be alleviated if their staff received training on how to work with volunteers.

CAPACITY TO CARRY OUT INTENDED WORK

At the present time, the more than 350 Volunteer Center members of the Points of Light Foundation focus on traditional volunteering across the country. They vary tremendously in size and structure, but all operate within four core areas of competency outlined above: they connect people with opportunities to serve, build capacity for effective volunteering, promote volunteering, and participate in strategic partnerships that mobilize volunteers to meet community needs.

Their budgets vary from \$25,000 to \$7 million per year, and the size of their service areas ranges from small rural communities to large metropolitan areas. All Volunteer Centers raise a significant amount of local and State funds and Federal resources will be used to build upon this foundation. Volunteer Centers provide essential infrastructure to support traditional volunteering. Every year Volunteer Centers:

- connect 2 million people with opportunities to volunteer in their communities;
- train more than 200,000 leaders from the public and private sector, including many corporate leaders, increasing their ability to mobilize more traditional volunteers;
- build capacity of more than 72,000 community and faith-based organizations to productively engage volunteers.

The first Volunteer Center was founded in Minneapolis in 1919. With the formation of the Points of Light Foundation in 1990, Volunteer Centers across the country began the process of forming an integrated network, beginning with adoption of a common vision and values statement:

Vision.—Volunteer Centers mobilize people and resources to deliver creative solutions to community problems.

Values.—We value:

² <http://www.pew-partnership.org/programs/civicengagement>.

³ United Parcel Service, 1998.

⁴ The Cost of a Volunteer, Grantmaker Forum on National and Community Service, 2003.

⁵ The Urban Institute, 2004.

- PEOPLE and believe that through volunteer service people have the capacity to enrich their own lives and improve the quality of life in their communities;
- DIVERSITY and recognize that all people have time and talents to share, and that communities are strengthened when people connect across their differences through volunteer service;
- COLLABORATION and realize that we are at our best when we collaborate;
- EXCELLENCE and commit to implementing innovative and effective strategies, holding ourselves accountable for results, and sharing our knowledge and best practices with others.

Building on the vision and values, the Volunteer Center National Network developed and now requires that every Volunteer Center meet Standards of Excellence in order to be a member of the Points of Light Foundation & Volunteer Center National Network.

SUMMARY

Communities suffer when there is not a strong Volunteer Center to serve them. At the present time, some Volunteer Centers—typically the larger, more established independent centers with broad-based funding from a variety of sources—are able to provide multiple services, are often quite entrepreneurial in their approach to programming, and operate with a business model. Other Volunteer Centers experience difficulty providing optimal levels of service because of their continual challenge to raise operating funds. The result is that traditional volunteering suffers because fewer individuals and groups are aware of the opportunities that exist, and fewer organizations are trained in effective volunteer management.

With increased investment, Volunteer Centers across the country, regardless of their age, size or structure, will play a crucial role in strengthening communities. Volunteer Centers will enhance and expand their activities to engage more people in volunteer service and to build the capacity of more organizations in effective volunteer management. Where appropriate, Volunteer Centers will also expand operations to establish satellite offices providing access where there currently is none. In small communities with small Volunteer Centers, financial support from the Federal Government can leverage significant local donations that result in increases in both volunteering and effective volunteer management by enabling the Volunteer Center to provide these important services. Finally, where there presently is demand, but no Volunteer Center, new Volunteer Centers can be established.

The Points of Light Foundation provides significant program support, a decade of experience in regranteeing funds, and the demonstrated ability to effectively establish and monitor performance standards. The organization's unique qualifications are also predicated on its ability to provide cost-effective regranteeing and ensure compliance with all Federal guidelines.

Our country is built on the willingness of people to get involved and stay involved in their communities. Now, more than ever, we need the civic participation of every American to keep our communities and our Nation strong. The investment of \$10 million in the Points of Light Foundation and \$25 million in the Volunteer Center National Network will reap significant rewards for our country that will resonate—with great cost-effectiveness—well into our future.

We are well poised to strengthen traditional volunteering by delivering expanded services to communities across the country.

We know volunteer services work and we want and need your help to make sure all Americans have access to a Volunteer Center that meets stringent standards of excellence, can help them connect to meaningful volunteer opportunities, and can help local agencies manage their volunteers effectively. On behalf of all of those who work in the field of volunteer service we want to thank the committee for their strong interest and investment in making volunteering a part of every American's life. Because of your work on this issue, millions of Americans who need help receive aid and assistance from millions of local volunteers.

PREPARED STATEMENT OF THE AMERICAN WATER WORKS ASSOCIATION

REQUEST SUMMARY

AWWA recommends that the following funding be specifically appropriated for the indicated purpose:

- For community water system training and technical assistance.*—An additional \$2 million for security and compliance-related training and technical assistance to community water systems with specific direction that EPA work cooperatively with non-profit water associations that can provide training to water util-

- ities of all sizes in all States, such as AWWA, to provide such training and technical assistance.
- For the drinking water State revolving fund.*—A minimum of \$3,000,000,000.
 - For the AWWA Research Foundation (AwwaRF) drinking water research.*—\$5,000,000.
 - For the WaterISAC and WaterIDS.*—\$2,900,000 designated for the Water Information Sharing and Analysis Center (WaterISAC) and the Water Information Distribution System (WaterIDS) to collect, analyze, and disseminate information to help utilities protect themselves from terrorism.
 - For public water system supervision (PWSS) grants to States.*—At least the \$105,100,000 requested in the President's fiscal year 2005 budget.
 - For drinking water research.*—\$46,118,000 as requested in the President's fiscal year 2005 budget.
 - For the EPA drinking water program.*—\$100,948,000 as requested in the President's fiscal year 2005 budget.

INTRODUCTION

The American Water Works Association (AWWA) appreciates the opportunity to present AWWA views on the Environmental Protection Agency (EPA) budget for fiscal year 2005. AWWA and its members are dedicated to providing safe, reliable drinking water to the American people.

Founded in 1881, AWWA is the world's largest and oldest scientific and educational association representing drinking water supply professionals. The association's 57,000+ members are comprised of administrators, utility operators, professional engineers, contractors, manufacturers, scientists, professors and health professionals. The association's membership includes over 4,500 public water systems that provides over 80 percent of the Nation's drinking water.

AWWA utility members are regulated under the Safe Drinking Water Act (SDWA) and other statutes. AWWA believes few environmental activities are more important to the health of this country than assuring the protection of water supply sources, and the treatment, distribution and consumption of a safe, affordable and healthful supply of drinking water. We strongly support adequate levels of funding for EPA's drinking water, ground water protection and clean water pollution prevention programs in fiscal year 2005.

The events of September 11, 2001, have added a new dimension to the protection of drinking water. In addition to protecting drinking water from contamination, America's homeland security requires a secure water supply. Public health, fire protection, and sanitation depend on it. The role of public water systems for first responders has been largely overlooked in the discussions concerning homeland security funding priorities. AWWA strongly urges both the Congress and the administration to correct this oversight and make the protection of public water systems a high priority for homeland security. The al Qaeda terrorists network and others are known to have conducted research on public water systems in the United States. If the intent is to create terror in our society, water systems are targets of opportunity for terrorists, not only to contaminate the water supply, but also to deny first responders water for fire protection in a coordinated terrorist attack.

Drinking water suppliers have a long history of security preparedness. However, the post-September 11 world has added a new understanding of security and has added an unprecedented financial burden on public water systems for immediate steps needed to protect our citizens. AWWA does not believe that the President's budget request for EPA is adequate for EPA to meet the security, public health, and infrastructure needs of our Nation's public water systems. In the EPA fiscal year 2005 appropriation, we respectfully request the Congress to appropriate significantly increased funds for public water system security and compliance efforts that are essential to help provide a safe and secure water supply for our citizens and first responders. Our testimony today will highlight some of the major public water system needs.

COMMUNITY WATER SYSTEM TRAINING AND TECHNICAL ASSISTANCE

Many community water systems need training and technical assistance more urgently than ever as world events demand new security assessments, planning, and upgrades. Such training is an essential part of protecting the security and safety of the Nation's drinking water supplies. Adding to those security demands are the increased demands of new and very complex drinking water regulations.

All drinking water utilities are due to complete vulnerability assessments of their system's security by June 30 of this year in accordance with the Public Health Security and Bioterrorism Preparedness and Response Act of 2002 (the Bioterrorism

Act). AWWA has trained hundreds of community water systems to help them meet these requirements. We are also training utilities to create or update their emergency response plans as required under the Bioterrorism Act. The vulnerability assessments have shown utilities where they need to upgrade their physical security systems and introduce or upgrade their security training. Now many of those utilities, particularly the small- to medium-sized systems, will need training to learn how to use upgraded security hardware and how to prevent, meet, and recover from attacks on community water systems. They also need to learn new communications skills in the event of a public health crisis, such as from an assault on a drinking water system.

In the regulatory arena, a number of complicated regulations have been finalized or proposed that may affect each other in implementation. For instance, EPA expects to finalize the Long Term 2 Enhanced Surface Water Treatment Rule (LT2ESWTR) and the Stage 2 Disinfectants and Disinfection Byproducts Rules in early 2005. These rules specify a range of treatment and management strategies to reduce disease incidence associated with *Cryptosporidium* and other pathogenic microorganisms, while at the same time avoiding dangerous levels of disinfectant byproducts. These rules also may affect compliance with existing rules such as the Lead and Copper Rule and the Total Coliform Rule when water chemistry is changed to comply with the new rules. Intense training and technical assistance will be necessary to assure that public water systems of all sizes covered by the rule will be able to comply and continue to protect public health.

EPA does not have the resources to provide this training itself. However, there are non-profit organizations such as AWWA that currently provide training and technical assistance to public water systems of all sizes and in all States. AWWA appreciates the support of the chairman and members for providing a directed appropriation of \$1,000,000 for AWWA in the fiscal year 2003 appropriations for AWWA to provide security training for public water system vulnerability assessments. This training filled a significant gap in homeland security that no Federal or State agency had the capability to do at that time. In the fiscal year 2005, AWWA is not seeking a directed appropriation for itself. Rather, AWWA recommends that Congress appropriate an additional \$2 million for such training and technical assistance above the levels appropriated last year and direct EPA to work with organizations such as AWWA to provide needed training and technical assistance for security and compliance.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate an additional \$2 million for security and compliance-related training and technical assistance to community water systems with specific direction that EPA work cooperatively with non-profit water associations that can provide training to water utilities of all sizes and in all States, such as AWWA, to provide such training and technical assistance.

DRINKING WATER STATE REVOLVING FUND (DWSRF)

AWWA believes that past funding to capitalize the DWSRF is not adequate to meet the Nation's drinking water needs. The SDWA Amendments of 1996 authorized for the DWSRF \$599,000,000 for fiscal year 1994 and \$1,000,000,000 for fiscal years 1995 through 2003. Through fiscal year 2004, Congress has appropriated approximately \$6 billion—which is approximately \$3 billion less than authorized for the DWSRF up to this fiscal year. In September 2002, EPA released a Clean Water and Drinking Water Infrastructure Gap Analysis which found that there will be a \$535 billion gap between current spending and projected needs for water and wastewater infrastructure over the next 20 years. In May 2002, the Congressional Budget Office estimated the spending gap for drinking water needs between \$70 billion and \$362 billion over 20 years. AWWA estimates the need to be \$250–300 billion over the next 30 years. By any estimate, the gap is real and is big.

These figures do not include the new security upgrades that EPA has determined are eligible for funding from the DWSRF in defense of public health. AWWA has estimated that the need for immediate investment in tightened perimeter security and access control in the community water systems subject to the Bioterrorism Act is approximately \$1.6 billion. This does not include the capital costs of upgrades to address vulnerabilities identified in vulnerability assessments such as hardening pumping stations, chemical storage buildings, transmission mains, adding redundant infrastructure or relocating facilities and pipelines. Thousands of community water systems must make such investments to close vulnerabilities identified in the assessments done under the Bioterrorism Act. Nationwide, these needs undoubtedly total billions of dollars, and can be considered the cost of a secure water supply. Because homeland security is primarily a Federal responsibility and the security needs

are so large that they would swamp the DWSRF, Congress should consider providing water security improvement grants separate from the DWSRF.

We urge Congress to appropriate in fiscal year 2005 at least \$3 billion to assist States and community water systems meet the security, public health, and infrastructure challenges they face. Although it represents only a fraction of the total need, an appropriation of at least \$3 billion demonstrates the commitment of the Federal Government to stand behind security, public health, and a sound infrastructure for the Nation's water supply. It also will provide a source of much needed loans for financially disadvantaged communities that cannot obtain financing through other means. The Federal funds will leverage State and local resources, thus helping communities to comply with the mandates of the SDWA.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate a minimum of \$3,000,000,000 for the DWSRF.

AWWA RESEARCH FOUNDATION

In a separate statement, the American Water Works Association Research Foundation (AwwaRF), (an organization independent of AWWA), requested that \$5,000,000 in drinking water research funds be designated specifically for AwwaRF for drinking water research. As detailed in their statement AwwaRF proposes to use this grant for research programs that address issues such as new and emerging contaminants such as perchlorate and MTBE; infrastructure renewal and replacement; water utility security; and new sources of water including reclaimed wastewater, desalinated seawater and brackish water. From fiscal year 1984, when Congress appropriated the first grant for AwwaRF, to fiscal year 2004, AwwaRF has received \$47,000,000. In addition the Foundation has leveraged an additional \$277,000,000 from its subscribers to support research projects across the country. Each dollar appropriated by Congress for AwwaRF produced almost \$6.00 in drinking water research. AWWA strongly believes that this kind of local/Federal research partnership is a wise and cost effective use of public funds and the only way to secure science-based drinking water regulations in these difficult budgetary times.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate \$5,000,000 specifically designated for the American Water Works Association Research Foundation for drinking water research.

WATERISAC & WATERIDS

The Water Information Sharing and Analysis Center (WaterISAC) is a nonprofit service to provide sensitive security information to the Nation's drinking water and wastewater agencies. The WaterISAC gathers information from law enforcement and intelligence agencies, researchers and security experts to help utilities prepare for and respond to terrorist attacks such as contamination incidents, cyber attacks or physical destruction. The WaterISAC was created pursuant to executive orders and presidential directives from Presidents Clinton and Bush that urged critical infrastructure sectors to develop ISACs. The WaterISAC is the only ISAC serving a primarily nonprofit sector—drinking water and wastewater systems. The WaterISAC is hosted on an ultra-secure web portal in a U.S. Government-cleared facility and is managed by the Association of Metropolitan Water Agencies (AMWA). Drinking water and wastewater utilities subscribing to the WaterISAC pay a fee based on the population served. However, with increased Federal funding, the WaterISAC can significantly reduce subscription fees, thereby making it affordable for more utilities to subscribe to this much-needed service. AMWA is also developing the Water Information Distribution System (WaterIDS), a quick-alert system for “pushing” security information to a larger number of utilities that are not WaterISAC subscribers. In separate testimony, AMWA will present testimony requesting \$2,900,000 for the WaterISAC and WaterIDS in fiscal year 2005. AWWA endorses this request.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate \$2,900,000 for the WaterISAC and WaterIDS.

PUBLIC WATER SYSTEM SUPERVISION GRANTS

To comply with the SDWA, Congress intended that EPA develop drinking water regulations and that the States implement and administer the program to ensure compliance with and enforcement of its provisions. Implementation, administration, compliance and enforcement activities are collectively known as “primacy” requirements and Federal grants to the States are known as Public Water System Supervision (PWSS) grants. The massive demands on States arising from the SDWA have become increasingly apparent because of the dramatic increase in the number of regulated contaminants over the past few years. As each regulation is added, State

resource shortfalls become more acute. Additional regulations are scheduled to be promulgated over the next few years and the SDWA Amendments of 1996 added new responsibilities for the States such as source water assessments, a consumer confidence report program and alternative monitoring programs. The SDWA authorizes a Federal share of up to 75 percent, but Federal funding has approximated only 35 percent. In a separate statement, the Association of State Drinking Water Administrators (ASDWA), documents the State drinking water needs and requests a substantial increase above the President's fiscal year 2005 budget request. AWWA endorses the ASDWA request and strongly urges Congress to appropriate at least the \$105,100,000 requested in the President's fiscal year 2005 budget for PWSS grants as the minimum necessary.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate at least the \$105,100,000 for Public Water System Supervision (PWSS) grants requested in the President's fiscal year 2005 budget.

DRINKING WATER RESEARCH FUNDING

Over the past several years, public water suppliers have worked together with EPA and the Congress to secure increased research funding for the Nation's drinking water program. We believe that, through this cooperative effort, needed increases in research dollars have been obtained for drinking water over the past few years after several years of steady decline. The use of good science as the foundation of the new drinking water standard-setting process under the SDWA amendments of 1996 will require extensive drinking water research—particularly health effects research. Funding for drinking water research is becoming more of a critical issue. Every 5 years EPA is required by the SDWA to select at least five contaminants from the Contaminant Candidate List (CCL) and determine whether to regulate them. To determine whether to regulate a contaminant and establish a maximum contaminate level (MCL) or another regulatory approach, EPA will need good health effects research. Recognizing the serious burden this regulatory mandate presents, the drinking water community has offered its time, resources and expertise to work with EPA to develop a research plan for the contaminants on the CCL. Given the enormous need for immediate research to meet the deadlines of the SDWA amendments of 1996, AWWA urges Congress to appropriate at least the \$46,118,000 requested in the President's fiscal year 2005 budget for drinking water research and specifically designate it in the appropriation.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate \$46,118,000 for the EPA drinking water research program as requested in the President's fiscal year 2005 budget.

EPA DRINKING WATER PROGRAM

EPA's drinking water program took on greatly increased responsibilities in the 1996 SDWA amendments. In satisfying these requirements, EPA has involved the public in the regulatory process to an extent not equaled by another Federal agency and stands as a model for Federal rule making. EPA and the Office of Drinking Water and Ground Water are to be commended for taking this approach that should result in better regulations that protect public health. AWWA believes that funding the EPA drinking water program is vital to continue this new regulatory approach to developing sound drinking water regulations and urges Congress to appropriate the \$100,948,000 requested in the President's fiscal year 2005 budget for the drinking water program.

—*Recommended Action in the Fiscal Year 2005 Budget.*—Appropriate \$100,948,000 for the EPA drinking water program as requested in the President's fiscal year 2005 budget.

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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

OFFICE OF THE SECRETARY

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